Dear Valued Client:

For the last 27 years, ESPN/ABC has produced the ESPY Awards. The show is dedicated to recognizing individual and team athletic achievement and other sports-related performance during the prior calendar year. The recent award show aired on July 10th and was filled with highlights of great performances by top athletes as well as stories about those who have overcome extreme adversity.

One story that particularly caught our attention was that of Coach Rob Mendez, a man born with no arms and no legs, who willed his way to become coach of a football team in CA. Rob's story of overcoming challenges was awe-inspiring. He noted that "when you dedicate yourself to something and open your mind to different possibilities………you really can go places in this world."

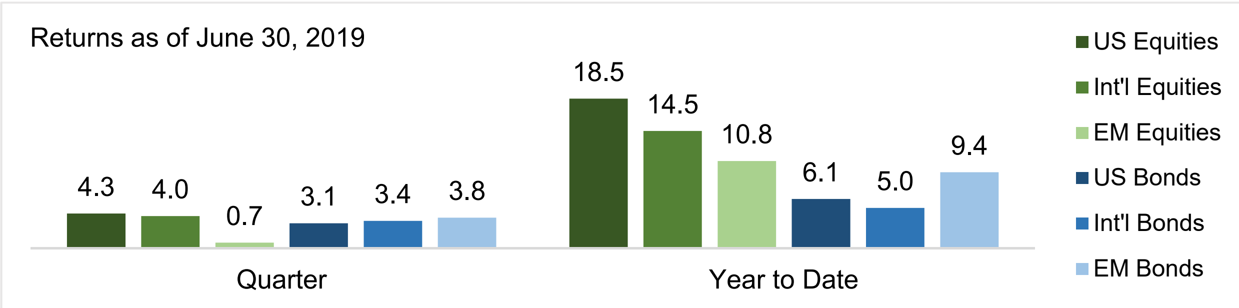
Rob's story reminds us of the entrepreneurial spirit that has been the backbone of growth for our economy. As we enter into the final months of this decade, we are buoyed by the innovation that has come about from the many risk-takers who have endured adversity and help set the path forward for our country. New and improved products, services, and technology enable markets to be developed and new wealth to be created. In addition, many new entrepreneurial ventures are driving social and economic improvement globally.

We believe that the increased output from entrepreneurial ventures is changing the landscape. The economy faces challenges we will discuss below, however, we are focused on not only on the headwinds but just as importantly on those tailwinds like corporate tax cuts and easy monetary policy that encourage new business development and an extension of the longest periods of growth in our history. Happy Birthday America!

Second Quarter Market Review

Equities finished the quarter in strong fashion with returns for each of the major markets above 6% in June, lifting year-to-date returns into double digits. Bonds also saw solid returns in the quarter with each of the major markets seeing a return above 3%, lifting year-to-date returns above 5%.

1 Pine Hill Drive #502, Quincy, MA 02169 ♦ 617-745-0900 (ph) / 617-745-0910 (fx) ♦ prwwealthmanagement.com



Source: Morningstar

US equities provided the strongest returns for the quarter and year-to-date at 4.3% and 18.5% respectively. International developed equities were generally on par with the US markets for the quarter, helped by a weaker dollar, but trail by 4% year-to-date. Emerging markets equities saw the weakest relative returns, and China saw negative returns in the quarter as trade tensions rose.

Within the US, technology and consumer discretionary were the top two sectors year-to-date, lifting the returns of the growth indices. Mid-cap growth saw a return of 26.1% for the first half of the year leading the style pack, while small-cap value trailed with a return of 13.5%. Quite unusual and impactful to fully diversified portfolios is the fact that large-cap stocks are up 10% over the past 12 months vs a 3.3% decline in small-cap stocks (per DFA). The valuation gap between small and large-cap stocks is the greatest it has been in 17 years according to the Leuthold Group.

The bond sectors saw some impressive returns with credit and long treasuries reaching double digits for the year-to-date period. Both investment-grade and high-yield bonds returned 10% for the year-to-date period, while long-term Treasuries saw the strongest returns at 11%.

US REITs saw the strongest year-to-date returns, just shy of 20%, but saw weaker relative returns in the quarter, 1.8%, a slight surprise given the drop in interest rates.

