HUGHES | FINANCIAL SERVICES, LLC

Q2'19 Economic *update*

RECORDS ARE MADE TO BE BROKEN

While the current economic expansion is the longest running since WWII as well as the longest on record, it's also been the slowest. Is this slow and steady pace the silver lining in today's economic environment?

The first half of 2019 brought very strong results for financial markets. Both equity and bond investors experienced positive returns, the Dow Jones Industrial Average (DJIA) enjoyed its largest June gain since 1938, and the S&P 500 experienced its best first half in two decades.

Concerns of an economic slowdown as the major equity indexes began a downward trend in May overshadowed Q2 for many investors. Although the quarter's final numbers showed an upward tick of 3.8% for the S&P 500 and 2.6% for the DJIA, these gains also extended the volatility pattern investors have been experiencing since October 2018.

The strong six-month period that both equity and debt securities faced has been tied to the Federal Reserve's pivot on its interest rate outlook. Back in 2018, the Fed's stance had been to raise short-term interest rates multiple times. Yet early in January 2019, Fed Chairman Jerome Powell switched that thinking when he announced that the Fed would be "patient" in boosting rates. This spring, dialogue from the Fed shifted towards indicating that their next move might be a rate cut which helped lead to attractive returns for both stock and bond investors.

MONEY RATES (as posted in Barron's 7/1/2019)	LATEST WEEK	YR AGO
Fed Funds Rate (Avg. weekly auction -c)	**2.37%**	**1.91%**
Bank Money Market -z	**0.24%**	**0.20%**
12-month Cert -z	**0.99%**	**0.65%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

HUGHES | FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their personal goals and dreams.

We are a fee-based firm that adheres to the highest fiduciary standards when providing advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- investment management
- estate planning
- risk/protection management
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. We proudly specialize in helping employees and retirees of local government, school systems and U.S. military with their retirement options. Our combined education and experience allow us to offer you independent financial advice and solutions that we are proud to provide.

Located in Herndon, Virginia (Fairfax County) Hughes Financial Services works with clients across the country.

While equity markets closed the quarter at or near all-time highs, analysts ended the quarter with a checklist of concerns for the future. A slowing global economy, trade wars and tariffs, sluggish corporate earnings and the Federal Reserve's upcoming decisions about interest rates all headline a list of issues that could impact year-end results.

According to FactSet, although the S&P 500 made new all-time highs in the second quarter, that was after S&P 500 earnings dipped 0.4% in the first quarter and were projected to decline in the second and third quarters of 2019 as well (compared to a year prior). A weak global economy and trade wars were cited as major contributors to a decline in earnings.

Although equity markets are high and investors should remain cautious, some positive signs exist. At the close of the quarter, the United States and China seemed to be on a constructive path and while Japan and many European countries appear to be in economic stress, U.S.-based companies look to be on more solid footing.

Two camps of thought are now emerging as investors continue to enjoy the longest bull market ever. One camp points to the fact that based on historical numbers (i.e., price earnings (P/E)), equities are highly overvalued and overpriced. The other camp insists that we are in a "**TINA**" market, meaning, **T**here **I**s **N**o **A**lternative to stocks. This latter group feels that until rates rise significantly, this will remain true and could indicate there's significant upside in the current market. Equities are not cheap and even the savviest of investors will need to have a watchful eye on risk.

As financial professionals, we always try to make our best market forecasts. We look for a probability of success while understanding we face an inexact future. Short-term interest rates and cash equivalent yields are still historically low. Our goal is to focus on our client's timeframes and needed returns to achieve their goals.

TRADE WARS AND TARIFFS

A trade truce can bring good news to stocks and possibly even boost markets. However, uncertainty about whether a meaningful agreement can be finalized could loom over markets in the second half of the year.

