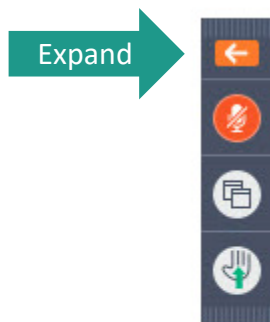




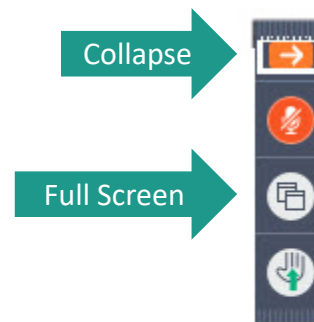
**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

**3RD QUARTER 2019
Investment Landscape Call**

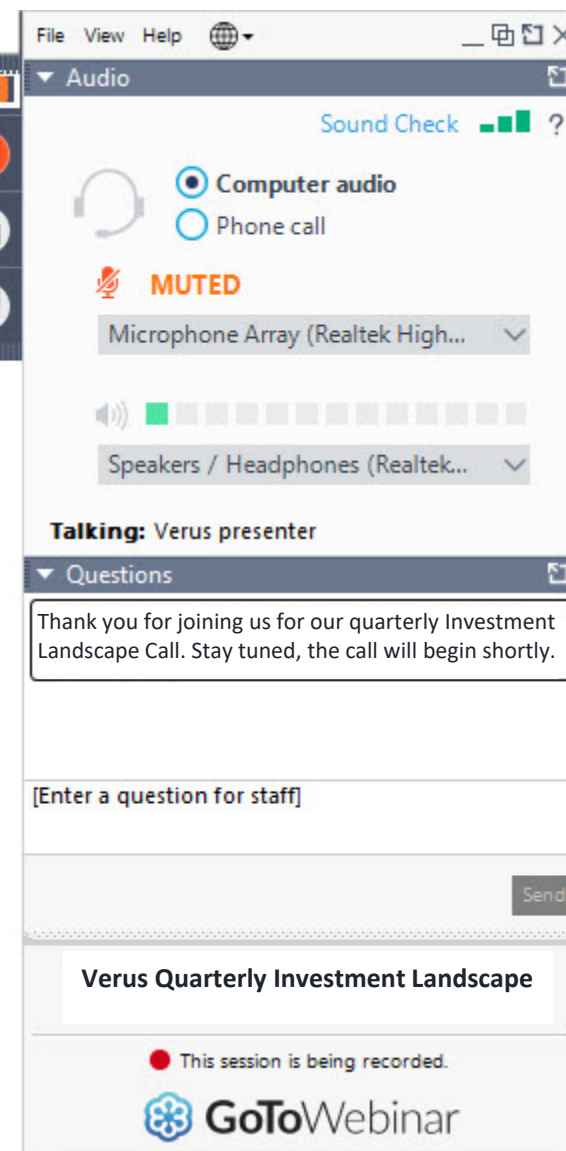
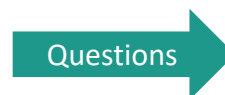
Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



3rd quarter conference call

Verus⁷⁷⁷

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SEATTLE 206-622-3700

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IMPORTANT INFORMATION

Dial in: 1 (877) 309-2074 U.S. & Canada

Access Code: 220-985-580

Playback Info: Will be available on the website after the call www.verusinvestments.com

Audio Options: You may choose to listen through the webcast on your computer **or** dial in.

Introduction by: Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Chief Investment Officer



Jeffrey J. MacLean
Chief Executive Officer



Ian Toner, CFA
Chief Investment Officer

2nd quarter summary

THE ECONOMIC CLIMATE

- U.S. real GDP expanded 3.2% YoY in Q1 (3.1% quarterly annualized rate). Year-over-year growth was the strongest since the second quarter of 2015. The U.S. Congressional Budget Office expects the U.S. economy to slow to a 2.1% pace in 2020, near the growth rate of other developed markets.
- Effective May 10th, U.S. tariff rates on \$200 billion in Chinese imports were hiked from 10% to 25%, and the Chinese responded with commensurate tariff rate hikes. In June, Presidents Trump and Xi met on the sidelines of the G20 summit in Osaka. The meeting yielded a “trade truce” in which both countries agreed to pause any additional tariffs.

PORTFOLIO IMPACTS

- Equity performance in Q2 appears to have been largely driven by higher prices, rather than improved earnings expectations. Estimated Q2 S&P 500 earnings worsened from -0.5% to -2.6% during this time.
- U.S. inflation remained stable at 2.1% YoY in June, excluding food & energy. Headline inflation rose 1.6% YoY, dragged down by falling energy prices. Core inflation has been range-bound over the past five years, fluctuating between 1.7% and 2.3%. Investors and consumers expect this trend to continue.

THE INVESTMENT CLIMATE

- The Federal Open Market Committee left the range for its benchmark interest rate unchanged at 2.25%-2.50% and reiterated that it would continue to act appropriately to sustain the expansion. Markets interpreted the press conference as confirmation of a 0.25% rate cut in July.
- European Central Bank President Mario Draghi issued dovish forward guidance, announcing that “additional stimulus” was on the table should the economic backdrop worsen, and inflation remain subdued. European and international developed sovereign yields have fallen along with U.S. yields. German 10-year bunds closed the month at new lows of -0.33%.

ASSET ALLOCATION ISSUES

- Risk assets delivered strong returns over the quarter. Global Equities gained +3.6% and U.S. high yield gained +2.5%. Longer duration exposures generally outperformed as interest rates fell.
- U.S. equity prices have continued to rise on expectations of nearly three interest rate cuts in 2019 and perhaps an assumption that U.S. earnings exceptionalism will extend into the future. If domestic conditions converge with other developed economies and these expectations turn out to be overly optimistic, we believe U.S. equities may possess greater downside risk.

A neutral risk stance may be appropriate in today's environment

What drove the market in Q2?

"US-China trade truce leaves markets with big questions"

U.S. SOYBEAN EXPORTS TO CHINA (METRIC TONS) (000s)

Jan	Feb	Mar	Apr	May	Jun
133	3,217	1,256	719	1,219	1,670

Article Source: CNN, July 1st, 2019

"Bond-Yield Plunge Confounds the World's Economy"

VALUE OF GLOBAL NEGATIVE-YIELDING DEBT (USD TRILLIONS)

Jan	Feb	Mar	Apr	May	Jun
8.85	8.81	10.40	10.03	11.27	12.92

Article Source: Wall Street Journal, June 23rd, 2019

"Fed holds rates steady, but opens the door for a rate cut in the future"

FUTURES IMPLIED PROBABILITY (%) OF CUTTING RATES BY JULY

Jan	Feb	Mar	Apr	May	Jun
7.1	5.4	23.6	31.9	47.8	100.0

Article Source: CNBC, June 19th, 2019

"Draghi Sees Prospect of More ECB Stimulus Amid Weak Inflation"

EUROZONE CONSUMER PRICE INFLATION (YoY %)

Jan	Feb	Mar	Apr	May	Jun
1.4	1.5	1.4	1.7	1.2	1.3

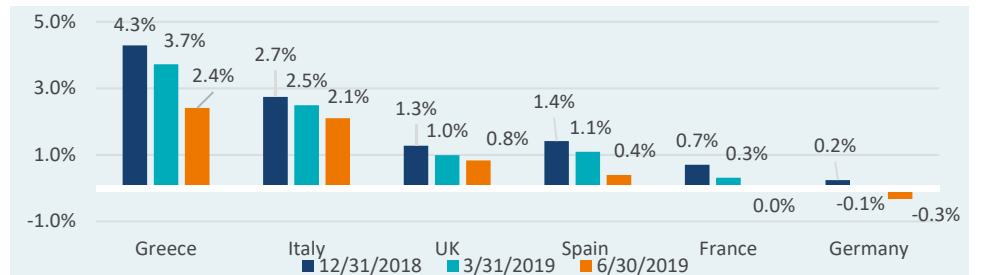
Article Source: Bloomberg, June 18th, 2019

RELATIVE EQUITY MARKET PERFORMANCE (CHINA VS. U.S.)



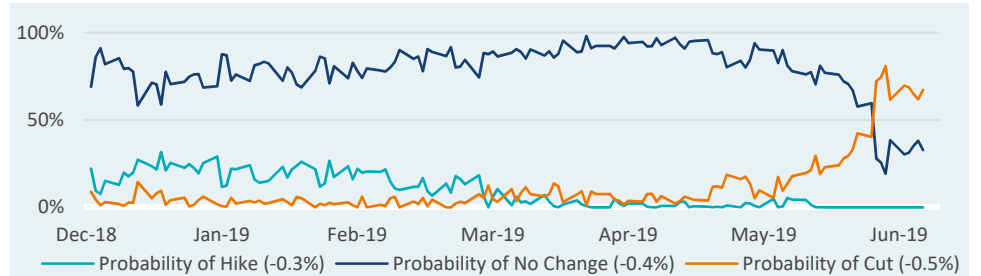
Source: Bloomberg, as of 6/30/19

TEN-YEAR EUROPEAN SOVEREIGN YIELDS



Source: Bloomberg, as of 6/30/19

PROBABILITY OF THE ECB CUTTING ITS MAIN RATE BY SEPTEMBER



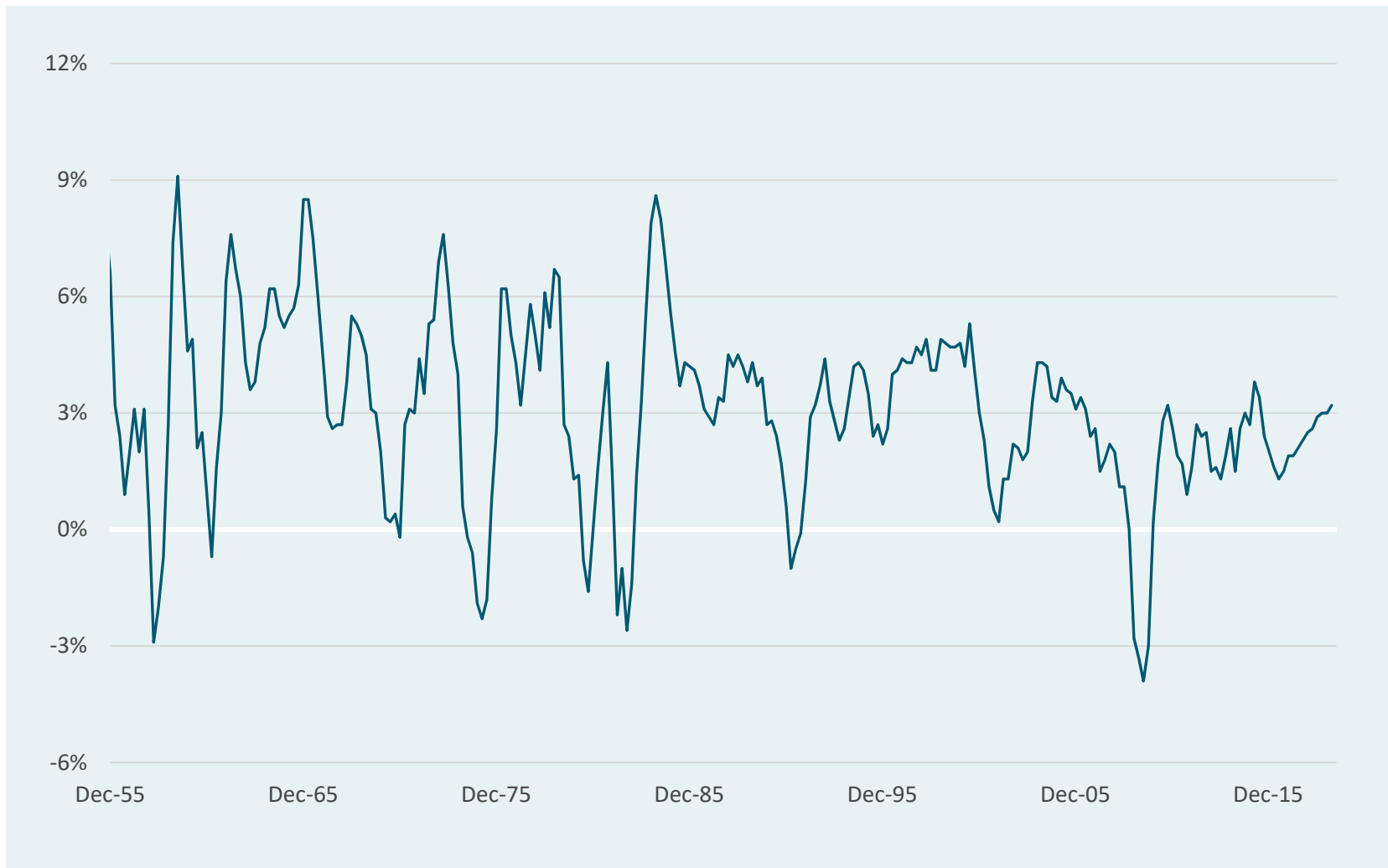
Source: Bloomberg, as of 6/30/19

U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	3.2% 3/31/19	2.6% 3/31/18
Inflation (CPI YoY, Core)	2.1% 6/30/19	2.2% 6/30/18
Expected Inflation (5yr- 5yr forward)	1.9% 6/30/19	2.2% 6/30/18
Fed Funds Target Range	2.25 – 2.50% 6/30/19	1.75 – 2.00% 6/30/18
10 Year Rate	2.0% 6/30/19	2.9% 6/30/18
U-3 Unemployment	3.7% 6/30/19	4.0% 6/30/18
U-6 Unemployment	7.2% 6/30/19	7.8% 6/30/18