Gold saw a big bounce in returns for the quarter, providing the strongest asset class return at 9%, lifting it to a 10% return for the year-to-date period. A dovish Fed and global uncertainty lifted returns.

Economic Highlights

At its June 2019 meeting, the Federal Open Market Committee (FOMC) left the fed funds target range unchanged. Despite a significant shift in the language in the official statement released after the meeting and the expectations of FOMC participants in the "dot plot" portion of the updated Summary of Economic Projections, Fed Chair Powell sought to downplay the certainty of a rate cut in the near future. He promised that the FOMC would "act as appropriate" with a nod towards data dependence ("will closely monitor the implications of incoming information").

If Powell plans to do anything other than cut rates in the next few months, he has some serious work to do in the meantime. There was one dissenting vote on the FOMC in June and based on the dot plot, nearly half of the Committee (not all are voting members at this time) is projecting at least one cut this year.

Perhaps more importantly, the FOMC has historically avoided surprising the market by not delivering an expected rate cut. Since 1988, the Fed cut rates in all 13 instances where the futures market expected a cut in the funds rates the day prior to a scheduled FOMC meeting[1]. As of the market close on July 3, the futures market is pricing a 100% probability of a rate cut at the FOMC meeting ending on July 31[2]. One hundred percent!

St. Louis Federal Reserve President James Bullard, a well-known dove on the committee, views cuts as "insurance" against signs of trade-related global growth slowing. He, like many, has seen disappointing growth in Europe and the real impact of the trade war on Germany in particular.

Global manufacturing data show signs of strain from trade uncertainty and business sentiment has also weakened. In the U.S., unemployment remains low and consumers continue to spend. The housing market has sent mixed signals over the year but most recent data seems to point to continued strength driven by expected rate cuts.

GDP in Q1 rose at a seasonally adjusted 3.1%, higher than Q4's 2.2% annualized growth. It appears that Q2 GDP growth will be in the 2% range which is much higher than was predicted by the Atlanta Fed just 2 months ago.

1 Source: Goldman Sachs Global Investment Research
2 Source: Chicago Board Options Exchange (CBOE)

GDP

Now 10 years into the economic recovery, US investors have raised questions about the health of US equities in light of slowing GDP growth. GDP growth, a measure of economic production often used as a goal for politicians and as a way to make broad comparisons across nations, may not be a particularly effective indicator for stock market performance. Calculating GDP has become harder as countries produce fewer goods and more services, making them difficult to track and value, especially internationally. Recently, for example, some emerging market countries have experienced spectacular growth. Noting this growth, investors in these markets hope that investment in these countries will be rewarded with commensurately high returns. Unfortunately, a recent study by MSCI found results suggesting otherwise; "Stocks do not closely track economic growth of their home country; comparing GDP growth rates across countries tell us almost nothing about the relative performance of their stock markets." Intuitively, investors may think of stock returns as a result of the underlying real economic growth. However, research indicates that long-term real earnings growth fell behind long term GDP growth in many countries over the past century.

In a partnership with Credit Suisse, Professors Elroy Dimson, Paul Marsh and Dr. Mike Staunton of the London Business School studied the relationship between long-term stock market returns and GDP growth. The results were mixed and the evidence linking equity returns to GDP growth was weak, surprising many investors and economists. The study used the equity returns and GDP growth of the MSCI ACWI1. The index includes 23 developed-market and 23 emerging-market countries. The correlation (R2) is effectively zero, providing strong evidence that no clear relationship exists between long-term GDP growth and long-term equity returns. The data suggests that the energy and resources spent on monitoring, analyzing, and forecasting GDP growth does not provide investors with relevant and actionable information. Future GDP may not be known or observable today,

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[1] The MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

but markets will discount the expected future state into current prices. By aligning annual returns with the following year's GDP growth, the correlation holds an R2 of 25%, indicating a moderately significant positive relationship. This suggests that current stock market prices already contain information about future GDP growth. What is left in terms of returns is the compensation for bearing the systematic risk that the future will turn out to be materially different than what the market anticipates.

