



# Market & Economic Review

First Half 2019



CAPSTONE™

FINANCIAL ADVISORS



# Market & Economic Review

## Summary and Outlook

### Summary

- ❑ Defensive Assets (i.e., investment-grade bonds and cash) overall, outperformed Growth Assets (i.e., risk-based) in 2018 for the first time since 2015.
- ❑ Stock market volatility increased significantly in 2018 compared to 2017 but was not abnormally high when compared to the last 20 years.
- ❑ Concerns about a looming global economic and earnings growth slowdown resulted in broad-based declines in risk-assets and a “flight to quality.”
- ❑ International stock markets declined throughout 2018, and investor pessimism eventually pulled U.S. stocks down sharply at the end of the year.
- ❑ U.S. corporate earnings grew 20% for full-year 2018, but are expected by research analysts to slow (yet remain positive) in 2019.
- ❑ High-quality bonds mostly finished 2018 in positive territory; safe-haven assets like government and municipal bonds appreciated the most.
- ❑ Economic growth in the U.S. accelerated significantly in 2018 without a meaningful rise in inflation.
- ❑ Economic growth in the world’s second-largest economy (the 19-nation Eurozone) and the third largest economy (China) slowed sharply in 2018.

### Our Outlook

- ❑ We expect volatility to remain as the global economy continues moving into the later phases of the economic cycle.
- ❑ The combination of continued solid earnings growth and lower stock valuations should support stocks going forward, but we think returns will likely be lower.
- ❑ We think bonds are likely to continue delivering positive returns amid higher current yields, and a slower pace of interest rate increases.
- ❑ The U.S. economy in our opinion is likely to experience a growth slowdown in 2019, especially as the benefits of tax cuts and government spending abate.
- ❑ Our outlook is that overall global economic growth will likely be lower but positive, avoiding a global recession.
- ❑ U.S.-China trade tensions likely remain the largest risk facing markets and the economy. Uncertainty around global trade policy will likely continue.
- ❑ Catalysts to keep the global expansion on track include a strong U.S. economy, low oil prices, and still accommodative central banks around the world.

Past performance is not a guarantee of future results. Data as of 01/31/2019. This presentation is not a substitute for personalized advice from Capstone and nothing contained in this presentation is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Investment decisions should always be based on the investor's specific financial needs, objectives, goals, time horizon, and risk tolerance. This article is current only as of the date on which it was sent. The statements and opinions expressed are, however, subject to change without notice based on market and other conditions and may differ from opinions expressed by other businesses and activities of Capstone. Descriptions of Capstone's process and strategies are based on general practice, and we may make exceptions in specific cases. A copy of our current written disclosure statement discussing our advisory services and fees is available for your review upon request.





# Market Review

## Overview

### Overview

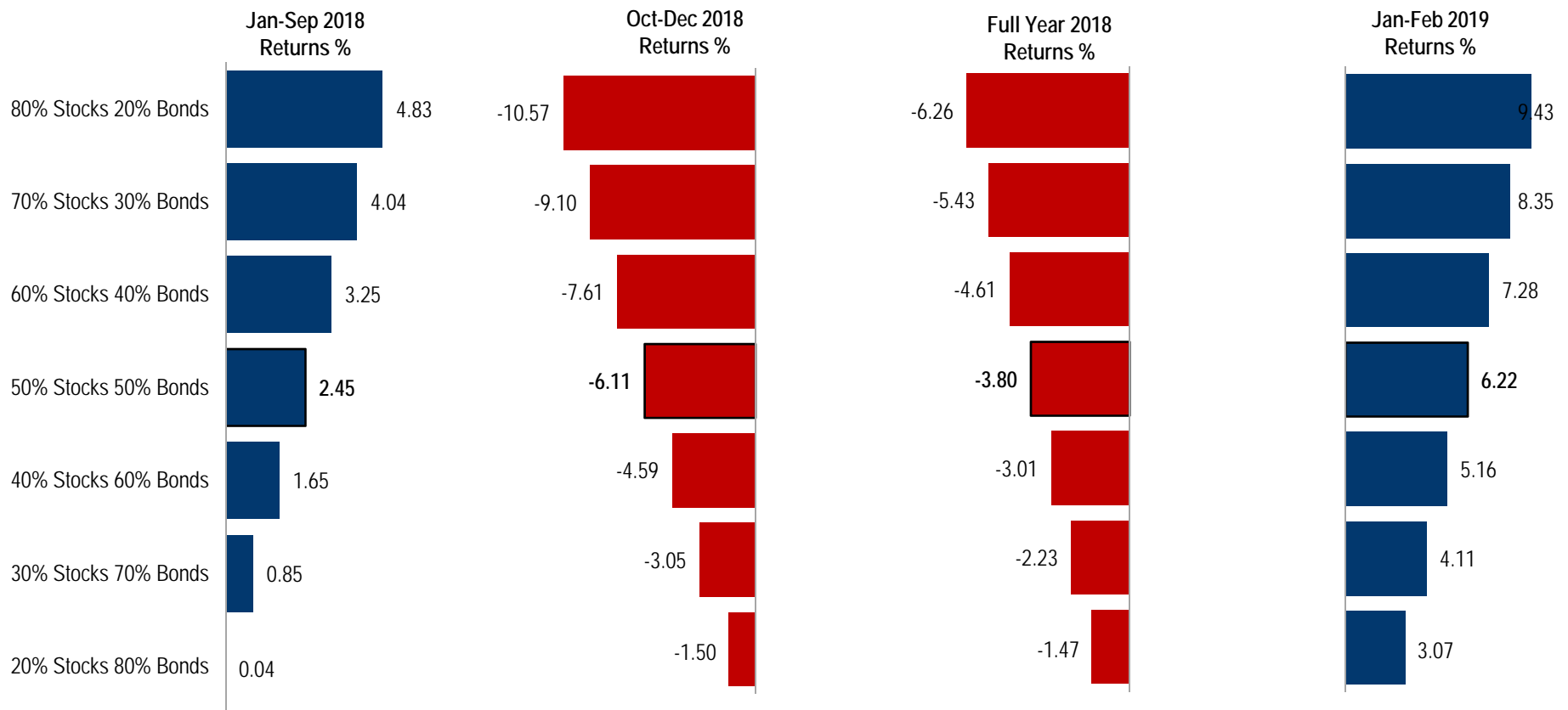
- Balanced Portfolios Returns
- Asset Class Returns
- US Stocks
- International Stocks
- U.S. Interest Rates
- U.S. Inflation Expectations
- Energy Prices
- Currency
- Stock Market Valuations
- U.S. Corporate Earnings Growth
- Bond Market Valuations



# Market Review: Balanced Portfolios

## Index Returns (%)

□ Balanced portfolios declined in 2018 with conservative portfolios outperforming more aggressive portfolios, as bonds helped to mitigate declines during the year-end stock market rout. So far in 2019 through the end of February, balanced portfolios have recovered sharply.



Source: Morningstar Direct. Data as of 02/28/2019. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Stocks = 70% Russell 3000 TR USD + 30% MSCI ACWI Ex USA IMI NR USD, Bonds = 100% BBgBarc US Agg Bond TR USD

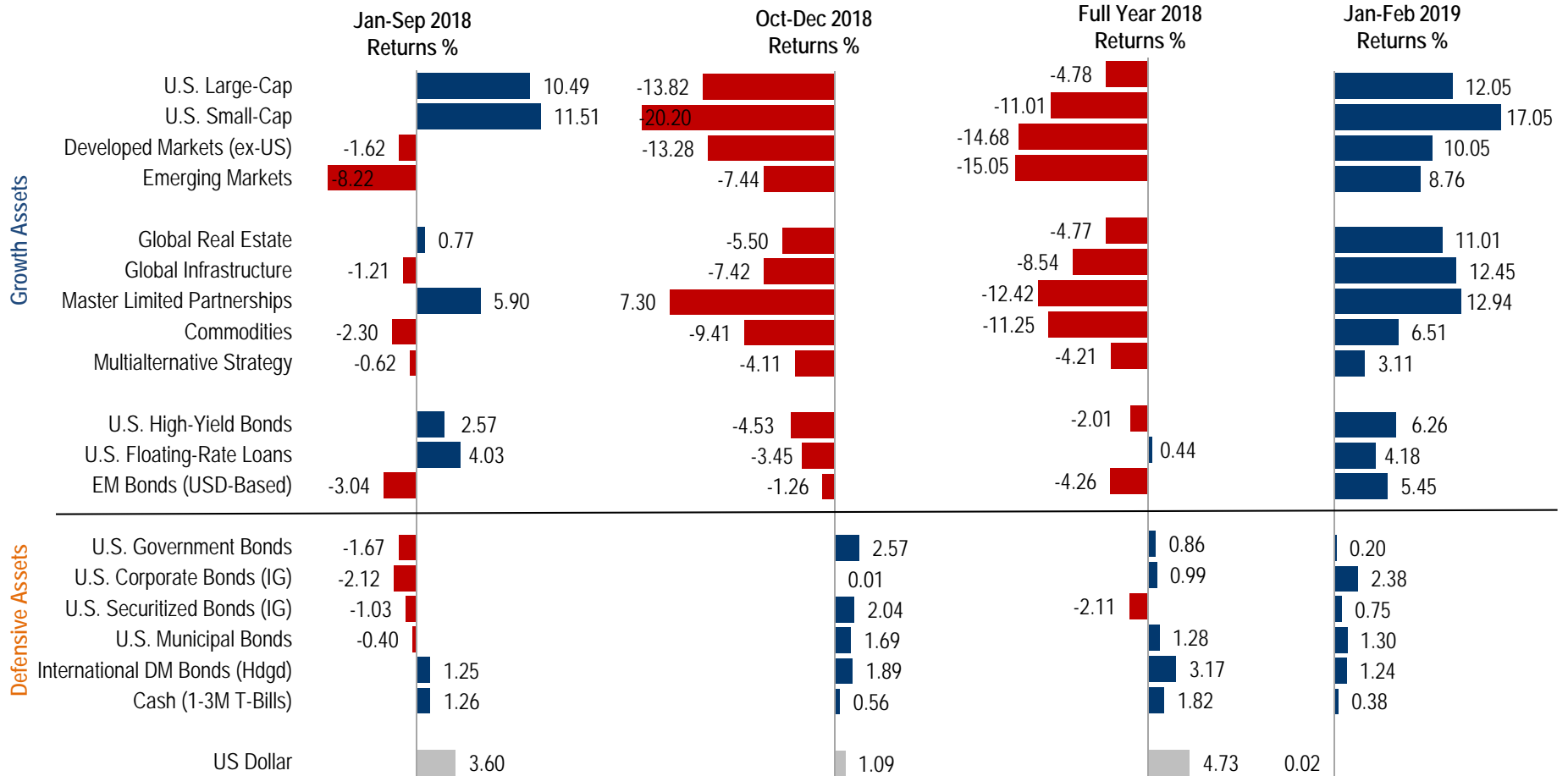
Assumes portfolios are rebalanced monthly.



# Market Review: Asset Classes

## Index Returns (%)

Defensive Assets overall, outperformed Growth Assets in 2018 for the first time since 2015. Concerns about a looming global economic and earnings growth slowdown resulted in a broad-based downward repricing of risk-assets in the fourth-quarter and a “flight to quality.”



Source: Morningstar Direct. Data as of 02/28/2019. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Large-Cap = Russell 1000 TR USD, U.S. Small-Cap = Russell 2000 TR USD, Developed Markets (ex-US) = MSCI World Ex USA IMI NR USD, Emerging Markets = MSCI EM IMI NR USD, Global Real Estate = S&P Global REIT TR USD, Global Infrastructure = DJ Brookfld Gbl Infra Comp TR USD, Master Limited Partnerships = Alerian MLP TR USD, Commodities = Bloomberg Commodity TR USD, Multialternative Strategy = Morningstar Category Multialternative, U.S. High-Yield Bonds = BBgBarc High Yield Corporate TR USD, U.S. Floating-Rate Loans = S&P/LSTA Leveraged Loan TR, EM Bonds (USD-Based) = JPM EMBI Global Diversified TR USD, U.S. Government Bonds = BBgBarc US Treasury TR USD, U.S. Corporate Bonds (IG) = BBgBarc US Credit TR USD, U.S. Securitized Bonds (IG) = BBgBarc US Scrtzd MBS ABS CMBS TR USD, U.S. Municipal Bonds = BBgBarc Municipal TR USD, International DM Bonds (Hdgd) = BBgBarc Gbl Agg Ex USD TR Hdgd USD, Cash (1-3m T-Bills) = BBgBarc US Treasury Bill 1-3 Mon TR USD, US Dollar = ICE USD Spot.



# Market Review: U.S. Stock Market

## Index Returns (%)

- 2018 marked the first time U.S. stocks had a negative year since 2008. Investor pessimism pulled U.S. stocks down sharply at the end of the year; U.S. stocks went through a “bear market”, a decline of 20% or more from their September peak.



- The Russell 3000 Index is a capitalization-weighted stock market index, maintained by FTSE Russell, that seeks to be a benchmark of the entire U.S. stock market. It measures the performance of the 3,000 largest publicly held companies incorporated in America as measured by total market capitalization, and represents approximately 98% of the American public equity market.

Source: Ycharts, FTSE Russell. Data as of February 2019. Past performance is not a guarantee of future results. <sup>1</sup>From 09/20/18 to 12/25/18



# Market Review: International Stock Market

## Index Returns (%)

- International stocks went through a slower and more protracted bear market, declining more than 20% from their January peak. The declines in international stocks were due to U.S. dollar appreciation and an international economic growth slowdown.



- The MSCI ACWI ex USA Index is a capitalization-weighted stock market index that captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.



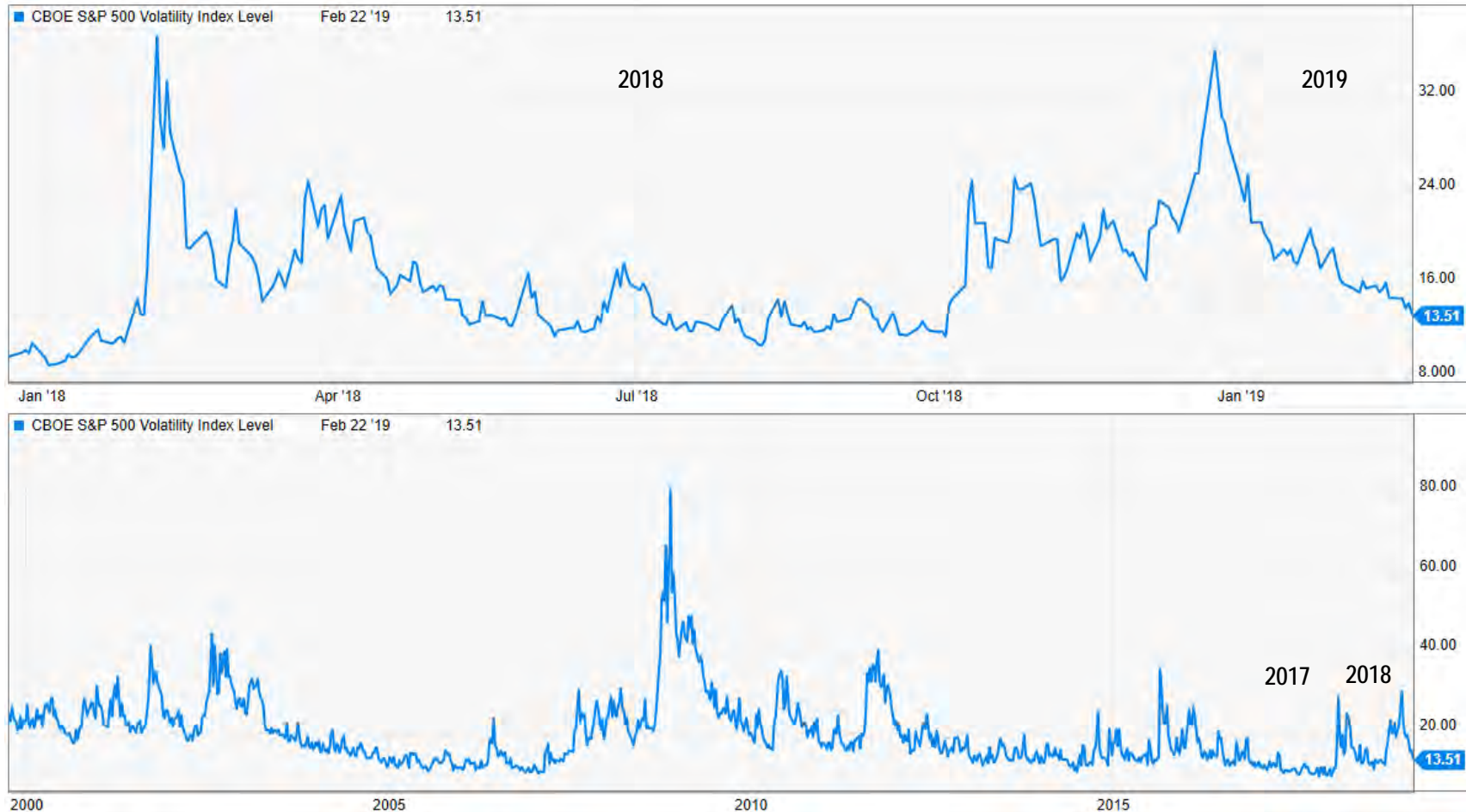
Source: Ycharts, MSCI. Data as of February 2019. Past performance is not a guarantee of future results. <sup>1</sup> From 01/26/18 to 12/25/18



# Market Review: Market Volatility

## CBOE S&P 500 Volatility Index

- Stock market volatility increased significantly in 2018 compared to 2017 but was not abnormally high when compared to the last 20 years. Trade tensions, geopolitical risk, oil price swings, and rising interest rates in the U.S. were among the biggest contributors to volatility.



- Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, the VIX provides a measure of market risk and investors' sentiments.

Source: YCharts, Chicago Board of Exchange, Investopedia. Data as of February 2019. Past performance is not a guarantee of future results.