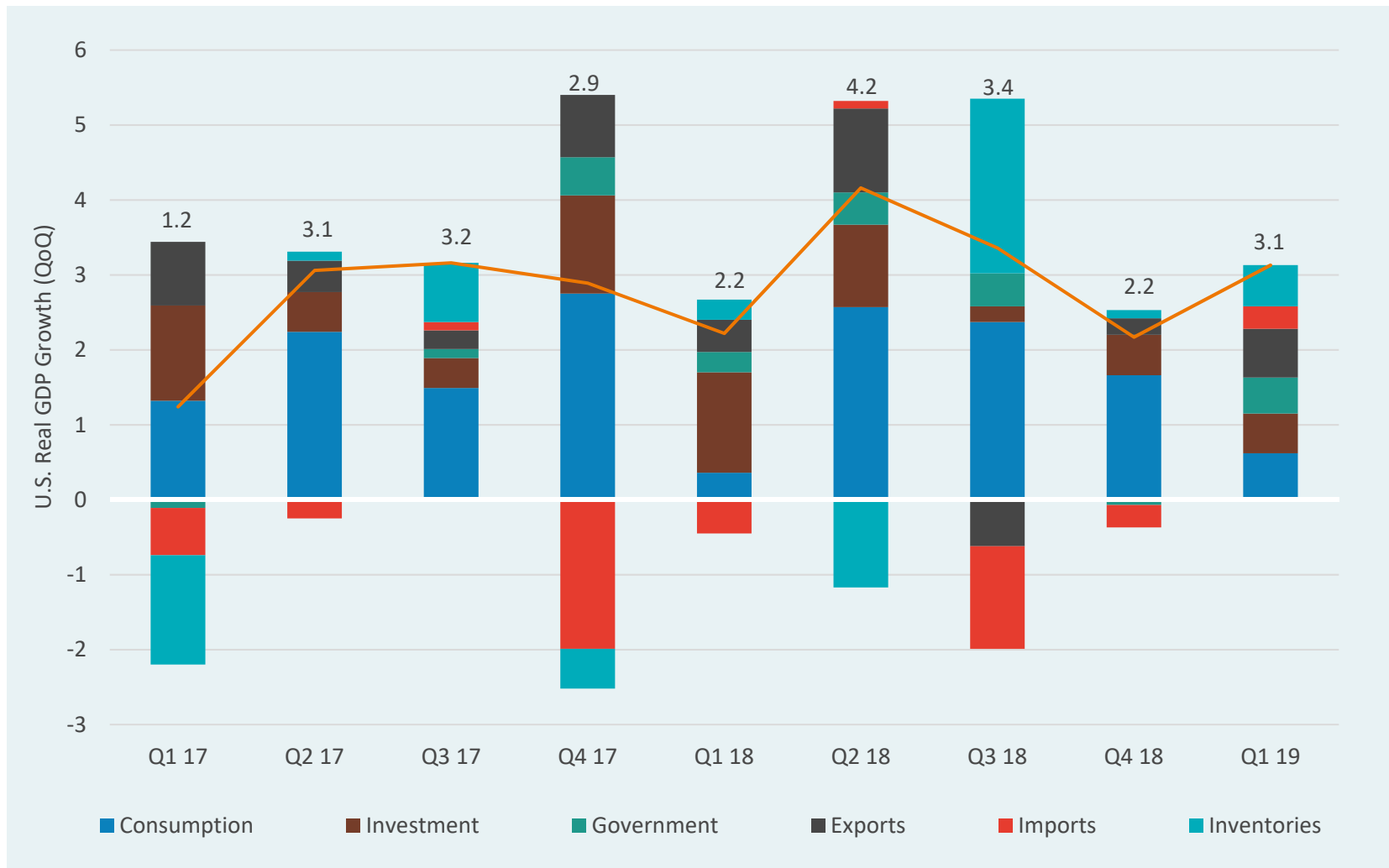
Source: Bloomberg

U.S. GDP growth



Source: FRED, year-over-year, as of 3/31/19

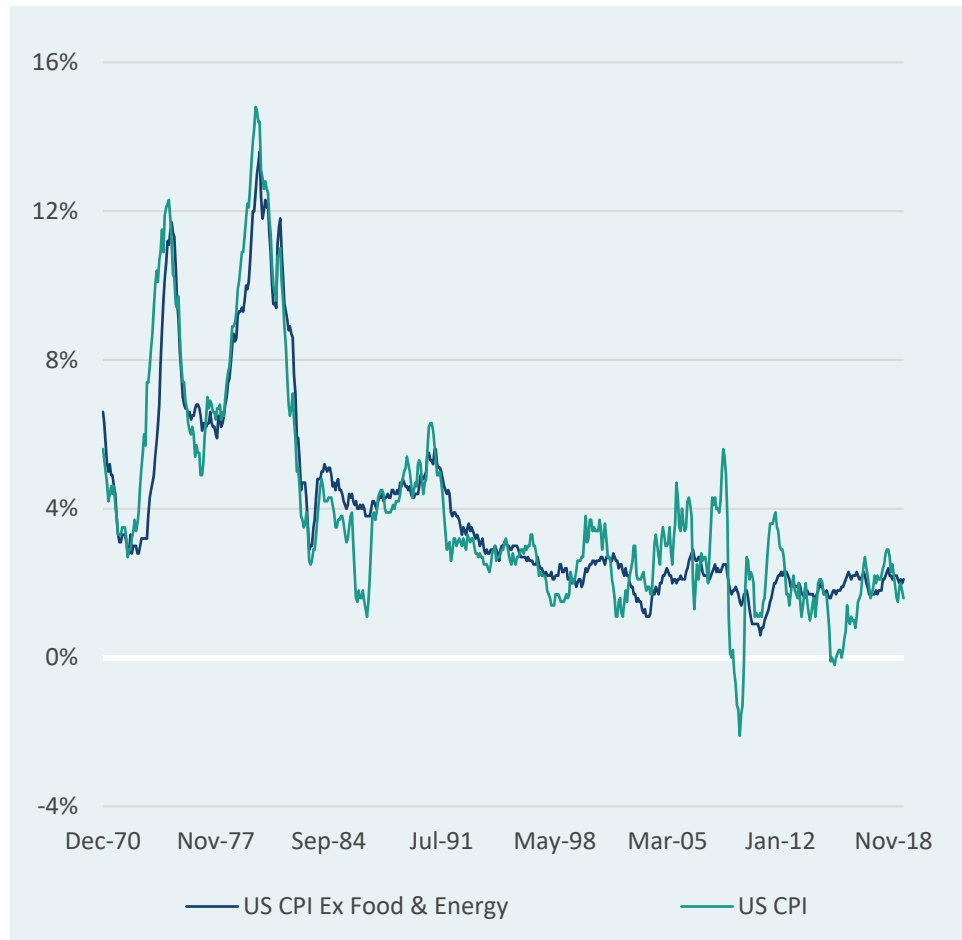
Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 3/31/19

U.S. inflation

U.S. CPI (YOY)



