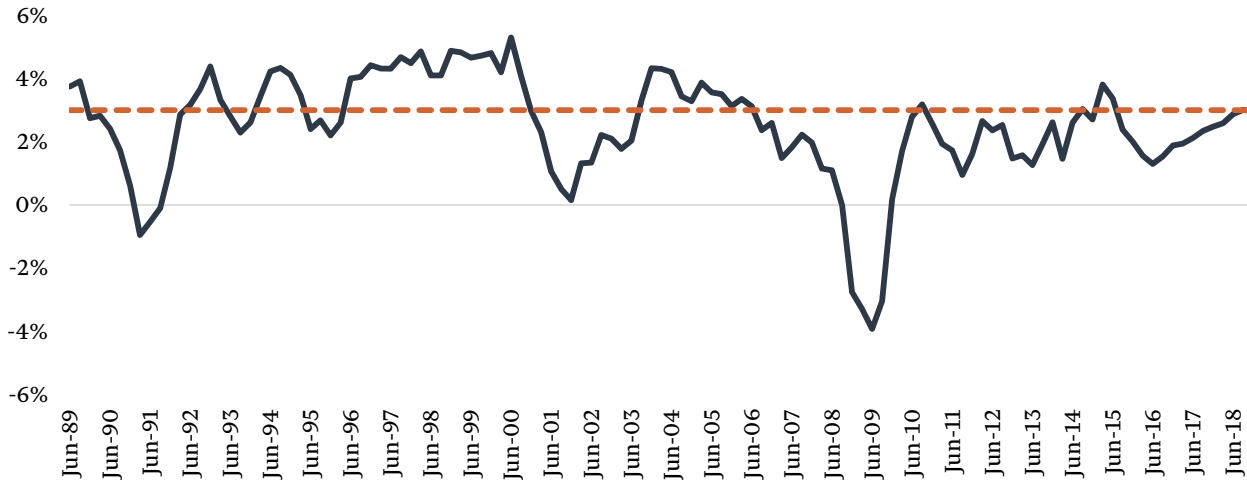


Economic Outlook and Market Forecast

May 2019

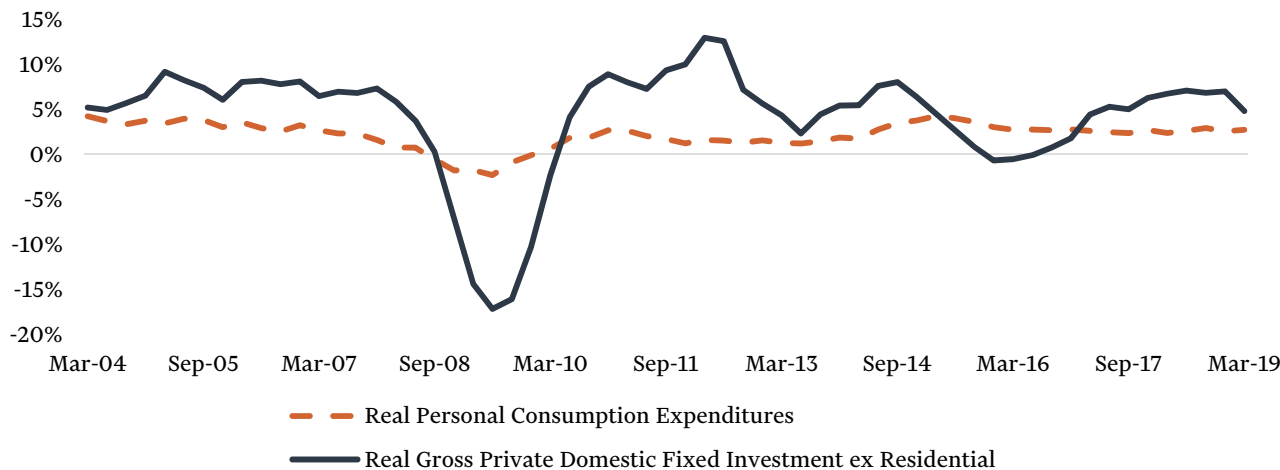
The Global Economic Backdrop

U.S. Real GDP Growth (year over year)



The momentum that led to surprisingly strong first-quarter growth appears to have carried over to second quarter. A healthy consumer and the potential resolution to the tariff war with China should give businesses the confidence to spend more freely on productivity-enhancing capital projects.

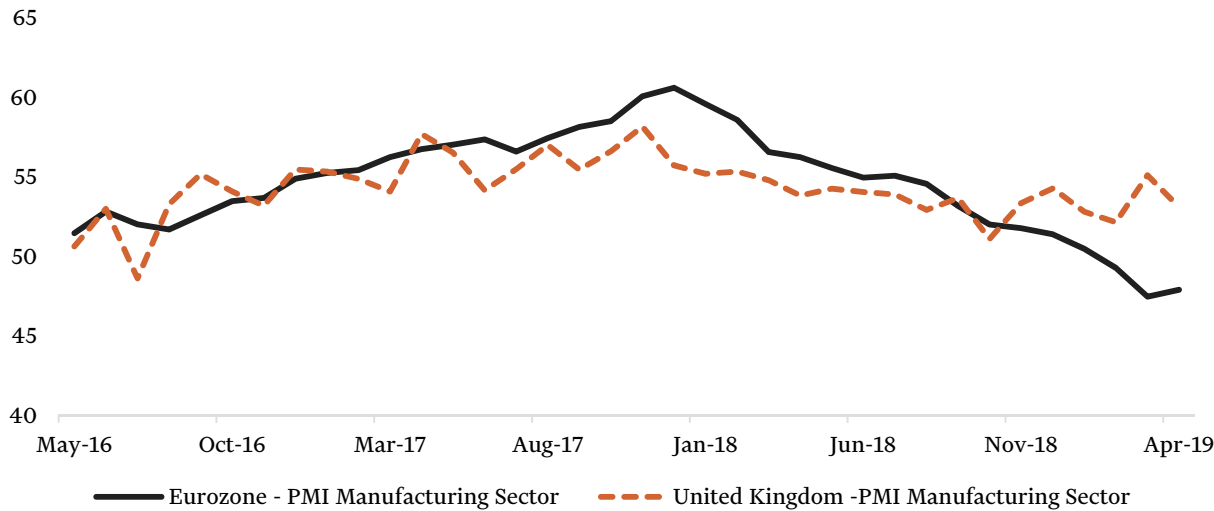
U.S. Investment & Consumption Continue to Grow