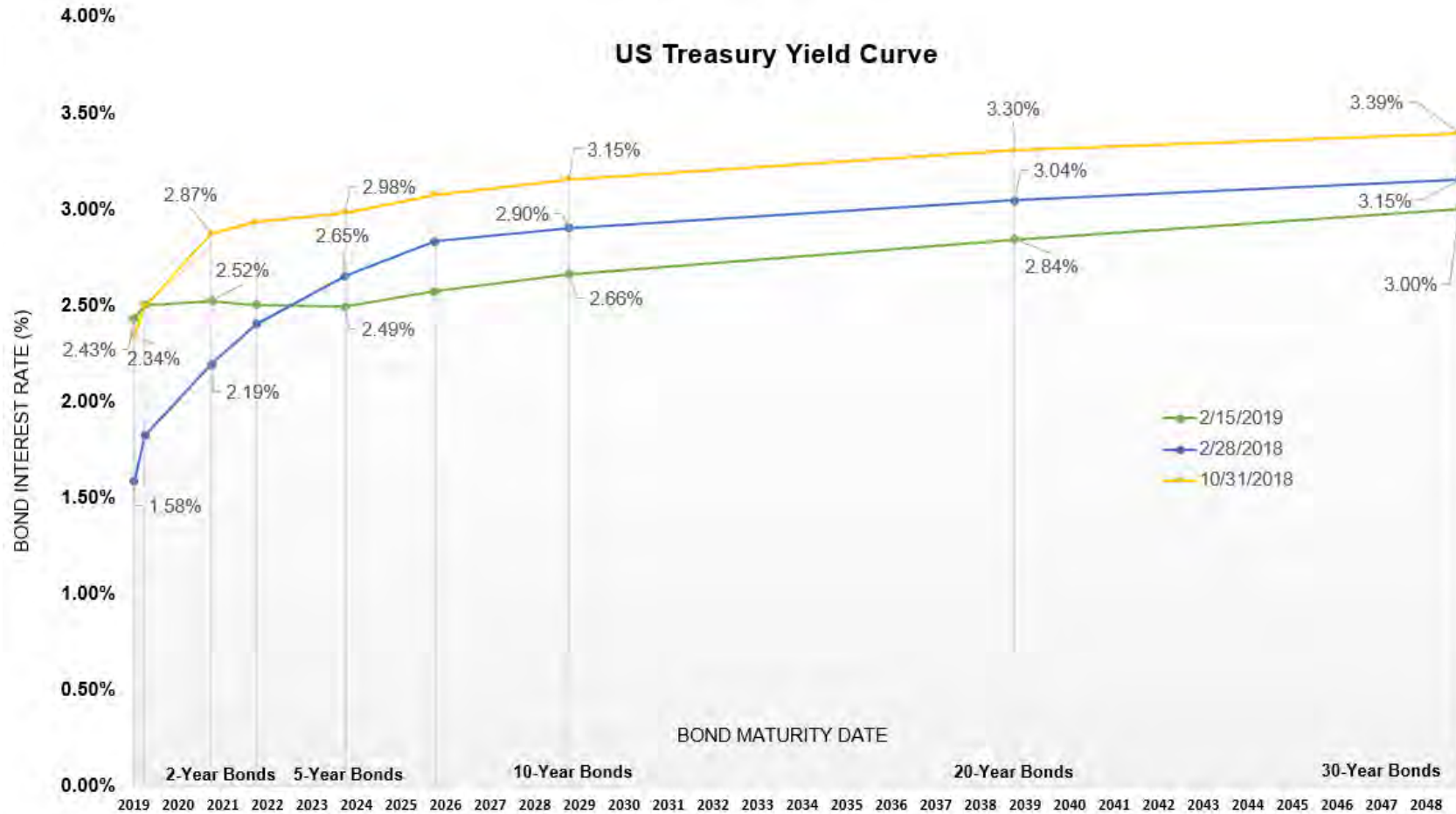




# Market Review: US Interest Rates

## Treasury Yield Curve

- Short-term interest rates in the U.S. have moved up in line with Fed interest rate hikes. Longer-term rates increased up until last September and have since come down significantly due to decreasing growth and inflation expectations.



- The Treasury Yield Curve is a graph of the interest rates (yields) of U.S. government bonds plotted against the time they have to maturity. Treasury yields impact consumer and business borrowing rates (e.g., 10-year Treasury yields influence 30-year mortgage rates).



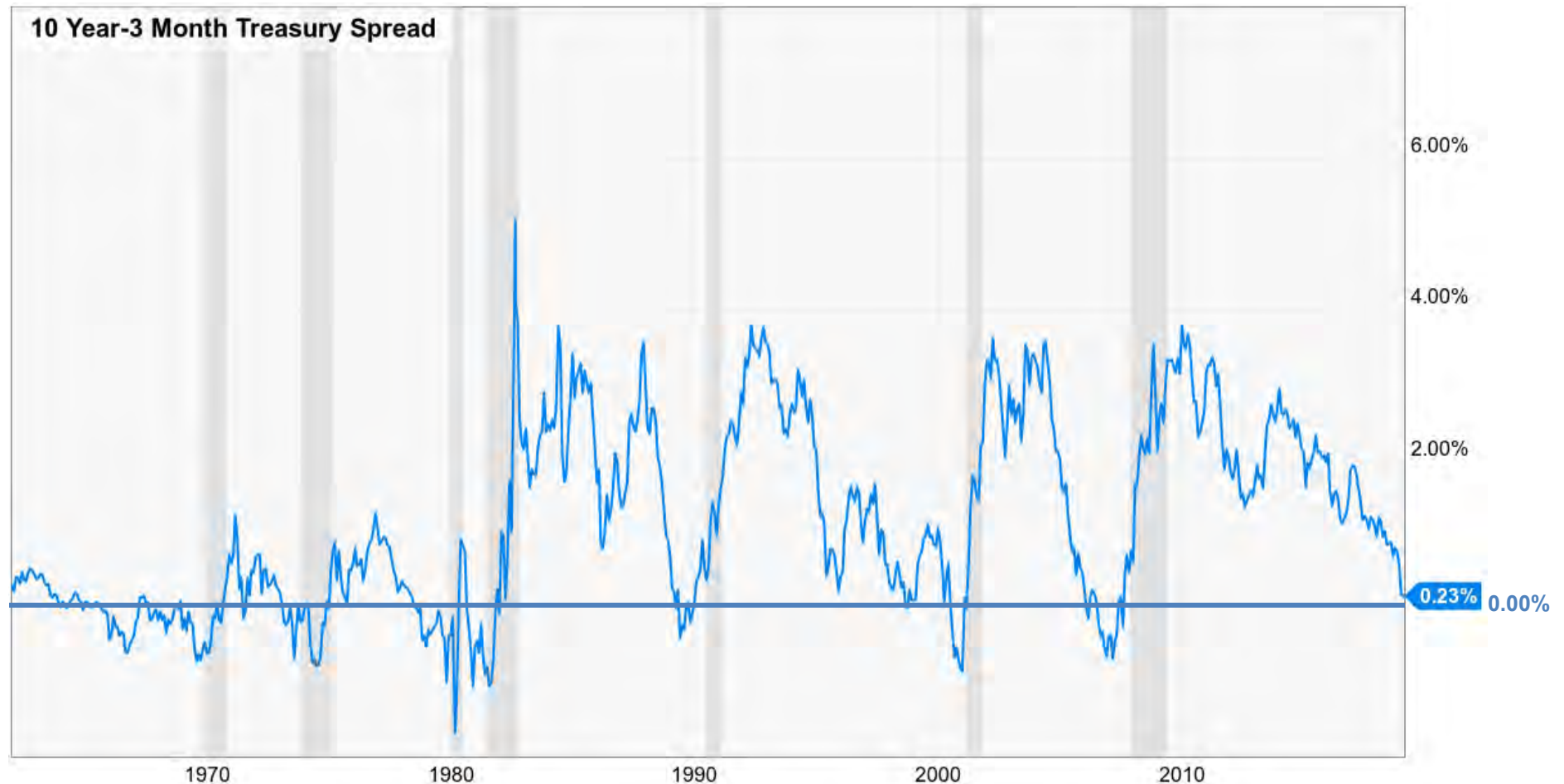
Source: YCharts. Data as of February 2019. Past performance is not a guarantee of future results.



# Market Review: US Interest Rates

## Treasury Yield Curve Slope

- The Treasury yield curve has continued to “flatten”, but it is still “upward sloping”; the yield curve is currently not yet indicating a recession is near.



- The slope of the yield curve provides an important clue to the direction of future short-term interest rates; an upward sloping curve generally indicates that the financial markets expect higher future interest rates (i.e., a stronger economy); a downward sloping curve indicates expectations of lower rates in the future.

Source: YCharts. Data as of February 2019. Past performance is not a guarantee of future results.  
Shaded areas indicate past U.S. recessions.



# Market Review: US Interest Rates

## US 10-Year Treasury Yields

- The 10-Year treasury yield, which various borrowing rates are based on, had moved up last year up until early November and has since come down significantly. Rates are still at relatively low levels (i.e., under 3%), and are supportive of economic growth.



- The 10-year treasury yield is the benchmark yield that borrowing rates for mortgage rates and Home Equity Loans, Federal student Loans (once a year in May reset) are based on.

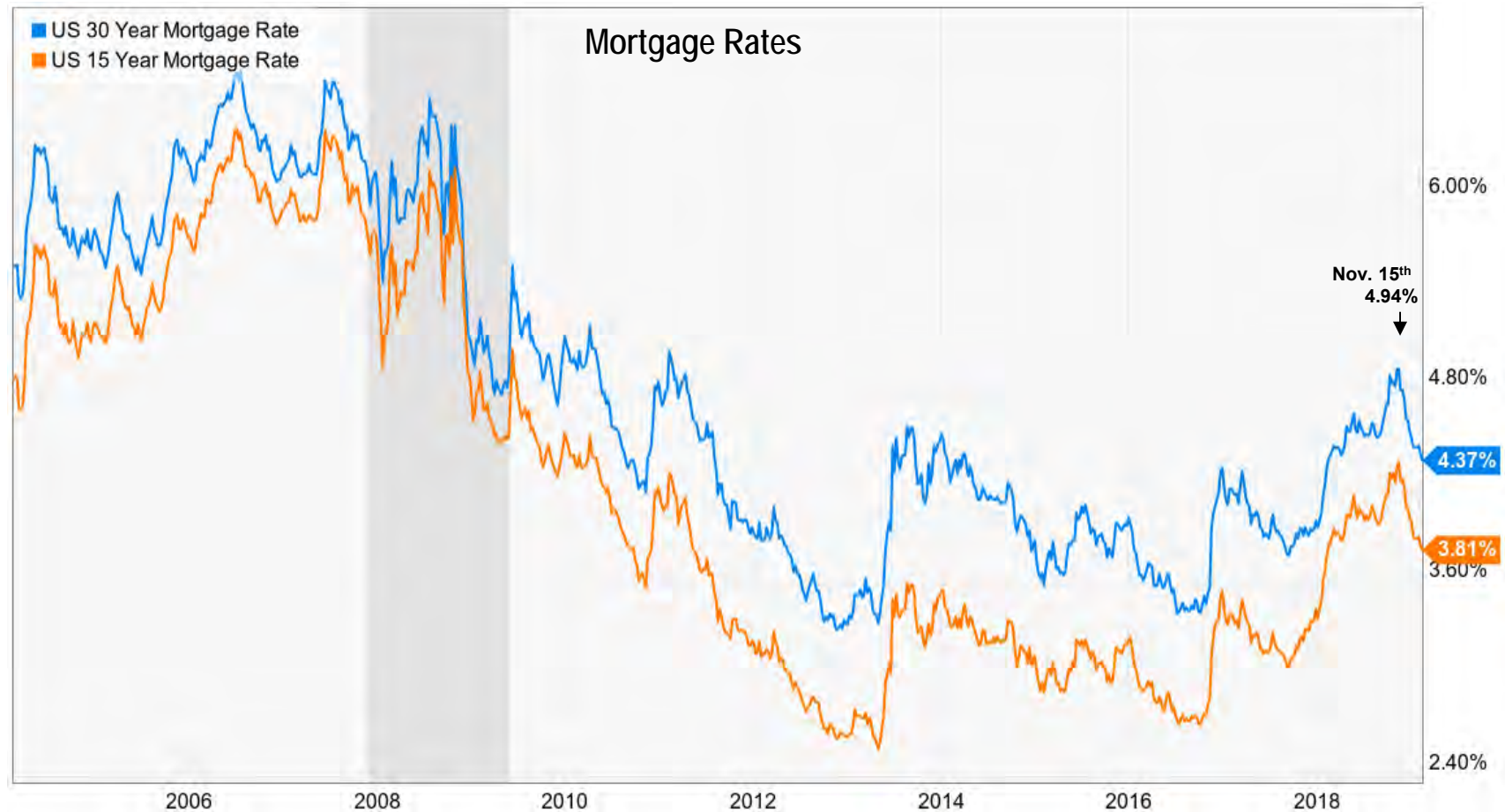
Source: YCharts. Data as of February 2019. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.



# Market Review: US Interest Rates

## 30-Year Fixed Mortgage Rate

- In 2018, mortgage rates peaked in November, but have come back down to where they were a year ago. However, the spike in rates last year had a dampening effect on the housing market.



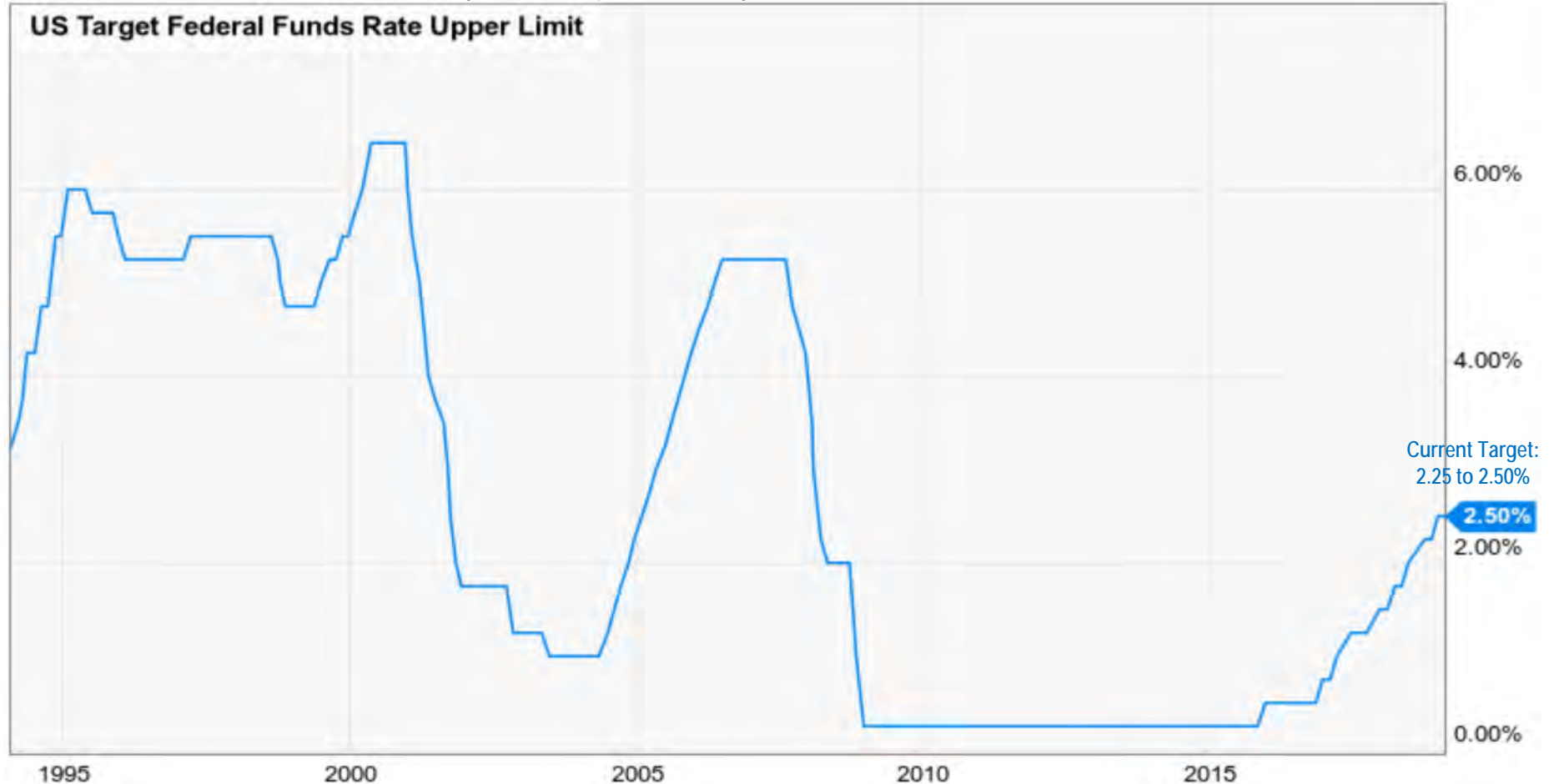
Source: YCharts, Freddie Mac. Data as of February 2019. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.



# Market Review: US Interest Rates

## Federal Funds Rate

- Firming inflation and accelerating economic growth in the U.S. prompted the Federal Reserve to raise policy interest rates four times in 2018. Based on statements from the Federal Reserve in January, it is now expected that they will be more deliberate with rate increases in 2019.



- The federal funds rate is a rate at which banks can borrow and lend to each other overnight. It is one of the most influential interest rates in the U.S. economy because it affects other short-term and long-term lending rates in the U.S. economy (e.g., credit cards, mortgages, home equity lines, etc.).

