STEWARDSHIP PARTNERS
MARKET COMMENTARY

QUARTERLY COMMENTARY | VOLUME 19 ISSUE 1 | APRIL 2019

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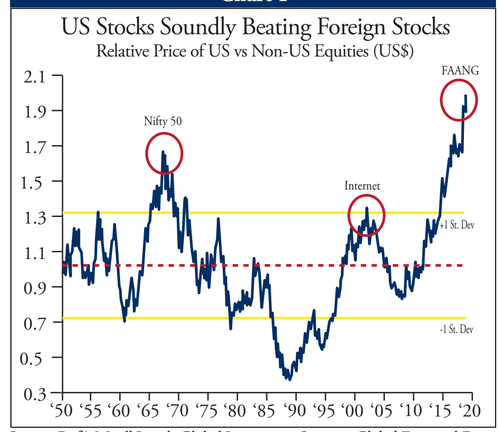
Global Equities Get off to a Great Start in 2019 - US Shares Among the Best!

"You have enlarged the nation and increased their joy; they rejoice before you…" Isaiah 9:3

Following the overwrought sell-off in stock prices in last year's fourth quarter on unfouded recession fears, the equity market quickly regained its senses and soared higher in early 2019. That unjustifiable fourth quarter decline led to a bear market in almost all stock indices even though the economy continued to expand and no recession was actually in sight. Panicky investors, however, freaked out over the harsh stance the Federal Reserve was taking on raising interest rates at that time, convincing themselves the Fed would raise rates too far and set off an imminent recession. Once the Fed relented and signalled it would be patient with regard to further interest rate hikes, the stock market breathed a huge sigh of relief and stocks immediately began rallying. While economic growth did slow during the first quarter of 2019, this was mostly due to the partial government shutdown and poor winter weather. With unemployment running at very low levels and consumer debt in the US being in much better shape than one would imagine after a long economic expansion, the risk of recession caused by forces within the US economy is not particularly high. It is quite unusual to see so few economic imbalances this deep into what will momentarily be the longest uninterrupted economic expansion ever. With the economic expansion seeming secure for the immendiate future, and the Federal Reserve no longer percieved as a threat to the global economy, speculators who had hurridly sold shares late last year rushed back to buy stocks once again. The sharp recovery in share prices which this rapid reversal of attitudes caused has led to the best start to a year for the S&P 500 since 1987. As shown in Table 1, stocks around the world also did well as the Fed's decision to take a neutral stance on interest rates during 2019, as well as discussing the possibility of reducing the pace of Quantitative Squeezing (the reduction in the size of the Federal Reserve's balance sheet which is currently underway), led investors literally everywhere in the world to rejoice. The only stock market in the entire world to suffer a decline in 2019's first quarter was Turkey's.

Chart 1



Source: BofA Merill Lynch Global Investment Strategy, Global Financial Data

Table 1

1Q19 Total Returns

US Indices	1Q19	5y Ann
S&P 500	13.6%	10.9%
S&P 500 Value	12.2%	8.0%
S&P 500 Growth	15.0%	13.4%
NASDAQ	16.8%	14.3%
S&P 400 (Mid Cap)	14.5%	8.3%
S&P 600 (Small Cap)	11.6%	8.5%
Treasury Bonds	2.1%	2.2%
High Grade Corp. Bonds	5.1%	3.7%
High Yield Corp. Bonds	7.3%	4.7%
Gold	0.8%	0.1%
Global & International Indices		
MSCI World	12.5%	6.8%
MSCI EAFE	10.0%	2.3%
MSCI Euro	9.8%	0.6%
MSCI Far East	7.8%	6.0%
MSCI China	6.7%	5.6%
MSCI Japan	17.7%	9.4%
MSCI Emerging Markets	9.9%	3.7%
US Economic Sectors		
Energy	16.4%	-2.8%
Materials	10.3%	5.3%
Industrials	17.2%	9.3%
Consumer Discretionary	15.7%	13.6%
Consumer Staples	12.0%	8.6%
Health Care	6.6%	11.3%
Financials	8.6%	9.4%
Information Technology	19.9%	18.6%
Telecom	14.0%	5.2%
Utilities	10.8%	10.9%

Source: Bloomberg

The rebound in equity prices all over the world in early 2019 was certainly a great way to start the new year. While some countries stock markets performed better than US shares, the S&P 500 managed to surpass the first quarter returns seen in most other nations (the US 1Q19 equity return ranked 11 out of 48 nations). As a result, the price of US equities relative to those outside of the US continued to expand and remains well above normal levels, now at the highest level ever in the last seventy years aided by growth in the large tech stocks referred to as FAANG (Chart 1 above). The plain fact is the US economy, the US financial system and US-based corporations have all been doing significantly better than their international peers since the Great Recession ended. Moreover, this does not seem to be at risk of reversing any time soon. Despite speeches from some in the Democratic party that socialism is the best economic option for our country, the evidence is overwhelming this claim is simply foolishness. Capitalism certainly has flaws, and we agree the distribution of income and wealth in this country is getting dangerously skewed, but it nevertheless remains by far the economic system which produces the best overall outcomes. Capitalism, accompanied by democracy, religious freedom and the rule of law, is just an unbeatable economic system as is being reflected not only by the world's equity markets but also by the desire of so many to find their way into our country, whether legally or illegally to enjoy its benefits. Necessary adjustments to capitalism will help sustain it as the world's best economic system, but to abandon it would be entirely irrational.

Stewardship Partners' clients saw their portfolios rise sharply with the market in 2019's first quarter, but most slightly underperformed the relevant indices. This was largely because our largest holding did not participate in the market's advance while most of the rest of our holdings actually performed very well. And even our largest holding reported very good fundamental news on the first day of the second quarter which boosted its share price. We are pleased with the good start to 2019 and hope to see it continue.

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Risk of Recession Appears Low, But That Could Change Quickly

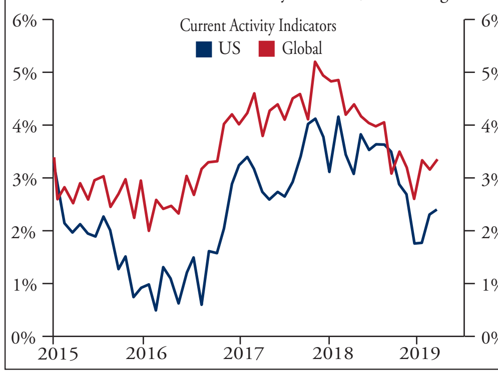
"When the disciples saw this, they were amazed. "How did the fig tree wither so quickly?" Matthew 21:20

The Federal Reserve's relenting on its interest rate hiking plans was the key moment for the global economy in last few months. Whether the market's earlier fears of a Fed-inspired "hard landing" for the economy were accurate or not, the perception that a clueless Fed was about to trigger an unnecessary recession had taken hold in the world's financial markets. That perception alone is enough to unleash recessionary forces both inside and outside the United States. While the US economy was in pretty good shape, leading the Fed to continue raising interest rates, the impact of a Fed rate hike overseas might well have sent some economies spiralling into a recession. Eventually, those potential recessions outside our borders could feedback into the US and trigger an economic slowdown here too. So, the Fed's decision to pause its rate hiking for the reminder of 2019 and to change its pace of Quantitative Squeezing were decisions which will no doubt extend the economic expansion, soon to be the longest ever, for quite some time. Reflecting the concern about the Fed's previous rate hiking path, winter weather and the partial government shutdown, first quarter GNP growth will likely be lower than recent trends. With those factors now behind us, however, a return to a higher rate of economic growth seems highly likely. Chart 2 highlights the recent upturn in Goldman Sachs' measure of current economic activity and we expect that upturn to continue in the months ahead in both the US and across the globe.