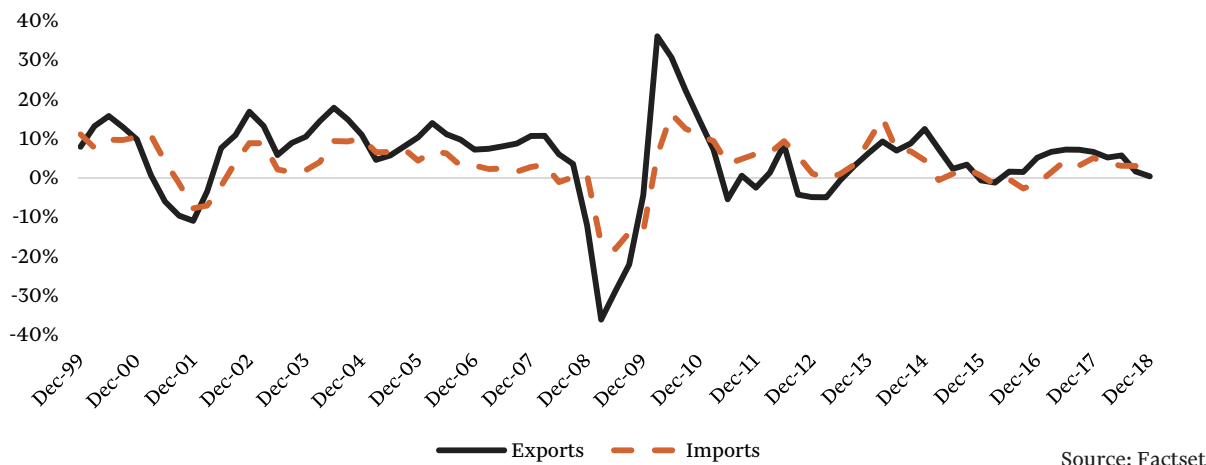
Source: Factset

Developed Economies

Purchasing Managers' Index (PMI) Manufacturing



Japanese Real Year-Over-Year (YOY) Export & Import Growth



Continental Europe has skirted a recession. Italy and Germany now have positive gross domestic products (GDP) while peripheral countries, led by Spain, are growing at comfortably positive rates with improving momentum. Most encouraging is the increase in domestic demand, which has offset the negative impact of trade tensions on net exports.

The Japanese economy should continue to grow but at a weaker rate than expected. Still vibrant growth in China, improving momentum in the U.S., and a possible end to trade disputes should help drive exports. The pending sales tax increase will likely constrain domestic consumption.

Source: Factset

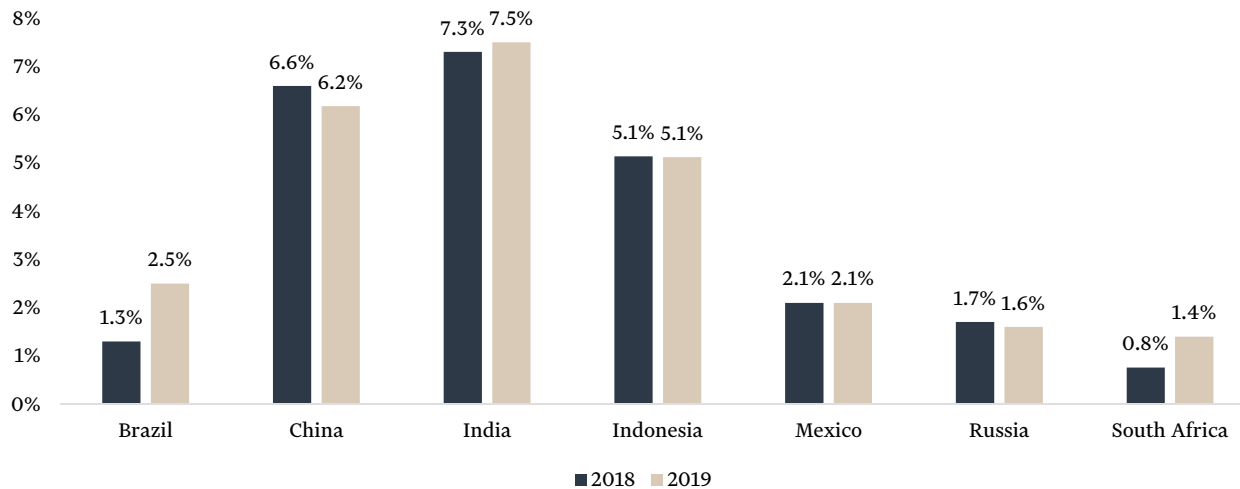
Emerging Market Economies

Chinese Real GDP Growth



China's government and central bank continue to effectively manage the difficult task of controlling the inevitable economic slowdown. The domestic stimulus has mostly offset the negative impact of the tariff wars, and GDP for all of 2019 should be in the 6%-6.5% range. Where it ends up will likely depend in part on any trade deal with the U.S.

