



MATRIX
PRIVATE CAPITAL GROUP



MATRIX PRIVATE CAPITAL GROUP

Markets Move on Up: Third Quarter 2019 Outlook

With markets performing well in the second quarter, now is a good time to think about risk repositioning. In this edition of Matrix Private Capital Group's market outlook, we look at what this can mean for your portfolio.



Matthew Rubin
Chief Investment Officer
mrubin@matrixpcg.com



Ryan Tunnell, CFA
Director of Investments
rtunnell@matrixpcg.com

New York (HQ)

400 Park Avenue, 6th Floor
New York, NY 10022

Chicago

155 N. Wacker Drive, Suite 4242
Chicago, IL 60606

Los Angeles

10250 Constellation Boulevard
Los Angeles, CA 90067

Palm Beach

101 Northpoint Parkway
West Palm Beach, FL 33407

Pittsburgh

409 Broad Street, Suite 200
Sewickley, PA 15143

212.254.4876

info@matrixpcg.com
matrixpcg.com



MATRIX
PRIVATE CAPITAL GROUP

The Market Grinds Higher

Markets continued to rally in the second quarter, despite no resolution to trade talks with China and bubbling geopolitical tensions with Iran. We stated in our previous quarterly newsletter that we believed there could be modest upside in the markets from where the first quarter ended. With second quarter S&P 500 performance of 4.3%¹, the performance was more than just modest. Investor sentiment and consumer sentiment continues to be a driver of market performance in our eyes, and while there have been some concerns that sentiment may have fallen a bit, there is little doubt that it has been strong enough to keep the rally going. As earnings season begins, this issue is likely to remain in the spotlight.

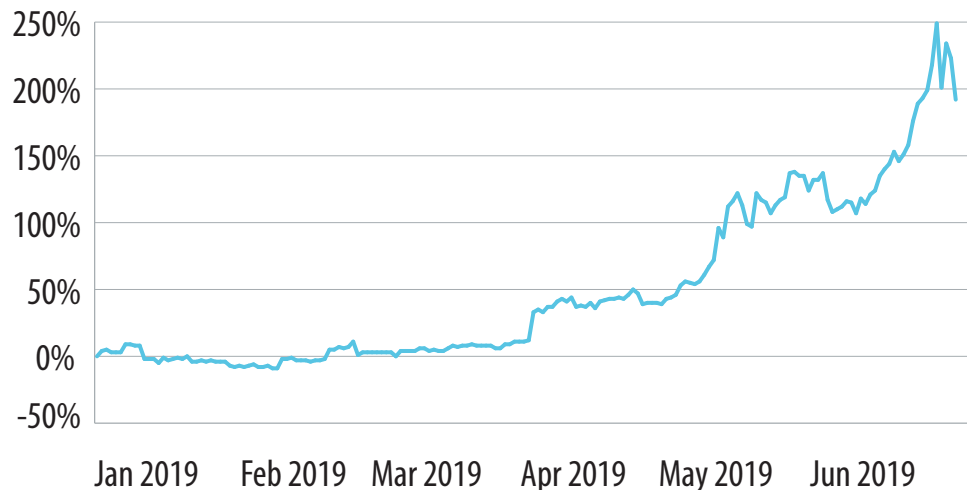
The Fed Remains in Focus

The strong performance for both bonds and stocks is a mixed signal that we have seen at times over the past few years. Typically, when bond prices rise, and therefore yields get tighter, it is a sign that the market believes that longer term growth is not going to be as good as previously believed and that inflation will be lower than expected. If money is flowing into bonds, then we wouldn't necessarily expect strong performance in equities. However, when looking at futures markets, they are practically guaranteeing that the Fed will step in to cut interest rates in July². Throughout 2019, we have talked about the Fed's actions as perhaps the single biggest driver of performance and this is a continuation of that theme. With market participants assuming such a high probability of easing monetary policy in the near future, this has driven a rally in risk assets like stocks.

Investors Welcome Risk

To see an example of risk assets coming back into favor, we can look at the performance of one of the most speculative assets in the marketplace. Behold, the nearly tripling of bitcoin on a year-to-date basis through the end of the second quarter:

YTD Bitcoin Performance Through 6/30/2019³



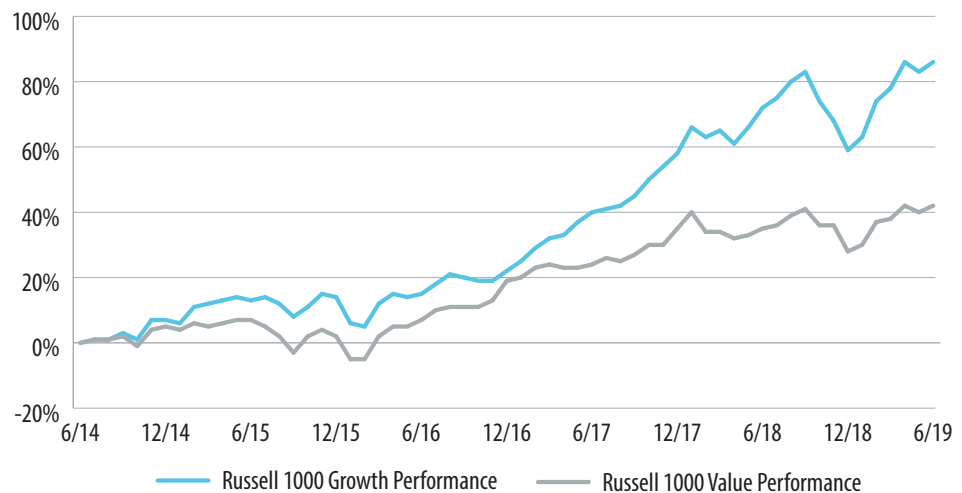
While we do not invest in bitcoin for our clients, bitcoin's performance does make for an interesting data point when it comes to assessing the mood of investors. Those willing to wager on bitcoin must take on substantial risk, as evidenced by previous volatility for the cryptocurrency, not to mention that few people know how to value it and its likelihood of being adopted widely is unclear.