Financial powerhouse BlackRock lowered its global growth outlook based on expectations that trade and geopolitical frictions will continue through the remainder of 2019. The firm said central banks are responding to the weaker outlook and are loosening policy, creating a constructive environment for U.S. and European stocks. BlackRock sees the tariff and trade tensions between the United States and China as part of a bigger concern for global markets. They note that trade issues create concern and uncertainty. Tariffs increase costs for corporations and force some companies to change their supply chains altogether. According to Jean Boivin, head of the BlackRock Investment Institute, the uncertainty from trade wars should continue for some time. “We see the ebbing and flowing,” he said. “We’re going to feel the intensity go up. Then there’s going to be a truce.” We think that’s going to continue.

In late June, Presidents Trump and Xi agreed to continue trade negotiations during their much-anticipated meeting on the sidelines of the G-20 summit in Japan. “We’re holding on tariffs, and they’re going to buy farm product,” Trump said at a press conference after the summit. That same day, equity markets rose in response.

A trade truce can bring good news to stocks and possibly even boost markets. However, uncertainty about whether a meaningful agreement can be finalized could loom over markets in the second half of the year. Steve Chiavarone, a portfolio manager at Federated Investors, described the cease-fire between the two presidents as a good start toward the U.S. and China resolving its trade spat. He also shared that the vague terms and indefinite suspensions do not do much to alter the uncertainties facing the stock market.

For now, existing tariffs remain in place and will continue to impact consumers and businesses. Tariffs and trade negotiations could also affect equities, so this is another key area that investors will want to continue to monitor.

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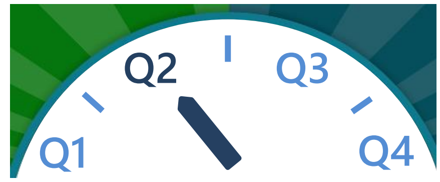


HIGHLIGHTS

- Equity markets reached new highs this quarter
- The bull market is now over 10 years old and the longest on record
- The Fed changed its stance on raising interest rates and indicated a future move may be to lower rates
- Trade wars and tariffs have created market and investment uncertainty
- U.S. economy is now in the longest period of expansion ever at 11 years
- Market volatility continues and investors need to remain cautious
- Focus on your personal goals and always call us with any concerns

THE FED TO THE RESCUE

At their June meeting, the FOMC signaled a willingness to lower short-term interest rates to sustain the economic expansion and counter negative economic headwinds.

Interest rates are crucial as everyone follows the federal funds rate, the interest rate banks charge one another for overnight borrowing. The decision to change the rate is determined by the Fed's Federal Open Market Committee (FOMC). At their June meeting, the Committee signaled a willingness to lower short-term interest rates to sustain economic expansion. While they voted 9-1 to keep the benchmark rate in a target range of 2.25% to 2.5%, eight members favored a rate cut this year. In a discussion about potential rate cuts and the need to keep the economy moving in a healthy direction, Fed Chairman Jerome Powell said that some officials believe the case for accommodation has "strengthened." The central bank suggested one or two rate cuts, but not until 2020. Despite cautious wording in the post-meeting statements, many analysts claim that markets are behaving as if the Fed will cut rates in 2019.

This scenario has set up a confrontation between Fed Chairman Powell and President Trump, who has been pressuring the Fed to cut rates. The committee's June report changed their language from its May statement to indicate that economic activity is "rising at a moderate rate," a downgrade from "solid." "In light of these uncertainties and muted inflation pressures, the committee will closely monitor the implications of incoming information for the economic outlook and will act as

appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric two percent objective," the statement said. The "act as appropriate to sustain the expansion" language mirrors a statement from Powell in early June. Their next meeting is July 31.

In response, the yield on the benchmark 10-year Treasury note fell to below 2%, forcing investors looking for better returns to have to consider equities even if they are highly priced. Low interest rates have impacted mortgage rates which continue to be at historically attractive levels and allowed companies to borrow money at cheaper levels which can encourage expansion and investment. Good news if you're a homeowner refinancing your mortgage or a chief financial officer about to roll over some of your company's bonds … but concerning if you want to see faster global economic growth. Lower long-term rates imply that investors should expect even lower growth and inflation than had seemed probable just weeks ago.