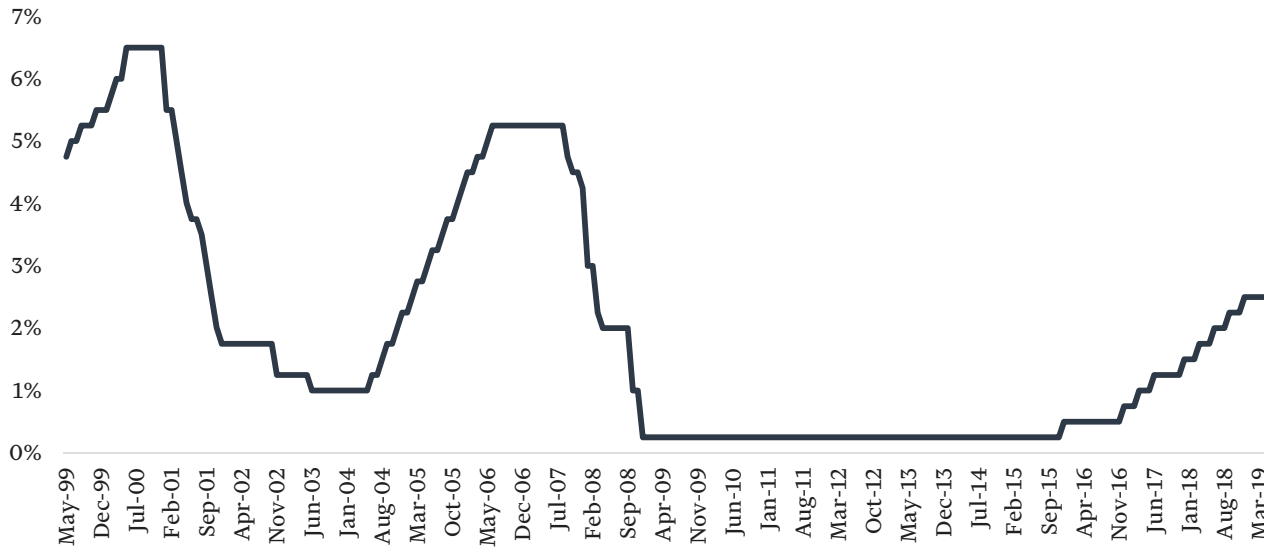
Real GDP Growth



Source: IMF & Factset; 2018 & 2019 GDP Growth Rates are forecasts

U. S. Monetary Policy

Federal Funds Target Rate



Stronger than anticipated first-quarter growth may awaken the hawks on the Federal Open Market Committee and increase the probability of one more 0.25% rate hike before the tightening cycle ends. Low core inflation is a strong counter-argument against any further tightening at least through the remainder of the year.

The dollar will likely trade in a tight range through the summer as the Fed assesses its response to the improved economic outlook.

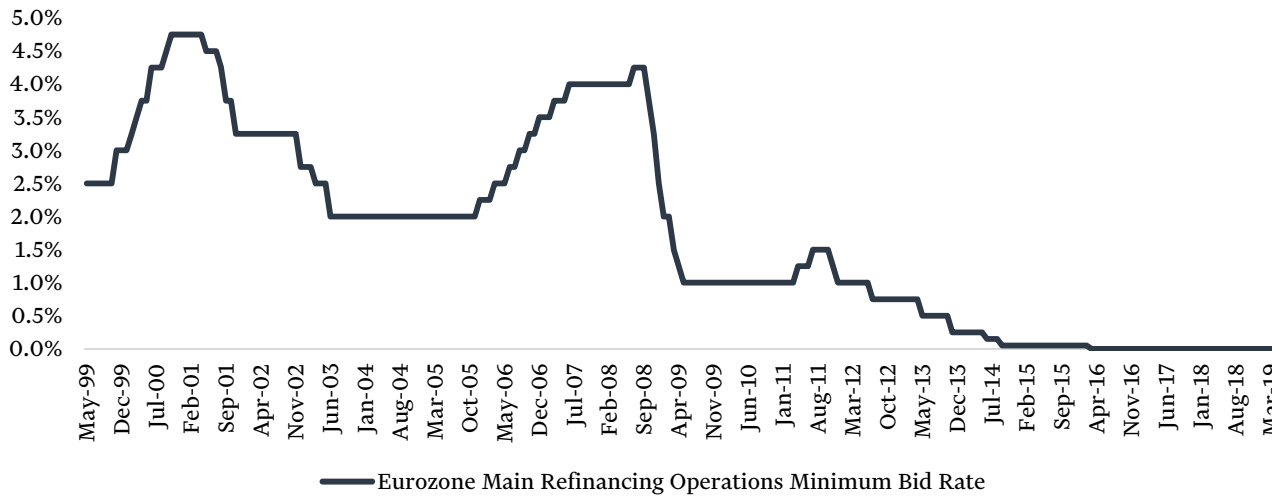
Trade Weighted U.S. Dollar Index: Broad, Goods, Index



Source: Factset, FRED

Global Monetary Policy

European Central Bank Main Target Rate

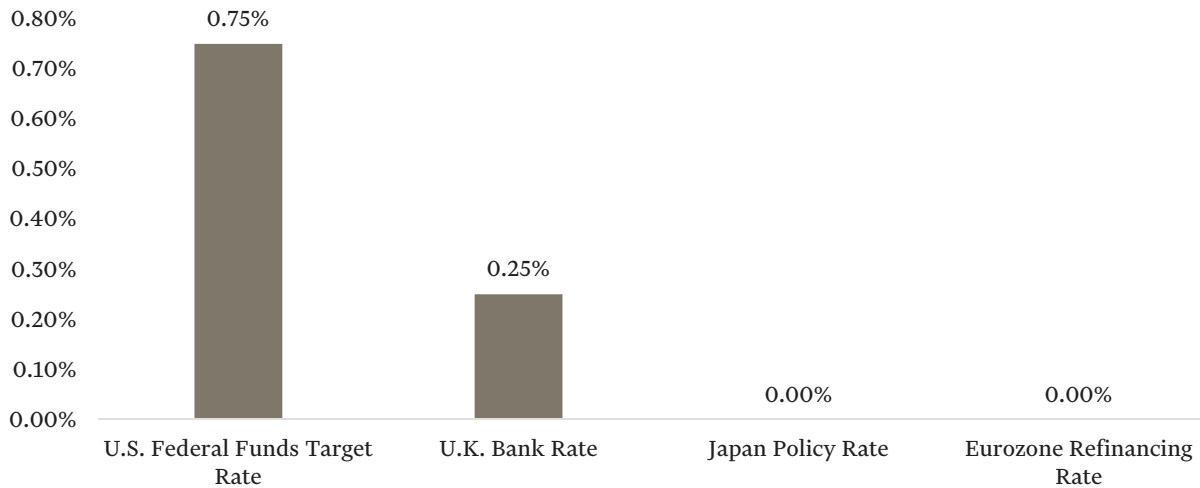


The ongoing low growth/low inflation environment in Europe means the European Central Bank won't be able to raise rates this year. With no imminent threat of a recession, discussions about renewed quantitative easing aren't likely.