Source: Bloomberg, as of 6/30/19

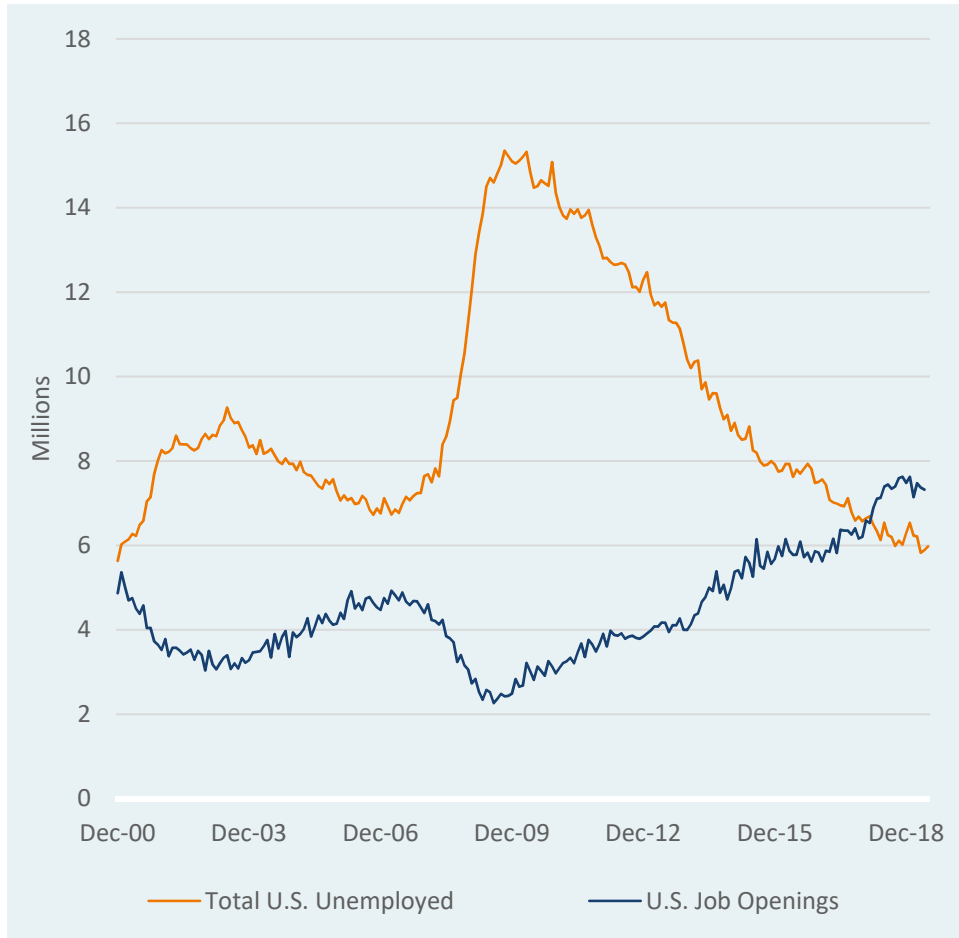
U.S. BREAKEVEN INFLATION RATES



Source: FRED, as of 6/30/19

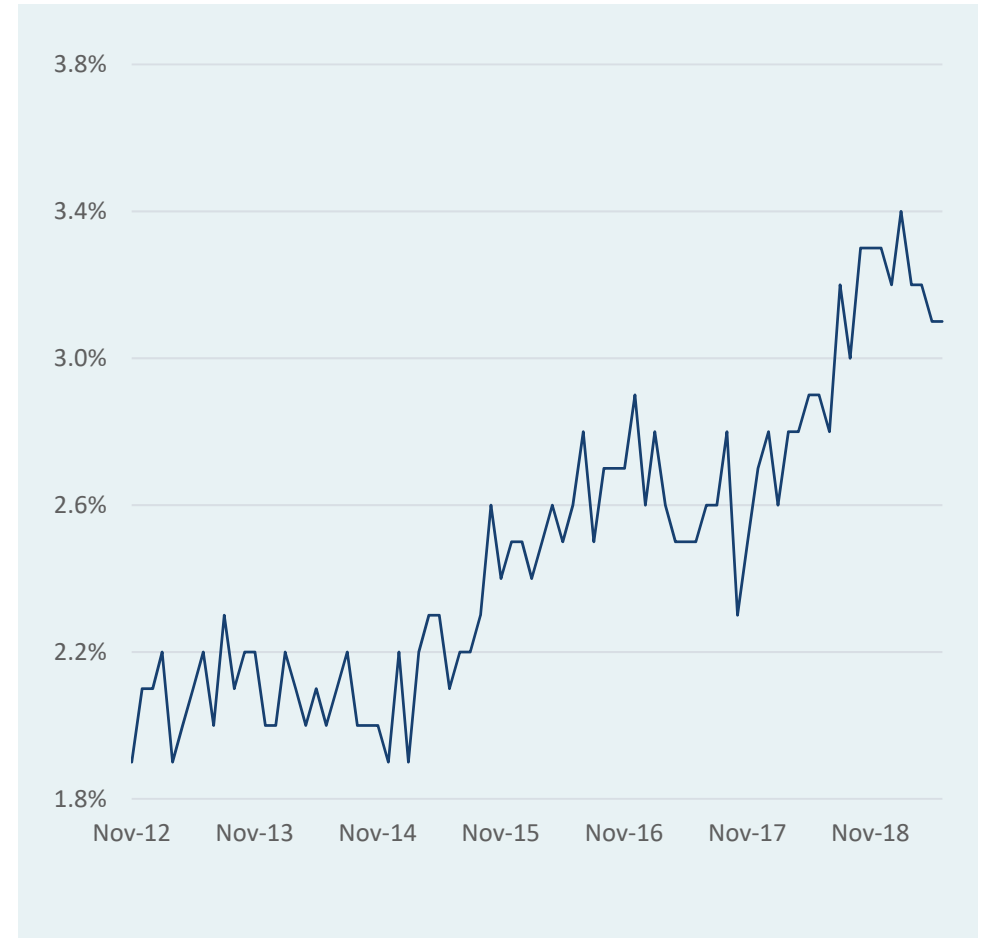
Labor market

U.S. JOB OPENINGS VS. UNEMPLOYED



Source: Bloomberg, as of 6/30/19

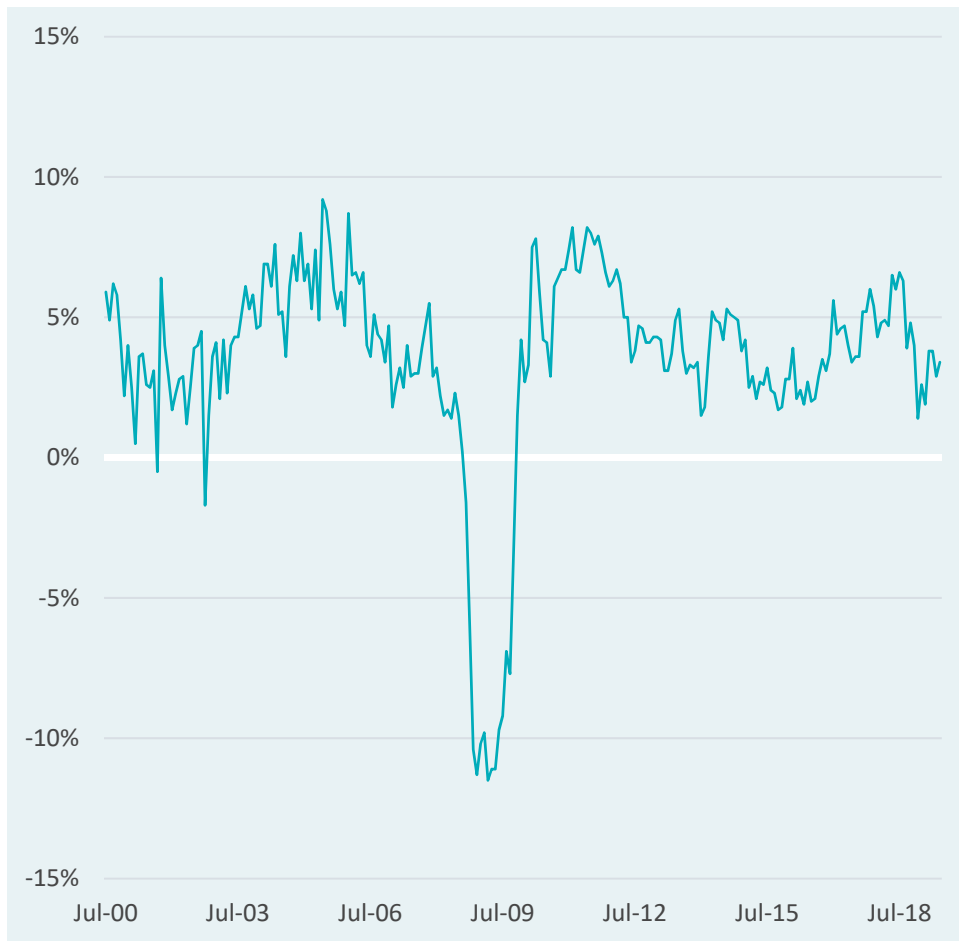
U.S. WAGE GROWTH (YOY)



Source: FRED, as of 6/30/19

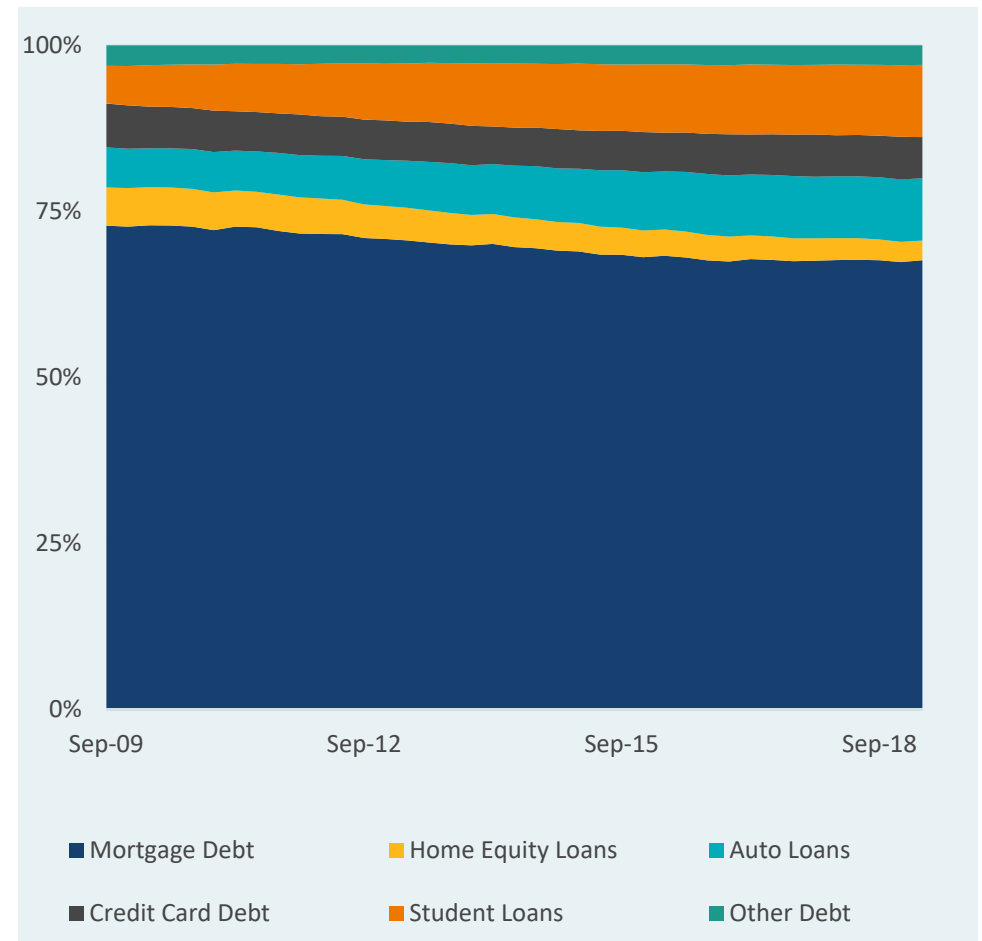
U.S. consumers

REAL RETAIL SALES GROWTH (YOY)



Source: Bloomberg, as of 6/30/19

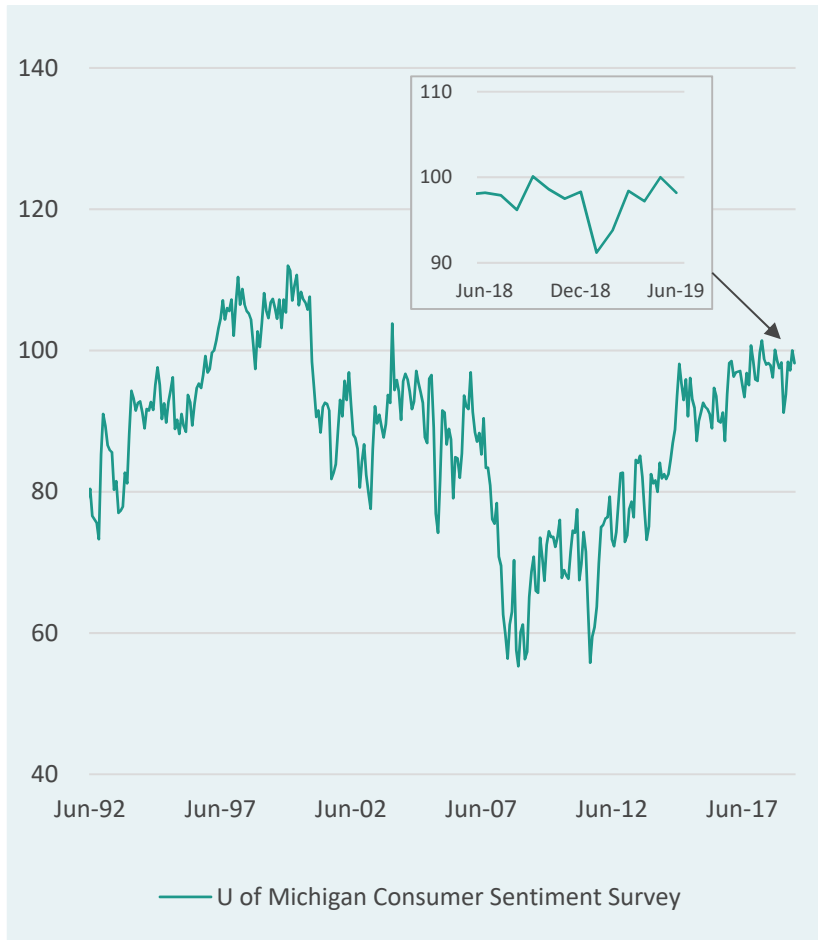
SHARE OF CONSUMER CREDIT OUTSTANDING



Source: Federal Reserve Bank of NY, Bloomberg as of 6/30/19

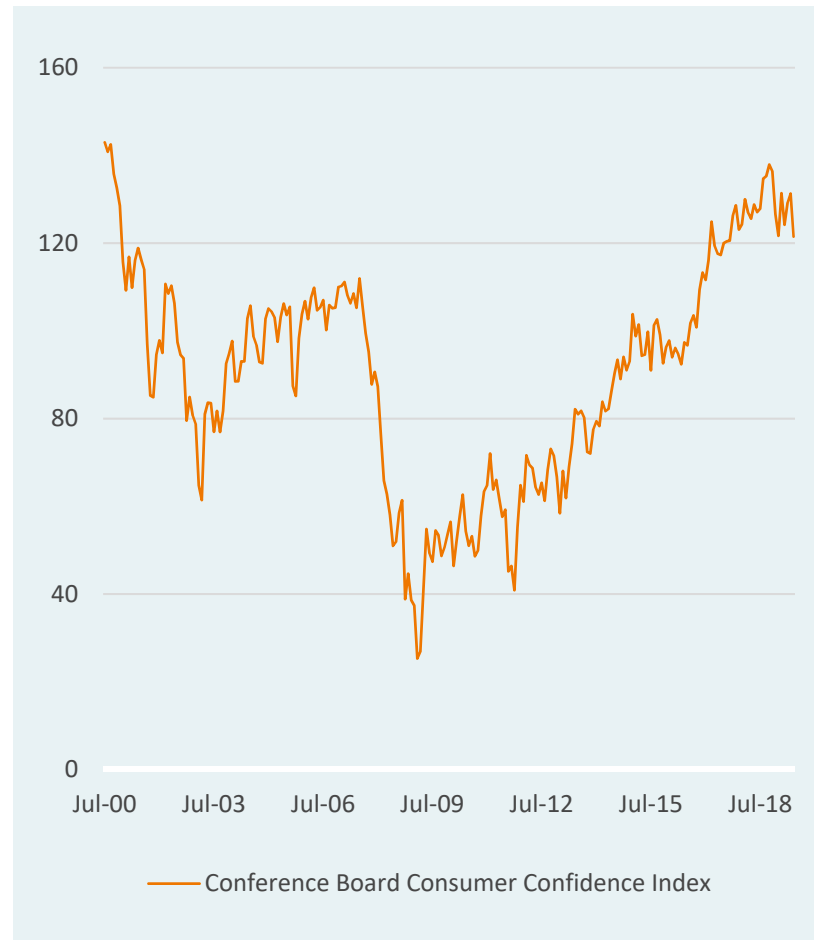
U.S. sentiment

CONSUMER SENTIMENT



Source: University of Michigan, as of 6/30/19 (see Appendix)

CONSUMER CONFIDENCE

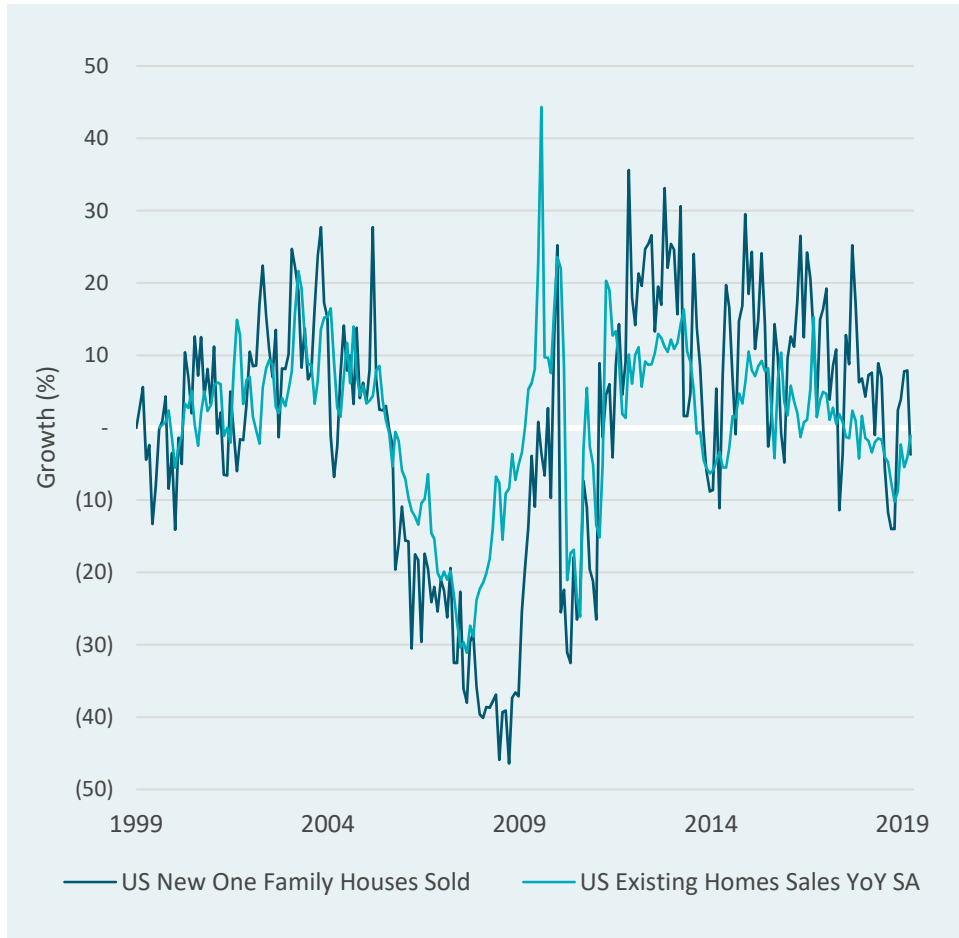


Source: Conference Board, as of 6/30/19

While sentiment indicators were mixed over the quarter, they remain very strong relative to history