The empirical data discussed suggests that markets are forward-looking; prices change based on future growth and expectations, including GDP. After all, a rising GDP is typically good, while falling is usually bad since stocks rarely rise when the economy is sliding into a recession. Instead, the key message to investors is that on a quarter-to-quarter or year-to-year performance is more indicative of long-term growth than individual metrics. GDP is rarely the best, and certainly isn't the only, measure for investors to use as a predictor for the stock market performance of a country. Also, comparing GDP growth rates across countries tell us almost nothing about the relative performance of their stock markets. There are more specific gauges such as changes in financial conditions, prospects for automakers, including trade issues, and the outlook for the tech sector that can tell us much more about the potential behavior of the stock markets of the world's largest countries.

Outlook

Dare we say it "Don't fight the Fed". It's an oldie but a goody as the threat of trade wars on global growth sent the Fed to the rescue this year and markets have responded by reaching new heights. We've seen this narrative many times over the course of this now record-long recovery. The question is whether this formula will be effective again and for how long. Certainly, the markets are pricing in the expectation of success.

Recession fears that began in 2018 continue to surface as analysts adjust their estimates downward. Many have suggested that the anticipated rate cuts are not needed given the healthy near-term runway for GDP while others view the cuts as a necessary step to help shore up growth potential. We are in the former camp as we believe that short-term rates at 2.375% are not an impediment to economic growth. In our opinion, more focus should be paid to controlling government spending and not on monetary policy.

Annualized GDP growth has run between 2.2% and 4.2% since the last Presidential election. Consumers make up about 67% of GDP, however, consumer spending has been outdone by government spending which has added to an already ballooning deficit and pushed annual debt service over $320 billion/year according to FactSet. Government spending as a percentage of GDP was at 20.3% in the four quarters ending March 31, 2019, much higher than the 17.7% it spent in 2000 (First Trust). The deficit is expected to hit $1.092 trillion by September, the highest level since 2012 (Ned Davis Research). Spending continues to outstrip tax receipts as receipts fall from the 2018 tax cuts. The stage is set for yet another debt limit showdown later this year.

Below is an update on what we see as current tailwinds and headwinds for the markets:

Tailwinds:

- Accommodative monetary policy
- Consumer spending continues to be solid
- Low unemployment
- Modest inflation
- GDP growth over 2% with few signs of an impending recession
- Lower rates driving a rebound in housing

Headwinds:

- Slowing global economy
- Limited room for Central Bankers to help as negative yields overseas continue to rise
- Trade war uncertainty impacting confidence, capital expenditure spending, and company earnings
- Healthcare stocks face uncertainty as U.S. elections put health care as a top issue
- Populist politics and protectionism rising
- Elevated Federal debt and another debt ceiling battle looming soon
- Valuations escalated with pricing in of rate cuts and continued growth expectations waning

We have made very few changes to our portfolios outside of a move to take on credit risk and additional duration (interest-rate sensitivity) in our fixed income portfolios. Our tilt to large-cap and growth stocks continues to work well. A managed volatility position we added in 2018 has also been accretive. While emerging market (EM) stocks continue to look good from a valuation standpoint, we have opted to avoid direct EM exposure as we continue to feel that US stocks are a better all-around option at this time. We do have some exposure to EM and EM currencies through some of our active equity and fixed income managers. It is encouraging to see many of our active managers continue to perform in the top-quartile among their peers over the last 5 years.

The third year of a President's term has historically been the best year to be invested (Standard & Poors). We continue to favor disruptive technology companies as that disruption tilts the fundamentals towards growth stocks as noted in a study by T-Rowe Price in June. T-Rowe note that from June 30, 2007, through May 31, 2019, Earnings per share rose 135% for the Russell 1000 Growth index vs 24% for the Russell 1000 Value Index.

While it appears that we are in the latter stages of the economic cycle, there is no telling when we shift to recession. An escalation in the trade war or a Fed that veers off of the course now set could certainly expedite a move in that direction. For now, we are content to stay well diversified to be in a position to navigate the months ahead.

PRW Wealth Management News

It has been a busy time at PRW. Our team has been on the speakers circuit as well as attending seminars, due diligence meetings, and workplace training initiatives to broaden our core competencies and client-service capabilities. Here is a brief update for the last quarter:

Chief Investment Officer Elliot Herman spoke at the New England RIA Summit on a panel entitled "Carrying Out Generational Wealth Transfer." The panel discussed ways that advisors can help to manage the risks and opportunities that are created from the transfer of wealth from generation to generation.