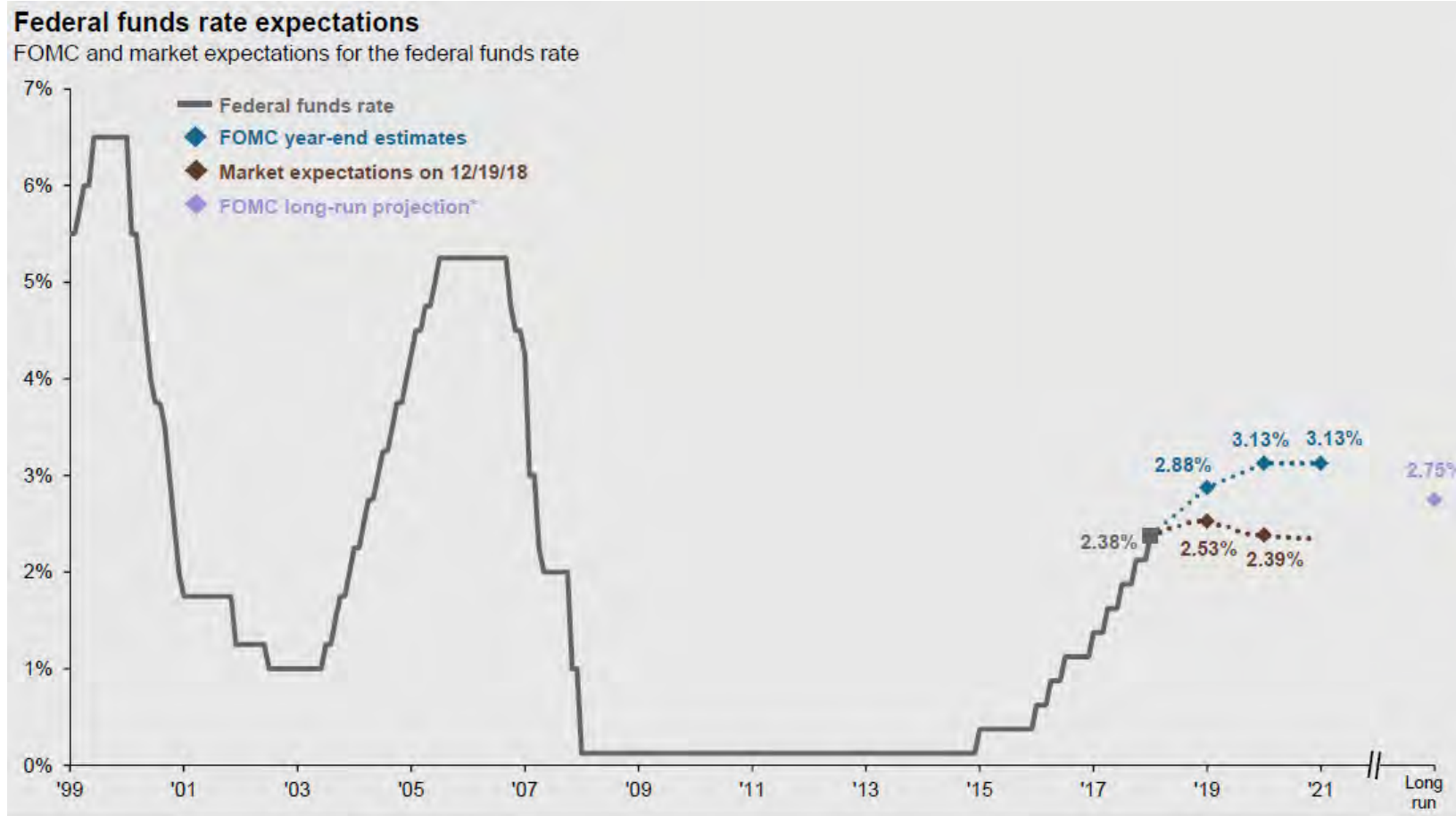
Source: YCharts, Federal Reserve. Data as of February 2019. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.



# Market Review: US Interest Rates

## Federal Funds Rate

- In January, the Fed communicated only two rate hikes in 2019 due to signs of slowing growth and muted inflation; however, the market expects only one hike in 2019, and possibly a rate cut in 2020.



- Market expectations are the federal funds rates priced into the fed futures market as of the date of the December 2018 FOMC meeting and are through November 2021.

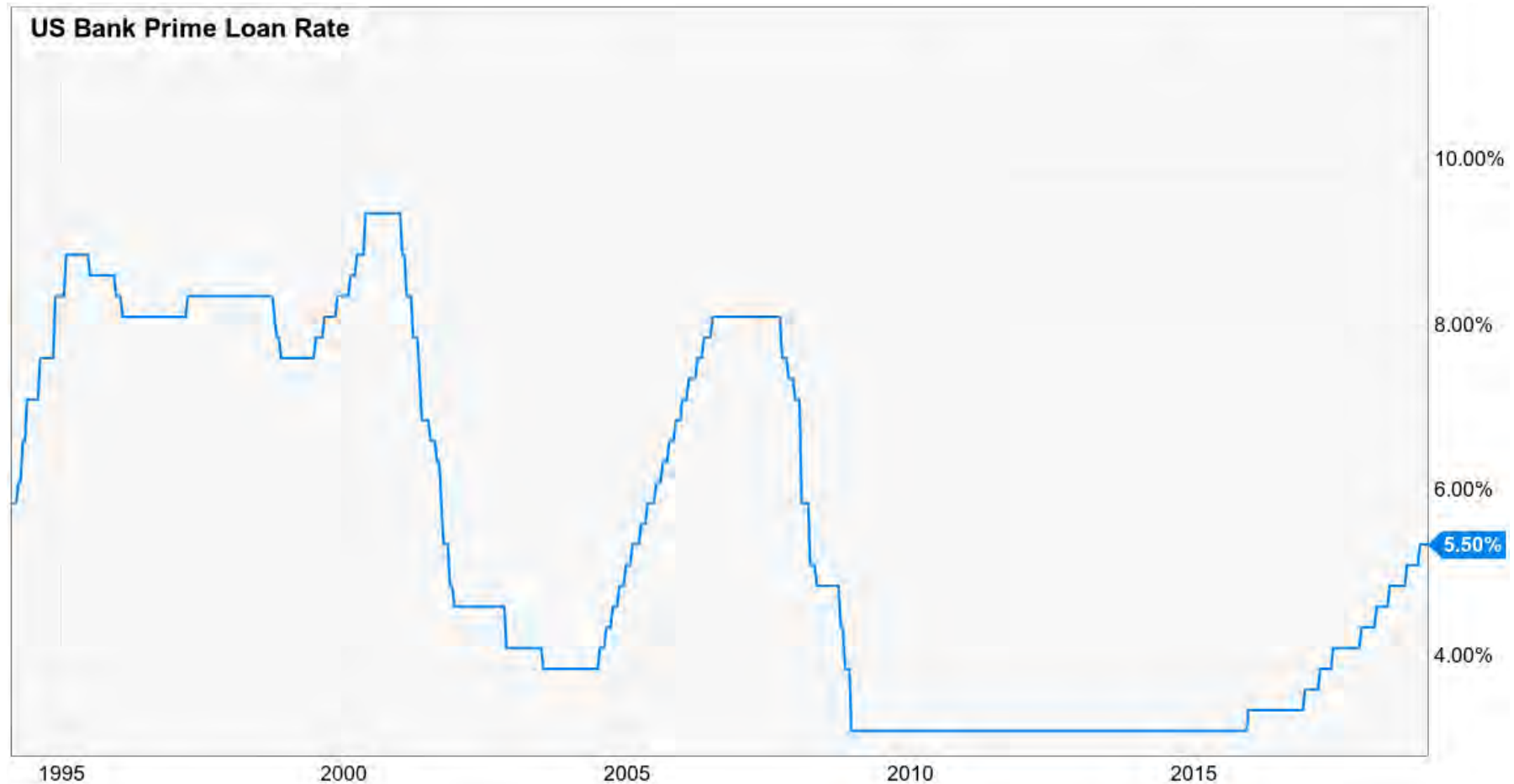
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Data as of December 2018. Past performance is not a guarantee of future results.



# Market Review: US Interest Rates

## Prime Rate

- Many of the major banks continue to increase their prime rates following the federal fund rate increases. Rates on credit cards, brokerage margin loans, and home equity lines of credit have increased. These rates remain low by historical standards.



- The prime rate is the interest rate that commercial banks charge their most credit-worthy customers and large corporations. The prime interest rate, or prime lending rate, is largely determined by the federal funds rate; the prime rate is also important for individual borrowers as it influences credit card rates and home-equity lines of credit.

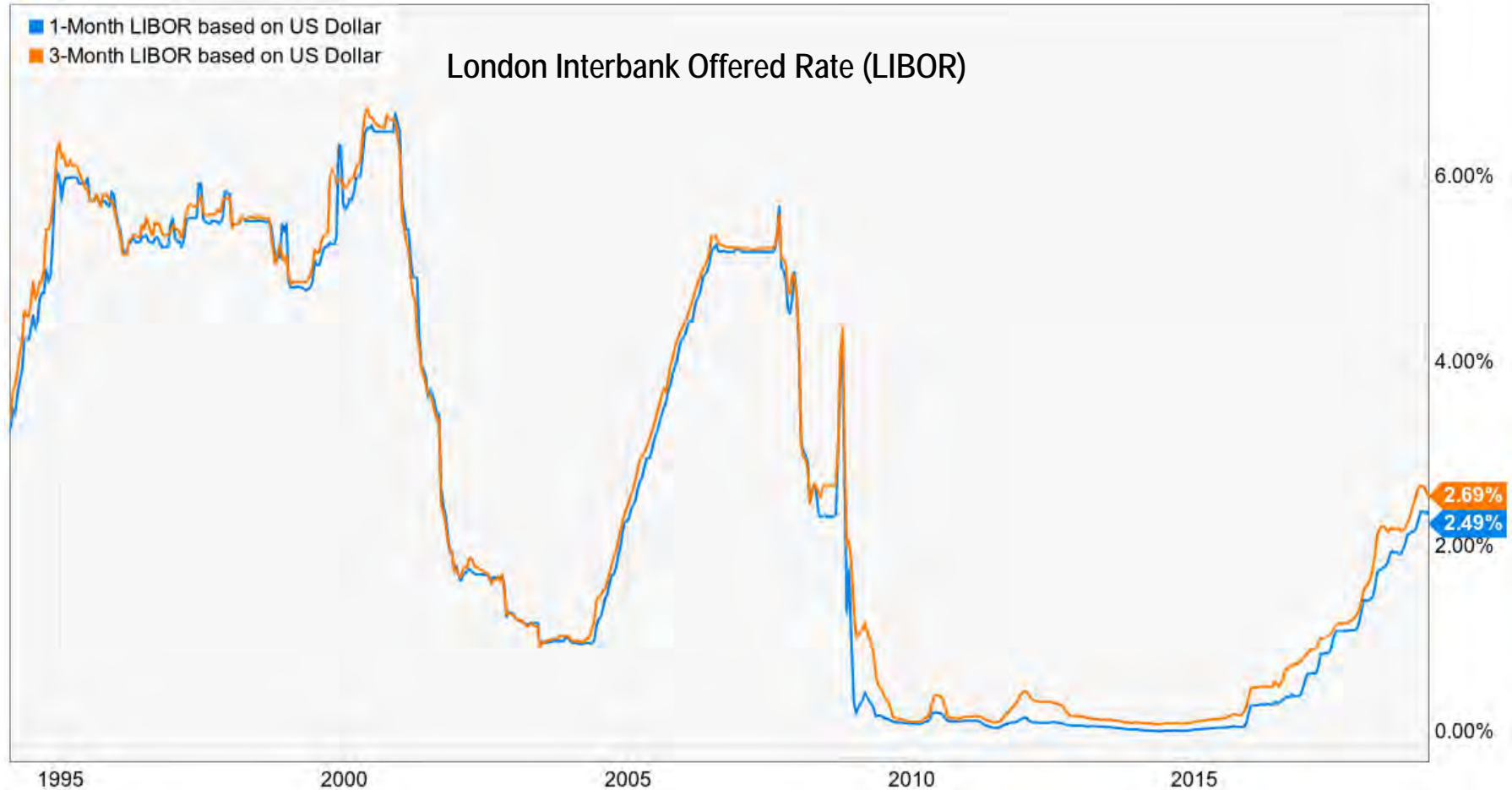
Source: Board of Governors of the Federal Reserve System (US), YCharts. Data as of February 2019. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.



# Market Review: US Interest Rates

## 1-Month and 3-Month London Interbank Offer Rate (LIBOR)

- LIBOR rates have moved up, with both 1-month and 3-month LIBOR crossing 2% for the first time since the US emerged from recession in 2009. Some variable rate loans (e.g., ARMs) and leveraged loans have been impacted.



- The Intercontinental Exchange London Interbank Offered Rate (LIBOR or ICE LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for and serves as the first step to calculating interest rates on various loans throughout the world.

Source: YCharts, ICE. Data as of February 2019. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.



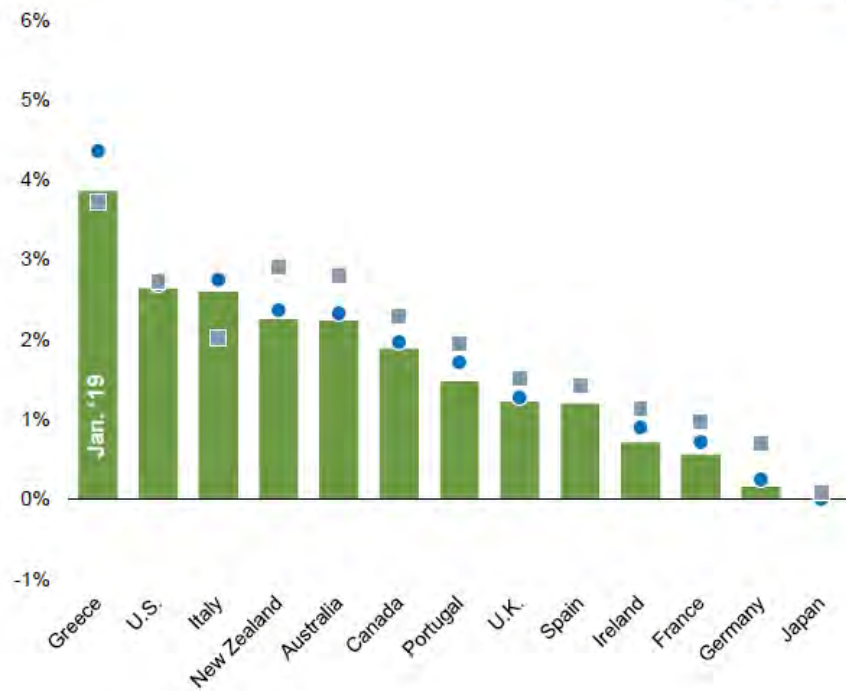


# Market Review: International Interest Rates

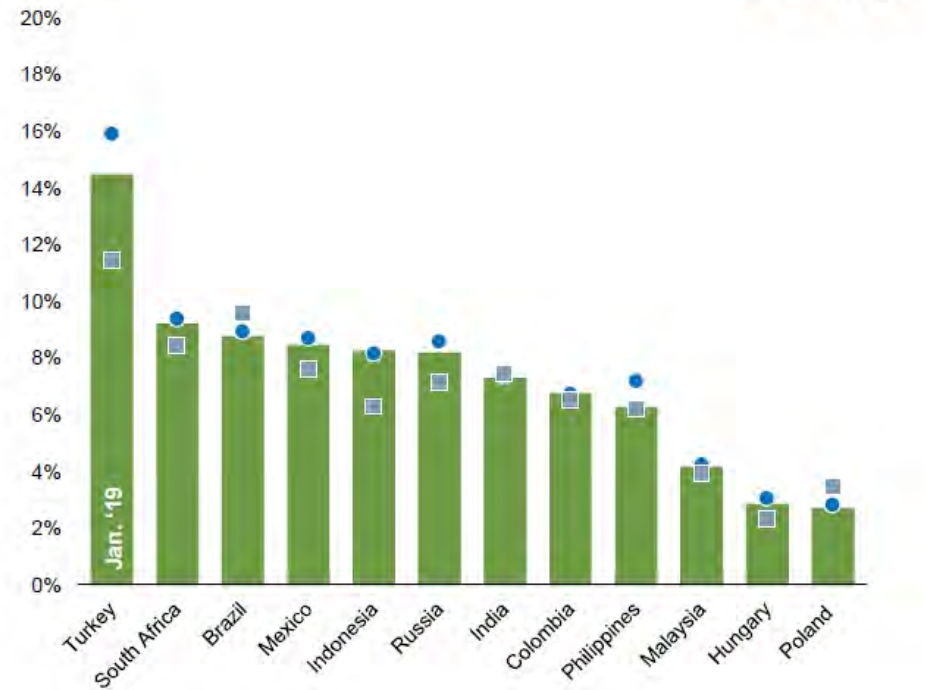
## Government Bond Yields (10-Year)

- Amongst almost all other developed market countries, U.S. government bonds offer higher yields. Emerging market bonds generally yield more than developed market bonds due to increased geopolitical and interest rate policy risk.

### Developed Markets (10-Yr. Yield)



### Emerging Markets (10-Yr. Yield)



Source: Easton Vance, Bloomberg, Factset. Data as of 01/31/2019. Past performance is not a guarantee of future results.