The Bank of England may be tempted to raise rates this year given the country's better than expected economic growth. The lack of clarity around the ultimate impact of Brexit should be a sufficient constraint on any tightening tendencies.

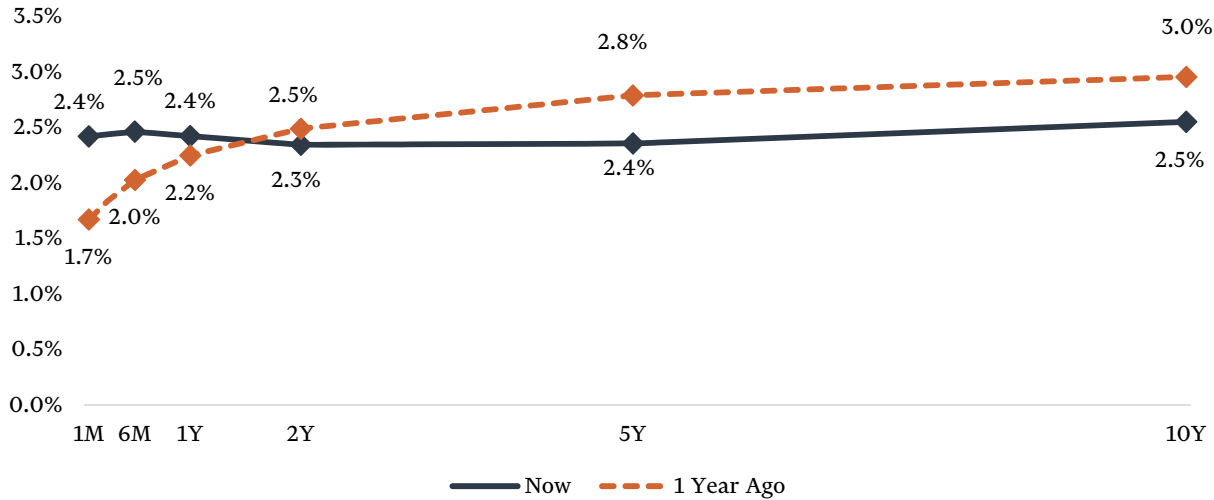
The Bank of Japan is exploring the possibility of increased quantitative easing through the purchase of a more substantial amount of equity exchange-traded funds. While this is unlikely to happen because growth should remain positive, negative policy rates could persist for quite some time.