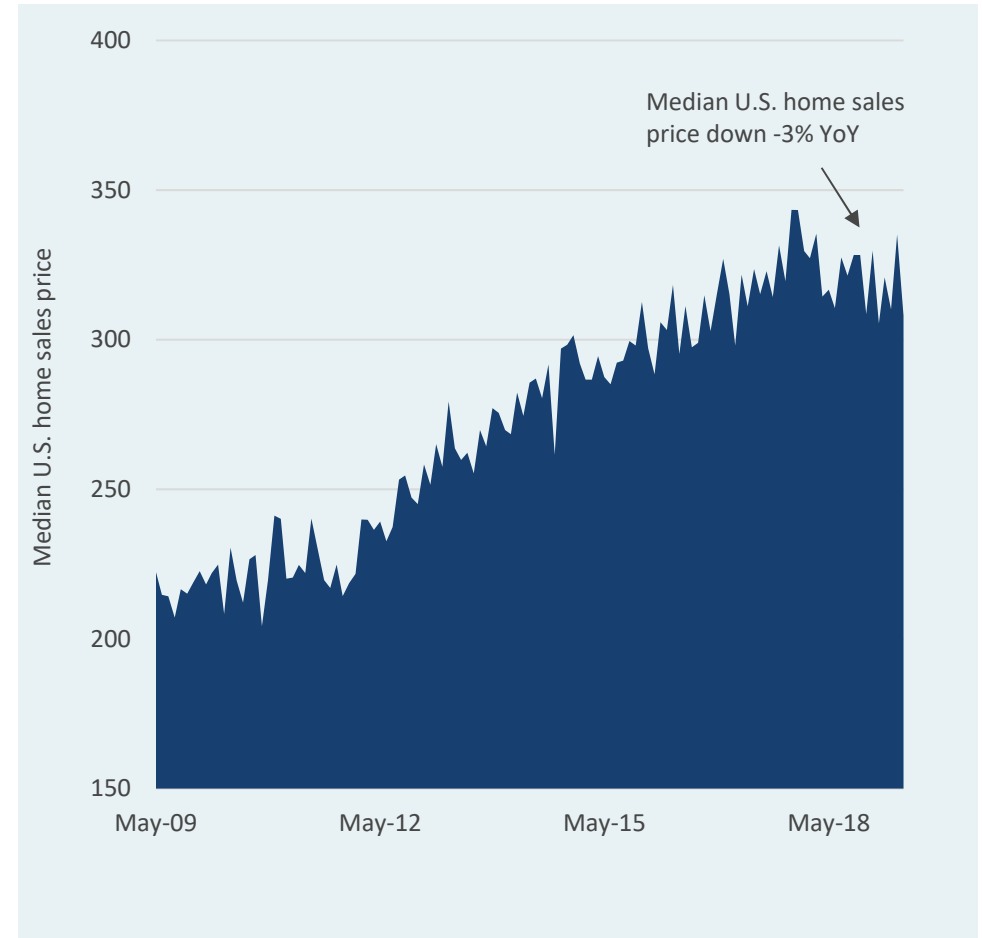
U.S. housing

U.S. HOME SALES (YOY)



Source: FRED, as of 5/31/19

MEDIAN U.S. HOME SALES PRICE



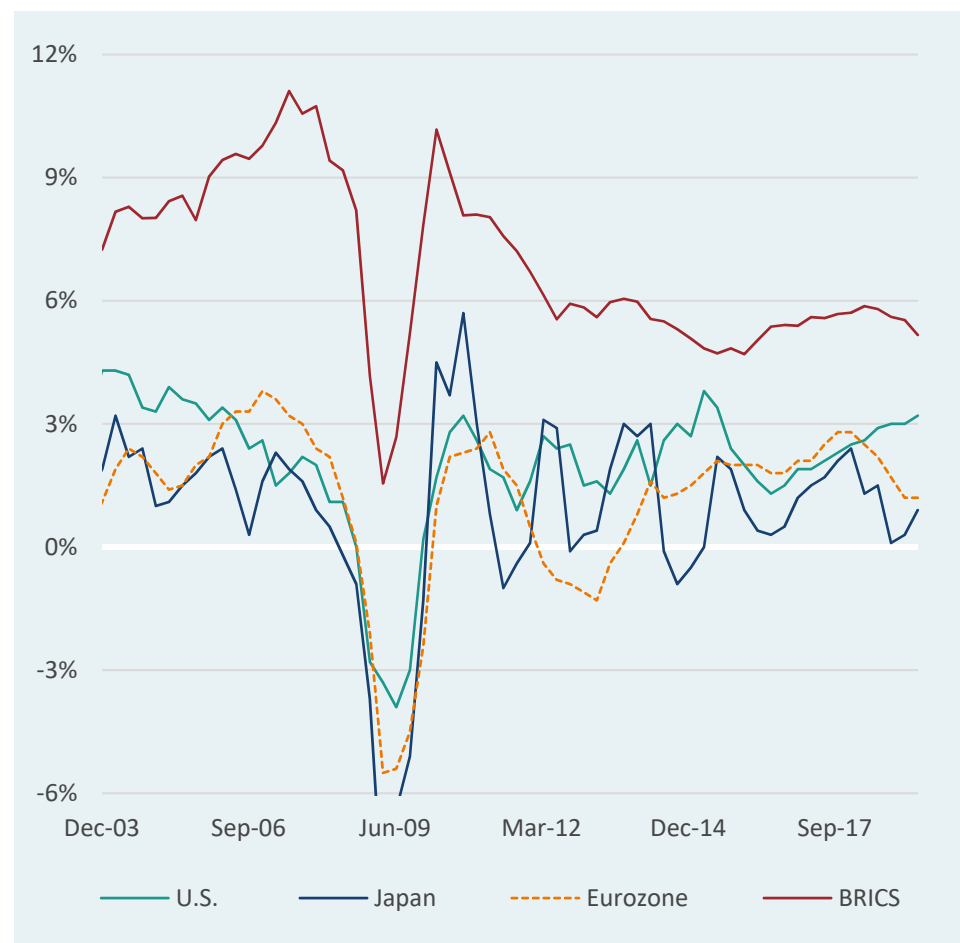
Source: FRED, as of 5/31/19

International economics summary

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	3.2% 3/31/19	1.6% 6/30/19	3.7% 6/30/19
Eurozone	1.2% 3/31/19	1.1% 5/31/19	7.5% 5/31/19
Japan	0.9% 3/31/19	0.7% 5/31/19	2.4% 5/31/19
BRICS Nations	5.2% 3/31/19	2.4% 3/31/19	5.2% 3/31/19
Brazil	1.4% 3/31/19	3.4% 6/30/19	12.4% 6/30/19
Russia	2.7% 12/31/18	4.7% 6/30/19	4.5% 5/31/19
India	7.2% 12/31/18	3.2% 6/30/19	8.5% 12/31/17
China	6.4% 3/31/19	2.7% 6/30/19	3.7% 3/31/19

Source: Bloomberg

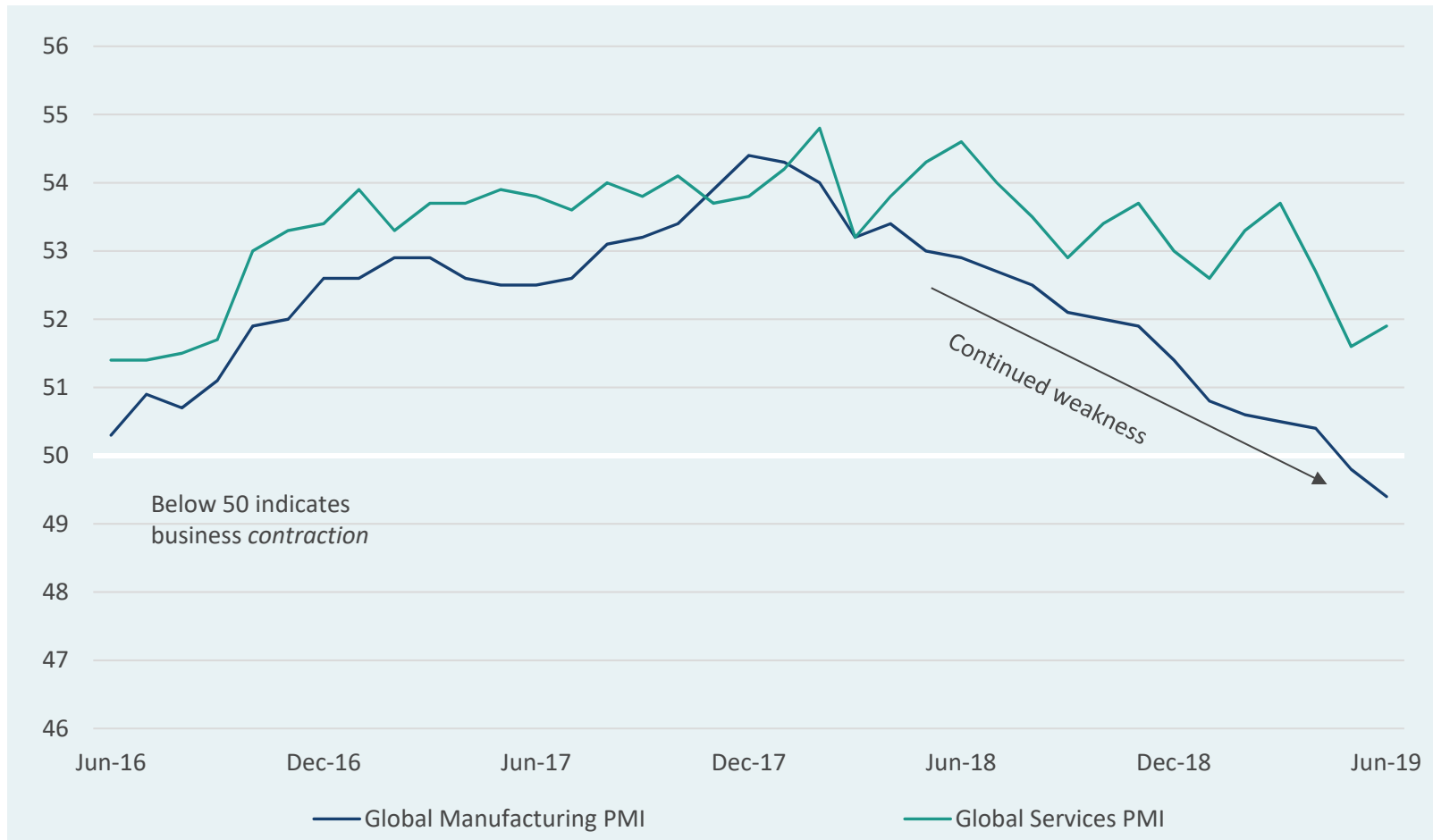
REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 3/31/19

Global PMI

GLOBAL PMI



Surveys have indicated weakening since late 2017 and resumed their decline in the second quarter