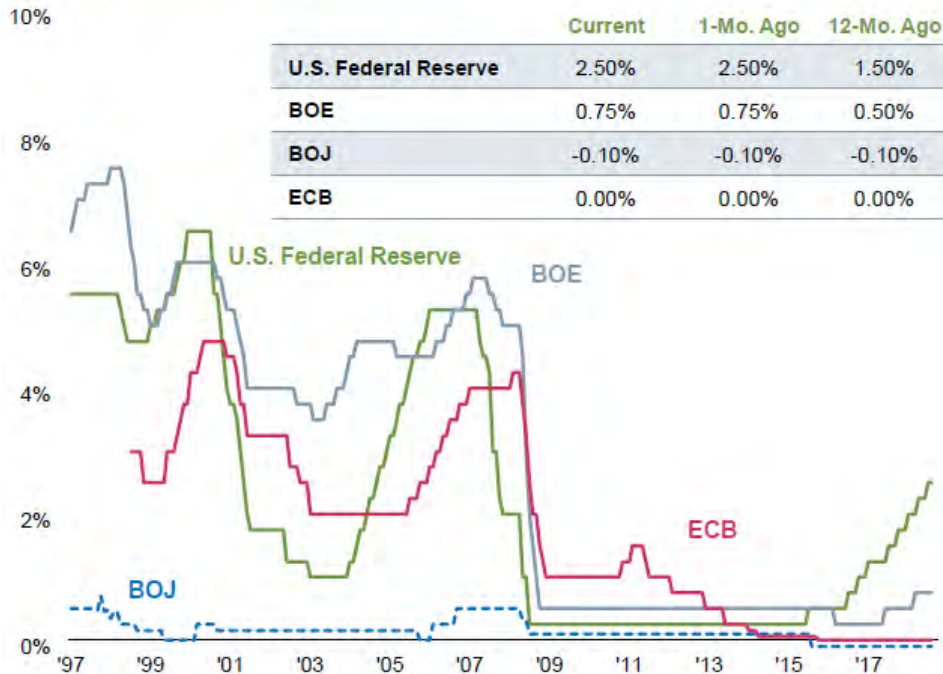


# Market Review: International Interest Rates

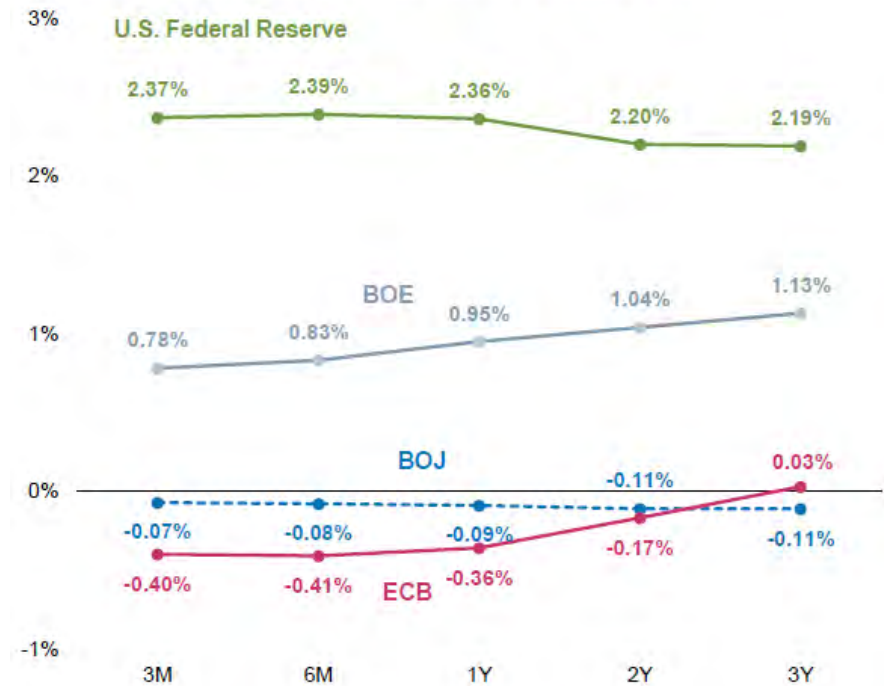
## Central Bank Policy Rates

Market expectations are for the U.S. Federal reserve to start lowering rates in 2021. Other than Japan, markets still expect other major central banks to raise rates minimally over the next three years.

### Central Bank Policy Rates



### Market Expectations for Future Central Bank Rates



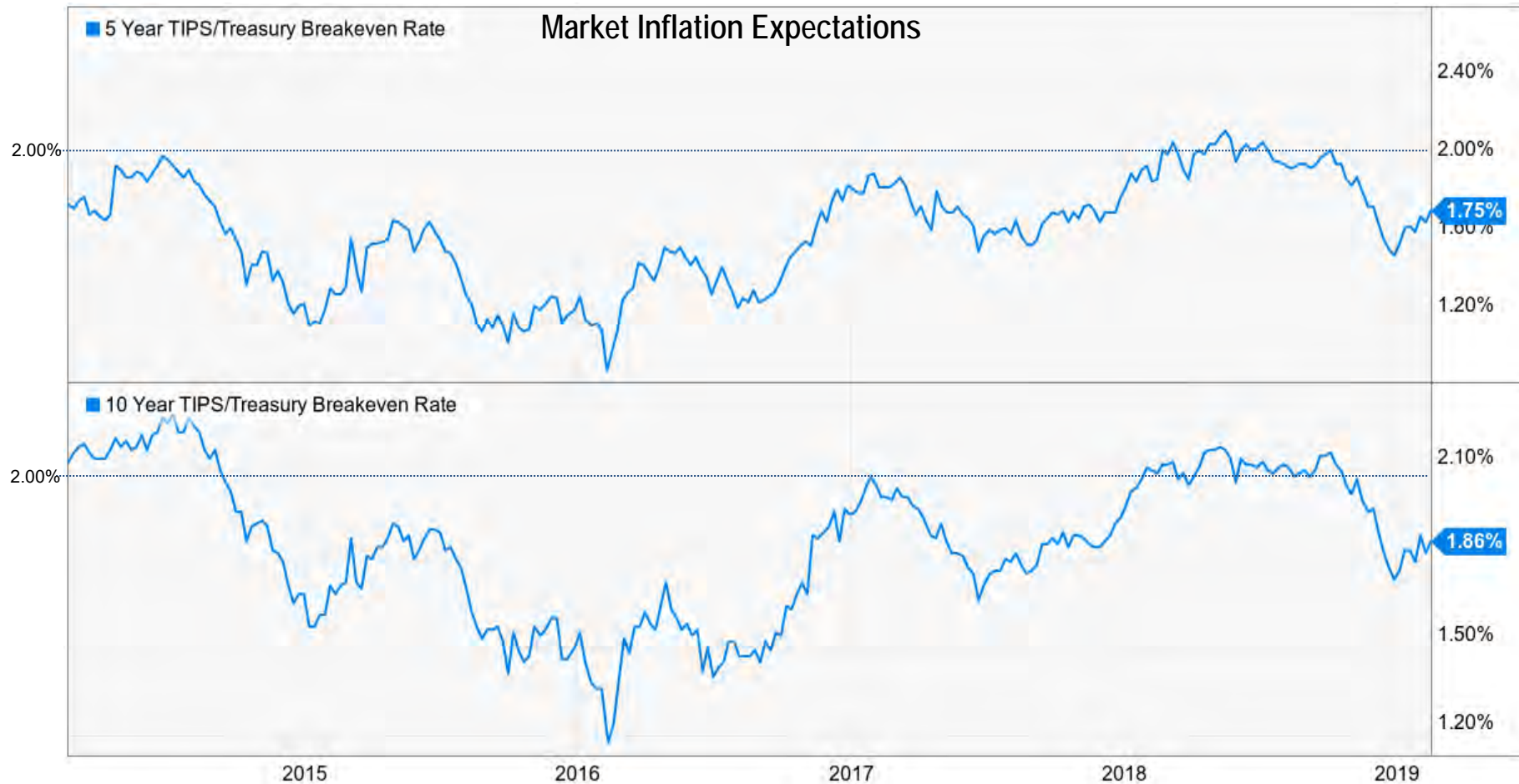
Source: Easton Vance, Bloomberg, Factset. Data as of 01/31/2019. Past performance is not a guarantee of future results.



# Market Review: US Inflation Expectations

## Breakeven Rates

- Market expectations of future inflation over the next 5 to 10 years in the U.S. are lower than they were a year ago. Expectations are now for sub-2% inflation which is considered a muted level of inflation - under the Fed's target rate of inflation.



- Breakeven rates are market-based inflation indicators. They are the differential between nominal (non-inflation-adjusted) Treasuries and Treasury-Inflation-Protected-Securities. Policy makers pay close attention to inflation expectation because they can influence firms' and households' spending decisions, which affect actual prices.

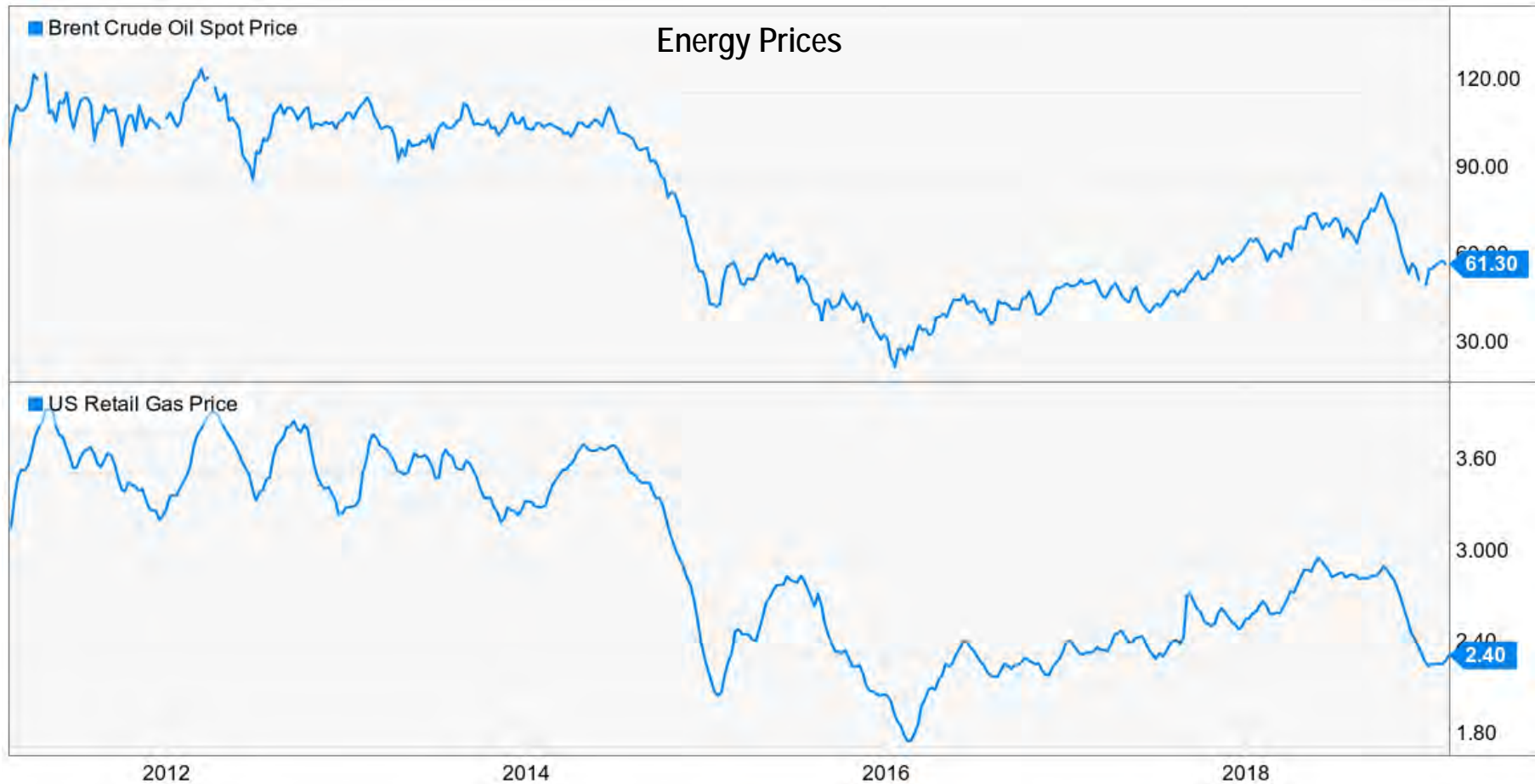
Source: YCharts. Data as of February 2019. Past performance is not a guarantee of future results.



# Market Review: Energy Prices

## Oil & Gas

- Oil prices recently declined more than 20% amid oversupply concerns and slowing global growth. Lower oil and gas prices should help provide a boost for consumer spending.



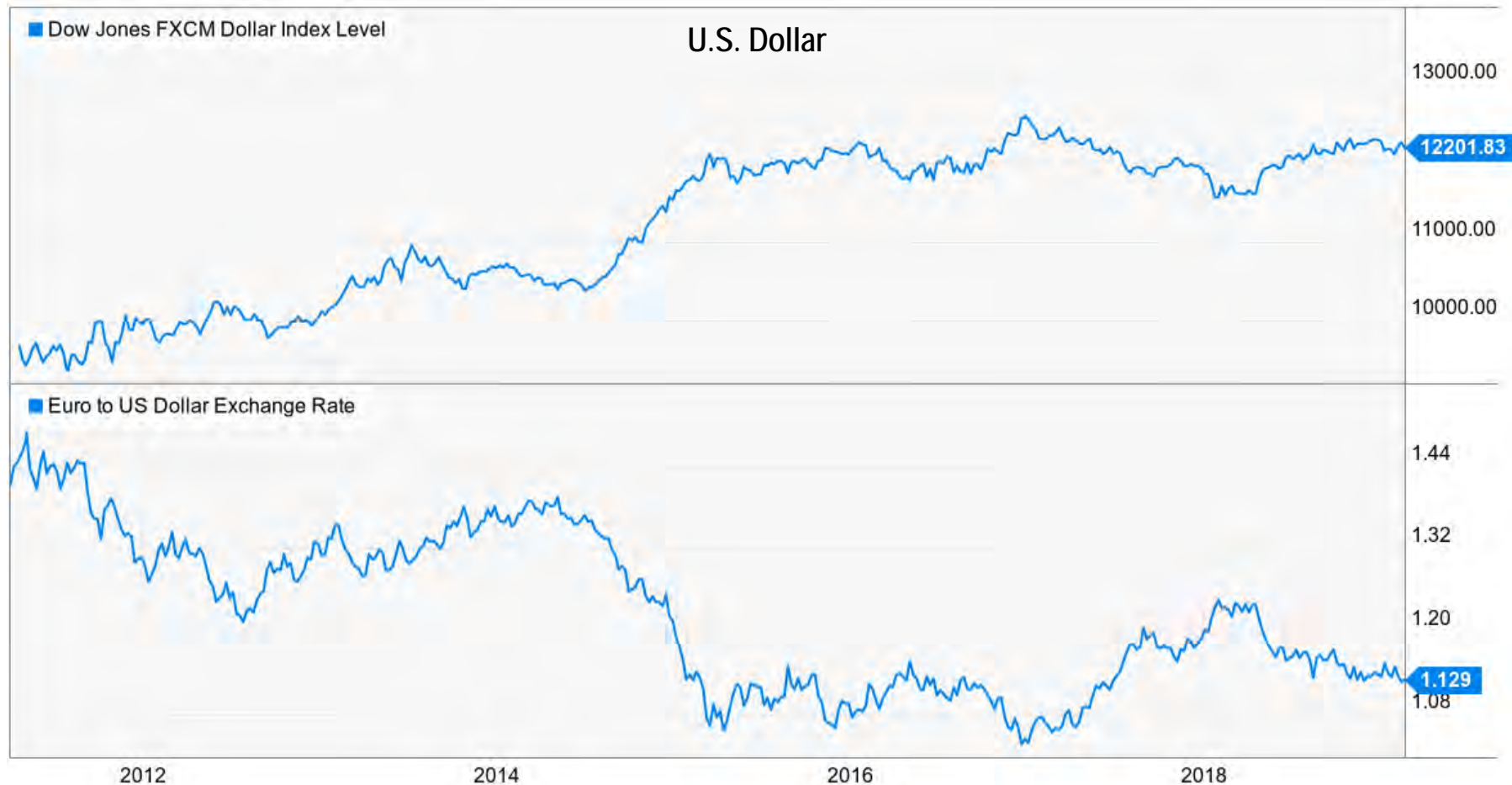
Source: YCharts, Energy Information Administration. Data as of February 2019. Past performance is not a guarantee of future results.



# Markets Review: Currency

## US Dollar

- US Dollar appreciated significantly in 2018, negatively impacting the US-dollar returns of international investments. The combination of rising rates in the U.S., an accelerating U.S. economy, and a global stock market selloff boosted demand for the dollar.



- The US Dollar Index (DXY) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies. It is a weighted geometric mean of the dollar's value relative to other select currencies. The Euro to US Dollar Exchange Rate is a direct quote of the U.S. dollars per unit of Euro.

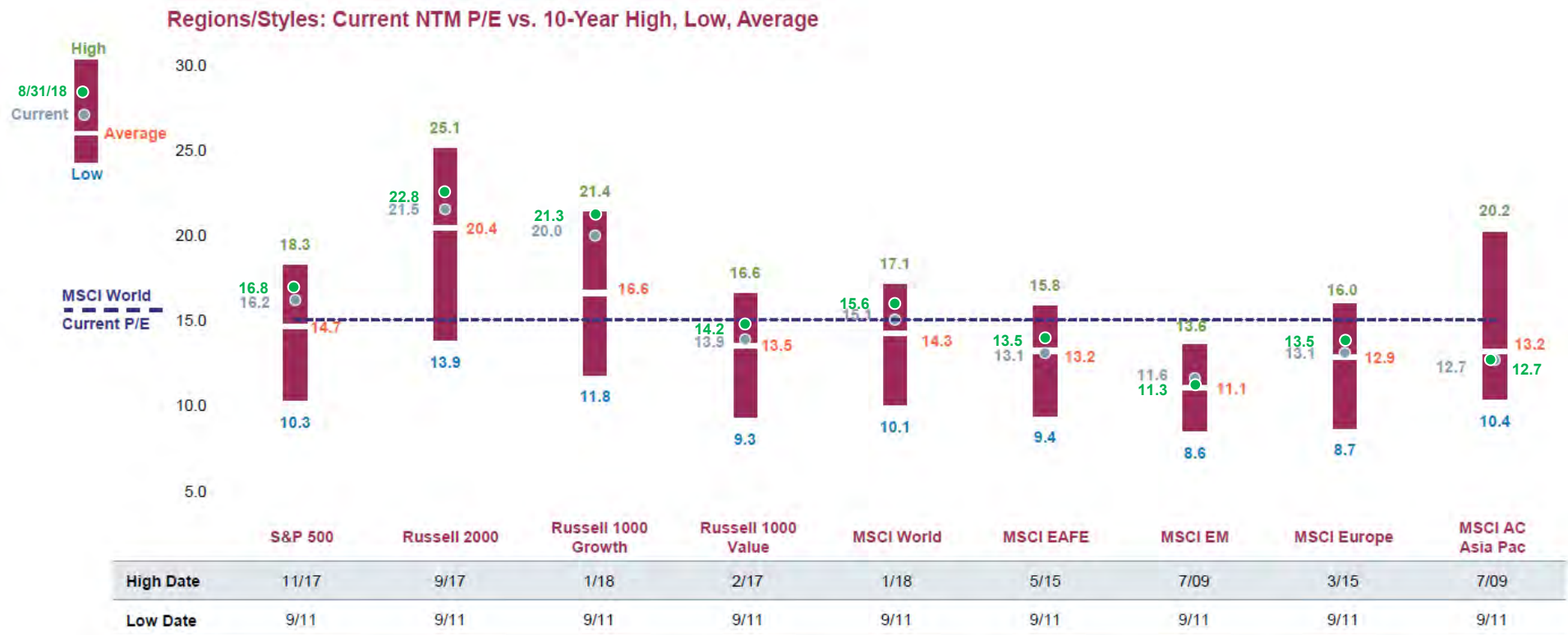
Source: YCharts. Data as of February 2019. Past performance is not a guarantee of future results.