One-Year Change in Policy Rates

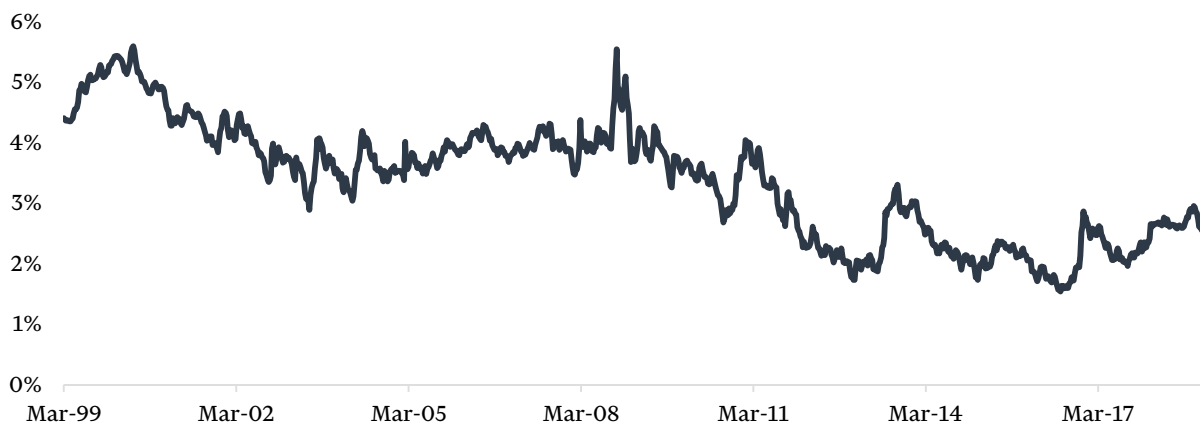


U.S. Fixed Income

U.S. Yield Curve



Bloomberg Barclays Municipal Bond 10-Year Yield



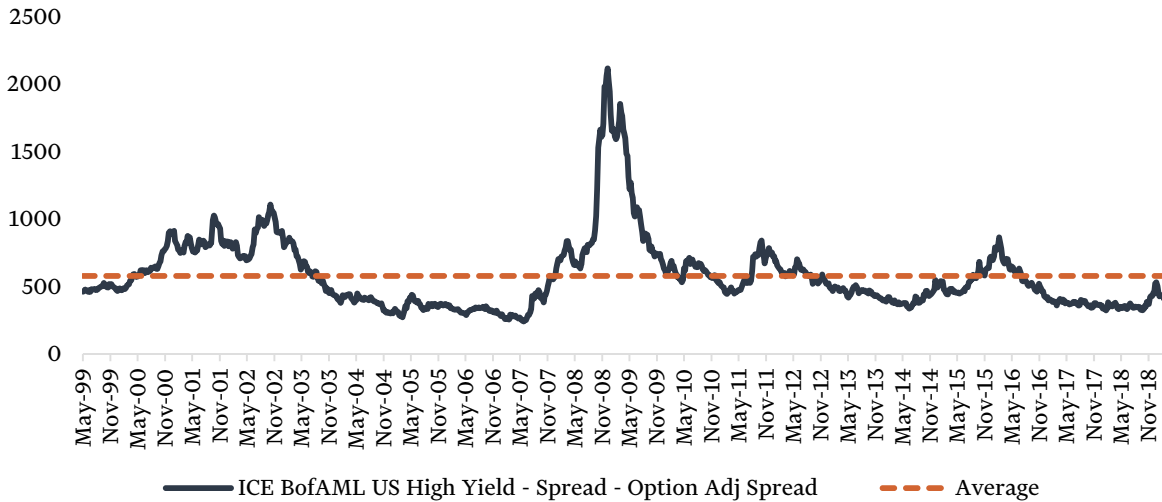
Data as of 5/1/2019
Source: Factset

Economic growth currently at its long-term potential with little inflationary pressure should allow the Treasury yield curve to return to its normal upward slope. Intermediate to longer-term maturities may move approximately 0.25% (25 basis points) higher throughout the year while short rates remain at current levels.

With fewer concerns about a sharp upward spike in overall yields, municipal bonds are more attractive at the longer maturity end of the yield curve.

Credit Markets

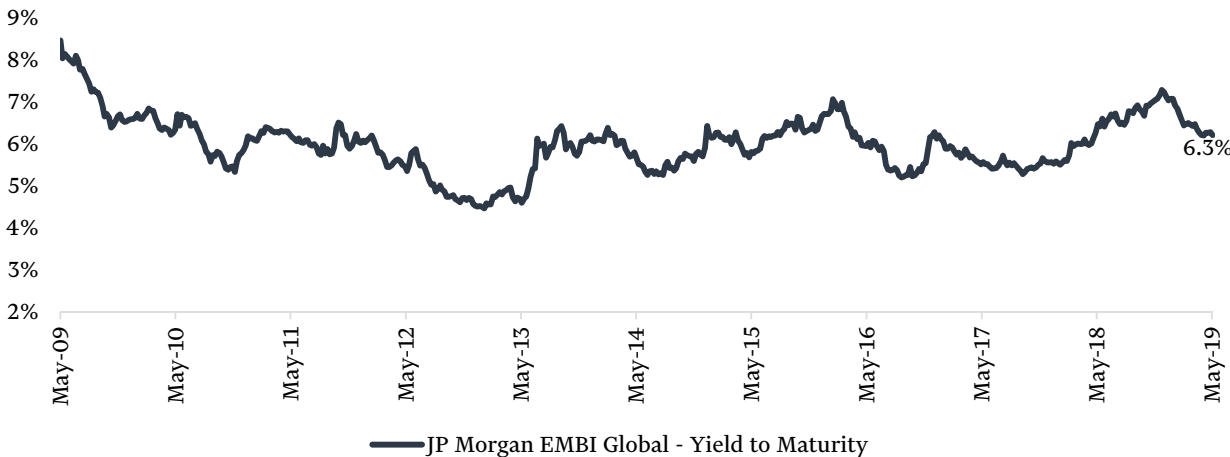
U.S. High Yield Credit Spreads



High-yield debt has performed well year-to-date thanks in part to diminished recessionary concerns. The valuation of this asset class fully reflects expectations for a continued low default rate.

Emerging market debt valued in both dollars and local currency remains attractive given the favorable global economic fundamentals and a notable appreciation of commodity prices.