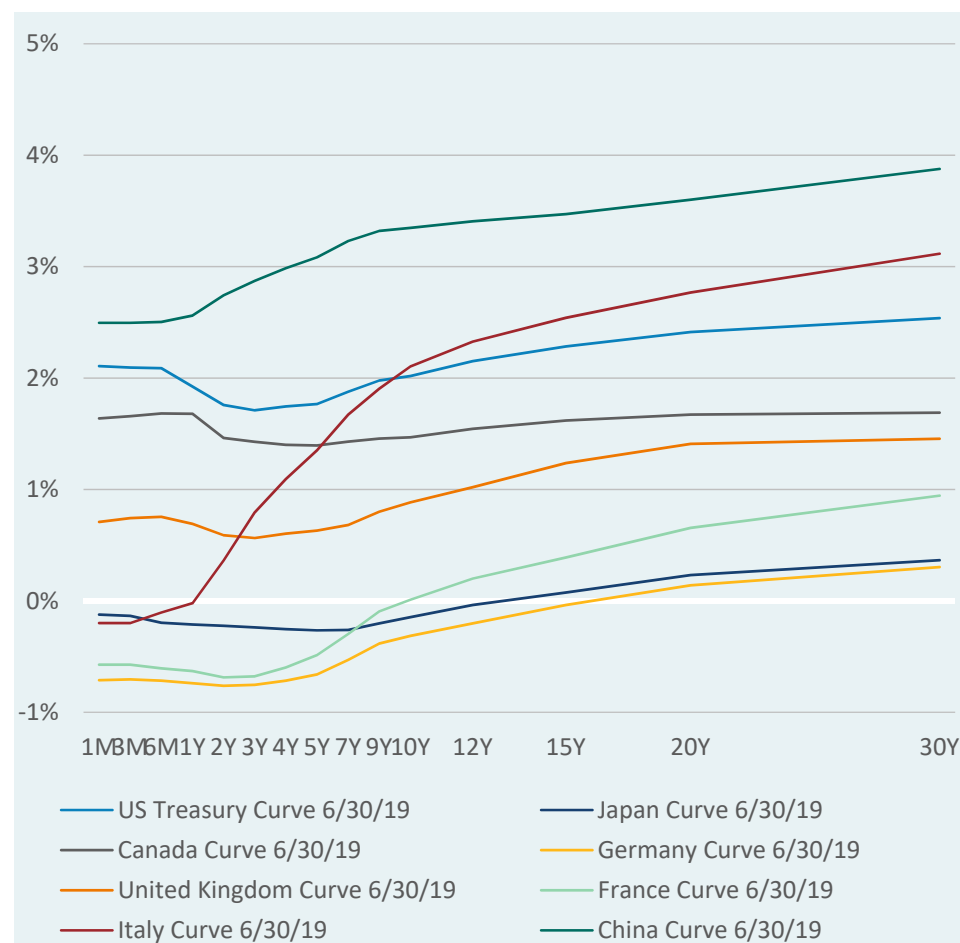
Source: JPMorgan, as of 6/30/19

Interest rate environment

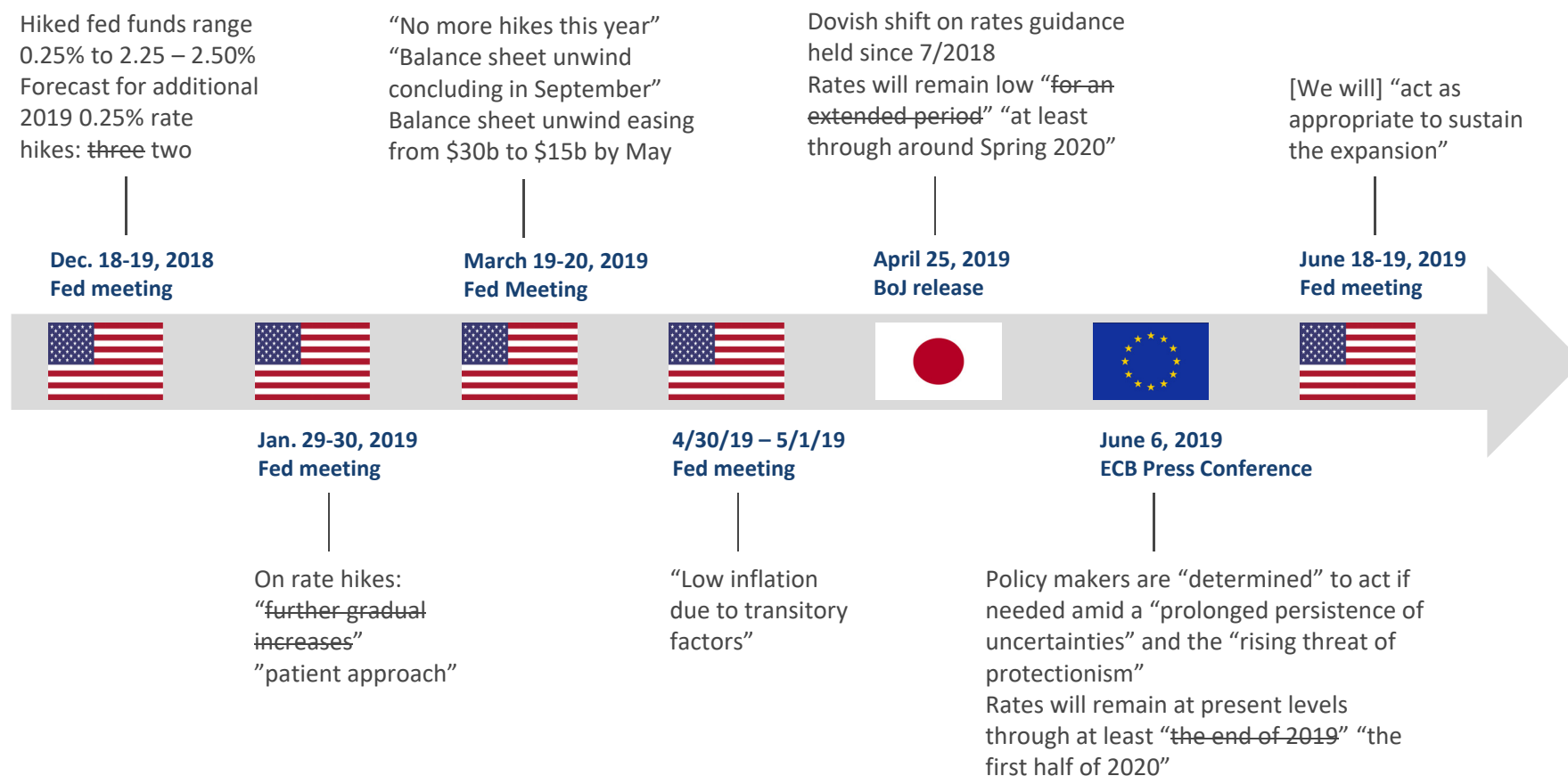
Area	Short Term (3M)	10-Year
United States	2.09%	2.00%
Germany	(0.57%)	(0.33%)
France	(0.55%)	(0.01%)
Spain	(0.47%)	0.39%
Italy	(0.14%)	2.10%
Greece	0.99%	2.41%
U.K.	0.78%	0.83%
Japan	(0.08%)	(0.17%)
Australia	1.43%	1.32%
China	2.25%	3.21%
Brazil	6.24%	7.44%
Russia	8.03%	8.26%

Source: Bloomberg, as of 6/30/19

GLOBAL GOVERNMENT YIELD CURVES



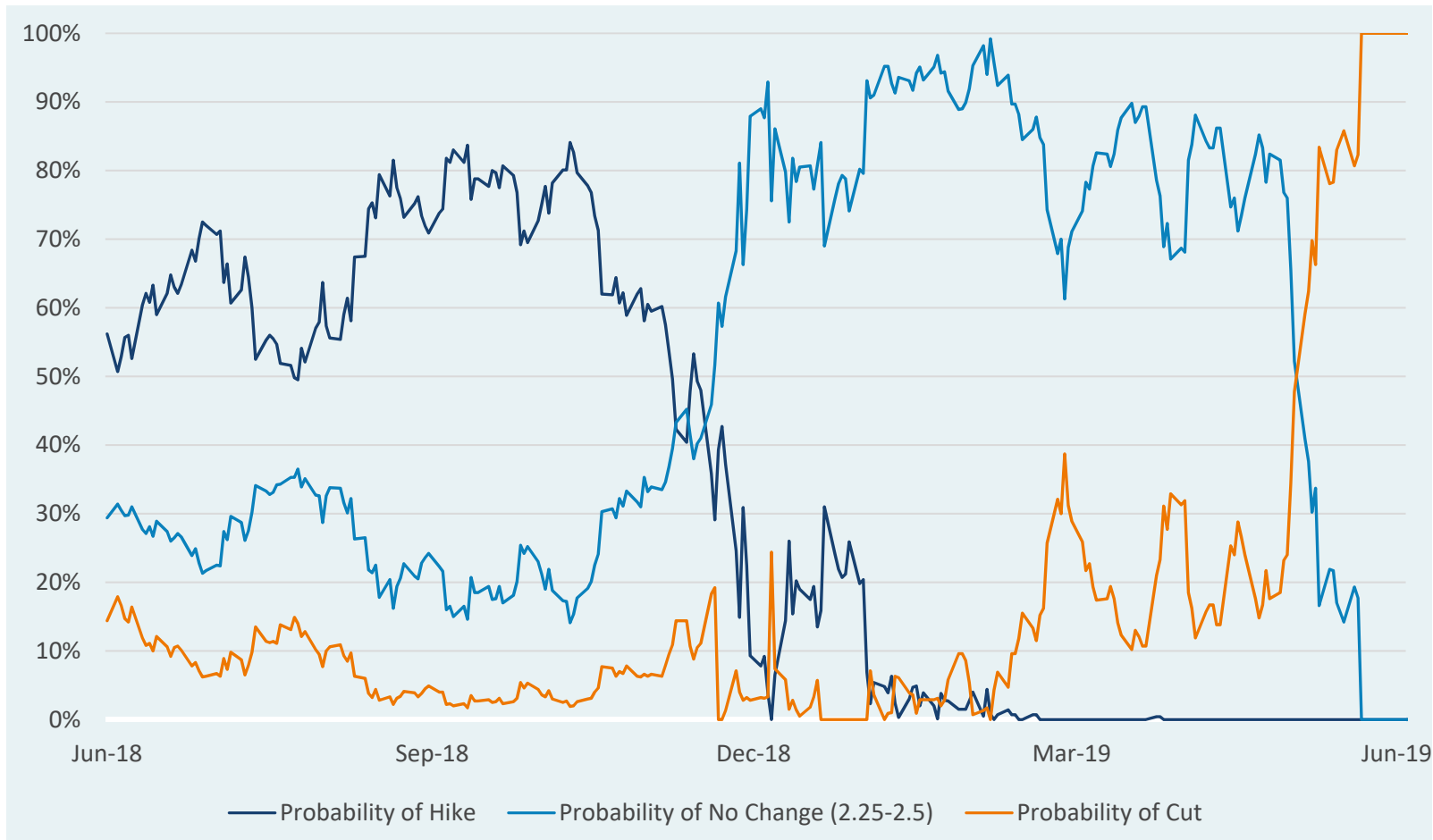
Central bank reversal



Source: Wikimedia Commons

July Fed meeting

FUTURES IMPLIED PROBABILITIES FOR JULY FED RATE DECISION



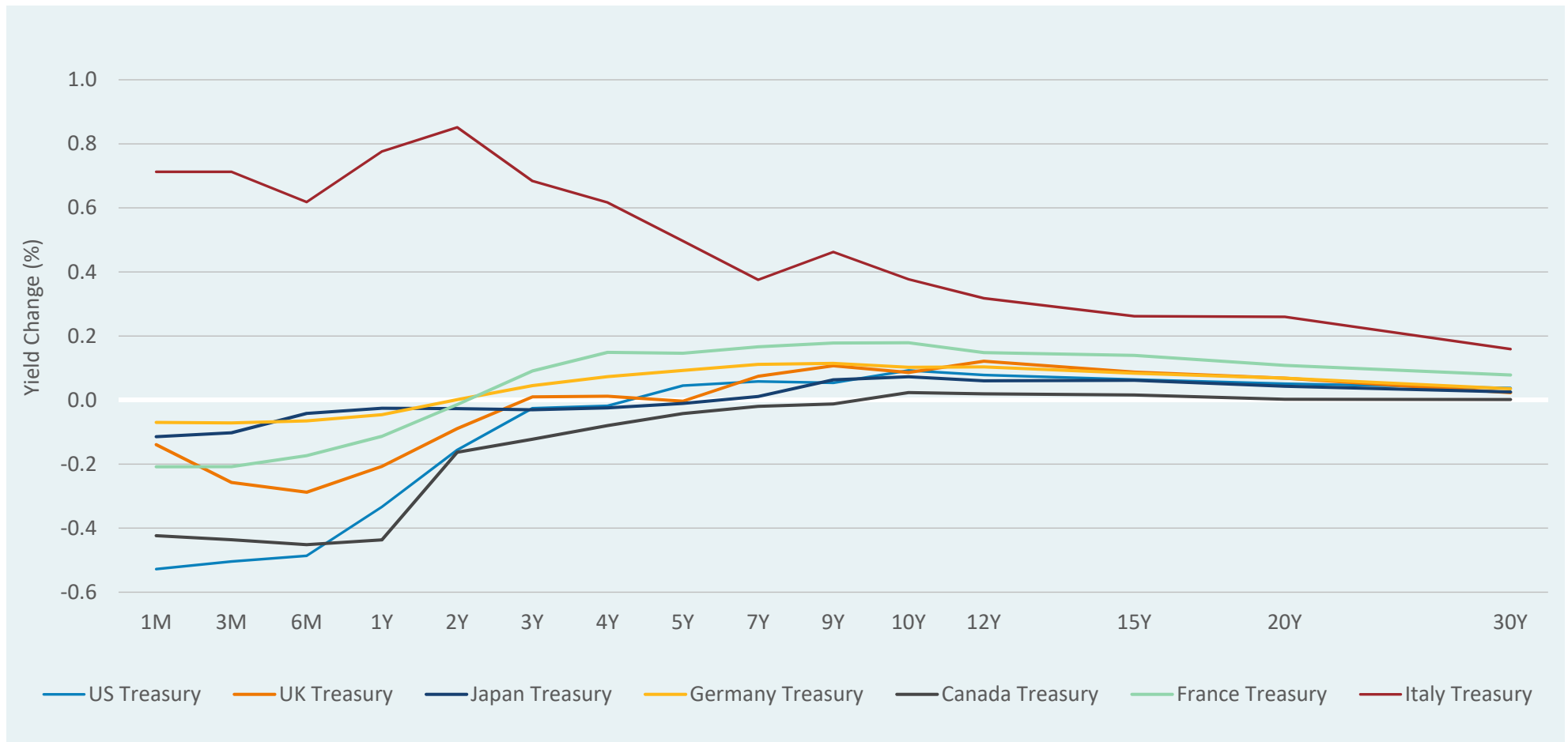
In April and May, dovish guidance from global central banks made its way into fed funds futures pricing

