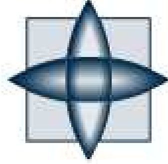

IMPACT

FINANCIAL STRATEGIES

July 22nd, 2019

As you might imagine, this last quarter has been one of the most transitional and important time periods in my entire professional career. I cannot express how humbled and blessed I feel to have had such a great response from my clients, like you, that have chosen to embark on this new journey with me.

One of the many things I am planning to do in order to continue to enhance my service to you and to keep you up to date on the things I am doing and monitoring on your behalf is attached. Sending out a Quarterly Newsletter with concise and relevant information has been something I have wanted to do for a long time, but was restricted with regards to flexibility at my former firm. I am so pleased to be able to send this out to you now.

Please take a moment to check it out. Mostly, I am interested to hear your feedback on whether this is valuable for you. I know I get inundated with so many emails and updates, it is hard to keep track, much less read each one. I don't want to be on that list of "junk" for you – so PLEASE let me know your thoughts on this newsletter. I am planning to do this each quarter for at least the next year, depending on how valuable you believe it to be. I think you will find this a good use of your time.

Also, be on the lookout for a much more personal summary and update during next quarter. I plan to give an update on our move, our staffing upgrades, our service promise, and how we are going to continue to work harder for you and look for ways to add value to you.

One thing I will share at this juncture, however, is the success we had with regards to annual Food Bank fundraising campaign. With your help, we raised over $22,000 to help fight hunger. Thank You!! Thank You!! Thank You!...

Between that, and our commitment to the Community Foundation of Northern Colorado, we have put over $30,000 back into the Northern Colorado Community! This is something we are very proud of, and we will continue to expand. Including some creative ways to help your community if you are not here in Colorado – stay tuned!!! More to come on that later as well.

Please feel free to pass this along to anyone you think might appreciate this timely perspective. For your advocacy and your trust: Thank you again. You are why we work so hard. – Enjoy!!! JD

TRADE UNCERTAINTY AND EXPECTED FED RATE CUTS MAKE FOR A VOLATILE QUARTER

Historically typical volatility returned in the second quarter as uncertainty regarding U.S.-China trade relations, future Federal Reserve interest rate policy, and the state of the U.S. and global economies caused a more-than-6% pullback in the S&P 500 during May, before stocks broadly recovered in June and finished the quarter near fresh all-time highs.

In sharp contrast to the quiet, steady gains of the first quarter, stock market performance in the second quarter was one marked by extremes. The S&P 500 logged a 4% gain in April thanks to solid first quarter corporate earnings reports, which further reduced concerns that earnings growth peaked in 2018. Additionally, due in part to statistics that showed inflation well below the Fed's target, investors' expectations for a 2019 Fed interest rate cut rose in April, which added fuel to the bullish fire. The S&P 500 ended April near new all-time highs.

Volatility returned in the first week of May, however, as President Trump announced via Twitter that he would be raising tariffs on $200 billion in Chinese goods from 10% to 25% following the collapse of U.S.-China trade negotiations. Furthermore, the president threatened to levy additional tariffs on the remaining $325 billion worth of Chinese products imported into the United States.

The news caught investors by surprise as reports previously implied a U.S.-China trade deal was close to being finalized, and stocks dropped sharply in reaction. Further escalating the U.S.-China trade conflict was the decision by the Commerce Department to add the Chinese telecom company Huawei to its "Entity List," which would effectively ban U.S. companies from doing business with the telecom giant. That development further pressured stocks. Moreover, Federal Reserve Chairman Jerome Powell sewed doubts about any future interest rate cuts when he described low inflation as "transitory," and implied the Fed was not as open to an interest rate cut as investors anticipated. That combination of factors weighed on markets throughout May and the S&P 500 fell to its lowest levels since early March.

The stock market was able to find support and rebound strongly in June, however, as there was progress across the two main sources of volatility in the second quarter, U.S.-China trade and future Fed interest rate policy. First, at the June 19th meeting, the Federal Reserve reversed course from May and signaled an interest rate cut is likely in 2019, perhaps as early as July. That shift helped to re-validate market expectations of lower interest rates in the near future, and stocks rebounded strongly on that expectation. Second, President Trump and Chinese President Xi Jinping agreed to meet at the recently held G20 meeting, and the result of the meeting was a trade "truce" of no new tariffs while trade negotiations resume.