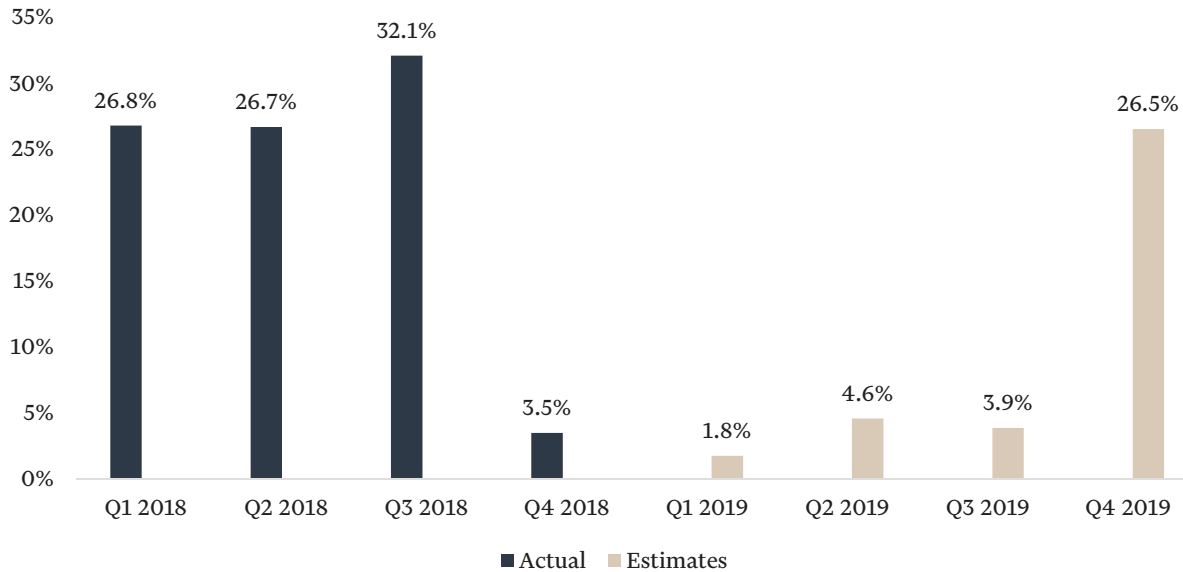
Emerging Market Debt Yield



Source: Factset

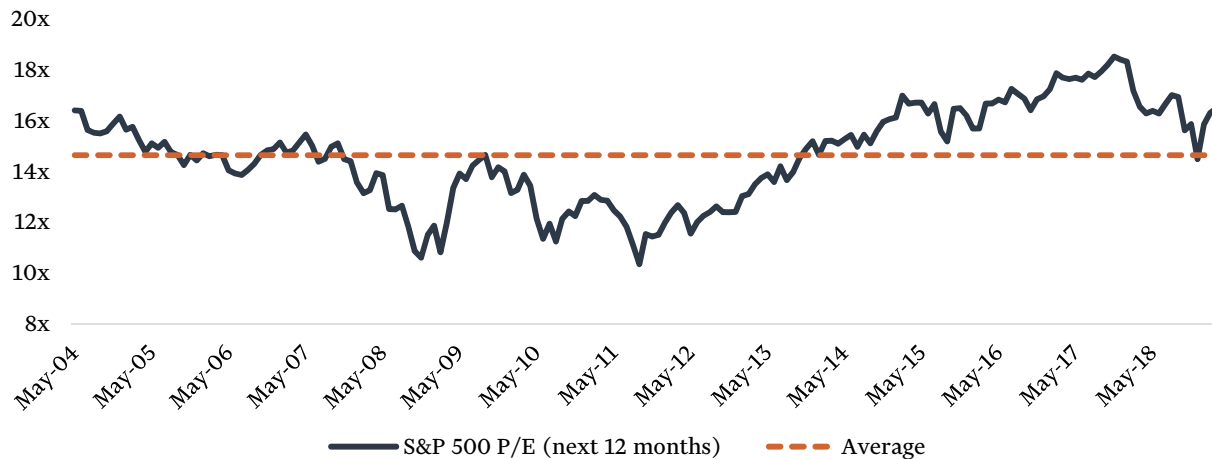
U.S. Equities

Quarterly S&P 500 Operating Earnings per Share Growth Rates



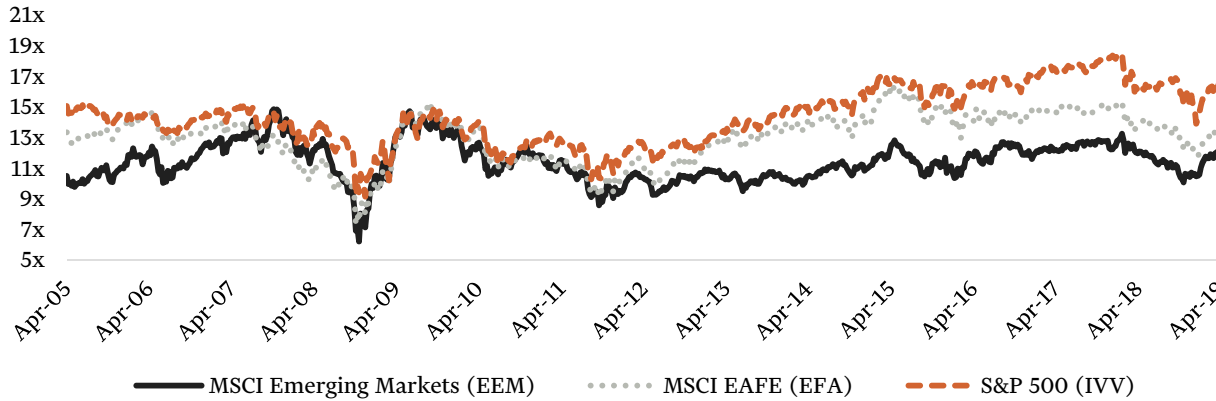
U.S. equity markets are looking past flat first-quarter earnings towards the expected improvement for the remainder of the year. Top line revenue growth has remained strong and should help maintain valuations around current levels. Concerns exist around the upcoming debt ceiling negotiations in a fiercely partisan environment.

S&P 500 PE Ratio

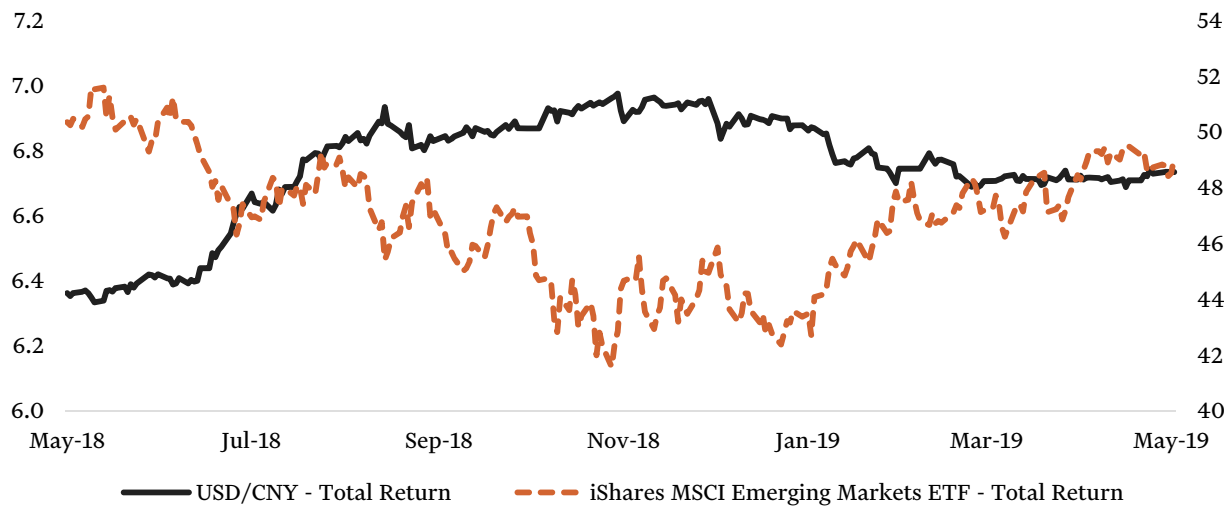


International Equities

P/E Ratios Next Twelve Months (NTM)