Chart 2

Economic Growth Starting to Bounce Higher

Goldman Sachs Current Activity Indicators, YoY % Chg

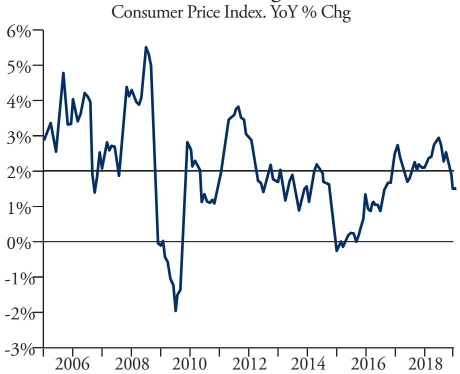


Source: Goldman Sachs

Chart 3

Inflation Heading Lower

Consumer Price Index. YoY % Chg



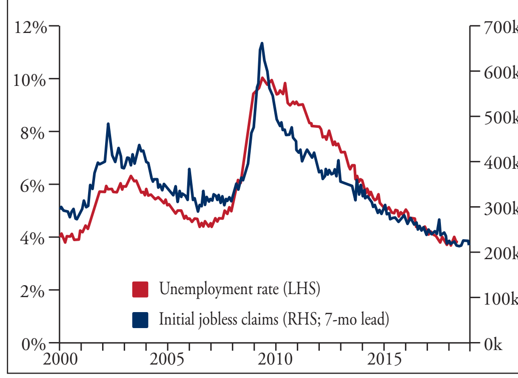
Source: Oxford Economics/Haver Analytics

Perhaps the main reason the Fed was willing to back-off its previous rate-hiking path was easing inflationary pressures. Chart 3 shows how both the Producer and Consumer Price Indices began falling rapidly in late 2018 and have continued to falter ever since. This is a trend that has been seen outside the US as well as economic growth slowed. The Federal Reserve's mandate is to attain a balance which allows for both adequate US economic growth and low US inflation. With economic growth turning higher and inflation turning lower it appears they may have successfully engineered the ever elusive "soft-landing" for the US economy. Most Fed rate hiking cycles do end in recession as the Fed historically has misjudged the damage its rate increases were causing to the economy. With the Fed having now committed to no additional interest rate increases for the balance of 2019, the chances of a recession in the short term are minimal in our view. Indeed, the US economy seems to be in an unusual "sweet spot" where the expectations for both economic growth and inflation are moderate meaning the Fed can take a low profile for a while.

Chart 4

Employment Market is Strong

Jobless Claims Lead Unemployment Rate Lower

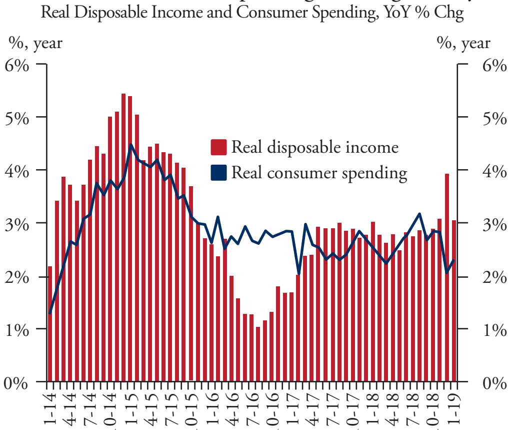


Source: Oxford Economics/Haver Analytics

Chart 5

Personal Income and Spending Growing Steadily

Real Disposable Income and Consumer Spending, YoY % Chg



Source: Oxford Economics/Haver Analytics

One economic indicator that causes us some concern is the very low unemployment rate. So far, this has not translated into wage-based inflation. But, as can be seen in Chart 4, President Trump's pro-growth policies have pushed the unemployment rate and jobless claims to extremely low levels. Indeed, we believe economic growth is likely being somewhat constrained at this point by the lack of workers. We would not be surprised if wage growth accelerated from its already improving level in the months ahead, causing a lot of heartburn for the inflation fighting members of the Federal Reserve and worrying the markets that the Fed would soon force the US economy into recession in order to quash inflationary pressures.

Another oft-mentioned worry among investors is the current near inversion of the yield curve, which has typically been a very good predictor of future recessions. The weight of evidence, however, suggests a recession is not nearby. For example, Chart 5 highlights consumer income and spending remain at very normal levels, which typically translates into normal levels of economic growth since the consumer is responsible for roughly 70% of economic activity in the US. Most economic indicators are reflecting a similar message at this time and therefore, the risk of recession looks low.

While we have not been overly concerned about an actual US recession causing a serious decline in the US stock market, we have been almost certain Europe was likely to experience a recession. Because of its socialistic bent, Europe's economy is heavily influenced by high taxes and government interference in the market system. This has resulted in a lack of innovation and persistent levels of low economic growth. This more socialist-influenced low growth form of European capitalism is one reason why the US continues to extend its lead over Europe economically. Europe's banking system has also not recovered anywhere near as successfully as US banks from the Great Recession and its largest bank, Deutsche Bank, remains in serious trouble. Despite these challenges, and the uncertainty surrounding the ongoing Brexit drama, we have also begun to see some signs of hope even in Europe's economy. Chart 6 indicates Germany's GDP, which briefly slipped into negative territory, has managed to quickly return to a positive reading. Since Germany is the main engine of growth in Europe, this is a hopeful sign a recession may be avoided in Europe. Even so, the improvement is still minimal, the European banking system is hardly fully healthy and the risk of recession in Europe is still very real. Our client's portfolios continue to have very little exposure to Europe for this reason.

Chart 6

Source: Oxford Economics/Haver Analytics

Likewise, China remains a threat to fall into a recession largely due to mismanagement of its growth and its rapid debt expansion that could lead to a very serious recession, even a depression-like situation, should the Chinese government ever lose control of how its sizable debts are resolved. Since such an outcome is politically untenable, the Chinese government has long taken actions to interfere with market forces which would have normally long ago pushed the Chinese economy into recession. Such a recession would clear its debt excesses and provide a firm foundation for future growth. Instead, China has continued down a path of using more and more debt to sustain economic growth, a weakness President Trump is now exploiting in the ongoing trade talks with China. Since a severe Chinese recession would have some negative consequences for the US economy, we expect President Trump will reach some form of trade deal with China before current trade restrictions bite so hard as to trigger a Chinese downturn. Chart 7 reveals that China's economy is also showing some signs of improvement recently, largely on the back of another sizable injection of funds into the economy by the Chinese government. Since we do not really trust the economic statistics coming out of China, however, we remain on the alert for any indication that China's economic woes are starting to multiply quickly. China's economy was once thought likely to quickly surpass that of the US, but once again, the US form of capitalism is proving to be the best the world has to offer as China's economy suffers from unbalanced growth.

Chart 7

Source: Goldman Sachs

Can Capitalism Adapt to Spread its Benefits More Evenly?