In sum, investors had to stomach another bout of volatility in the second quarter and macroeconomic uncertainty has increased compared to the first three months of 2019. However, underlying fundamentals for the economy and the markets remain generally solid, and investors are now anticipating the first Fed rate cut in over a decade as well as an extended "truce" in the U.S.-China trade conflict—both of which should be further supportive of the stock market. So, while we should prepare ourselves for more historically typical volatility, the outlook for markets remains generally positive as we begin the second half of the year.

Second Quarter Performance Review – A Mixed Quarter

Despite the uptick in volatility in the second quarter, U.S. stock market performance still resembled that of the first quarter as rising hopes for Fed rate cuts and a U.S.-China trade truce resulted in broad gains across most market segments and sectors.

By market capitalization, large caps outperformed small caps, which is a reversal from the first quarter. Large cap outperformance was partially due to investors reacting to underwhelming economic data, as large caps are historically less sensitive to a potentially slowing economy. Increased hopes for a U.S.-China trade truce in late June also helped large caps outperform as they have more exposure to global trade. From an investment style standpoint, growth again outperformed value mostly due to another quarter of strong returns by tech and consumer discretionary stocks.

On a sector level, 10 of 11 S&P 500 Index sectors finished the second quarter with positive returns; however, consumer staples and the financial sectors were the notable outperformers. Consumer staples were driven higher by solid earnings and investors' desire for some insulation from a loss of economic momentum and trade uncertainty, while financials benefitted from rising expectations for a Fed rate cut and the late-quarter steepening of the yield curve.

The energy sector, meanwhile, experienced negative performance in the second quarter mainly because of declines in the price of oil. The healthcare sector also lagged the S&P 500 thanks to rising political risks via increasing calls for the expansion of government healthcare programs, dubbed "Medicare for All."

US Equity Indexes	Q2 Return	YTD Return
S&P 500	4.30%	18.54%
DJ Industrial Average	3.21%	15.40%
NASDAQ Composite	4.25%	21.85%
S&P MidCap 400	3.05%	17.97%
Russell 2000	2.10%	16.98%

Source: Morningstar

Looking internationally, foreign markets also had positive returns for the second quarter, but once again underperformed the United States. Foreign developed markets outgained emerging markets due to several factors, including less sensitivity to volatility in foreign trade relations, a stronger dollar (for most of the quarter) and rising hopes for more stimulus from the European Central Bank. Emerging markets, meanwhile, were restrained by concerns about global economic growth and pressures from a mostly stronger U.S. dollar. However, a late-quarter decline in the dollar coupled with rising U.S.-China trade optimism helped emerging markets register a slightly positive gain for the quarter.

International Equity Indexes	Q2 Return	YTD Return
MSCI EAFE NR USD (Foreign Developed)	3.68%	14.03%
MSCI EM NR USD (Emerging Markets)	0.61%	10.58%
MSCI ACWI Ex USA NR USD (Foreign Dev & EM)	2.98%	13.60%

Source: Morningstar

Commodities saw mixed returns for the quarter, as gold surged to a multi-year high while oil declined. Gold rallied in the second quarter due to multiple factors including rising expectations for Fed rate cuts, an increase in geopolitical tensions (especially with respect to the U.S. and Iran) and the late-quarter declines in the U.S. dollar. Oil, meanwhile, was volatile last quarter as short, sharp geopolitically driven rallies were offset by rising concerns about declining demand and potential oversupply as U.S. oil production hit another record high in the second quarter.

Commodity Indexes	Q2 Return	YTD Return
S&P GSCI (Broad-Based Commodities)	-1.42%	13.34%
S&P GSCI Crude Oil	-2.85%	26.95%
LBMA Gold Price	7.09%	9.66%

Source: Morningstar

Switching to the fixed income markets, performance largely reflected investors' expectations for future Fed rate cuts, and that was positive for the broad bond markets. The leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized more positive returns in the second quarter as rising anticipation of future rate cuts, combined with worries about economic growth and increased geopolitical concerns sent bond indices decidedly higher in the second quarter.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations during the second quarter, which is a continuation of what we observed in the first quarter and reflective of a market that is forecasting future rate cuts and slower economic growth.

Corporate bonds, both investment grade and high yield, again handily outperformed government bonds in the second quarter thanks to a better-than-expected earnings season, and the rising expectations for a future Fed rate cut. Both investment grade and high yield bond funds again posted very strong returns.