In June, the Fed pledged to “act appropriately to sustain the expansion” and a 0.25% cut became 100% priced in July

Source: Bloomberg, as of 6/30/19

Yield environment

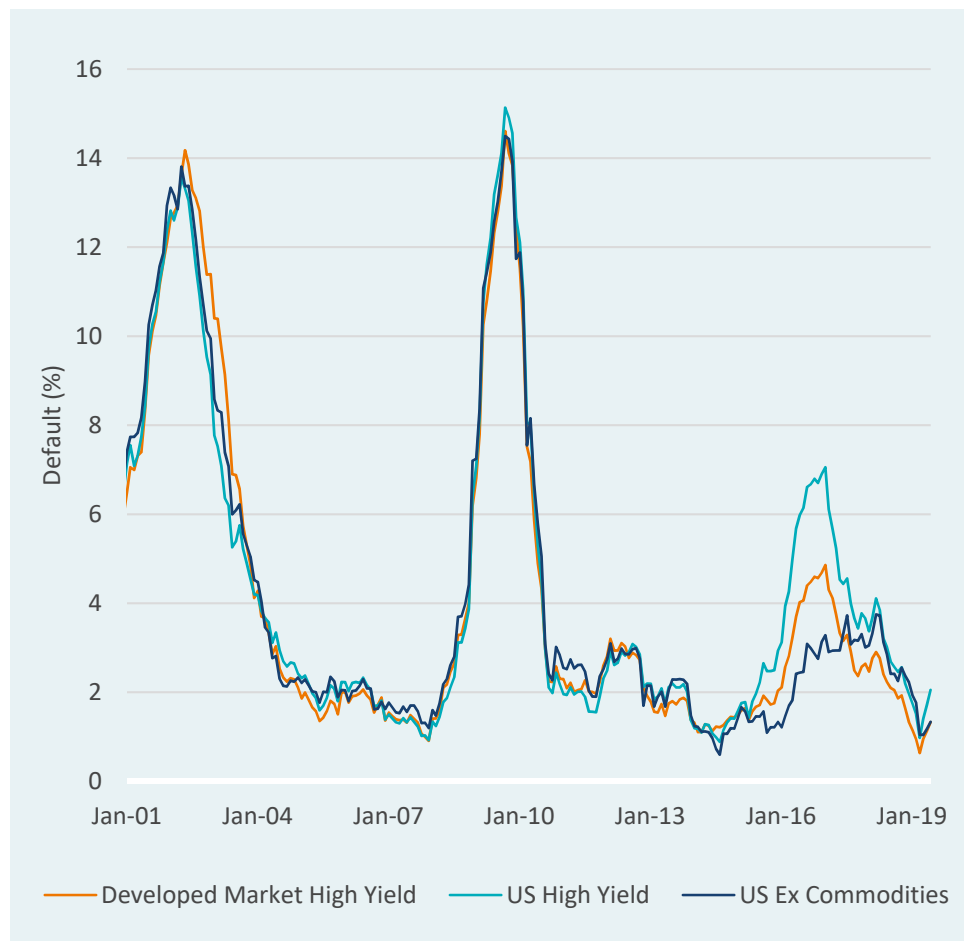
IMPLIED CHANGES OVER NEXT YEAR



Source: Bloomberg, as of 6/30/19

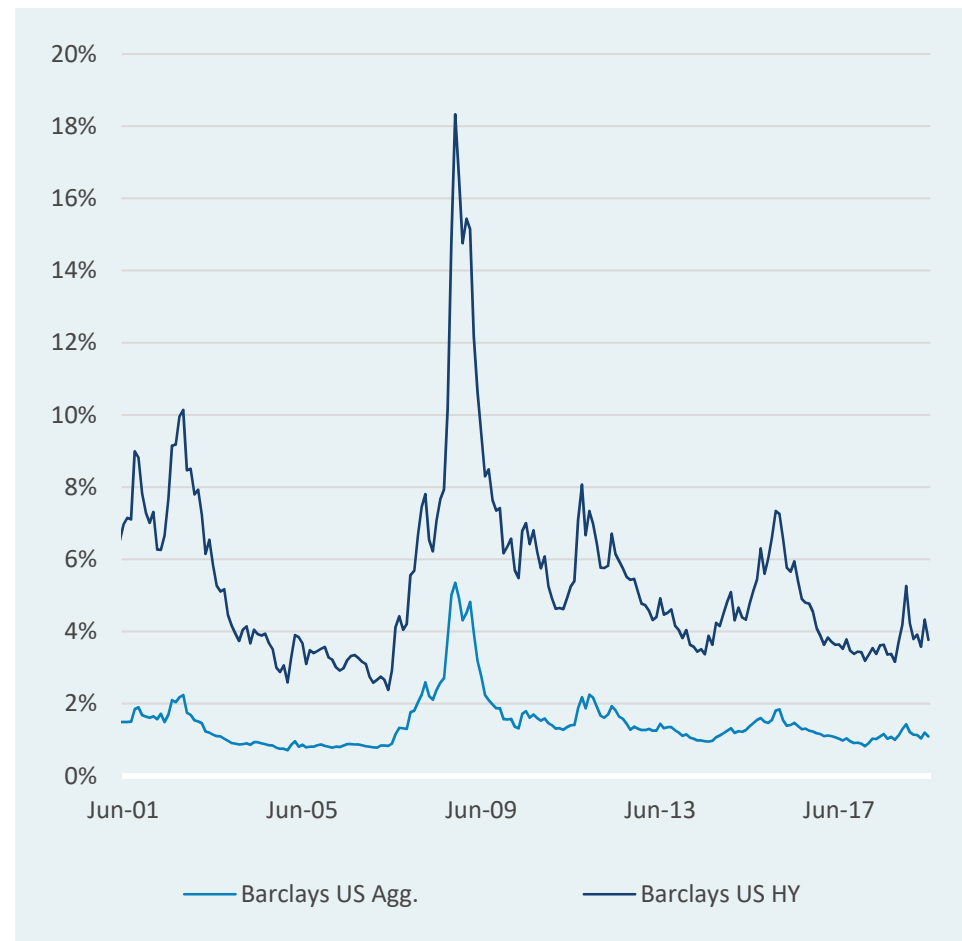
Credit environment

HY DEFAULT RATE (ROLLING 1-YEAR)



Source: BofA Merrill Lynch, as of 6/30/19

SPREADS



Source: Barclays, Bloomberg, as of 6/30/19

Equity environment

	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	4.2%		10.0%	
US Small Cap (Russell 2000)	2.1%		(3.3%)	
US Large Value (Russell 1000 Value)	3.8%		8.5%	
US Large Growth (Russell 1000 Growth)	4.6%		11.6%	
International Large (MSCI EAFE)	3.7%	3.5%	1.1%	4.8%
Eurozone (Euro Stoxx 50)	6.2%	6.4%	0.4%	8.6%
U.K. (FTSE 100)	4.0%	0.9%	(2.3%)	3.7%
Japan (NIKKEI 225)	3.1%	0.8%	0.1%	(2.6%)
Emerging Markets (MSCI Emerging Markets)	0.6%	0.1%	1.2%	1.7%

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 6/30/19

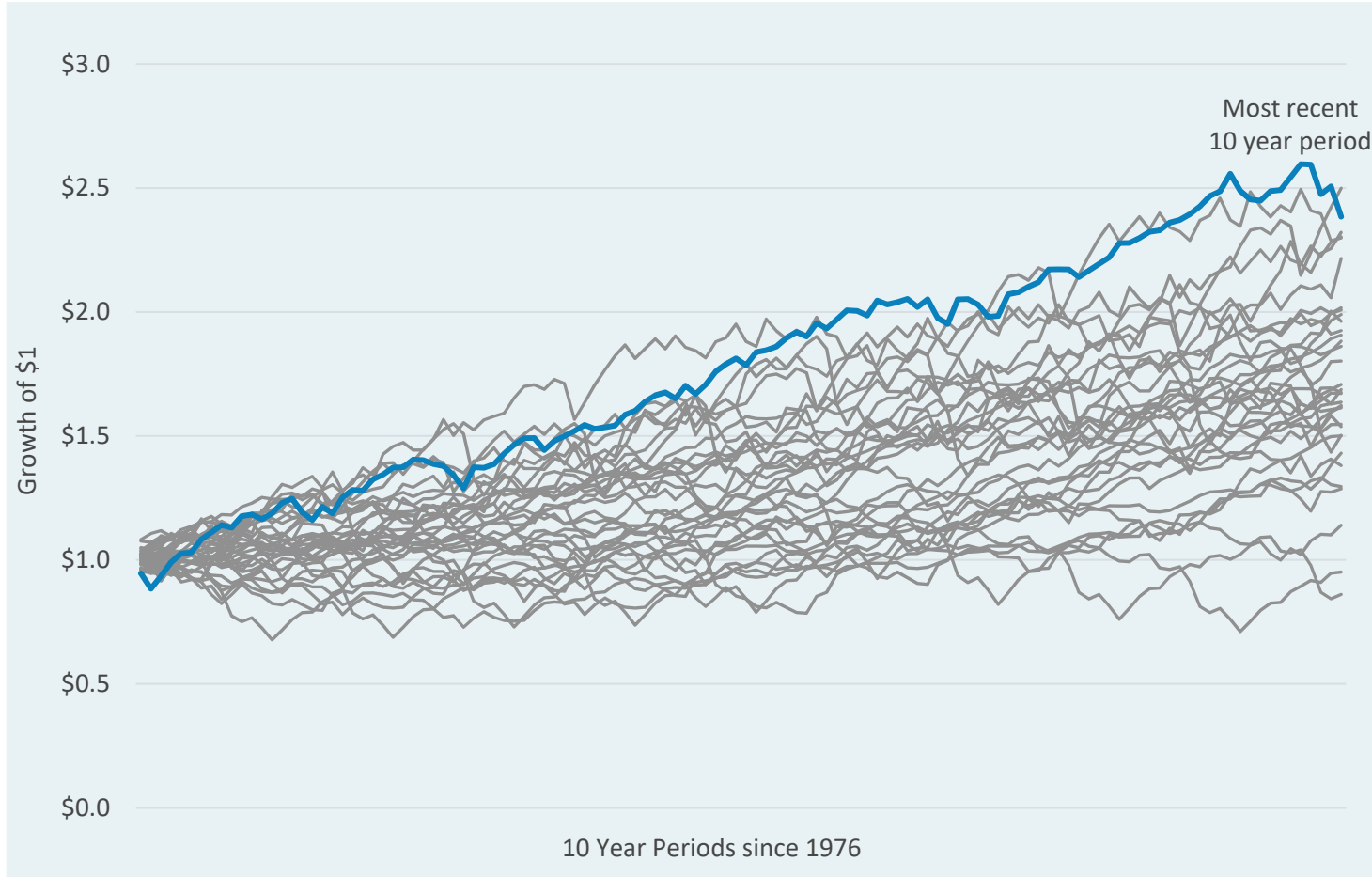
U.S. RELATIVE PERFORMANCE - HISTORICAL

	2014-2019	2009-2014	2004-2009	1999-2004	1994-1999
Best ↑	United States	United States	China	Australia	Sweden
	Australia	Sweden	India	India	Spain
	France	Japan	Spain	Canada	France
	India	Germany	Australia	United States	United States
	UK	Switzerland	Sweden	Spain	Germany
↓ Worst	Italy	India	Canada	Switzerland	Switzerland
	Japan	Australia	Germany	UK	UK
	Sweden	UK	UK	Italy	Canada
	Canada	Canada	Switzerland	France	Australia
	Switzerland	France	France	Sweden	India
	Germany	Spain	United States	Japan	Japan
	China	China	Japan	Germany	
	Spain	Italy	Italy		