Estate and Wealth Management Counsel, Janice Forgays, presented a webinar for the Boston Estate Planning Council. "Split the Policy and Spare the Dollar" highlighted the planning solutions offered by split-dollar life insurance for estate, business and retirement planning. She attended a seminar for attorneys on Opportunity Zones and their potential as a tax-effective strategy when selling a business, something clients have been reviewing. She also attended a seminar on Christian estate and financial planning. This session provided insight into how a client's plan can embody Christian values, beliefs, and lifestyles.

Both Elliot and Wealth Advisor Jared Sweeney attended the annual Fidelity Investment Symposium in Boston and heard insights from Wil Danoff and other investment managers at the firm. Jared also participated in a workshop hosted by Morningstar to further enhance PRW's due diligence and technological capacities.

Director of Finance and Operations, Gary Wentling, attended a working lunch with other representatives from the leading wealth management firms in the Boston area hosted by Andrew Salesky, SVP, Advisor Technology Solutions. Andrew leads Digital Advisor Solutions which has responsibility for managing the suite of technology platforms used by more than 7,500 Registered Investment Advisors that custody assets with Schwab. This group is a core component of Schwab's Digital Services team.

During the lunch, Andrew outlined Schwab's five key technological objectives for improving operational efficiency, security, and client experience. Schwab's goal is to make technological operations as seamless and as user-friendly as possible.

Director of Advanced Planning, Ted Dziuba, hosted meetings with representatives from Lincoln Financial, John Hancock, Penn Mutual, and Zurich Life as part of his ongoing due diligence monitoring of PRW's suite of investment-grade life insurance partnership carriers.

Chief Compliance Officer and Director of Wealth Management Services, Cathy Dolphyn, attended several seminars this quarter. Ever watchful for ways to improve our service delivery, she attended three training sessions on money movement with Charles Schwab & Co., Inc. as well as a webinar by Lion Street Financial about LaserApp Anywhere, a program to pre-populate and improve speed and accuracy of form completion. And with the goal of continuing to improve our compliance program for the protection of our clients, she attended Schwab's "2019 Spring Regulatory Update"; "Third-party Risk: Best Practices for Due Diligence and Ongoing Assessments" by ProcessUnity, "5 Seismic Shifts in Compliance Training", "How to Effectively Achieve Sustainable Compliance", "Conquering Current Compliance Challenges" by Regulatory Compliance Watch, "How to Tackle CCPA Compliance: Expert Guidance and Benchmarking Insights" as well as a conference call by the SEC Boston Regional Office regarding the FY2019 Program.

We are pleased to note that Charles Schwab has completed their initiative this year to change the cash feature on most accounts to an FDIC-insured Bank Sweep feature. We believe this is a nice enhancement to their offering.

The entire PRW team will continue to educate ourselves with the latest news and research to stay current and support our primary goal of providing "Raving Fans" level service and support.

We hope that your summer is off to a good start. As always, please contact us if there have been any changes to your financial situation, your investment objectives, or your instructions concerning your account(s).

Thank you.

Sincerely,

William A. Payne | Richard A. Renwick | Elliot B. Herman

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Index Definitions

Bloomberg Commodity: A broadly diversified index that allows investors to track futures contracts of physical commodities traded on US exchanges. The component weightings are determined by several rules designed to ensure diversified commodity exposure.

Bloomberg Barclays Global Aggregate: An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A Index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays High Yield Bond: An index measuring the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclays US Aggregate Bond: An index covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through), ABS, and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to this index on April 1, 2007.

FTSE NAREIT All Equity REIT: A broad measure of the performance of publicly traded real estate securities, such as real estate investment trusts (REITs) and real estate operating companies.

MSCI ACWI (All Country World Index): A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI Emerging Markets: A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

MSCI World ex USA: An index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries – excluding the United States. With 1,020 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Russell 2000: An unmanaged index that measures the performance of the small cap segment of the US equity universe. It is a subset of the Russell 3000 Index based on market capitalization.

Russell 3000 Growth: An index that measures the performance of the growth segment of the US equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 3000 Value: An index that measures the performance of the value segment of the US equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower expected growth rates.

S&P 500®: An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large cap companies) representing approximately 75% of the investable US equity market.