"Then you will understand what is right and just and fair - every good path." Proverbs 2:9

While there is no perfect economic system, capitalism has always generated the most good for the greatest number of people. The evidence in favor of capitalism over all other economic systems is simply overwhelming and much of it is also recent. Since China, a communist nation from a political perspective, first started adopting a capitalistic economic approach during the late 1970's, its economy has soared. Other poor nations followed China's lead and versions of capitalism spread throughout the world over the last 40 years. This has brought along with it an unprecedented expansion in global wealth along with stunning benefits to society on many different fronts. Some of these benefits, seen in just the last ten years, are shown in Table 2. If you look further back in time, the progress is even more astounding and it all coincides with nations increasingly adapting their economies to capitalism. While the complaint that capitalism has disproportionately blessed the wealthiest among us is accurate, it is simultaneously true that it has also lifted billions of people from extreme poverty, something critics of capitalism either do not understand or purposefully fail to mention. Moreover, wealthier countries tend not to get in as many wars and we have seen a decline in warfare in recent decades as well. It is no surprise then that millions of people in the relatively few war-torn and failed countries left are increasingly uprooting themselves (Chart 8) to find refuge in countries where capitalism has led to much better standards of living. These refugees are not seeking to find a new future full of hope in non-capitalistic countries where democracy is broken and liberty scarce. If they could, most would come to the US.

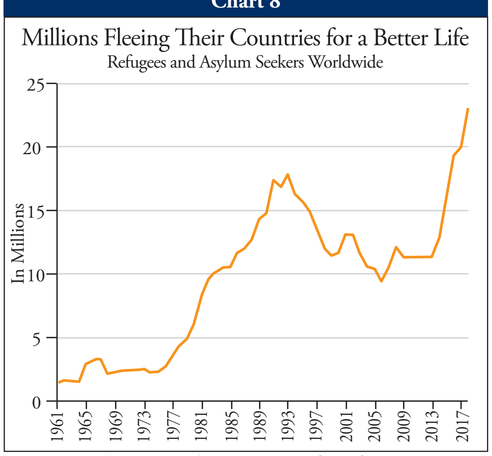
Table 2

The Blessings of Capitalism

	2008	2018
Extreme Poverty	18.1%	8.6%
Child Mortality	5.8%	3.9%
Youth Illiteracy	11.3%	8.6%
Life Expectancy	69.8	72.2

Source: World Bank, UN, UNDP, UNESCO

Chart 8



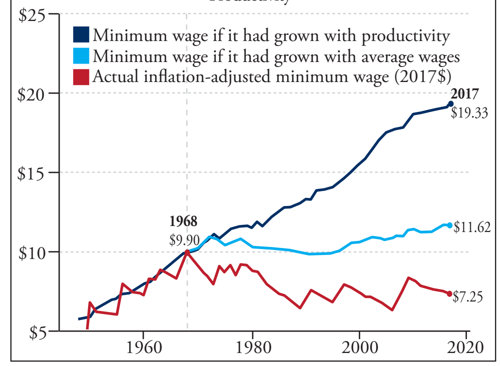
Source: United Nations High Commissioner for Refugees

The reason millions come to the US every year, both legally and illegally, is because it remains, even for the poor, the best place on earth to live. More so than in almost any other nation, the US offers the poor the best chance to break out of their poverty. Even so, the current trajectory of the US's capitalist system is increasingly dangerous as the gap between the rich and the poor has grown exponentially in recent decades. While the poor in the US may be better off than they would be in most other countries in the world, they still feel they are not getting treated fairly. Such emotions can lead to bad outcomes, especially when some politicians stir these feelings to a high level of intensity for their own political advantage. It must be acknowledged, however, the poor have a legitimate gripe – just look at Chart 9. In inflation adjusted terms, the minimum wage in the US peaked at $9.90 per hour all the way back in 1968! Had the minimum wage grown in line with overall wages, it would currently be at $11.62 per hour rather than the current $7.25, or 60% higher. Had the minimum wage grown in line with increasing productivity in the US, it would currently stand at $19.33 or 167% above its current level. While the federal government has not made needed adjustments to the minimum wage to bring some balance to this situation, increasingly corporations are raising the wages of their workers well above the $7.25 level simply because they need to attract more workers into the work force with the current unemployment level being so low. So, once again, capitalism is working to fix this wrong before the government gets around to it, but it must be said that it is long overdue and there are still too many workers trying to get by on a wage which will not allow them to do so. If more progress is not made quickly on this front, cries for a more socialistic economic system may unfortunately be heeded by the voters looking to right this imbalance.

Chart 9

Minimum Wage Earners Mis-Treated

Minimum Wage Has Not Kept up with Overall Wage Growth or Productivity

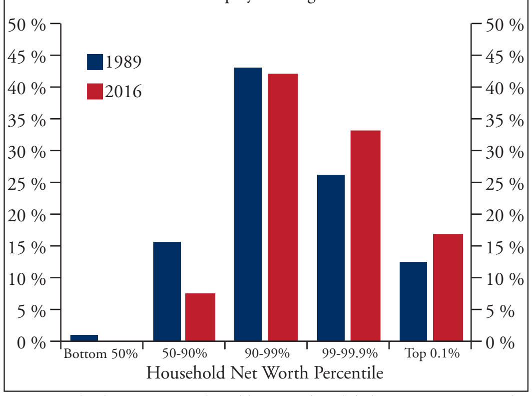


Source: Economic Policy Institute

Chart 10

Rich Getting an Increasingly Large Share of the Wealth

Household Equity Holdings by Wealth Level, as a Share of Total Household Equity Holdings



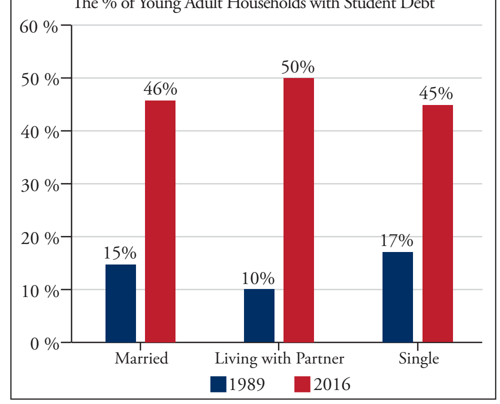
Source: Federal Reserve Board, Goldman Sachs Global Investment Research

The same growing disparity between rich and poor can be seen in wealth as well as income. Chart 10 highlights how the rich have seen their share of the wealth as represented in equity ownership rise meaningfully between 1989 and 2016. This reflects in large part the great fortunes made by a relatively small number of insiders/founders of great corporate success stories like Apple, Microsoft, Facebook and Google, among many others. And it comes despite average Americans increasingly participating in the growth in the wealth in the equity market via their retirement plans. While this growing disparity is a legitimate concern, it is not as dangerous to society as the income inequality our capitalist system promoted over the last few decades. But wealth held by the super-rich will surely be tapped by any socialist-minded politician seeking to level the playing field in the US economy should they eventually get elected.

Chart 11

Young Adults with Student Debt Triples Since 1989

The % of Young Adult Households with Student Debt



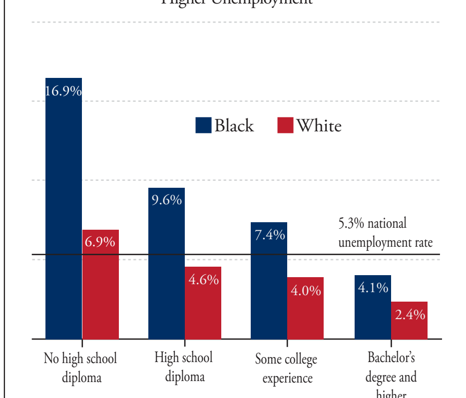
Source: Federal Reserve Board's Survey of Consumer Finances

One sure fire way for a politician to gain votes in the current environment would be to propose a plan to sharply reduce the amount of student loans so many young people now hold. These loans were simply too easy to get over the last few decades and thus grew exponentially. In some cases they were funding an easy collegiate lifestyle of non-serious students. Some of these loans were even effectively treated as welfare payments by their recipients. Now, because of the inevitably poor planning by many who received these loans, they have become a crushing and seemingly insurmountable burden since student loans cannot be vanquished in bankruptcy (Chart 11). It is hard not see how a tax on the very rich might soon be proposed in order to obtain the funds needed to help the government write off many of these student loan debts. It is also easy to see how this type of proposal might be met with acceptance by a majority of an increasingly liberal electorate. While we are philosophically opposed to such taxation as it penalizes the successful and rewards those who borrowed imprudently, it might eventually yield long term benefits for the economy should it, or something like it, ever be implemented.