Source: Verus, as of 6/30/19

Domestic equity

DOMESTIC 60/40 EXCESS RETURNS



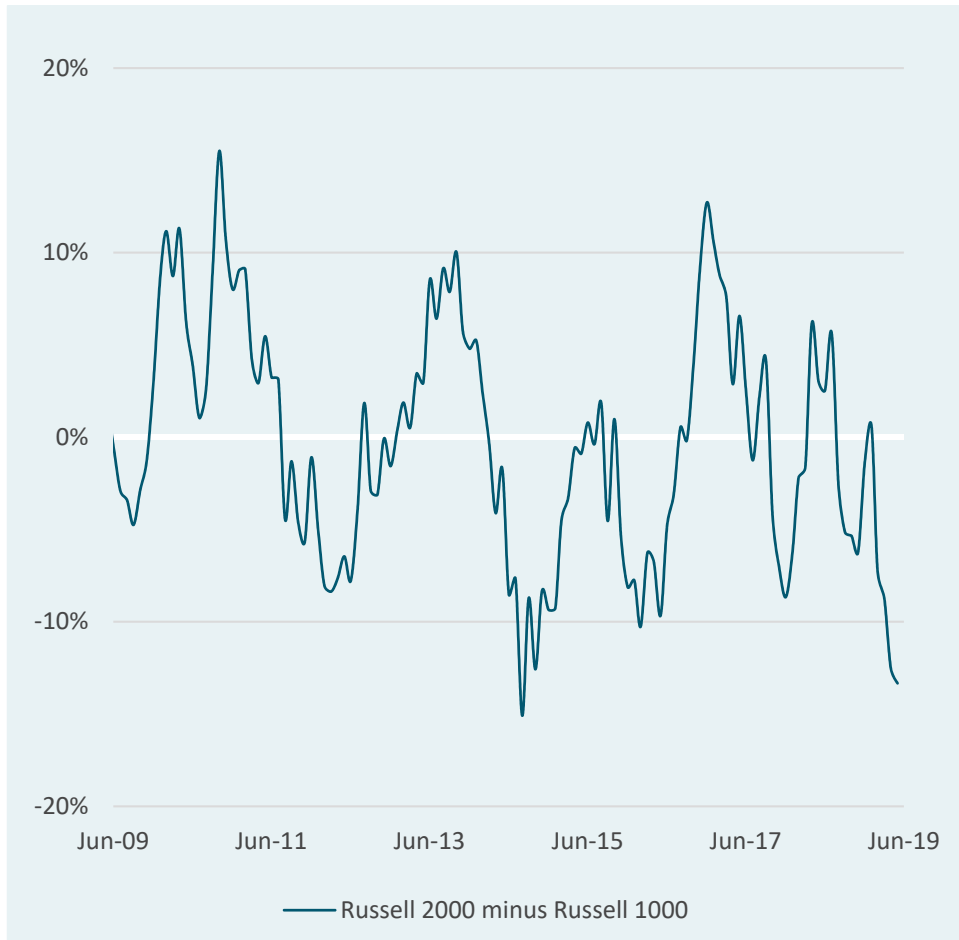
U.S. asset performance over the past 10 years has been unusually strong

Investors should not necessarily expect U.S. outperformance to continue

Source: Verus, 60/40 (S&P 500 / BBgBarc US Aggregate Bond), excess return over T-bills since 1973

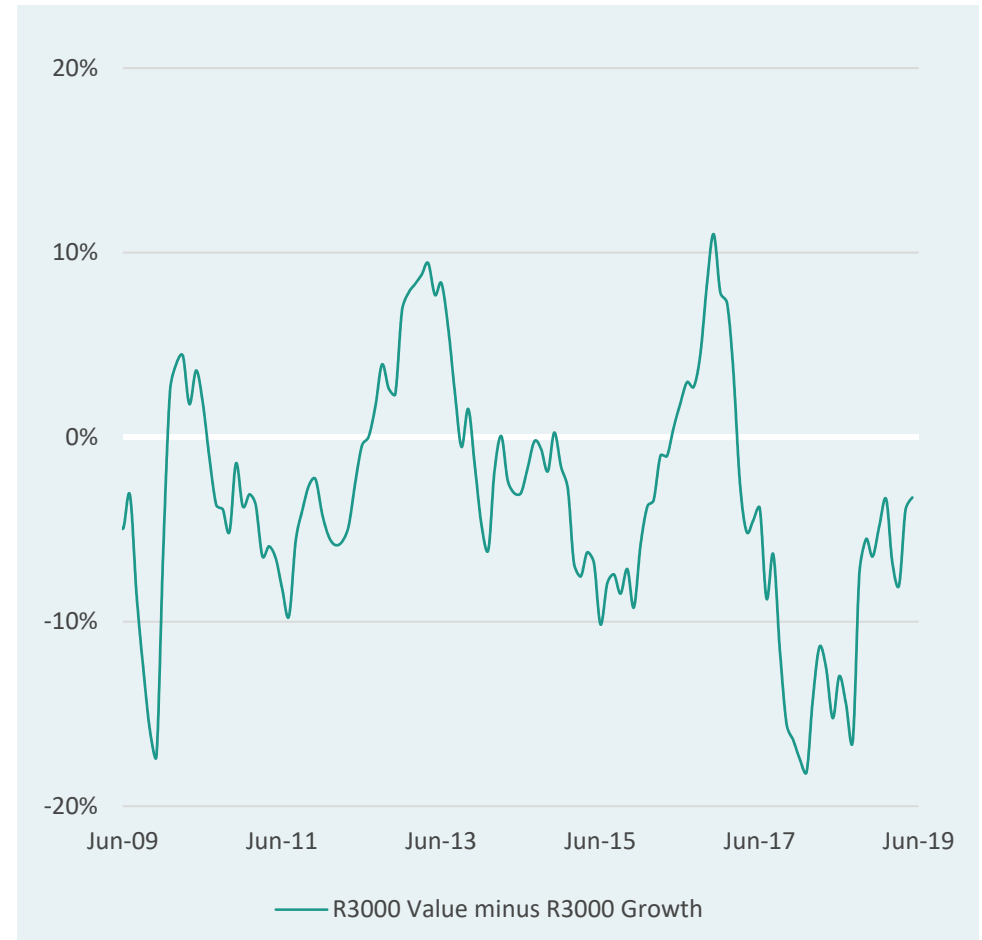
Domestic equity size & style

SMALL CAP VS LARGE CAP (YOY)



Source: FTSE, as of 6/30/19

VALUE VS GROWTH (YOY)



Source: FTSE, as of 6/30/19

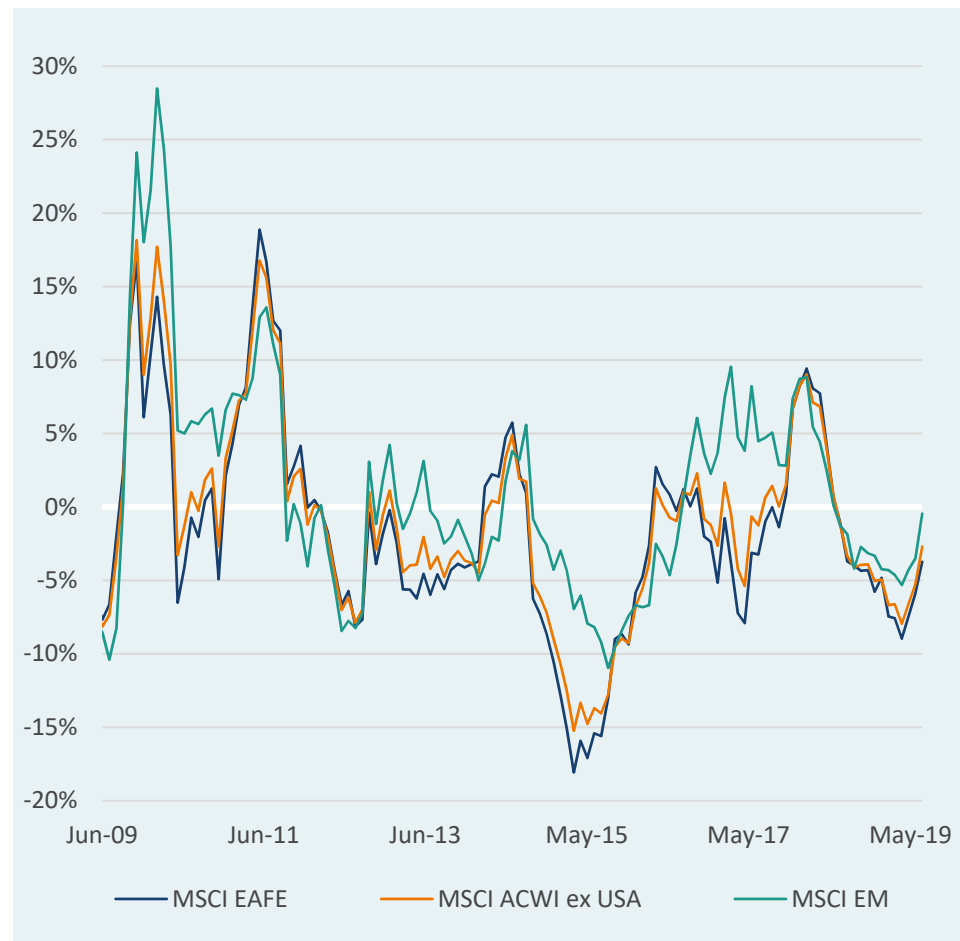
Global equity

EQUITY PERFORMANCE (3-YR ROLLING)



Source: Standard & Poor's, MSCI, as of 6/30/19

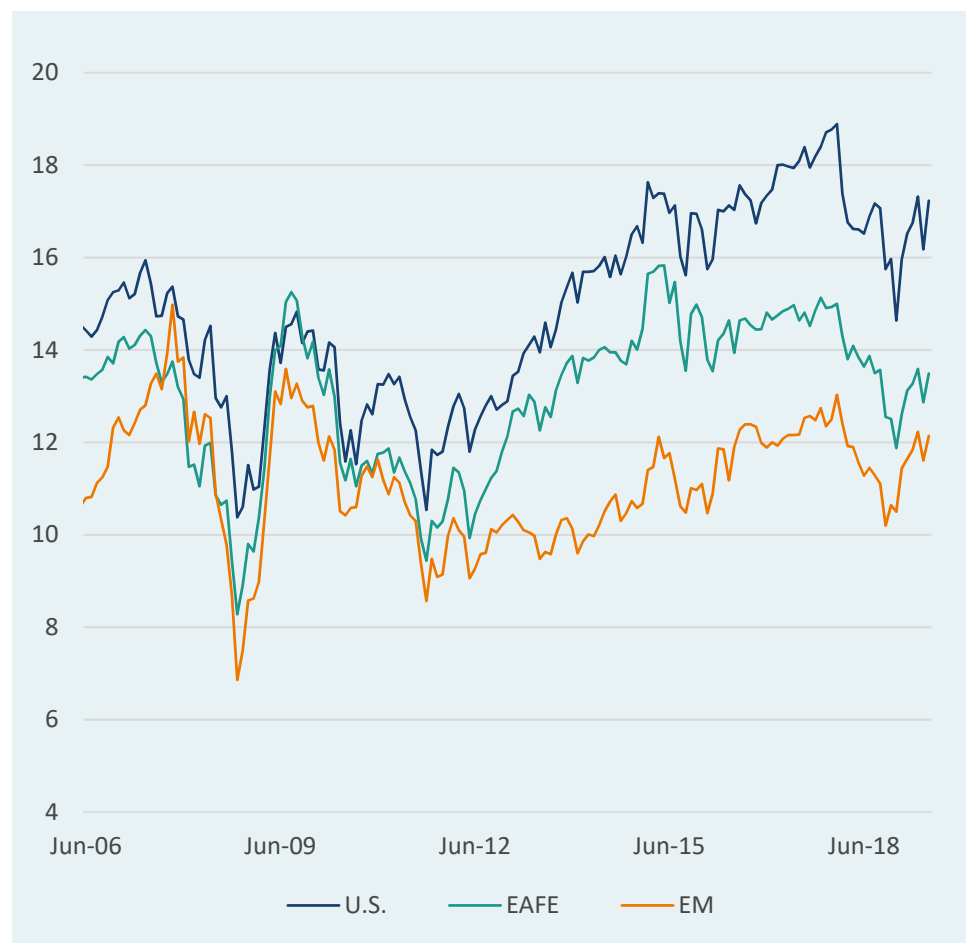
EFFECT OF CURRENCY (1-YEAR ROLLING)