Savers looking at current rates to meet their financial goals will find today's low rates concerning since short-term rates seem likely to continue. This is where a conversation with your financial advisor could help you understand your alternatives and options as one of our primary roles is to help our clients navigate today's low interest rate environment.

TREASURY YIELDS | Close of 7/2/19

1-MONTH	2.21% up from 2.11% prior week (1.82% a year ago)
6-MONTH	2.09% down from 2.10% prior week (2.13% a year ago)
1-YEAR	1.91% down from 1.93% prior week (2.34% a year ago)
2-YEAR	1.77% up from 1.71% prior week (2.54% a year ago)
5-YEAR	1.75% up from 1.73% prior week (2.75% a year ago)
10-YEAR	1.98% down from 2% prior week (2.87% a year ago)
30-YEAR	2.51% down from 2.53% prior week (3.02% a year ago)

HOW’S THE U.S. ECONOMY?

The U.S. economy has now entered its 11th year of expansion, officially setting a record for the longest in history. This recovery began in June 2009 and has lasted 121 months, breaking the previous record of 120 months set from 1991 to 2001.

While recoveries are good, this one hasn’t been without issues. This expansion took some time to really get going and has been somewhat uneven. While analysts expressed concern about a slowing U.S. economy this quarter, a robust 224,000 new jobs were added in June. “Today’s jobs report shows the U.S. economy continues to create jobs at a strong pace even as we enter the longest period of economic expansion on record,” said Tony Bedikian, head of global markets at Citizens Bank. With unemployment still near a 50-year low, these new jobs were a clear rebound from a recent lull and calmed most worries about the health of an economy in an elongated period of expansion.

Another economic concern is Gross Domestic Product (GDP), the longtime indicator of economic growth. It has averaged just 2.3% since the U.S. exited the recession in mid-2009. This economic expansion is the first since WWII in which the economy has failed to reach 3% annual growth in any single calendar year.

The Stock Market & the Economy

Despite its critical role in the economy, the stock market is NOT the same as the economy

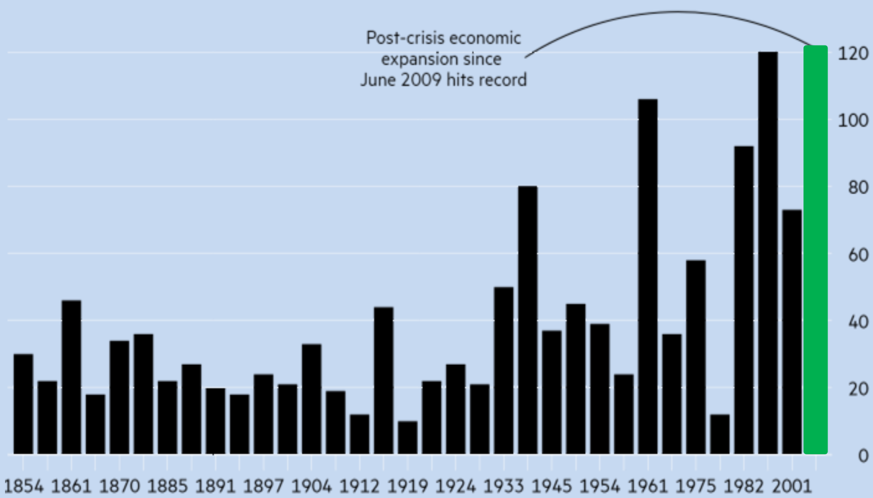
While the stock market can affect and contribute to the economy, the stock market includes equities that are priced on how investors view forward-looking events.

THE ECONOMY is the actual system of organizations and institutions that either facilitate or play a role in the production and distribution of goods and services in a society.