Chart 12

Blacks Treated Unfairly in Employment Market

Despite Similar Eductional Attainment, Blacks Still Face Higher Unemployment



Notes: The 12-month averages include data for December 2014 through November 2015 and is calculated for people ages 25 or older. The Author's calculations are based on monthly Current Population Survey data.

Source: Economic Policy Institute

One significant aspect of the uneven blessings capitalism has distributed over time can be found in some racial minorities (with the notable exception of Asians). Chart 12 reveals how black unemployment is higher than white at each level of educational attainment. This is likely mostly the fault of residual racism that still affects our society than it is of capitalism, which is color blind. Although limited progress has been made in bringing minorities up the economic ladder in the US, the black community has been largely left behind as well intended government programs have destined many in this community to poverty that spans generations. Reparations have been discussed as a possible solution, but such programs would be very difficult to implement fairly. Still, creative new efforts need to be made to help racial minorities enjoy the fruits of the capitalist system more fairly if that system is to survive in something close to its current form in the year's ahead.

Does a Fast Start to a Year Typically End Well for Investors?

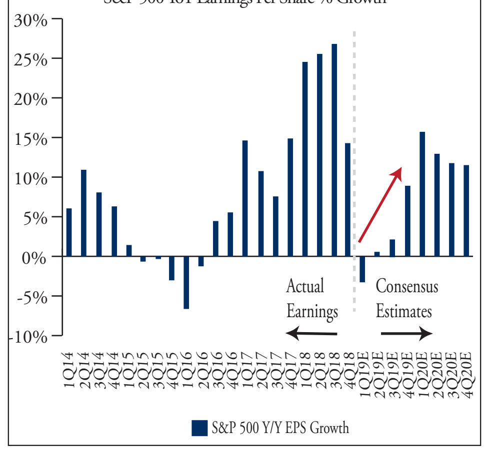
"be careful to obey so that it may go well with you and that you may increase greatly…" Deuteronomy 6:3

The early trajectory for share prices in 2019 has been very positive for investors, but it is natural to question whether such a strong start can be sustained over the entire year. Strong corporate earnings growth normally provides the primary support for a bull market. As shown in Chart 13, the current consensus expects slower earnings growth during 2019. Indeed, earnings are currently projected to fall slightly in the year's first quarter and only rise slightly over the following two quarters. Historically, however, actual earnings almost always surpass analyst's expectations as companies seek to guide analysts' forecast lower in order to more easily exceed those expectations. So, it would not surprise us if the first quarter earnings ended up slightly positive once all the companies have reported. The trend in earnings expectations for the remainder of the year may also rise as we advance through the year, backed by improving economic growth and reduced concerns regarding the potential for a recession. Moreover, investors understand the slow growth in year over year earnings comparisons largely reflects the enormous benefits to corporate profits starting one year ago from the Trump tax cuts. Clearly, the strong first quarter performance in equities indicates investors are already looking beyond the subdued near term earnings outlook.

Chart 13

Earnings Set to Recover from 1Q19 Dip

S&P 500 YoY Earnings Per Share % Growth

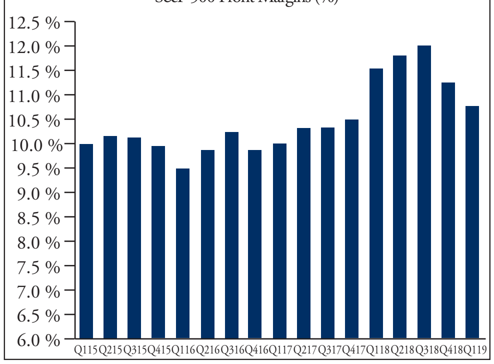


Source: Refinitiv, Morgan Stanley Equity Research

Chart 14

Higher Wages are Pressuring Profit Margins

S&P 500 Profit Margins (%)



Source: Factset

Earnings are not just growing more slowly due to the difficult comparisons brought about by the Trump tax cuts. After an extended run higher, profit margins are now under pressure (Chart 14) mostly from rising wages. When the employment market is as tight as it is currently, corporations need to pay more to find the workers they need. As noted previously, many companies who hire low wage employees are finding the practical need, not to mention a moral imperative to better share the wealth, to significantly increase what they pay their workers. But wages are now rising at a faster rate than previously for all workers. The lack of available qualified workers may now even be constraining economic growth to some extent and slower growth may help the economy adjust to these tight labor conditions without creating a wage-related inflationary problem. If economic growth were to spurt higher under these tight labor conditions, the Fed would soon be raising rates again and the markets would almost certainly stumble in response.

Table 3

Fast Starts Normally Have Happy Endings

S&P 500 Returns When 1Q Return was > 10% (1950-2019)

Year	Q1 Return	Final Three Quarters	Full Year Return	Max Gain Final Three Quarters	Max Pullback Final Three Quarters
1961	12.0%	10.0%	23.1%	12.8%	-4.4%
1967	12.3%	7.0%	20.1%	10.6%	-6.6%
1975	21.6%	8.2%	31.5%	19.0%	-14.1%
1976	13.9%	4.6%	19.1%	9.3%	-8.4%
1986	13.1%	1.4%	14.6%	11.1%	-9.4%
1987	20.5%	-15.3%	2.0%	21.0%	-33.5%
1991	13.6%	11.2%	26.3%	13.2%	-5.6%
1998	13.5%	11.6%	26.7%	29.7%	-19.3%
2012	12.0%	1.3%	13.4%	14.7%	-9.9%
2013	10.0%	17.8%	29.6%	19.9%	-5.6%
2019	13.1%	?	?	?	?
Average		5.8%	20.7%	16.1%	-11.7%
Mean		7.6%	21.6%	14.0%	-8.9%
Count		10	10		
Higher		9	10		

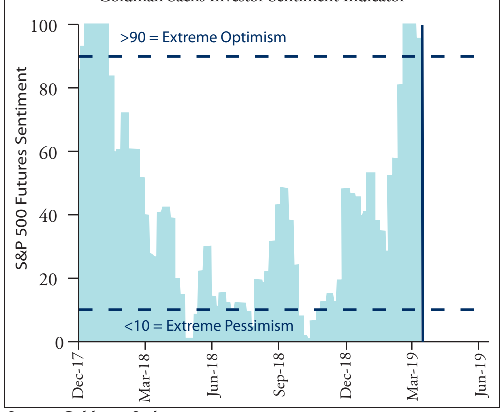
Source: LPL Research, Factset

History, which does not always prove to be an accurate guide as we saw in 2018, suggests strong first quarter trends in share prices will continue over the remainder of the year. In the ten previous years since 1950 when the S&P 500 gained at least 10% in the first quarter of the year, the index went on to average gains for the final three quarters of the year of 5.8% with nine out of the ten years showing additional gains (Table 3). At some point during those final three quarters of the ten previous instances share prices averaged a high point of 16.1% above the first quarter's return and averaged a drawdown of 11.7%. Clearly, if the Fed does actually remain on the sidelines for the remainder of 2019 and if Europe and China are able to avoid falling into a recession, the odds are pretty good investors will add to their wealth over the remainder of this year. Nevertheless, no one should expect the market to move in a straight line higher over the next nine months. Volatility rarely disappears for long.