US Bond Indexes	Q2 Return	YTD Return
BBgBarc US Agg Bond	3.08%	6.11%
BBgBarc US T-Bill 1-3 Mon	0.62%	1.22%
ICE US T-Bond 7-10 Year	3.53%	6.84%
BBgBarc US MBS (Mortgage-backed)	1.96%	4.17%
BBgBarc Municipal	2.27%	5.11%
BBgBarc US Corporate Invest Grade	5.37%	11.94%
BBgBarc US Corporate High Yield	2.55%	10.84%

Source: Morningstar

Third Quarter Market Outlook

Markets were impressively resilient in the second quarter and registered gains despite deterioration in global economic activity and renewed uncertainty with U.S.-China trade. But, our years of experience have taught us not to become complacent just because markets have been resilient, and we think that's again appropriate as we start the second half of the year.

Reductions in interest rates by the Federal Reserve, while welcome, are not a panacea for the U.S. and global economies. And as we start the third quarter, we face macroeconomic uncertainty on multiple fronts.

First, the U.S.-China trade situation remains delicate and very uncertain, and until there is a final agreement on a new U.S.-China trade pact, that lack of clarity will act as a headwind on economic growth and likely create temporary periods of volatility like we experienced in the second quarter.

Looking at the global economy, growth metrics underwhelmed in the second quarter, although the impact on global stocks was muted by rising market expectations of more stimulus from global central banks, including the Fed. But, if we see further deterioration in global and U.S economic indicators, that will also likely be a source of elevated volatility across markets.

Additionally, there are several unsettled geopolitical situations that must be monitored, including Brexit (the deadline is October 31st), North Korea (relations are still unsettled despite the recent Trump/Kim meeting) and Iran (the chances of a U.S.-Iran military conflict are as high as they've been in years).

Finally, while the Federal Reserve has signaled it will begin to reduce interest rates in the coming months, the situation remains very fluid, and if the Fed does not meet market expectations by cutting rates, that will likely cause short-term volatility.

It remains unclear how, or when, these events will be resolved, and what those implications will be for markets. Yet as 2019 has shown us so far, uncertainty is not, by itself, enough to offset the still-strong fundamentals in the U.S. economy and corporate America.

Instead, these and other market uncertainties require an intent focus on financial markets, economic data and political news. Put more generally, markets typically face uncertainties at the start of a new quarter, but over the long term, it is core economic and corporate fundamentals that drive market returns—not the latest sensational headlines.

At Impact Wealth Management, we understand that volatility, whether it's related to trade disputes or concerns about Federal Reserve policy, can be unnerving, even if it is historically typical. That's why we remain committed to helping you navigate this ever-changing market environment, with a focused eye on ensuring we continue to make progress on achieving your long-term investment goals.

Our years of experience in all types of markets (calm and volatile) have taught us that successful investing remains a marathon, not a sprint.

Therefore, it remains critical to stay invested, remain patient, and stick to a plan. That's why we've worked diligently with you to establish a personal allocation target based on your financial position, risk tolerance, and investment time horizon.

The strong first half returns notwithstanding, we understand that volatility can be both unsettling and stressful, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ Composite Index is an unmanaged index of securities traded on the NASDAQ system. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI (All Country World Index) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.

The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations. The Barclays Capital US Aggregate Index is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Diversification and asset allocation do not ensure profit or protect against loss. Holding investments for the long term does not insure a profitable outcome. Investing involves risk and you may incur a profit or loss regardless of the strategy selected. Keep in mind that there is no assurance that any strategy will ultimately be successful or profitable nor protect against a loss.

There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

The S&P Midcap 400 is a measurement of changes in 400 domestic stocks chosen by capitalization, liquidity, and industry group representation. It is a capitalization-weighted index, with each stock's weight proportional to its market value. This Index includes the effects of reinvested dividends. The S&P GSCI is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes. The S&P GSCI Crude Oil index provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market. The Bloomberg Barclays 1-3 Month U.S. Treasury Bill Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non convertible.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage. The Bloomberg Barclays U.S. A Corporate Bond Index measures the investment-grade, fixed rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The ICE U.S. Treasury 7-10 Year Bond Index is part of a series of indices intended to assess the U.S. Treasury market. The Index is market value weighted and is designed to include U.S. dollar denominated, fixed rate securities with minimum term to maturity greater than or equal to seven years and less than ten years.