THE STOCK MARKET can be an indicator of the economy because its movements can reflect the economic conditions of an economy.

US economic expansion finally vaults over 1990s boom in duration

Cumulative months of economic growth from recession trough.



Fidelity Investments feels that, “the U.S. is firmly in the late-cycle phase but with low near-term risk of recession.” They went on to say that, “while a strong labor market and higher wages have buoyed U.S. consumer confidence, the present large gap between current conditions and forward expectations has often occurred toward the end of prior economic cycles. Furthermore, the improvement in wage growth over the past 2 to 3 years has stalled in recent months despite a cyclically low unemployment rate and continued job gains.”

Some economists feel the biggest risk to the economy right now is political. President Trump’s tough stance on trade with China, Mexico and other countries has unsettled both the domestic and global economies. Economic growth is always something investors need to watch.

What's Happening @HFS

CFP® CONGRATULATIONS!

We are proud to announce that **Berkeley B. Meredith** has achieved the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation awarded by the Certified Financial Planner Board of Standards.

Berkeley has met the rigorous educational, examination, experience and ethics requirements affiliated with the CFP® designation. The CFP Certification Examination covers the following areas: the financial planning process, risk management, investments, tax planning and management, retirement and employee benefits, and estate planning. CFP® professionals agree to meet ongoing continuing education requirements and to uphold the CFP Board's *Code of Ethics and Professional Responsibility*, *Rules of Conduct* and *Financial Planning Practice Standards*.

A graduate of Virginia Polytechnic Institute & State University (Virginia Tech), Berkeley joined Hughes Financial Services in 2017 and works with clients to assess their long-term financial goals and develop, implement, monitor and periodically reassess their financial plans.

2019 WORKSHOPS: Mark Your Calendars

This year started off with such a bang, we had to add second sessions to our first two workshops this year! Thanks to our many clients and their guests for joining us at these educational get togethers!

Additional workshops are currently scheduled for:

- **THURSDAY, SEPTEMBER 19, 2019**
- **THURSDAY, NOVEMBER 7, 2019**

We announce our workshop topics via email invitation. If you haven't heard from us since the beginning of this year, let us know if your email has changed recently or check your spam folder.

NEXT STEPS

Investors were rewarded in the first half of 2019 with markets ending the second quarter at or near record highs. CDs and money market funds can offer some of the highest levels of safety but in today's low interest rate landscape, they offer rates of around 2% or less. Some analysts are predicting equity markets will continue to rise while others are fearful. So, what next steps should an investor take?

Barclays predicts it's most likely the market will continue to rise, but investors need to continue to proceed with caution and watch for volatility. In December of 2018, the S&P 500 saw a sharp decline (its worst December drop since 1931), but more than recovered that entire decline in the first quarter of 2019. May of 2019 saw a downfall in equities, yet by the end of June, they were again at or near new highs.

Proceed with caution and be prepared is still a great mantra for investors. An investor needs to be prepared to build a plan that includes risk awareness. While equities have risen, the continued backdrop of a weakening economy, trade war fears and interest rate concerns encourage investors to recheck time horizons. Today's traditional fixed rates might not help many investors to achieve their desired goals, so a strong mix of equities may be needed in financial portfolios. Markets may continue to rise but they could also head lower. Bernstein Economist Phillipp Carlsson-Szlezak writes that, "though stocks, on average aren't any more volatile than they were 100 years ago, the calm periods are calmer, and the turbulent periods are more turbulent." He also asks the question, "Do we live in times of high or low equity volatility? The answer is both."

While investors seem to enjoy predictions, no one owns a precise crystal ball into the future of the markets and the economy. However, the media certainly enjoys providing forecasts!

ARE YOU A HFS

CLIENT ADVOCATE?

A Client Advocate for Hughes Financial Services is someone who refers us to a family member, friend, or colleague who can benefit from using our comprehensive financial planning services.