Chart 15

Investor Sentiment is Overly Optimistic

Goldman Sachs Investor Sentiment Indicator



Source: Goldman Sachs

One reason to be concerned a bit of profit taking may be at hand is that the sharp rise in stock prices has been accompanied by a big jump in positive investor sentiment, at least in some models such as the one Goldman Sachs utilizes (Chart 15). Extremely high readings in investor sentiment signal investors have begun to get too exuberant about the future path in share prices and this often leads to a period of weakness as investors hopes are brought back down to normal. We have already taken advantage of the recovery in our client's portfolios to raise some cash which we look to redeploy should the market give back some of its recent gains in the short term. If the market continues to move higher, we may add to those cash positions as a short-term sell-off is inevitable.

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How Much Life is Left in This Bull Market?

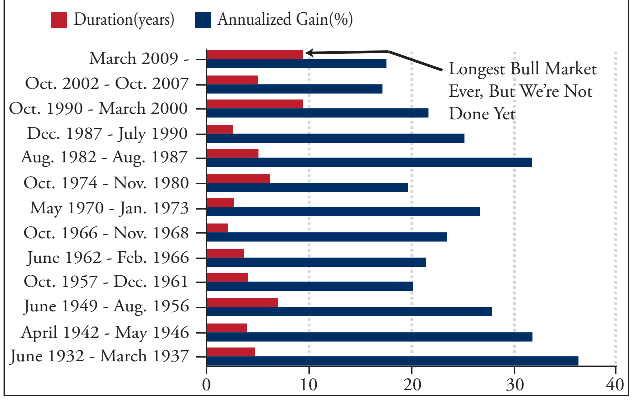
"They will still bear fruit in old age, they will stay fresh and green," Psalm 92:14

With the historical precedent suggesting only modest gains between now and the end of 2019 and short term trading indicators starting to suggest some profit taking is likely to occur soon, we are increasingly leaning towards positioning our portfolios more cautiously. Nevertheless, we are cognizant the outlook for share prices is still generally good, especially with the Federal Reserve on the sidelines, corporate profits expected to grow faster as 2019 develops and wage growth moving higher at a non-inflationary pace. Moreover, the probability of a trade deal which the market will view as a positive step is growing. In many ways, the market is an unusual sweet spot at the moment which may allow it to extend the already record length of this bull market (Chart 16). While the market may indeed see some short term consolidation of its recent strong gains, this could well prove transitory. So, we may be leaning toward a more conservative posture, but we are not yet ready to make a strong move in that direction. The risk of a meaningful market sell-off seems less than the possibility of further gains. One reason this bull market has been able to set the record for the longest ever is that it has not been the strongest bull market ever. This means extreme imbalances have not built up and speculative fervor has been relatively subdued. As a result, do not be surprised if there is considerable life left in the current bull market. It may well continue to expand at a moderate pace.

Chart 16

Longest Bull Market, But Not the Strongest

This Bull Market is the Longest One Ever But Has the Second Lowest Return

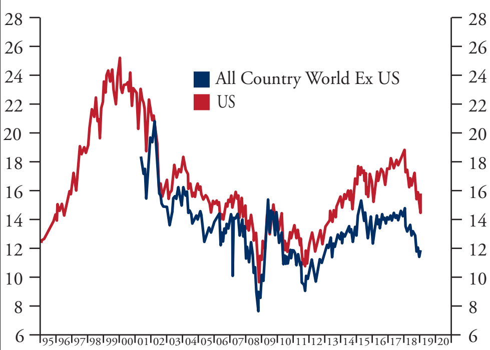


Source: S&P, Bloomberg

Chart 17

Higher US Equity Valuations Are Deserved

P/E Ratio Based on 12 Month Forward Estimated EPS



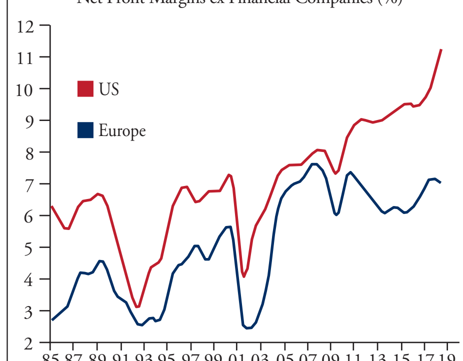
Source: Thomson Reuters I/B/E/S

Valuations across the world highlight the general lack of speculation in share prices. Because the US economy and US corporate profits have so exceeded those of other nations, the valuation on US stocks is considerably above that of shares based outside this country (Chart 17). Normally, we are most attracted to those equities exhibiting the lowest valuations as cheaper stocks more often than not present the best opportunities for long term capital appreciation. For some time now, however, this principle has not held up as the performance of US stocks continues to exceed those of most other equity markets simply because the US has just done a much better job of adapting to difficult circumstances in the post-Great Recession world. The discounted valuations offered on overseas shares are not yet significant enough to offset the shortcomings in those markets relative to the US.

Chart 18

US Companies Produce Greater Profits Than Europe's

Net Profit Margins ex Financial Companies (%)



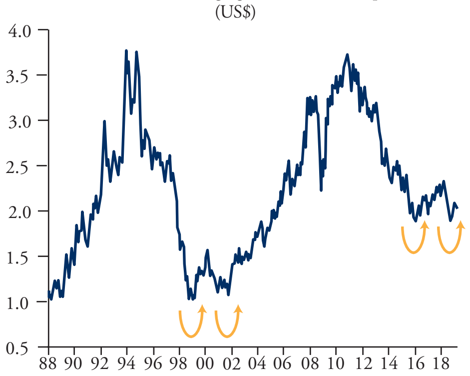
Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Chart 18 highlights the superior profitability of US companies versus European ones. As far back as the middle of the 1980's, US corporate profit margins have always exceeded those seen in Europe. Recently, European profit margins have languished while those in the US have moved to new highs, thereby greatly expanding the gap between the two regions. US companies are valued at a higher level because they are better managed and earn more profits for their shareholders. Given the challenges facing Europe at the moment, it is difficult to see these circumstances changing, therefore the lower valuations on European share prices are justified and do not make European stocks appear as attractive as one might initially think. Europe's economy and corporate sector is hamstrung by its socialistic bent to more equally distribute income and wealth.

Chart 19

Are Emerging Markets About to Perform Better?

Relative Performance of Emerging Markets to Developed Markets (US$)



Source: Topdown Charts, Datastream

Another region of the world we have largely avoided in recent years is the emerging markets. This has been helpful as these markets continued to struggle relative to the developed markets. Yet, unlike Europe, the long term economic growth rates in the emerging markets are strong and the level of debt, outside of China, is typically lower than in the developed markets. Unfortunately, share prices in the emerging markets are heavily influenced by China's perilous debt situation. Still, the combination of low valuations and superior growth rates is compelling and we continue to scour these markets to identify at least a few more options to add to our portfolios as the evidence grows some emerging markets may be poised to start a new cycle of good relative performance (Chart 19).

We at Stewardship Partners continue to be grateful for the opportunity to serve your investment needs. Please do not hesitate to contact us if you have any questions or if we can be of assistance.