# Markets Review: Valuations

## Stock Valuations

- Valuations as of the end of February are not at excessively high levels relative to the last 10 years. Large-cap growth stocks in the U.S. are currently the most expensive stocks according to price-to-earnings (expected-12-month) ratios. International stock valuations broadly remain lower than U.S. stocks.



Source: Eaton Vance, Factset. Data as of 02/28/2019. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

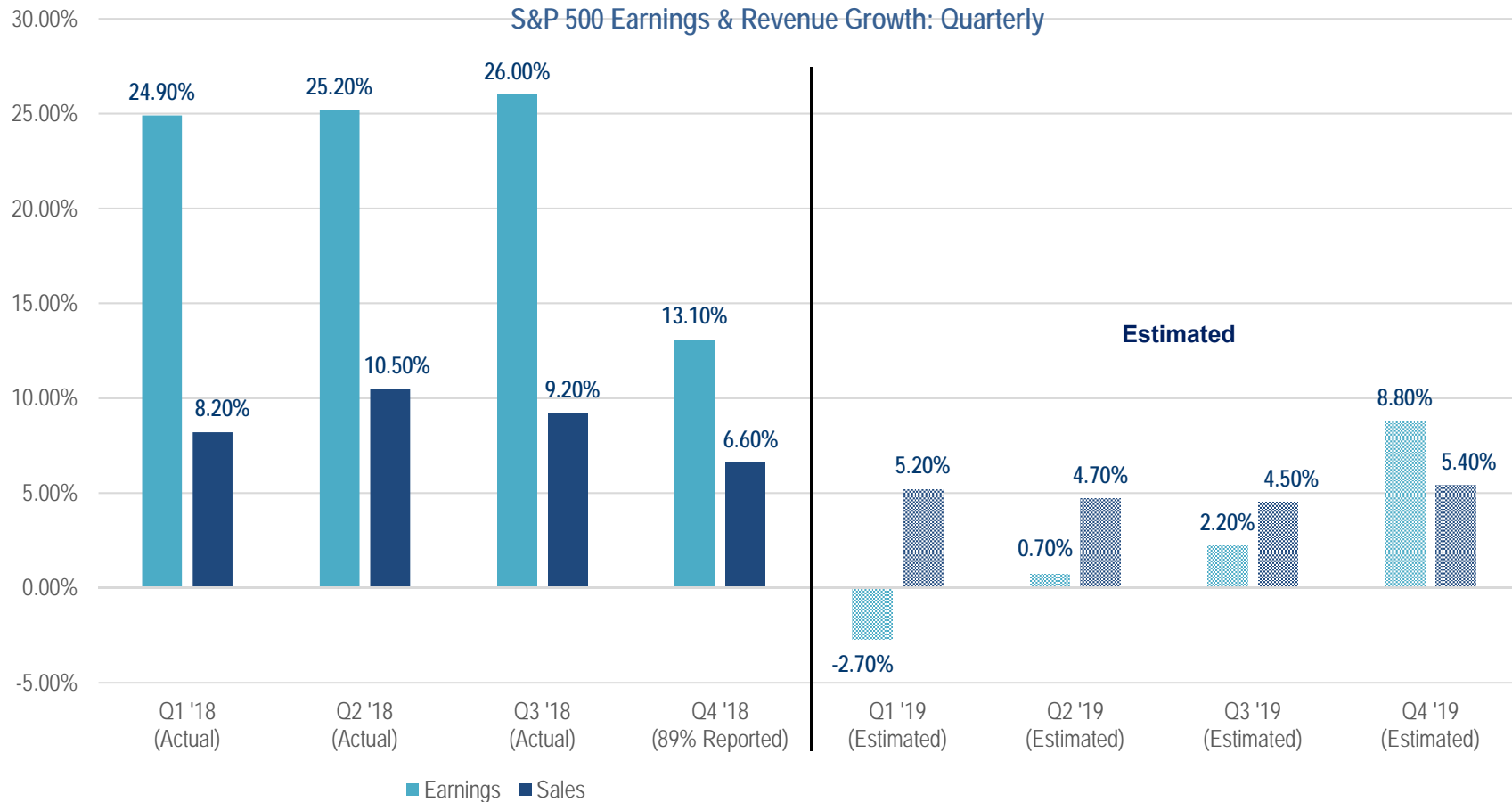
NTM P/E is market price per share divided by expected earnings per share over the next twelve months.



# Markets Review: U.S. Earnings Growth

## U.S. Corporate Earnings Growth (By Quarter)

For Q4 2018, the blended earnings growth rate for the S&P500 is 13.1% (with a 6.6% sales growth rate), based on 89% of companies that reported through the end of February. Around 69% of these companies have reported better than expected earnings, and 61% have reported better than expected sales.



Source: Factset. Data as of 02/22/2019. Past performance is not a guarantee of future results.

Earnings Growth is the % change in YoY EPS from the prior year.

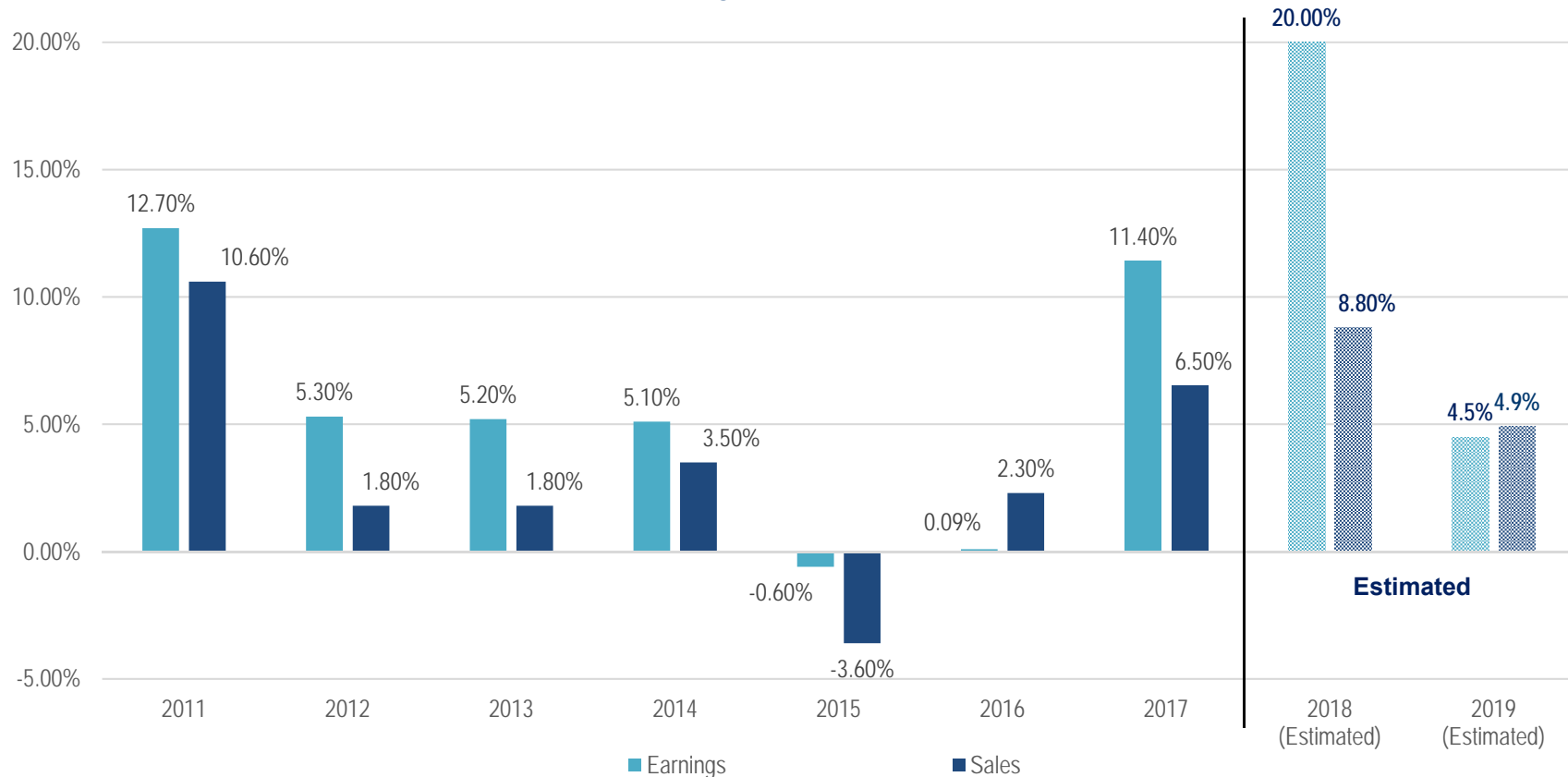


# Markets Review: U.S. Earnings Growth

## U.S. Corporate Earnings Growth (By Calendar Year)

- Research analysts currently estimate earnings to grow 20% for full-year 2018, but also expect more moderate growth near 4.5% for 2019. Earnings growth is expected to remain positive in 2019, but slow due to moderating economic growth, and the first-year effect of U.S. tax cuts passing.

S&P 500 Earnings & Revenue Growth: 2011-2018



Source: Factset. Data as of 02/22/2019. Past performance is not a guarantee of future results.

Earnings Growth is the % change in YoY EPS from the prior year.

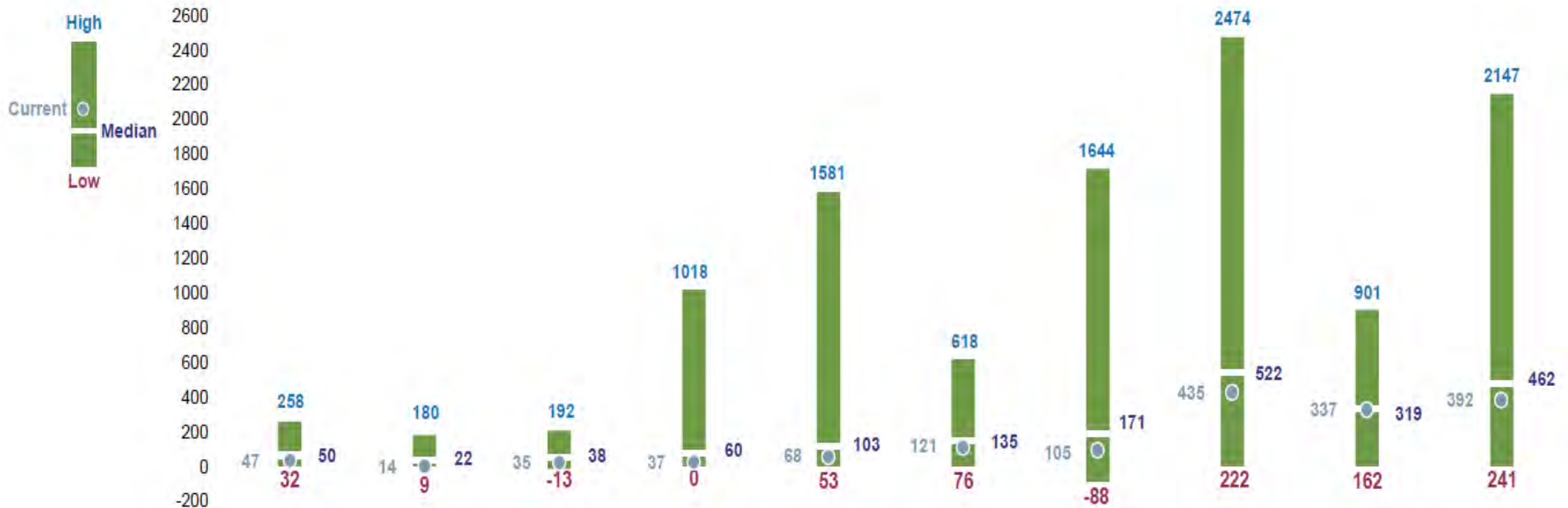




# Markets Review: Valuations

## Bond Valuations

- Credit spreads are still at historically tight levels given the significant improvements in corporate fundamentals. Spreads remain tight for lower-grade bonds despite the significant selloff in risk assets in the fourth quarter of 2018.



	Aggregate	Agency	MBS	ABS	CMBS	Corporate	Preferred	Floating-Rate Loans	Emerging Markets (USD)	High Yield
<b>Max Spread Date</b>	12/3/2008	11/20/2008	12/3/2008	1/6/2009	11/21/2008	12/3/2008	3/9/2009	12/19/2008	10/24/2008	12/15/2008
<b>Min Spread Date</b>	2/23/2005	3/12/2013	7/27/2010	10/1/2009	12/8/2004	3/11/2005	12/6/2017	3/31/2006	6/1/2007	6/1/2007
<b>Spread on 12/31/18</b>	54	16	35	53	86	153	242	551	415	533
<b>Spread on 12/31/17</b>	36	14	25	36	62	93	-30	405	285	358
<b>Spread on 12/31/16</b>	43	21	15	59	75	123	211	465	342	421

Source: Eaton Vance, Factset. Data as of 02/28/2019. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.



# Economic Review

## Overview

### Overview

- ❑ U.S. Growth
- ❑ U.S. Inflation
- ❑ U.S. Job Market
- ❑ U.S. Consumer
- ❑ U.S. Housing Market

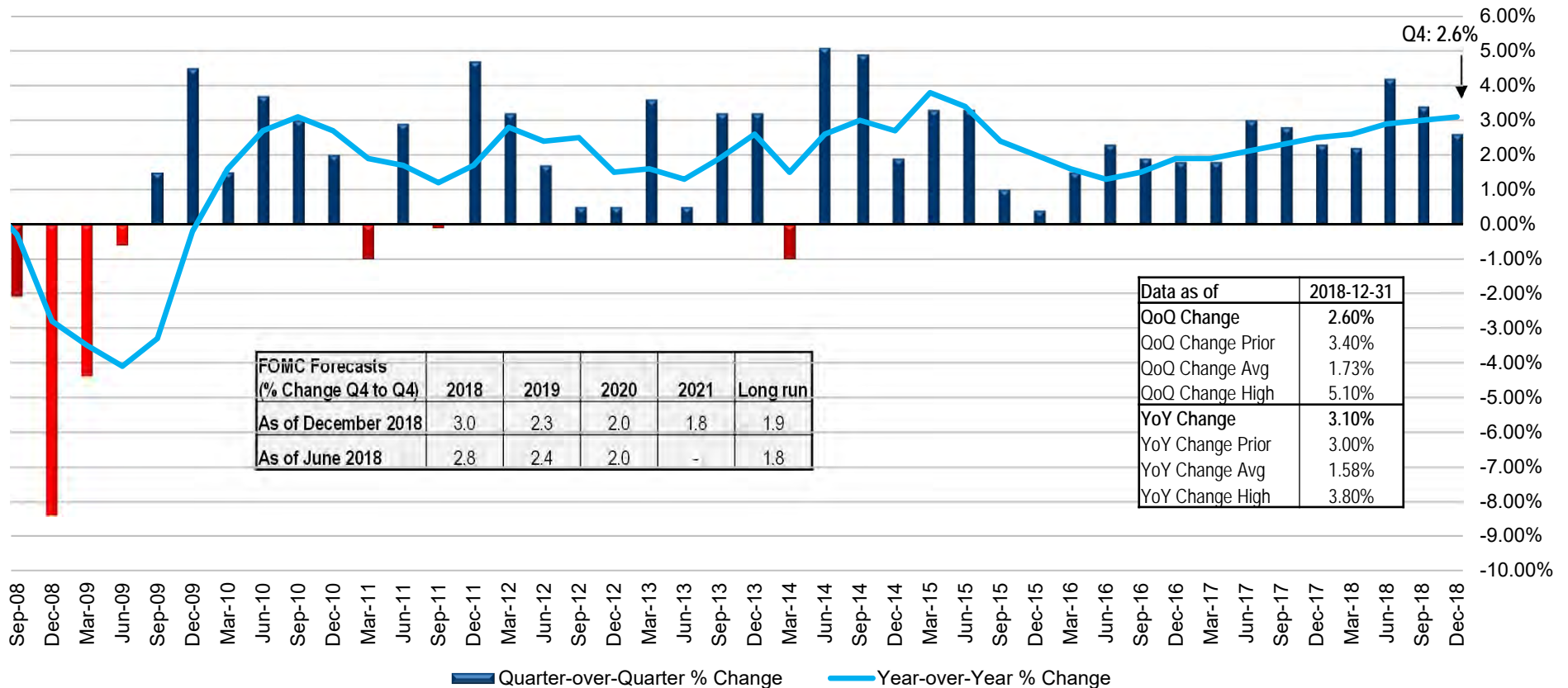


# Economy: US Growth

## Gross Domestic Product (GDP)

- The U.S. economy completed one of the best years in a nearly decadelong recovery. For 2018, consumer spending was robust thanks to a strong job market, tax cuts, and household income gains. Business investment gains and trade added to growth as exports rose ahead of new tariffs taking effect.