If you know someone who has experienced one of life's milestones, is close to retirement and would like a second opinion, or is ready to plan for their financial future, go ahead and let them know all about us. We'd love to help!

YOU CAN BECOME A CLIENT ADVOCATE IN THREE WAYS

Host a guest at any of our educational workshops this year

Sign up friends/family members (with their permission) to receive our educational materials in the mail year-round

Refer someone to us for a complimentary, no obligation financial check-up or second opinion about their financial plan

When you become a Client Advocate for Hughes Financial Services, we'll thank you with an invitation to one of our Thank You events in 2019! Past events have included exclusive dinners, cooking classes, Washington Nationals games viewed from a private suite, a private dinner and Wolf Trap concert, and much more!

| *Referrals made between June 8, 2018 and September 7, 2019 qualify for the 2018-2019 Thank You events* |

U.S. News and World Report recently shared these market predictions from a variety of media outlets that were reported within the same 24-hour period:

- **There is a high probability that the S&P 500 index will rise 10%.**
- **If not for trade wars, the S&P 500 would currently be almost 5% higher.**
- **Markets continue to hit resistance.**
- **Markets are likely to hit new highs in 2020.**

No one can predict the next rise or sell-off with precision. Therefore, its essential for investors to prepare. Those who feel markets are overbought or that the economy is peaking will probably side with the more bearish forecasts. On the flip side, if you believe there is still more upside potential, the bullish forecasts will resonate with you.

Investors should always put their primary focus on their own personal goals and objectives, not the predictions offered by the media. In today's economy, this is a great time to review your financial goals — and the investments that go along with them — to see if anything has changed.

Final Thoughts

A good financial adviser should help make your financial planning journey easier. Our goal at HFS is to understand your specific goals and dreams, offer direction and strategies to help get you there and help you keep focus on your long-term goals.

While we cannot control financial markets or interest rates, we do keep a watchful eye on economic, tax and investment issues, continually monitoring your portfolio, and consistently communicating with you in a way that's simple, streamlined and easy to understand.

What we do know is that both the economy and financial markets move in cycles. Not every economic cycle will be the same length as some cycles will last months, while others last years. Economic cycles can move financial market cycles and during extreme movements, investors tend to react emotionally (see chart below).

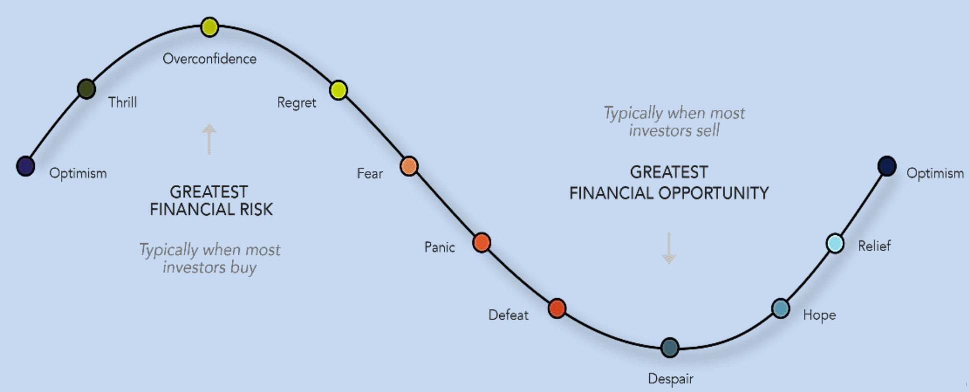
It's important to keep perspective when markets are volatile and that you understand your unique situation and financial plan. Control what you can control. Your plan should consider your time horizon, risk tolerance, and financial goals. There is always risk when investing but we tailor our recommendations with your financial goals in mind.

If you're unsure or have questions, let's have a conversation. That's what we're here for.

As always, we are honored and humbled to serve as your financial advisor.

| The Hughes Financial Services Team

BULL MARKET



BEAR MARKET