Biblically Responsible Investing (BRI) – Investing as Jesus Would

"Blessed are they that maintain justice, who constantly do what is right." Psalm 106:3

Stewardship Partners, founded in 2000, is a leader in the field of investing with a Christian perspective, a form of Socially Responsible Investing (SRI) known as Biblically Responsible Investing (BRI). Rusty Leonard, CFA, Stewardship Partners' founder and CEO, practiced this investment philosophy while managing over $3 billion of assets as a portfolio manager during his decade of service with the Templeton organization. He also had the privilege of working directly with world-renowned global mutual fund manager, Sir John Templeton. **By employing a BRI approach to investing, Stewardship Partners seeks to achieve long-term capital gains through ownership in securities of companies that are a blessing to mankind. Conversely, we seek to avoid profiting from owning companies engaged in sinful activities which bring physical and spiritual loss to our fellow man. Our heart's desire is to do no harm to our fellow man in the process of being the best possible guardians of the wealth the Lord has given us stewardship over.** Simply put, a "what would Jesus do" approach to portfolio management is what we seek for our clients.

Below are just some of the issues of concern to Stewardship Partners and the specific sinful activities that fall into each category:

1. **We desire *justice and mercy for the defenseless* so we seek to avoid companies involved in:**
   - Abortion
   - Life destroying or distorting scientific research
   - Human rights issues such as religious persecution, terrorism and political oppression

2. **We desire *justice and mercy for the poor* so we seek to avoid companies involved in:**
   - Greed-based marketing techniques
   - Discrimination and unjust labor practices
   - Any abuses of the poor, children and/or the elderly

3. **We have *compassion for those addicted and/or engaged in sinful lifestyles* so we seek to avoid companies involved in:**
   - Alcohol, Gambling and Tobacco
   - Pornography
   - Homosexuality (those companies deemed to be the most active supporters)

4. **We desire to *protect marriage and the family* so we seek to avoid companies involved in:**
   - Entertainment that seeks to destroy biblically-based attitudes
   - Efforts to promote lifestyles the Bible indicates are sinful

Additionally, we favor companies that clearly embrace:
- Honesty, Compassion, Diligence, Prudence and Creativity
- Support for quality products at fair prices and constructive stakeholder relations
- Support for a sustainable and healthy environment
- Support for charitable giving
- Support for the Jewish people and the state of Israel

We obtain information on both the objectionable practices and the exemplary attributes of corporations from our affiliate **The Biblically Responsible Investing Institute** (www.BRIInstitute.com). We believe BRII gives Stewardship Partners the most comprehensive database of BRI information that currently exists and utilize much of it to realize our goal of investing in a manner that most honors our Lord. Equipped with this information, we are then prepared to make as strong an effort as possible to build investment portfolios which best reflect our clients' biblically-based Christian worldview.

Like all people, all companies are sinners. Therefore, we attempt to use the BRI information at our disposal to eliminate the worst offenders from our portfolios. At times, this is easy. For example, a company involved in making drugs used in the abortion process will always be excluded from our portfolios. In many cases, however, we need to utilize judgment, such as when a company has operations in a country that is a known violator of human rights. The type and size of that exposure, among other considerations, are taken into account before eliminating the company from our portfolios. When judgments must be made we are guided by the principal of trying to do what we believe Jesus would do if He were making the decision.

For a more in depth study of the topic of Biblically Responsible Investing (BRI), please see our paper entitled "The Scriptural Basis for Biblically Responsible Investing".

BRI in Action – Comparing Good and Bad Corporate Behavior

"Love must be sincere. Hate what is evil; cling to what is good." Romans 12:9

Below you will find an example of both a company exhibiting exemplary attributes, Lockheed Martin, and one we avoid, Vale SA. Lockheed Martin is a holding in some Stewardship Partners portfolios while we actively avoid ownership in Vale SA in order not to be co-owners in enterprises engaged in, or supportive of, activities which are harmful to our fellow man and our Lord's creation. We believe, in the long run, both countries and companies that best align their activities with biblical principles will achieve the greatest success.

The Good – Lockheed Martin – Defending Freedom & Blessing Others

"Instruct them to do good, to be rich in good works, to be generous." 1 Timothy 6:18a

Lockheed Martin traces its roots all the way back to 1912 but its current configuration got its start in 1995 when Lockheed and Martin Marietta merged into one company. Since that time, the company has both divested of certain divisions, such as L-3 Communications and Martin Marietta Materials; and acquired other companies, such as the defense business of Loral Corporation and Sikorsky Aircraft. Lockheed Martin is one of the largest defense contractors in the world with its biggest client being the US government which accounts for roughly 70% of its $54 billion in annual sales. While clearly the company is mainly focused on helping the US government protect our nation with a wide variety of high tech weapons, Lockheed Martin also has operations outside the US in both defense and commercial markets. The company has over 590 facilities located in over 70 countries and employs 105,000 people of which 20% are US military veterans. Over 54,000 of the company's staff are engineers, scientists or information technology professionals. About 7,500 Lockheed Martin employees work in 54 different countries outside the United States. The company breaks down its operations into four main divisions. Aeronautics provides a variety of aircraft to the US military and our allies around the world, including the leading edge F-35 and F-22 fighter jets as well as old stalwarts such as the C-130 military transport planes. This division also includes the company's legendary "Skunk Works" operation where many critical technical innovations that give our nation its military superiority came from. Other divisions of the company include Missiles and Fire Control, Rotary and Mission Systems and Space. The Space division is responsible for many key defense initiatives including missile defense. Lockheed is ranked as the 59th largest company in the Fortune 500.

Lockheed defines its mission as helping its customers (primarily governments) keep people safe by solving complex problems, advancing scientific discovery and delivering innovative solutions. Its vision statement indicates its desire to be a global leader in supporting its customer's missions, strengthening their security and advancing scientific discovery. Lockheed Martin also lists three simple and straightforward core values that direct its staff as they seek to fulfil their mission and vision: 1.) Do what's right 2.) Respect others and 3.) Perform with excellence. Given the company's long track record of success it is clear it lives up to these ideals more often than not. One way the company helps to guide its employees with regard to doing what's right and respecting others is via its very comprehensive Code of Conduct document that very clearly addresses a wide range of possible issues employees will likely face at some point or another in their tenure at the company and gives guidelines for how to deal with those situations. The Code of Conduct also spells out exactly why it is important to follow those guidelines and employees are expected to read and sign a form confirming they have read the Code of Conduct. Ethics training is something he company takes very seriously, starting with the CEO Marillyn Hewson who provides Ethics training for her direct reports each year. Each of these leaders then does the same with their staff and the training continues throughout the organization. Training materials are available online so employees can easily access them and the company even offers these training materials to academic institutions free of charge. Given the sensitive nature of the company's work and the history of scandals in the defense industry, Lockheed Martin takes ethics very seriously.

The company also takes providing their employees with an impressive array of benefits seriously. Like most large companies, Lockheed Martin offers a comprehensive array of insurance coverage including health, dental, vision, disability and life, among others. On the healthcare front, the company offers Health Savings Accounts (HSA) and flexible spending accounts. Additional life insurance can also be obtained at the lower group rates available through the company. There are also programs to assist those with mental health problems as well as others to assist with quitting smoking and losing weight. The company makes sure to offer nutritious food options in its cafeterias, offers free on-site medical care, has walking paths, fitness and wellness centers at many of its facilities and provides free flu shots and confidential biometric testing. Retirees are also entitled to healthcare benefits. There can be no question that Lockheed Martin is doing its best to provide for the well-being of its staff. Naturally, the company provides for paid vacations and holidays but also continues to pay its employees when they are performing jury or military duties. Longer unpaid leave of absences are also possible and Lockheed Martin gives employees paid maternity and paternity leave as well as time off to deal with family illnesses. Policies are also in place to assist with employees dependent's care. Lockheed Martin will also consider allowing employees to work from home and offers reduced or flexible work hours. From a financial perspective, the company pays competitive salaries to its workers in line with its position as a leader in the defense business. It also offers a substantial match on the company 401-k plan, makes available an employee stock purchase plan and backs up its corporate value of performing with excellence by giving bonuses in stock and cash for excellent employee performance. Finally, Lockheed Martin provides excellent opportunities for US military veterans and makes it clear it will consider for employment those who have had the misfortune of being out of the workforce for an extended period of time.