Sources:

1. BlackRock Benchmark Comparison Report – June 2019
2. <https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>
3. <https://fred.stlouisfed.org/series/CBBTCUSD>

Another example of investors dialing up the risk in their portfolios can be seen once again in the performance gap between growth and value stocks. On a YTD basis through the end of the second quarter, the Russell 1000 Growth index outperformed the Russell 1000 Value Index by 5.25%⁴.

Growth Stocks Continue Trend of Outperformance Over Value Stocks⁵



While the growth versus value discussion has been a focus for many over the last several years, there are two important points to note. The first is that there is nothing that dictates that growth stocks and value stocks should achieve parity over long periods of time, even though there has historically been some level of mean reversion after large differences in relative performance⁶. There are going to be different sets of risks for each classification of stocks, and it is reasonable to think that both the return profiles and volatility profiles of each grouping will differ. The second point is that even with growth stocks greatly outperforming value stocks over the last several years, it is a mistake to abandon value entirely. In a prudent risk management process, there should be a balance between the two groupings in most cases. While information technology companies may be responsible for pushing the boundaries of human progress more than, say, utilities or real estate companies, those utilities and real estate companies can add substantial value via their stable business profiles that often result in strong cash flow to investors. This is especially true when sentiment and other economic data turns.

It's Time to Reassess Risk

With the market making new highs in recent days, now is a good time to reassess risk. At Matrix Private Capital Group, we think that the market has priced in a rosy scenario for the rest of 2019. This includes the assumption of at least one Fed rate cut, no or limited escalation of conflicts with Iran and North Korea, and completion of a trade deal with China. While it would be great for markets if all of these things come to fruition, we believe it is prudent to moderately reduce downside risks in portfolios through mechanisms like increasing cash levels, balancing growth against value, and adding exposure to hedged vehicles that can profit to some extent from downside moves in the market.

On the fixed income front, we have slowed our exposure to interest rate risk while maintaining selective exposure to credit risk. Given 30+ weeks of outflows from leveraged loan funds⁷, we believe there is solid value in those markets for patient investors. As it pertains to equities, we

Sources:

4. BlackRock Benchmark Comparison Report – June 2019

5. <https://fred.stlouisfed.org/series/RU1000VTR>

6. <https://www.longtermtrends.net/growth-stocks-vs-value-stocks>

7. <https://www.wsj.com/articles/fed-expectations-trigger-record-run-of-outflows-in-leveraged-loans-11562601551>

New York (HQ)

400 Park Avenue, 6th Floor
New York, NY 10022

Chicago

155 N. Wacker Drive, Suite 4242
Chicago, IL 60606

Los Angeles

10250 Constellation Boulevard
Los Angeles, CA 90067

Palm Beach

101 Northpoint Parkway
West Palm Beach, FL 33407

Pittsburgh

409 Broad Street, Suite 200
Sewickley, PA 15143

212.254.4876

info@matrixpcg.com

matrixpcg.com



MATRIX
PRIVATE CAPITAL GROUP

have been focusing on adding dividend-paying stocks with a value tilt as a counterweight to growth stocks in many cases. In a similar vein, we also advocate for having some exposure to private real estate markets, which have exhibited low correlations and low volatility against public REITs⁸.

If you have specific questions about your portfolio, please reach out to your Matrix financial advisor. We are always happy to help.

New York (HQ)

400 Park Avenue, 6th Floor
New York, NY 10022

Chicago

155 N. Wacker Drive, Suite 4242
Chicago, IL 60606

Los Angeles

10250 Constellation Boulevard
Los Angeles, CA 90067

Palm Beach

101 Northpoint Parkway
West Palm Beach, FL 33407

Pittsburgh

409 Broad Street, Suite 200
Sewickley, PA 15143

212.254.4876

info@matrixpcg.com
matrixpcg.com



MATRIX
PRIVATE CAPITAL GROUP

Sources:

8. JLL Income Property Trust - Q119 Flipbook

Disclosures:

Certain information provided herein is based on third-party sources, which information, although believed to be accurate, has not been independently verified. Matrix Private Capital Group assumes no liability for errors and omissions in the information contained herein. This report is for informational purposes only and may not be reproduced or distributed without the prior consent of Matrix Private Capital Group.

The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The Russell 1000 Growth Index measures the performance of the Russell 1000's growth segment, which is defined to include firms whose share prices have higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000 Value Index measures the performance of the Russell 1000's value segment, which is defined to include firms whose share prices have lower price-to-book ratios and lower expected long-term mean earnings growth rates. Bitcoin is a type of digital currency in which a record of transactions is maintained and new units of currency are generated by the computational solution of mathematical problems, and which operates independently of a central bank.

This letter contains certain forward-looking statements, opinions and projections that are based on the assumptions and judgments of Matrix Private Capital Group with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Matrix Private Capital Group. Other events which were not considered in formulating such projections, targets or estimates may occur and may significantly affect the returns or performance of any client portfolio managed by Matrix Private Capital Group. Because of the significant uncertainties inherent in these assumptions and judgments, you should not place undue reliance on these forward-looking statements, nor should you regard the inclusion of these statements as a representation by Matrix Private Capital Group that any client portfolio will achieve any certain strategy, objectives or other plans. For the avoidance of doubt, any such forward-looking statements, opinions, assumptions and/or judgments made by Matrix Private Capital Group may not prove to be accurate or correct.