Source: MSCI, as of 6/30/19

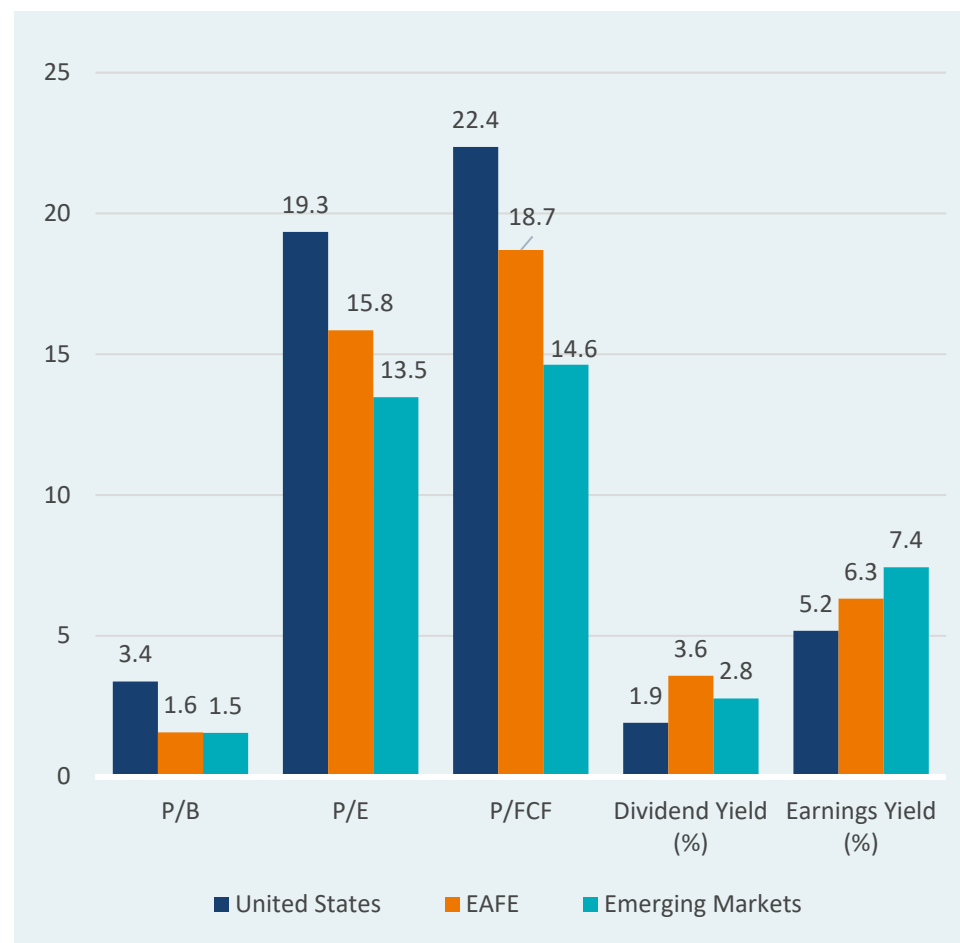
Equity valuations

FORWARD P/E RATIOS



Source: MSCI, as of 6/30/19

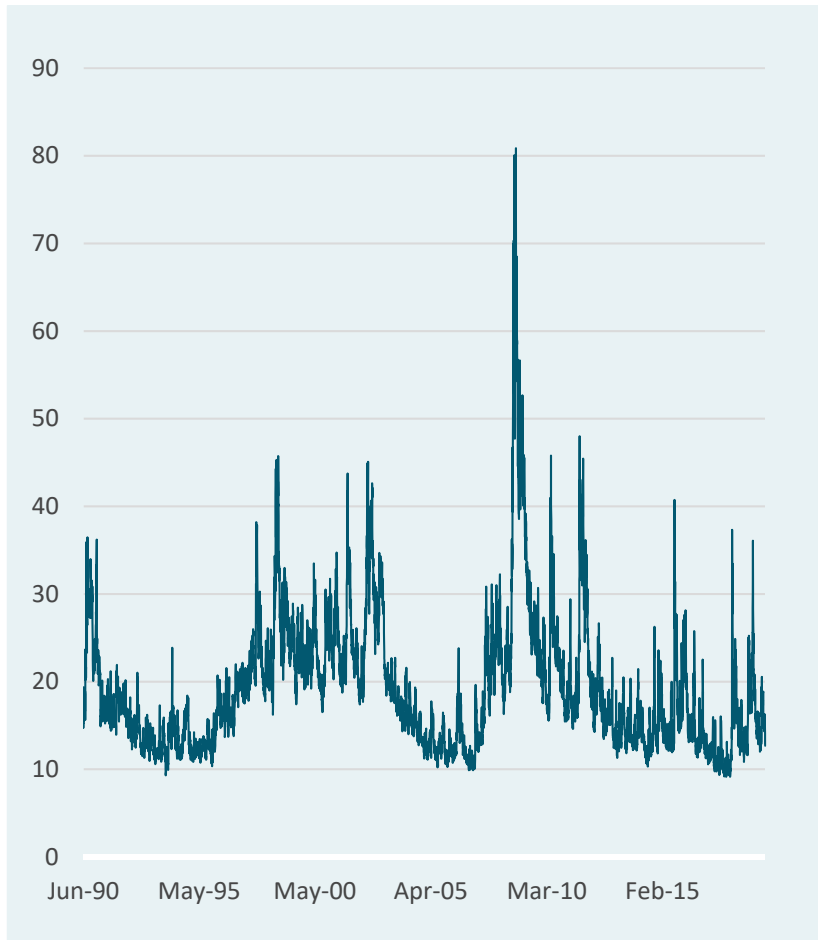
VALUATION METRICS (3-MONTH AVERAGE)



Source: Bloomberg, MSCI as of 6/30/19 - trailing P/E

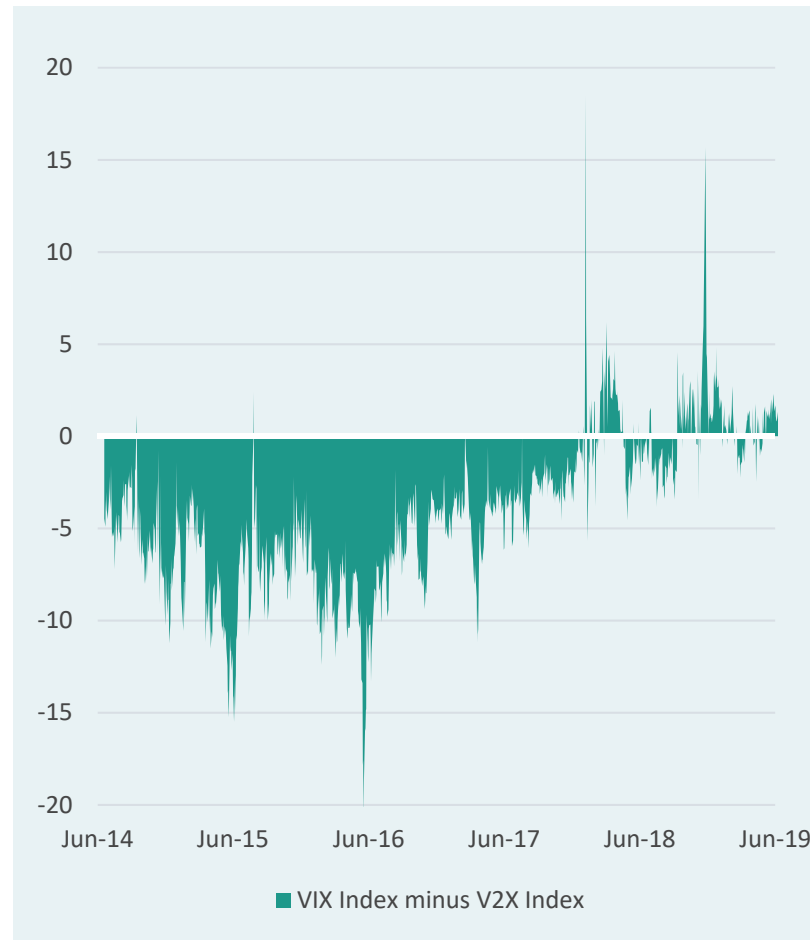
Equity volatility

U.S. IMPLIED VOLATILITY (VIX)



Source: CBOE, as of 6/30/19

U.S. IMPLIED VOLATILITY VS. EUROPEAN IMPLIED VOLATILITY



Source: Bloomberg, as of 6/30/19

Historically, implied volatility on European stocks has exceeded U.S. stocks

For much of the last few years, the relationship has reversed

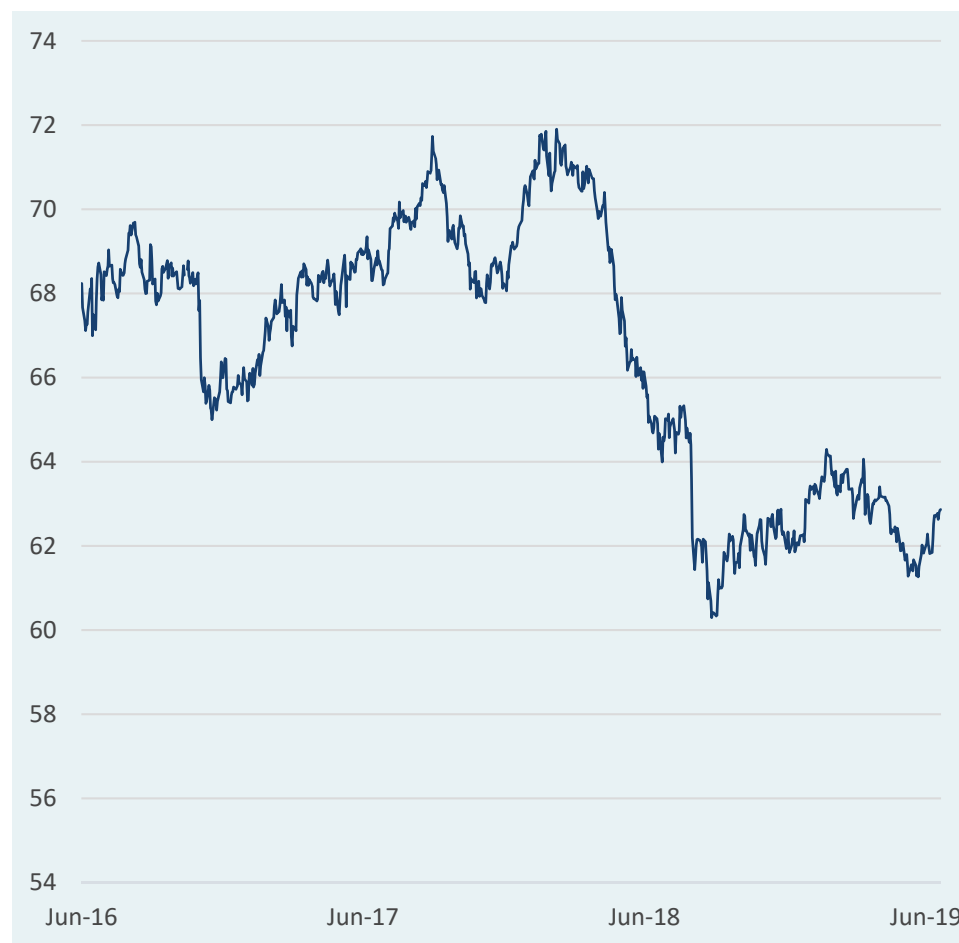
Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



Source: Federal Reserve, as of 3/31/19

J.P. MORGAN EMERGING MARKET CURRENCY INDEX



Source: Bloomberg, as of 3/31/19

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THE INVESTMENT CLIMATE

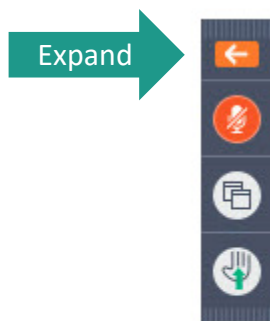
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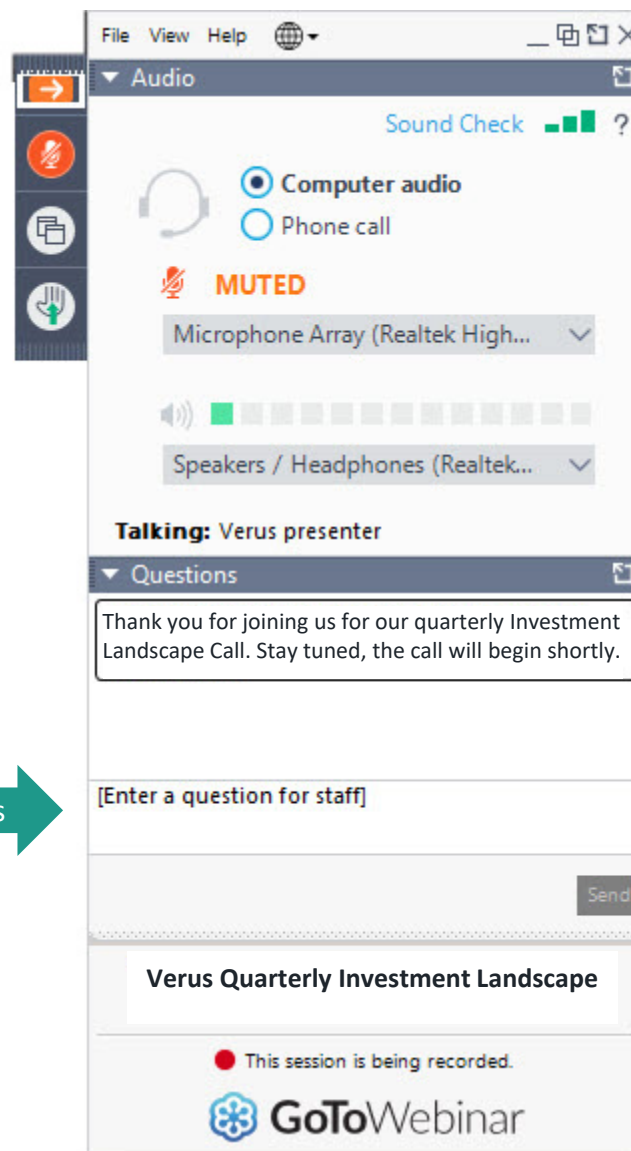
Q&A



Use the orange arrow to expand the control panel

Ask questions here

Questions





Thank you