Lockheed Martin and its employees are also charitable as evidenced by both corporate and employee giving. For employees, the company offers a matching gift plan to boost the value of the gifts they make to qualifying charitable groups. Lockheed Martin itself gave nearly $25.9 million in direct gifts to charity in the most recent year. Additionally, it provided nearly $8 million in sponsorships to other charities. Lockheed Martin employees gave a further $11.7 million to charity. Moreover, employees donated a whopping 786,000 hours of volunteer time to charitable organizations. Local community initiatives accounted for 78% of these donated hours while 16% went to Science, Technology, Engineering and Math (STEM) educational programs. Veterans and military charities accounted for the final 6% of the staff's volunteer efforts. Lockheed Martin established a Disaster Relief Fund in 2006 and it now has a balance of over $10 million dollars. This amount came largely from employee contributions, whose generosity was so great that the company ceased taking additional donations to the fund since they believed the balance was sufficient to meet the needs of those it intends to serve when a natural disaster strikes in the future.

Lockheed Martin's numerous good works are, of course, no guarantee of long-term investment success. As Biblically Responsible Investors, however, the company's commitment to being an exemplary corporate citizen as well as its outstanding treatment of its employees and commendable charitable efforts, allows us to know we are shareholders in a company seeking to be a blessing to all. While no company, like no person, is perfect, this is clearly a company which seeks to benefit all those it comes into contact with and is an organization we can be proud to be known as part-owners of!

The Bad – Vale SA – Deadly Business Practices

"Things that cause people to sin are bound to come, but woe to that person through who they come." Luke 17:1

Vale SA is the leading miner of iron ore in the world but also is involved in many other metals, mining and related operations including bauxite, potash, aluminum, nickel, copper, railroads, marine terminals. It also operates nine hydroelectric power plants. Based in commodity-rich Brazil, Vale SA has come to dominate the nation's mining business and is one of the most prominent commodity companies in the world. It has operations in more than 30 countries but most of its sprawling business empire is still located in Brazil. Despite the company's growth and financial success over the years, it has now become best known for its unsafe mining practices that have led to two mine-related dams to fail, one in 2015 and one earlier this year, leading to the deaths of well over 200 people, many of whom whose bodies have yet to be found under the mining waste that swept over them and their villages when the dams failed. Following the second dam collapse in January Reuters discovered a company document from October 2018 that placed the risk of the dam failing at twice the level Vale SA's on internal policies permitted. Furthermore, it was discovered the loud speaker system meant to warn residents of the villages living beneath the dam of a potential failure were not operational at the time of its collapse. Given that others had already lost their lives in the earlier 2015 dam collapse, not to mention the environmental damage caused by the pollution of rivers that impacted drinking water for several cities further downstream, it is hard to believe the company would not have made every effort to assure the safety of all of its 133 mining dams. Vale SA even paid a $6 billion fine following that first tragedy and it now is likely facing much larger financial consequences following this latest dam disaster. Indeed, in this case, several corporate executives are likely to be prosecuted and face considerable time in jail given the scale of the disaster and the tragic sloppiness of the company's operations.

We seek to avoid investing in companies like Vale SA. As BRI investors seeking to please and honor our Lord, we naturally look elsewhere to achieve investment success as we do not want to be associated with a company using shareholder resources in a manner the Bible defines as sinful and which can have a negative impact on individuals and society in general.

Our Ultimate Goal – Funding the Lord's Work

"Therefore go and make disciples of all nations." Matthew 28:19a

It is our hope that Stewardship Partners' ability to create an abundance for you will help you to share with those who are in need and assist in fulfilling the Great Commission. Our non-profit ministry affiliate, Wall Watchers, provides a free service to help you educate yourself about the many wonderful Christian giving opportunities available to wise donors. We invite you to join the thousands of visitors to our ministry's website at MinistryWatch.com, as best we can tell, the internet's top site for donors to Christian ministries to gather critical information about the ministries they are considering supporting. The site contains a variety of helpful information about hundreds of the largest US-based Christian ministries including ministries statements of faith, the history of the ministry, program accomplishments, ministry financial statements and financial efficiency ratings. Please feel free to utilize this free resource as you seek to be a wise and effective donor to Christian ministries. We would be pleased to help you bless God's people who are in need, and clients of Stewardship Partners have access to further resources from MinistryWatch.com. It is our sincere desire to see Christians leading the way in giving generously, wisely and effectively so that the Lord's work on earth can be completed and many can be both blessed and saved.

Featured Ministry – Joni and Friends

"Religion that God our Father accepts as pure and faultless is this: to look after orphans..." James 1:27 (NIV)

Joni and Friends primarily ministers to those facing physical disabilities, but anyone who has ever heard Joni Eareckson Tada speak knows that her faithful witness to the love the Lord offers to all through Jesus can have an eternal impact on anyone. She is a compelling and winsome speaker who easily stirs the spirit within those who hear both her testimony and/or her excellent Bible teaching. Joni first came onto the evangelical scene when her first book, an inspirational account of how the Lord helped her deal with the consequences of a diving accident that left her a quadriplegic in 1967. This absorbing autobiography was eventually translated into 45 languages and sold over five million copies. This was followed by a movie based on the book which came out in 1979 and over 250,000 people are estimated to have been saved as a result. Joni & Friends ministry was also launched in 1979. The ministry expanded into radio in 1982 bringing Joni's inspirational biblical insights to a rapidly expanding fan base. In the 1990's Joni & friends ventured into providing retreats for families with disabilities as well as starting a program to deliver free wheelchairs to the disabled who could not afford them all over the world. In 2014, Joni and Friends celebrated the gift of their 100,000th wheelchair. In 2017, Joni celebrated her 50th anniversary of receiving Jesus as her Savior and in 2019 celebrated her 40th year in ministry via Joni and Friends. More recently, Joni has suffered some health setbacks, including a recent cancer diagnosis. Yet she continues to spread the Lord's message of grace and love even in the most difficult of circumstances at every opportunity.

Since 1991, Joni and Friends have held 430 family retreats for those with disabilities and their families, serving 14,000 families aided by over 30,000 volunteers. The ministry also began holding these retreats outside the United States and has served over 2,000 families affected by disabilities in 90 countries. These retreats provide a safe and confidential environment to share feelings and concerns that often go unexpressed. Worship, Bible teaching, and rich fellowship provide the hope of the Gospel by guiding each family member toward a deeper relationship with Jesus. Wheelchairs for the World has now distributed over 150,000 free wheelchairs (and bibles as well) in 105 countries. The ministry knows of at least 23,000 wheelchair recipients who have come to know Jesus as their savior as a result of this program. In 2019, the ministry anticipates distributing an additional 18,000 free wheelchairs and bibles around the world. Joni and Friends also started the Christian Institute on Disability. It trains and equips students through the Cause 4 Life Global Missions and Internship program. In 2019, Joni and Friends will train 86 interns in disability ministry through our Cause 4 Life Global Missions and Internship Program. The Cause 4 Life Global Missions and Internship Program is capturing the conscience and the heart of our nation's youth by putting them face-to-face and heart-to-heart with people affected by disability worldwide. Using the Beyond Suffering curriculum and hands-on ministry experience, the Cause 4 Life Global Missions and Internship program is preparing the next generation of Christian leaders in disability ministry.