The Renminbi & EM Equities



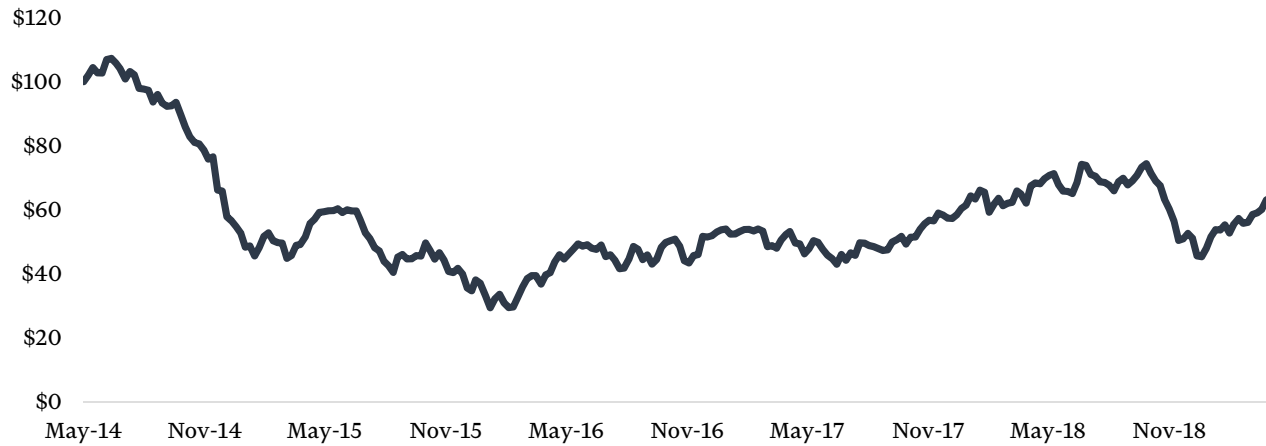
The strength of European equities so far this year is a reminder that the larger companies in these markets are impacted by growth prospects in China and the United States. Weaker domestic economies on both the continent and U.K. support a continued valuation discount to U.S. markets.

Emerging markets stock prices should move higher through year-end, driven upward by a combination of the end to Fed tightening, robust Chinese growth, and higher oil and industrial metals prices. This environment should bode well for valuations and earnings growth.

Source: Factset

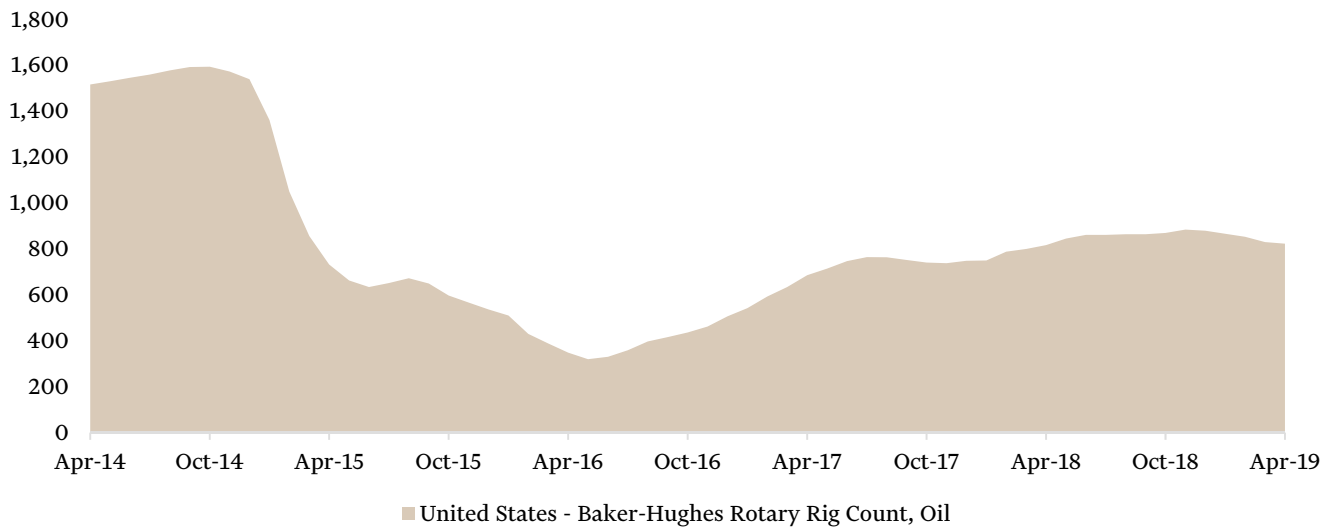
Oil

Crude Oil (NYM \$/bbl) - Price



Current crude oil prices should provoke a meaningful supply response from U.S. shale producers. Although, sanctions on Iranian sales and ongoing turmoil in Venezuela and Libya should prevent any significant price declines at least through the summer.