### US Real GDP Growth



- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. GDP is a broad measurement of a nation's overall economic activity.

Source: YCharts, Bureau of Economic Analysis, Federal Reserve, JPMorgan Asset Management. Past performance is not a guarantee of future results.

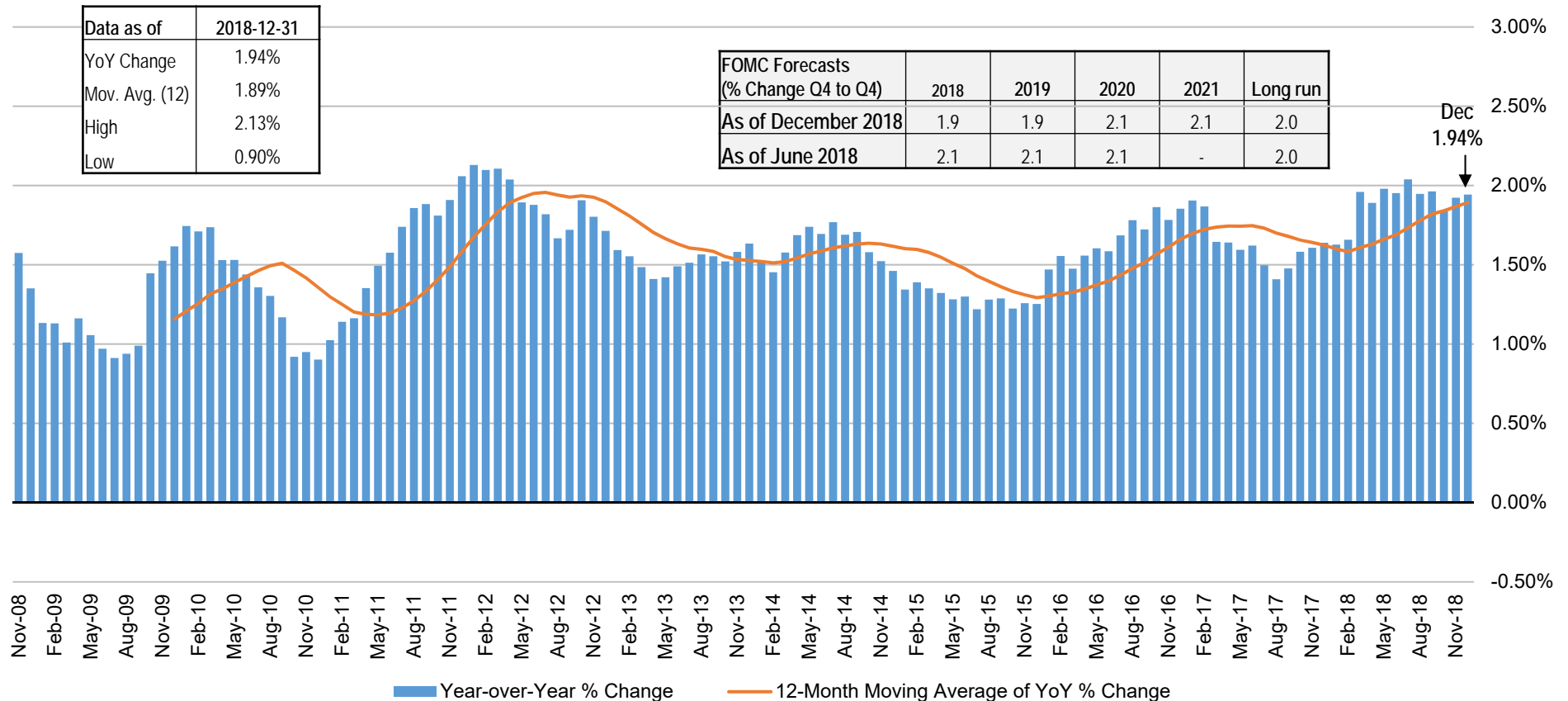


# Economy: US Inflation

## Core Personal Consumption Expenditures Price Index (Core PCE)

Inflation has increased in 2018, but remained contained. The Federal Reserve's preferred measure of inflation, Core PCE, fell toward the end of 2018, after it finally reached their target of 2%. FOMC forecasts are for 1.9% Core PCE inflation in 2018 and 2019.

### US Core PCE Price Index



The Core Personal Consumption Expenditures (PCE) Price Index is a measure of the price changes of consumer goods and services excluding food and energy. While it shares similarities with the Consumer Price Index (CPI), it is considered a more comprehensive, dynamic and reliable inflation metric. The Fed prefers it when reviewing economic conditions.

Source: YCharts, Bureau of Economic Analysis (Commerce Department), Federal Reserve, JPMorgan Asset Management.  
Past performance is not a guarantee of future results.



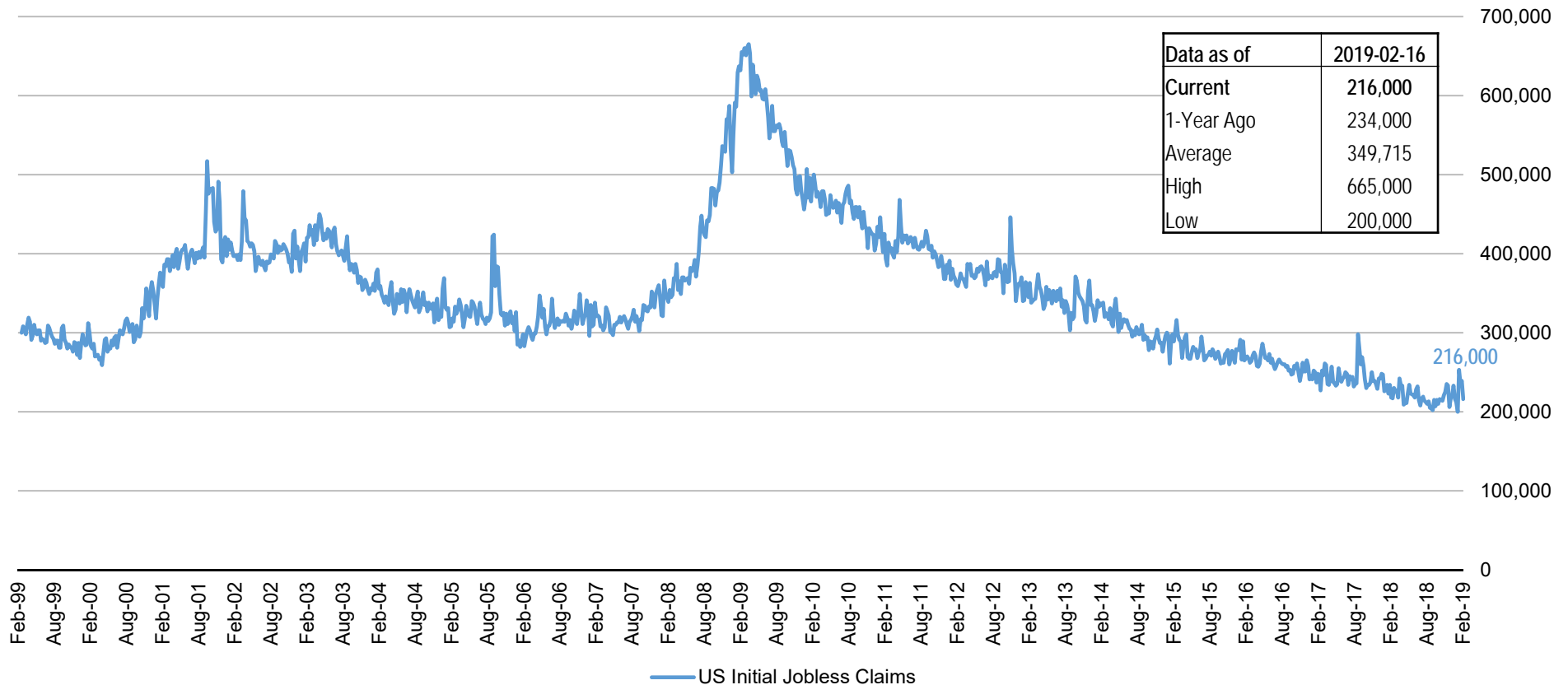


# Economy: US Job Market

## Jobless Claims

- The downward trend in Jobless Claims, a proxy for layoffs, continued throughout 2018, and is at a historically low level signaling a healthy job market. The number remains at the lowest level since November 1973. This means that employers are generally content to maintain and expand their payrolls.

### US Initial Jobless Claims



- Initial claims for unemployment insurance offer weekly information on layoff activity. Any reading below 300,000 is considered low in a historical context. In the post-war period, when initial claims head above 320,000 per week on a consistent basis, a recession is just around the corner.

Source: YCharts, Department of Labor. Past performance is not a guarantee of future results.

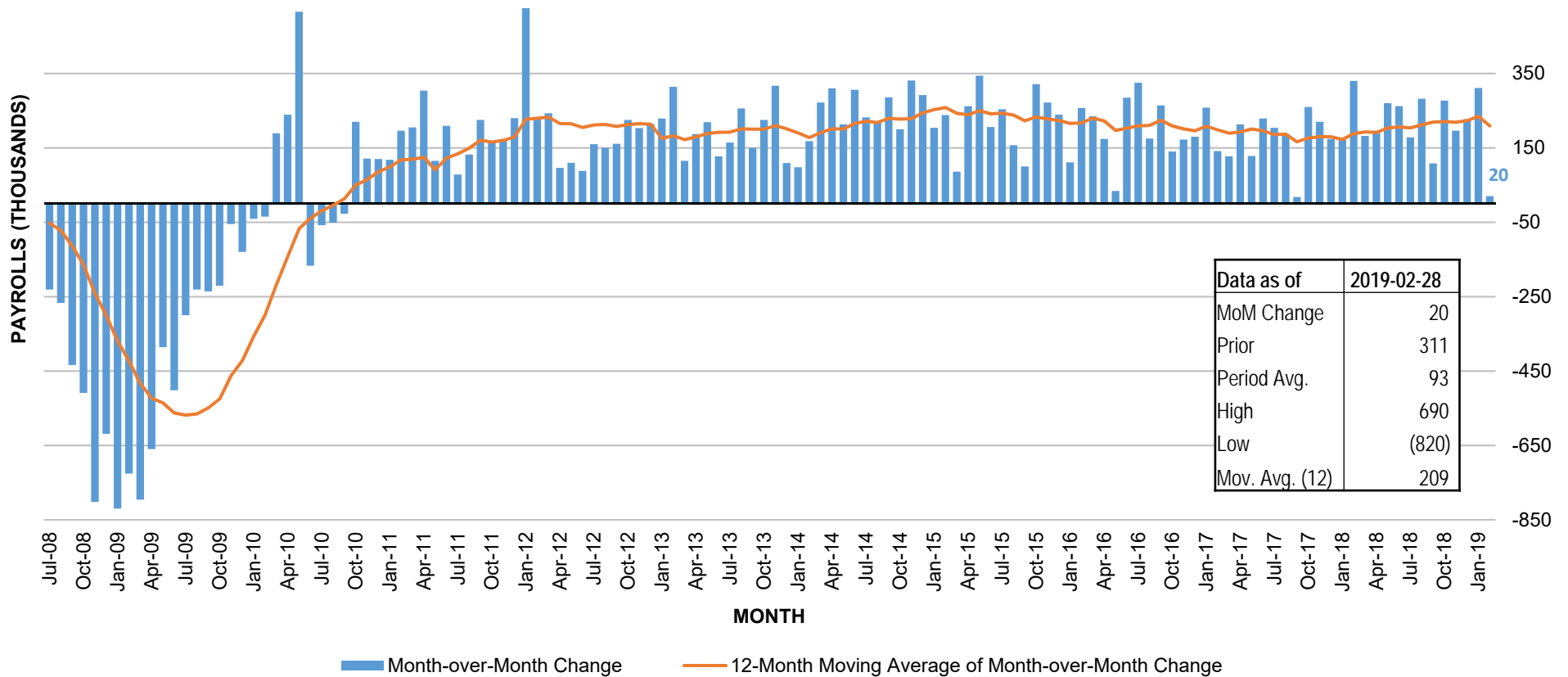


# Economy: US Job Market

## Change in Nonfarm Payrolls

U.S. companies continue to hire at a healthy pace. Over the last 12 months, employers have added an average of 209,000 jobs per month.

### US Total Nonfarm Payrolls



Nonfarm payroll is a monthly report intended to represent the number of additional jobs added from the previous month. Despite the name nonfarm payroll, the report excludes workers from general government jobs, private household jobs, employees of nonprofit organizations and farm employees.

Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.



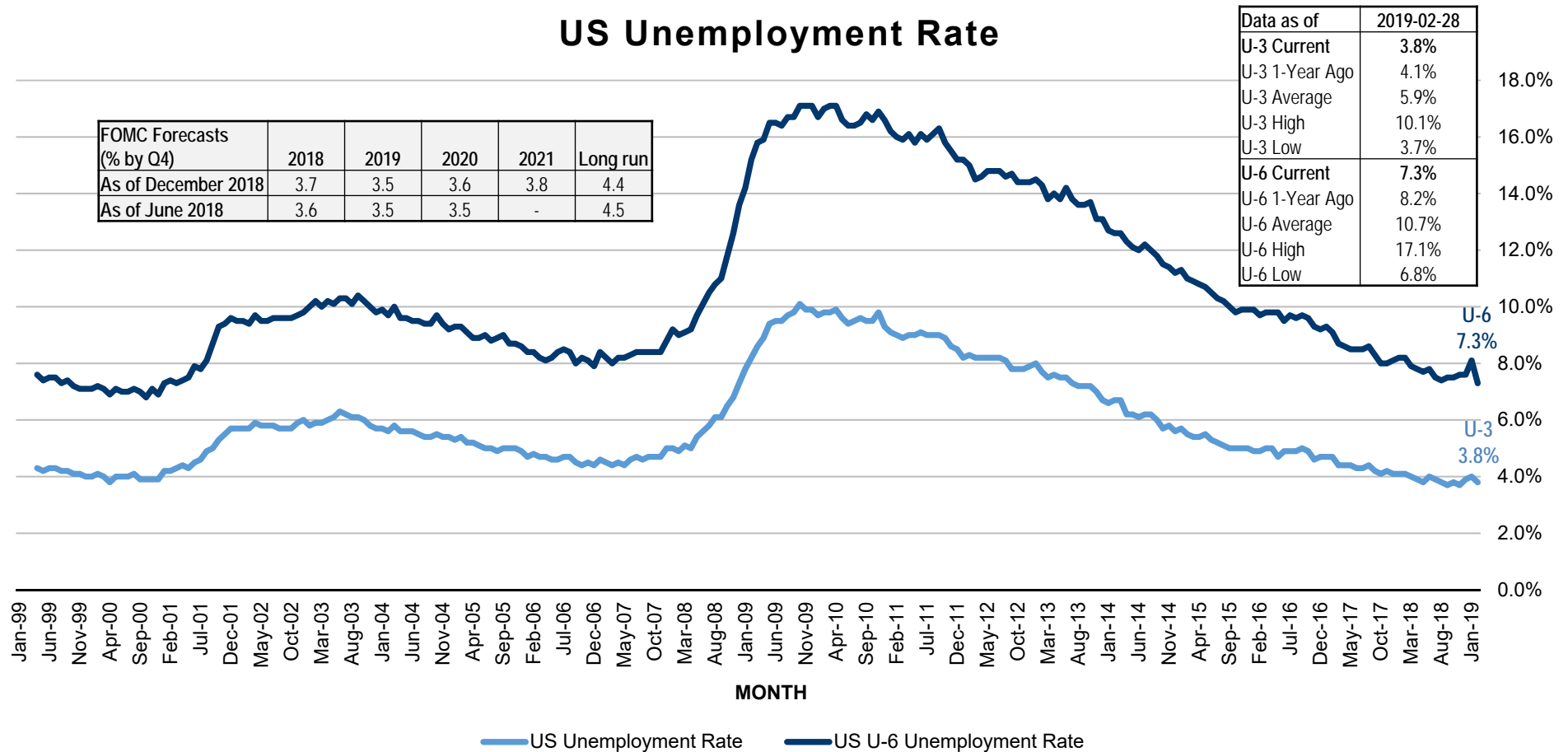


# Economy: US Job Market

## Unemployment Rate

- The official unemployment rate (U-3) remains below a level that is consistent with “full employment” (i.e., 5%). The broader unemployment rate that includes part-time workers (U-6) is now below its pre-2008/2009 recession levels. FOMC forecasts are for a 3.5% unemployment rate (U-3) in 2019.

### US Unemployment Rate



- The unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. The U-3 rate is the officially recognized rate of unemployment, measuring the number of unemployed people as a percentage of the labor force. The U-6 rate includes people who work part time because full-time work is not available due to economic conditions.



Source: YCharts, Bureau of Labor Statistics, Federal Reserve, JPMorgan Asset Management. . Past performance is not a guarantee of future results.