Joni and Friends is an inspiring Christian ministry in more ways than just reaching the disabled for Christ. Joni's heartfelt, biblically-based teaching has always been an inspiration, helping many through difficult times in their lives. Additionally, the ministry's various programs are reaching the often overlooked disabled and their families for Christ all over the world. Joni & Friends is also very transparent about its finances and is worthy of consideration for your financial support. In addition to your financial support, Joni and her family and ministry would no doubt covet your prayers for her that the Lord would heal her of cancer and allow her to continue her outstanding ministry.

The Christian Ministry Marketplace – Helping Donors Give Wisely

"A generous man will prosper, he who refreshes others will himself be refreshed." Proverbs 11:25

Much like the stock market provides for a sensible and efficient allocation of capital in our economy, the rise of a Christian Ministry Marketplace is providing donors with a myriad of helpful resources to maximize the impact and joy of giving to the work of the Lord. As donors begin to take their giving as seriously as their investing, they will find the assistance offered by the groups listed below to be invaluable. By utilizing these resources, donors are not only likely to make better personal giving decisions, but are also contributing to the growth in the marketplace itself. By so doing, they are helping to lay a foundation for wiser giving for all who follow in their footsteps. Accordingly, we encourage donors to investigate how these groups might help you to give more wisely, achieve a greater impact and create increased joy for both yourself and receivers of your gifts.

The Christian Ministry Marketplace
Resources for Christian Donors

WHY to give to Christian ministries?

Teaching on Stewardship:

- Crown (crown.org)
- Eternal Perspectives (epm.org)
- Generous Giving (generousgiving.org)
- Global Generosity Movement (generositymovement.org)
- The Steward's Way (thestewardsway.org)
- The Gathering (thegathering.org)
- MaximumGenerosity.org (maximumgenerosity.org)
- Stewardship Ministries (stewardshipministries.org)

HOW to give with a discerning mind?

Professional Advisors:

- Kingdom Advisors (kingdomadvisors.org)
- National Association of Christian Financial Consultants (nacfc.org)
- WaterStone (waterstone.org)
- National Christian Foundation (nationalchristian.com)

Donor Advisors:

- Excellence in Giving (excellenceingiving.com)
- Calvin Edwards & Company (calvinedwardscompany.com)
- E Six-Thirteen (esixthirteen.com)

WHERE to invest in kingdom ministries?

Ministry Research:

- ECFA (ecfa.org)
- MinistryWatch.com (ministrywatch.com)
- Acton Institute (acton.org/public-policy/effective-compassion)
- Intelligent Philanthropy (intelligentphilanthropy.com)

Ministry Mutual Funds:

- National Christian Foundation (nationalchristian.com)
- Strategic Resource Group (srginc.org)
- Sovereign's Wealth Fund (kingdomimpactfund.com)

Featured Ministry Marketplace Participant – Crown Financial Ministries

"We carry the offering, which we administer in order to honor the Lord." 2 Corinthians 8:19b

Crown Financial Ministries was founded 42 years ago by the well-known Christian financial expert, Larry Burkett. Burkett's radio program became very popular as he responded to listeners real life financial issues with sound biblically-based counsel. Burkett authored 70 books which in total sold over 12 million copies. Following Larry's going home to be with the Lord in 2003, Crown has continued its mission of helping Christians to become better stewards of their finances but has expanded beyond radio and books to sponsoring small group studies via churches and has reached outside the United States as well. Crown helpful stewardship teaching materials have been translated into 120 different languages and now are available in 104 countries on five different continents. The ministry estimates it has reached over 2 million people via its small group studies. Crown's teaching is still available on over 1,000 radio stations around the United States which reaches a potential listening audience of 8 million people. The ministry has also distributed over 1 million of its "Money Maps" and its website is full of helpful tools which help Christians align their finances with God's word.

Recently, Crown has announced a new and expanded vision for the ministry. The new Vision Statement of Crown highlights this broader scope for the ministry in the future: "To see God's people all over the world committed to managing all that they have for His glory so that lives are transformed, economies flourish and the Gospel is spread to all nations." Crown will now be focusing on six separate facets of stewardship. First, vocational stewardship where the ministry will help Christians fulfill their calling. Second, resource stewardship where Crown will help Christians manage their possessions. Third, Enterprise stewardship where Crown will help Christian businesses glorify God. Fourth is environmental stewardship. Fifth, Crown will assist in crafting generational stewardship so that wisdom will be passed down to the next generation. Sixth, Crown will help all to be better stewards of their responsibility to spread the gospel of Jesus Christ. We are excited to see how the Lord will use Crown Financial Ministries as they undertake to broaden the reach of their ministry in the years ahead.

Knowing Jesus Christ as Your Lord and Savior

While most of those reading this will have already established a personal relationship with Jesus as their Lord and Savior, it is very likely that many have not. If you are someone who has not yet turned your life over to your Creator, we would have failed you miserably if we presented only information relating to your investments yet did not share with you the most important information of all: truths which have eternal significance for your soul and that will have an overwhelmingly positive impact on your life on this earth.

The gospel message is a simple one, far less complicated than the global impact of rising oil prices or the effect of a revaluation of the Chinese currency. For most people, the first part of it is easy to relate to – you are a sinner. If you are anything like the rest of us (and you are) more often than you probably would like to admit, you either do, say or think something that is clearly wrong and which you are ashamed of. “But what’s the big deal”, you might say. “If everyone has this problem with sin, can’t we all just accept the fact and try our best to get along?”

Well, on this earth, that is exactly what we try to do. We forgive one another’s faults and press on with life. From an eternal perspective, however, there remains a problem. Our Creator, who loves us with a love that can only be described as extravagant, has prepared an eternal home for us that He very much desires to share with us. Unfortunately, in our sinful state, we are unable to enter into heaven, which is by its very nature perfect. Desperate not to be separated from us for an eternity, our God devised the only possible solution – a divine exchange. He sent His very own son, who was perfect and thus without sin, as a sacrifice to pay the penalty for our sins. In this exchange, Jesus bore, through His death, all of our sins, so that we in turn could receive all the glory that was due to Him. He was made sinful while we were made perfect and, in our now perfect state, we are able to enter into the eternal home our Lord has prepared for us.

What then gives each of us access to participate in this divine exchange? By responding to this incredible demonstration of extravagant love by our God through an amazing act of your own. As you let the realization of just what your Lord has done for you filter through your heart, mind and soul, you will unavoidably desire to humbly come before Him, acknowledging that it was your sin that led to His sacrifice and recognize His Lordship in your life. And with this step of faith, the divine exchange is completed in your life, and along with it, the assurance of eternal life with a Lord whose love for you knows no bounds. If you have not done so already, we encourage you to take this time to contemplate the issue of your eternal destination and to take that step of faith that will make all the difference in your life, both now and eternally. Based on my experience and the experience of literally millions of others throughout history, it is the most satisfying, enriching and worthwhile choice you will ever make. Years of wonderfully inspiring spiritual growth await you and, if the Bible ever seemed confusing to you in the past, you will now find its wisdom leaping off the pages and into your heart.

If we at Stewardship Partners can be of any assistance to you in this all important matter of your eternal destiny, please do not hesitate to contact us. Like Jesus, we also greatly desire to share an eternal heavenly home with you!

STEWARDSHIP PARTNERS

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