United States - Baker-Hughes Rotary Rig Count, Oil

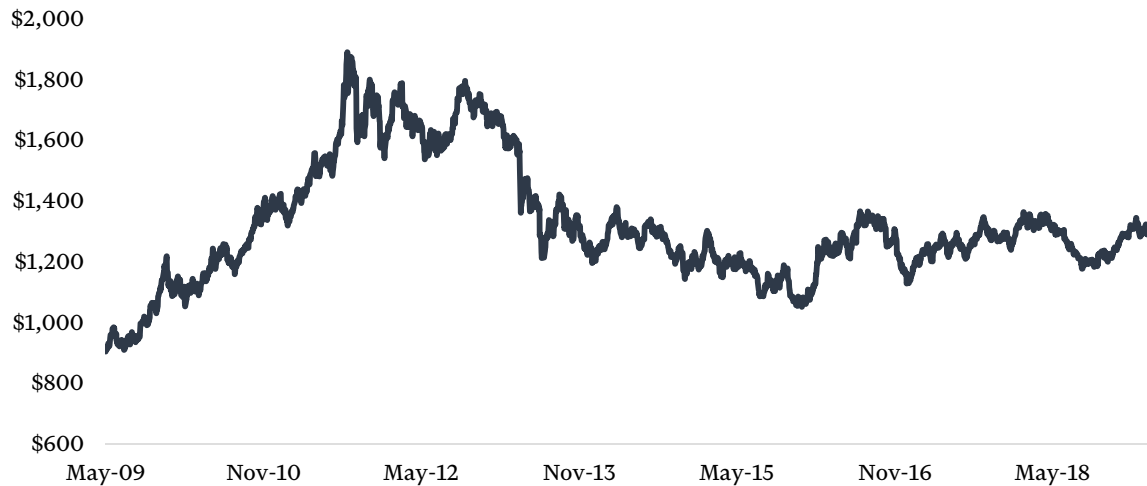


■ United States - Baker-Hughes Rotary Rig Count, Oil

Source: Factset

Gold and Commodities

NY Gold (NYM \$/ozt) - Price



Bloomberg Copper Subindex - Price



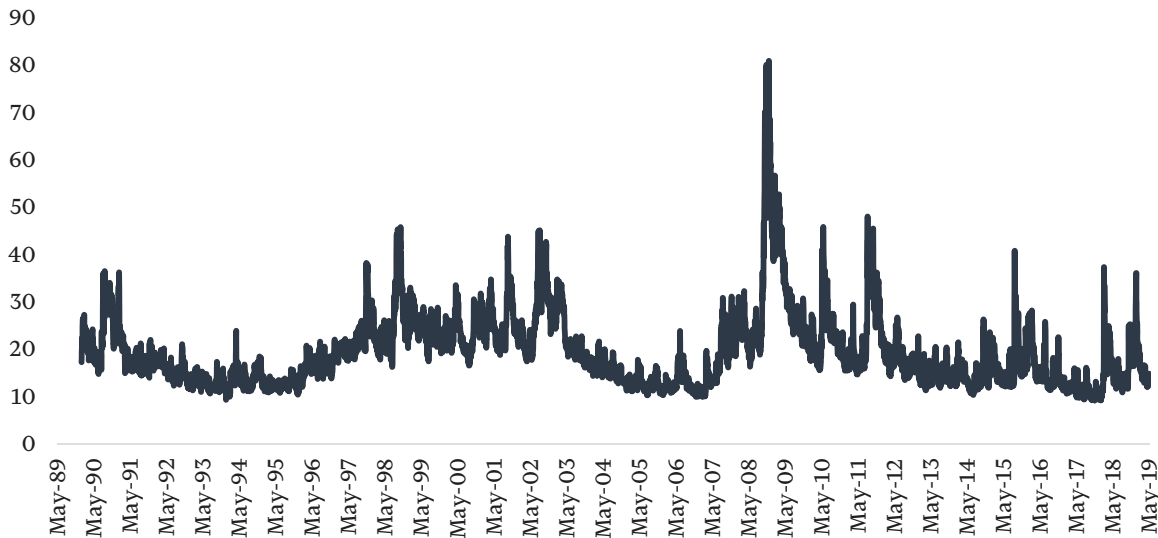
Source: Factset

Low inflation and competitive short-term interest rates should exert downward pressure on gold prices. The apparent hesitancy of the Fed to raise rates any further should limit the downside, but gold is still likely to exhibit negative returns over the remainder of the year.

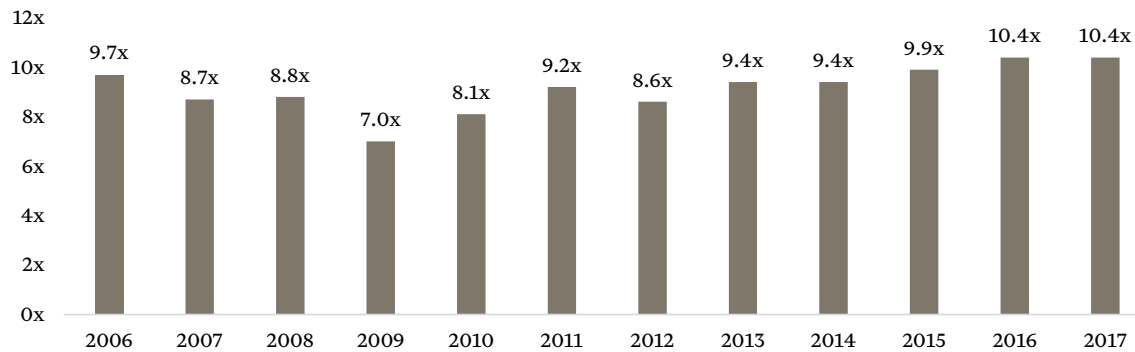
Industrial metals at current price levels likely fully reflect the improved global growth outlook. Look for these commodities to trade around current levels. Any surprise would probably be to the upside based on improving global economies.

Hedge Funds & Private Equity

CBOE Volatility Index



U.S. Middle Market Mergers & Acquisitions Transaction Multiples



Source: Factset, Pitchbook

After a difficult period characterized by abnormally low market volatility, high intra-asset correlations and historically low interest rates, the return to more normal market conditions has allowed hedge fund managers to demonstrate their value-add in both good and bad markets. Defensive strategies provided beneficial downside protection during the Q4 2018 downturn while directional strategies participated strongly in the Q1 2019 rebound.

High asset valuations and fierce competition to invest the rising backlog of committed funds awaiting deployment remain a major challenge for the category, particularly in buyouts. These risks can be mitigated by focusing on specialist managers with a demonstrated record of generating outstanding returns in different market cycles while maintaining investment discipline.



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(05/19)