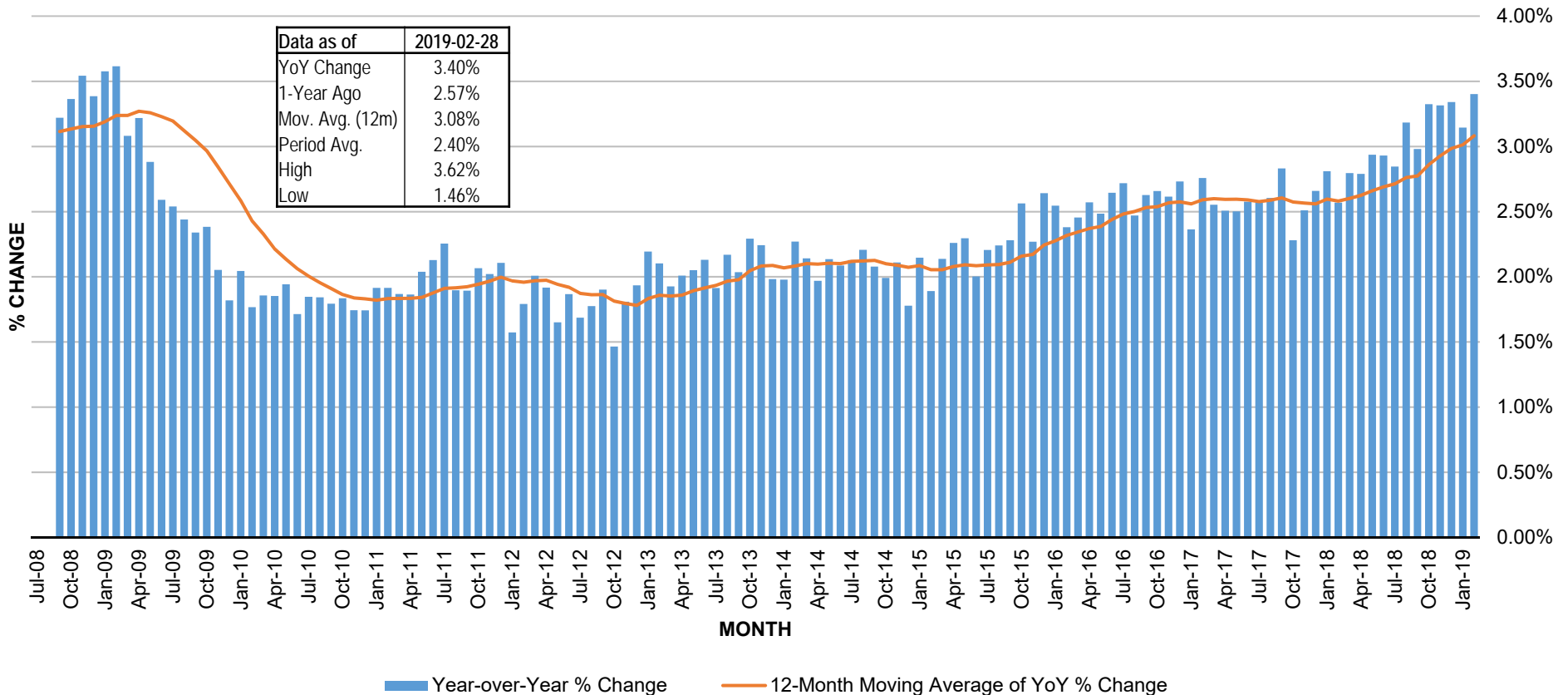


# Economy: US Job Market

## Wage Growth

- Hiring has reduced enough slack in the labor market to put upward pressure on wages. Wage growth has outpaced inflation in recent years, and is now growing at its highest rate since 2009. Wage growth has started to put pressure on corporate margins, but has not increased overall inflation yet.

### US Average Hourly Earnings



- Average hourly earnings is the average basic hourly rate for most major industries.



Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.



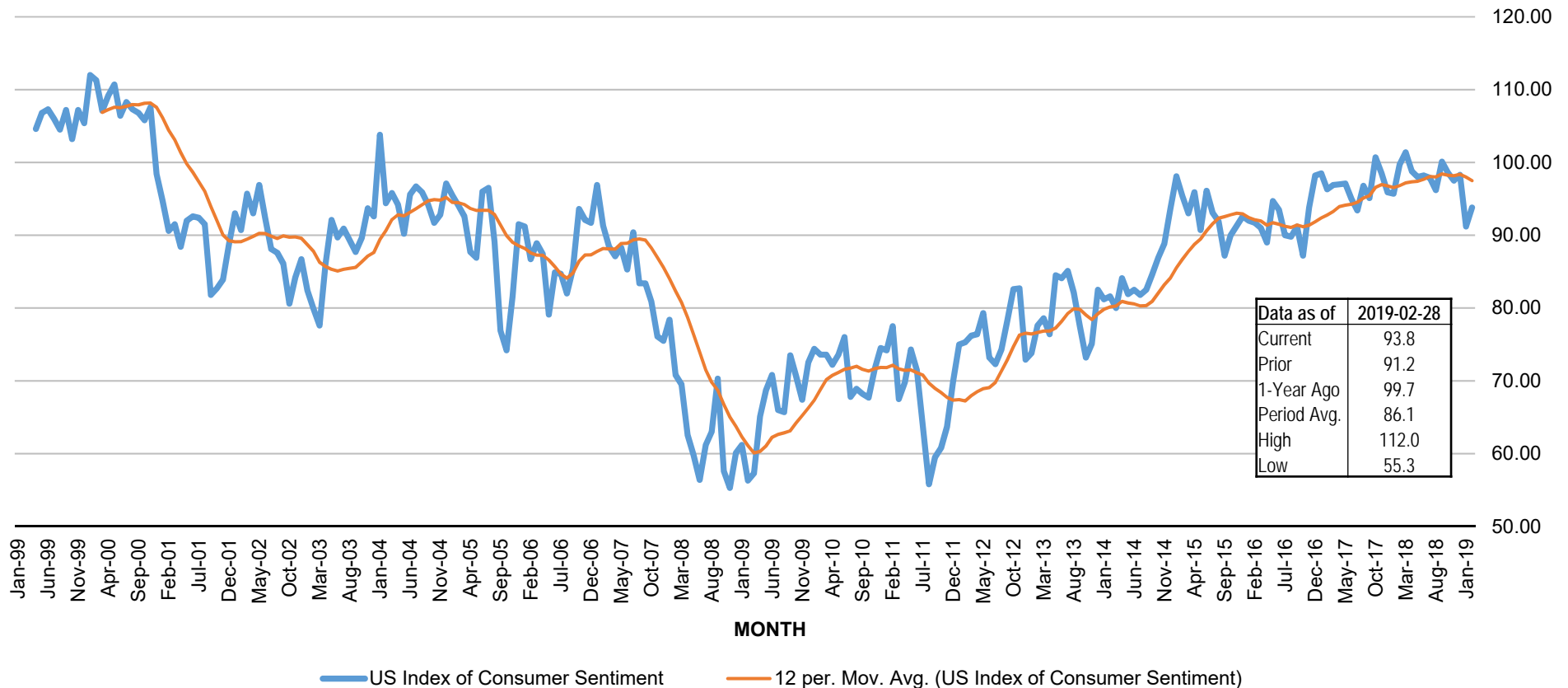


# Economy: US Consumer

## Consumer Sentiment

- Consumer sentiment rose to a 14-year high in 2018 but declined significantly at the end of the year into January, on concerns about the government shutdown and stock market declines. This level of consumer sentiment however, is still consistent with improving labor market conditions and growing wealth.

### US Index of Consumer Sentiment



- The U.S. Consumer Sentiment report is published by the University of Michigan. Data is collected from a query of 500 adults regarding their attitude on financial and income situations. Interviewers ask 50 core questions, and the responses are standardized on a 100 point scale.

Source: YCharts, University of Michigan. Past performance is not a guarantee of future results.



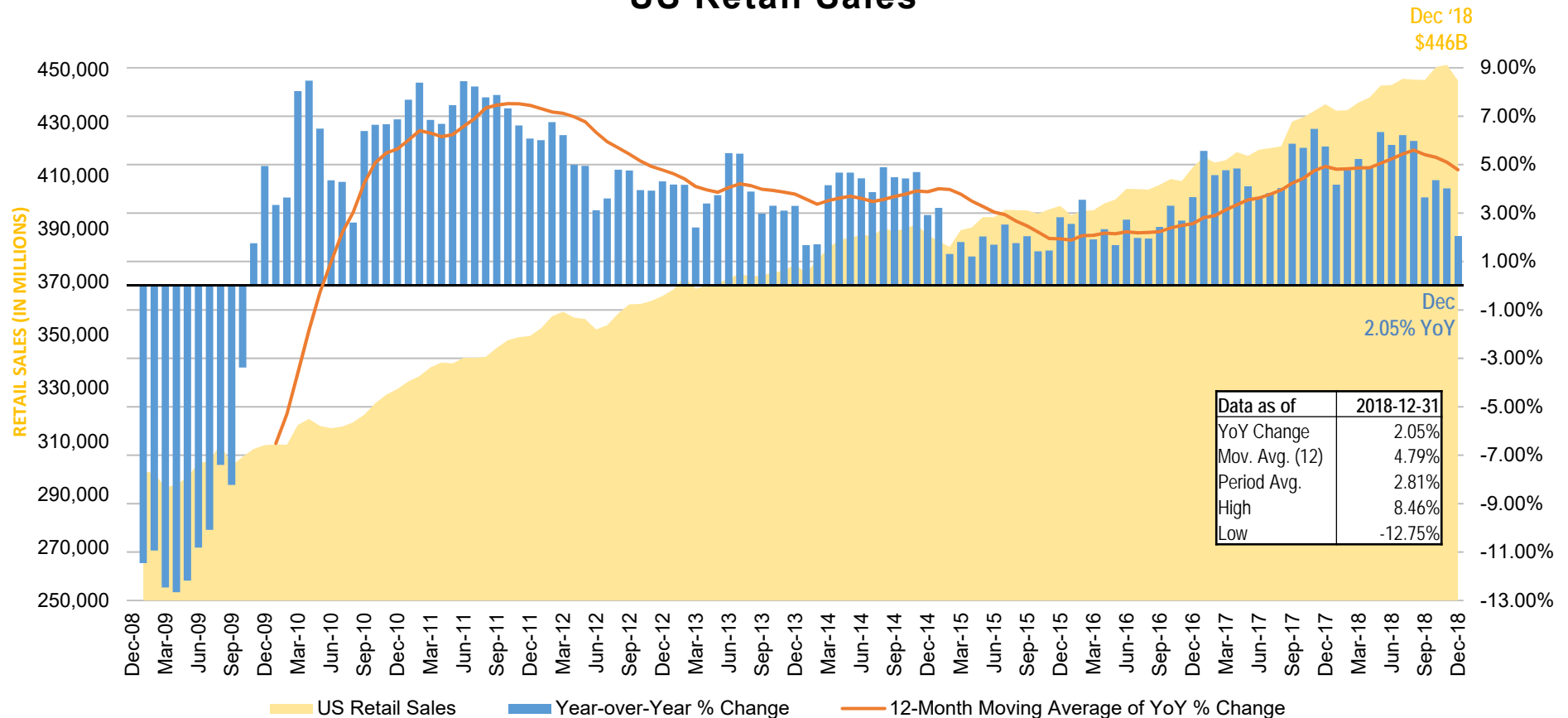


# Economy: US Consumer

## Retail Sales (Consumer Spending)

- Growth of household spending has picked up throughout 2018 due to broadly favorable economic conditions particularly the job market. Retail sales dropped dramatically in December suggesting a sharp slowdown in economic activity at the end of 2018.

### US Retail Sales



- Retail sales, a measure of purchases at stores, gas stations, car dealerships, restaurants and online, is a substantial portion of consumer spending and an important indicator of economic health. Increased consumer spending is generally considered a sign of stability and growth. Retail sales are important measure of consumer spending, which accounts for more than two-thirds of economic activity in the U.S.



Source: YCharts, Department of Commerce. Past performance is not a guarantee of future results.

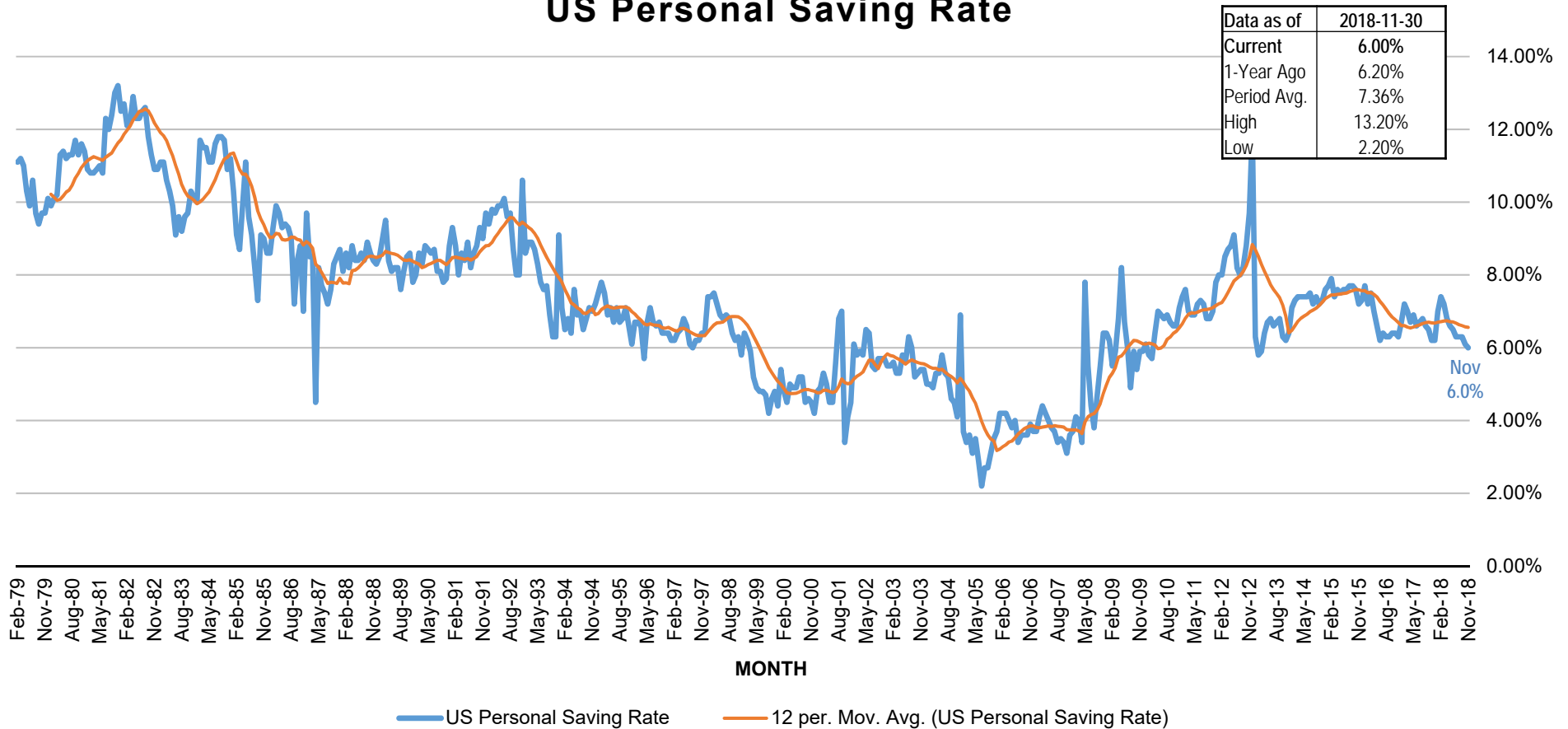


# Economy: US Consumer

## U.S. Personal Savings Rate

- The personal savings rate in the US has been on a long decline since the 1970s, a trend that began to reverse after the financial crisis. Recently it has been moderately declining, but it is still nowhere near pre-recession lows (near 2%).

### US Personal Saving Rate



- A savings rate is the amount of money, expressed as a percentage or ratio, that a person deducts from his disposable personal income to set aside as a nest egg or for retirement.



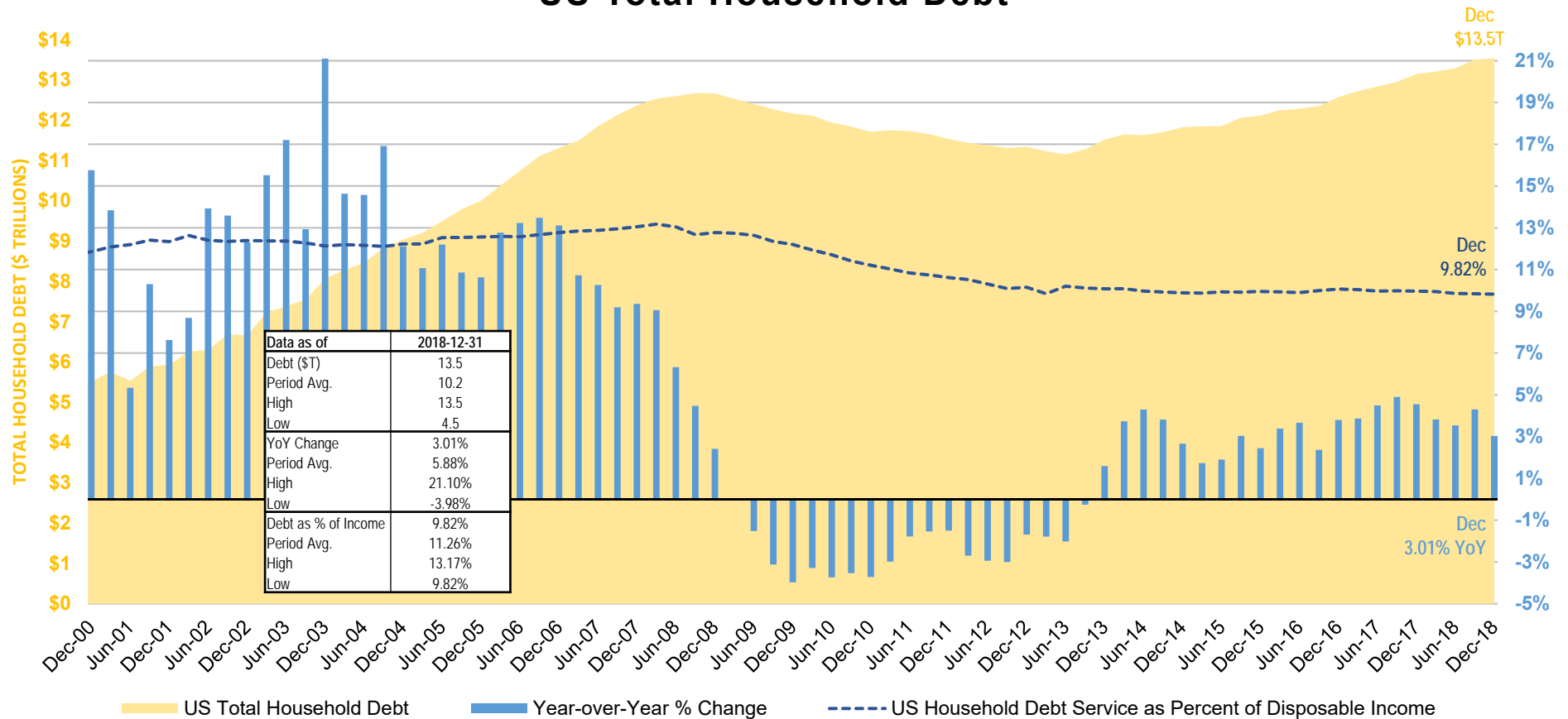


# Economy: US Consumer

## U.S. Total Household Debt

- Household debt reached \$13.5 trillion as of Dec. 31, 2018, 21% above the post-financial-crisis low that hit in the second quarter of 2013. The pace of growth slowed because origination volume declined in several categories, reflecting both softening demand and somewhat stricter underwriting.

### US Total Household Debt



- Household debt includes home mortgages, home equity loans, auto loans, student loans, and credit cards. The household debt service ratio is an estimate of the ratio of debt payments to disposable personal income.





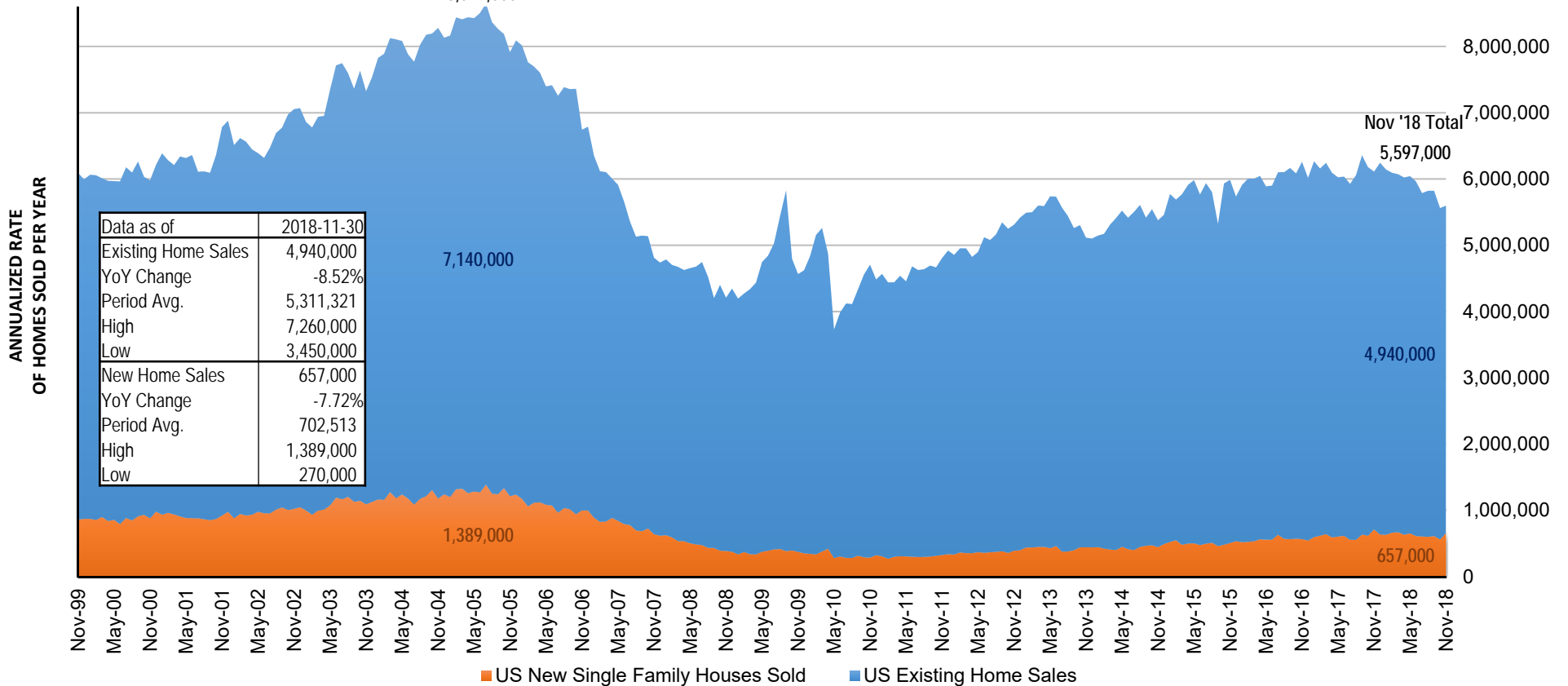
# Economy: US Housing Market

## Home Sales

- ❑ The housing market is still healthy, supported by home buying. The current annual rate of home sales is around 65% of the rate in 2005. Higher mortgage rates in 2018 weighed on activity, but given the decline in rates at the end of the year, housing sales may begin to pick back up.

Peak – June '05  
8,529,000

### US New + Existing Homes Sold



- ❑ Existing home sales is an economic indicator of both the number and prices of existing single-family homes, condos and co-op sales (which is the vast majority of home sales) over a one-month period. New Homes Sales measures sales of newly built homes. A new home sale is considered to be any deposit or contract signing either in the year the house was built or the year after it was built.



Source: YCharts, U.S. National Association of Realtors. Past performance is not a guarantee of future results.

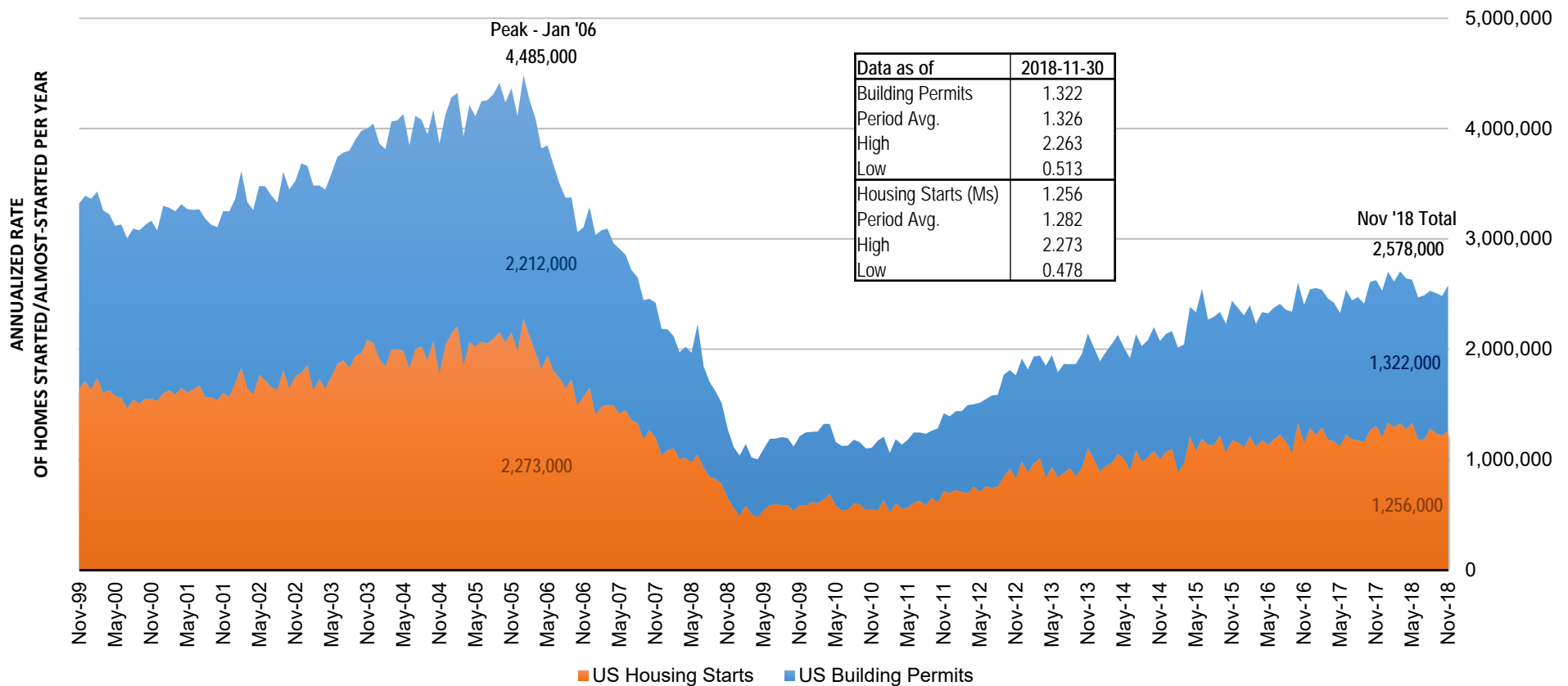


# Economy: US Housing Market

## Home Building

- Homebuilders continue to slowly increase the pace of construction. Shortages of skilled workers and available lots have weighed on the industry. Recent moderation in home-buying demand has tempered the pace of construction lately. The current annual rate of home building is around 57% of the rate in 2006.

### US Housing Start + Building Permits



- Housing starts are the number of new residential construction projects that have begun during any particular month. Building permits are a type of authorization that must be granted by a government or other regulatory body before the construction of a new or existing building can legally occur.

Source: Census Bureau, YCharts. Past performance is not a guarantee of future results.

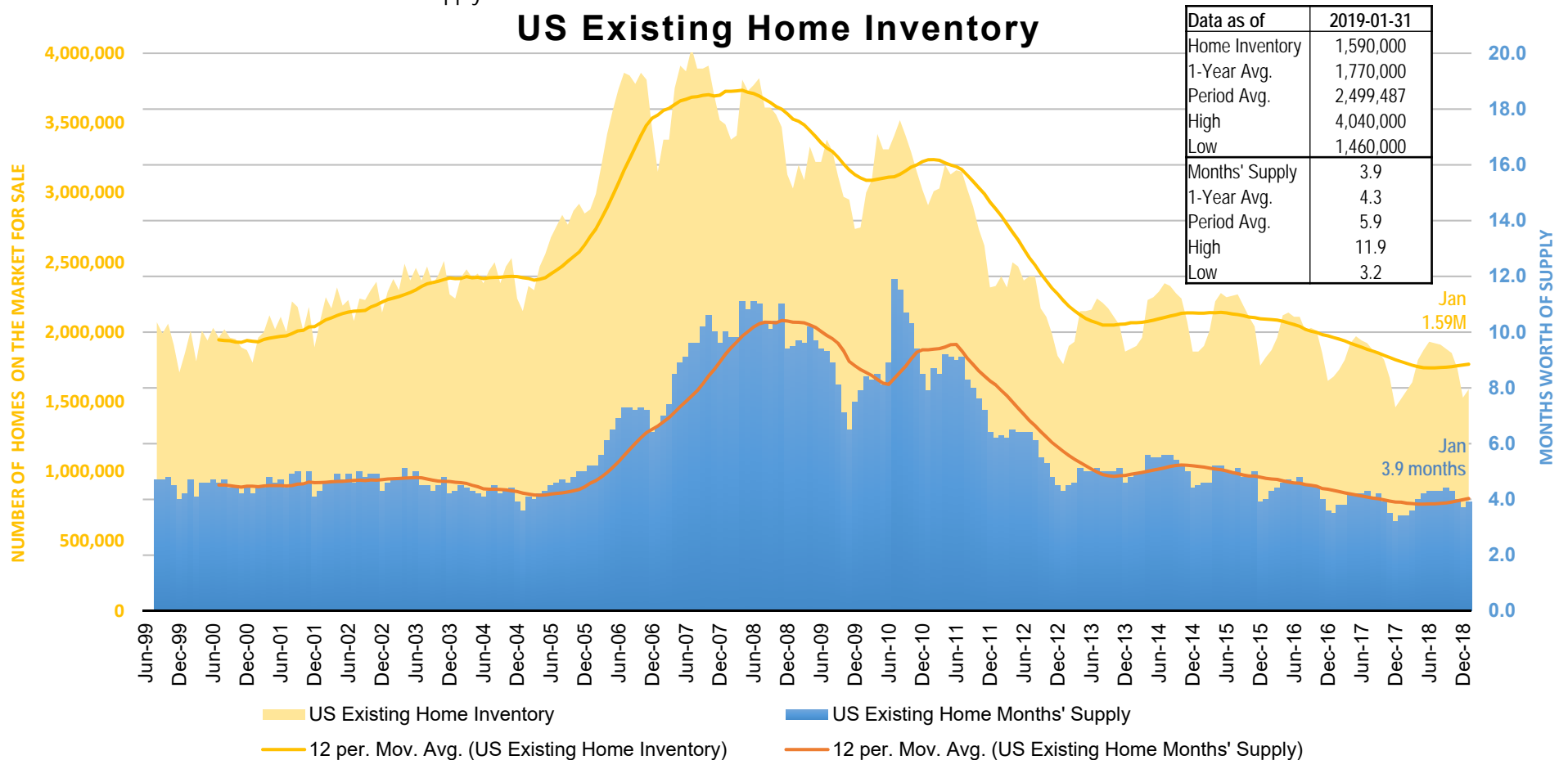


# Economy: US Housing Market

## Home Supply

- The supply of homes available for sale remains tight. There are currently 1.59 million existing homes for sale, which equates to about 3.9 months' supply. A balanced market holds about 6 months' supply.

### US Existing Home Inventory



- Existing home inventory is the number of existing single-family homes, condos and co-ops for the United States. Inventory levels are provided through the "months' supply" figure, a number that represents the length of time in months required to burn through all of the existing inventory measured during the period.



Source: National Association of Realtor, YCharts. Past performance is not a guarantee of future results.

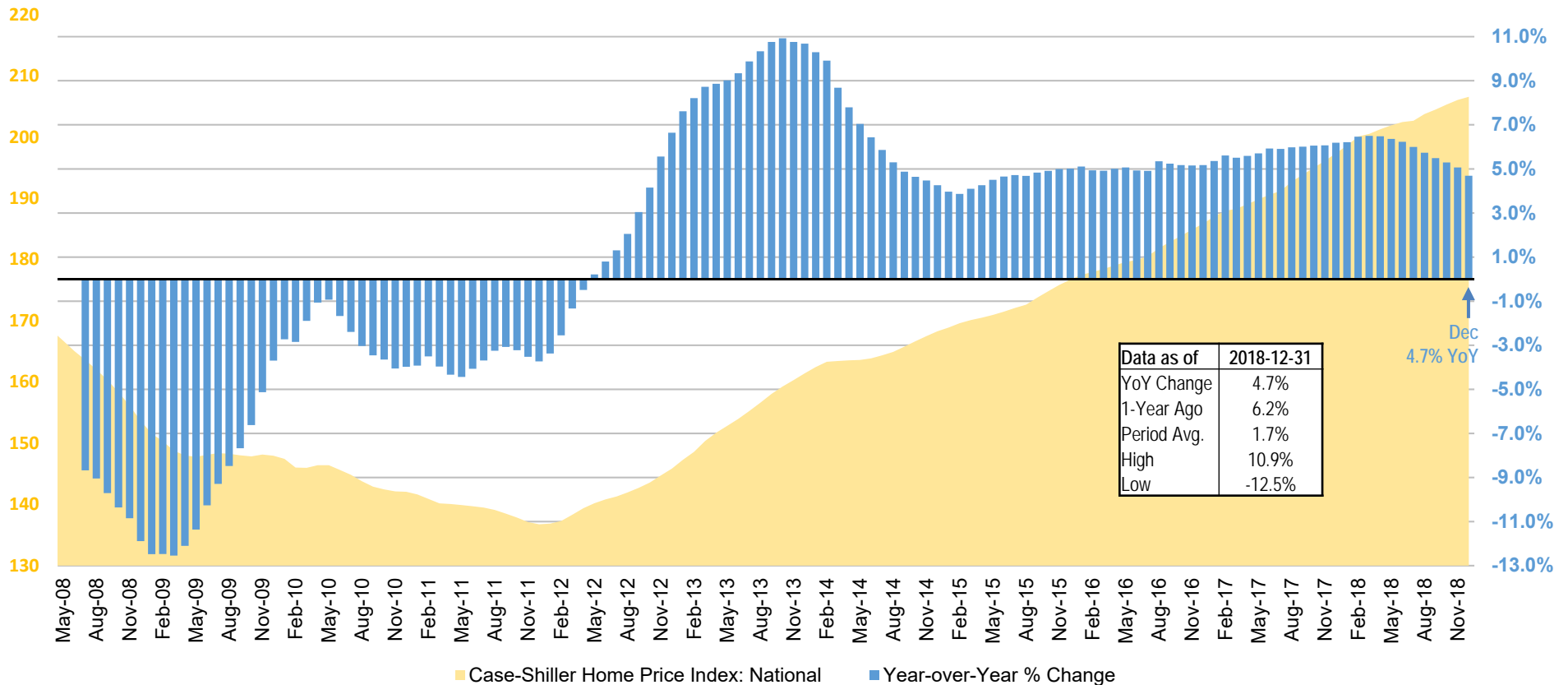


# Economy: US Housing Market

## Home Prices

- On a national level, single-family home prices have increased 5.2% over the past year, as of November. Low inventories continue to push prices higher as buyers compete over limited number of homes; however, the rate of price increases has declined as higher mortgage rates have dampened demand.

### Case-Shiller Home Price Index: National



- The S&P/Case-Shiller U.S. National Home Price Index is a composite of single-family home price indices for the nine U.S. Census divisions. It is calculated monthly, using a three-month moving average. The S&P national index is normalized to have a value of 100 in January 2000.

Source: YCharts, Standard and Poor's. Past performance is not a guarantee of future results.





### **Important Disclosure Information**

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