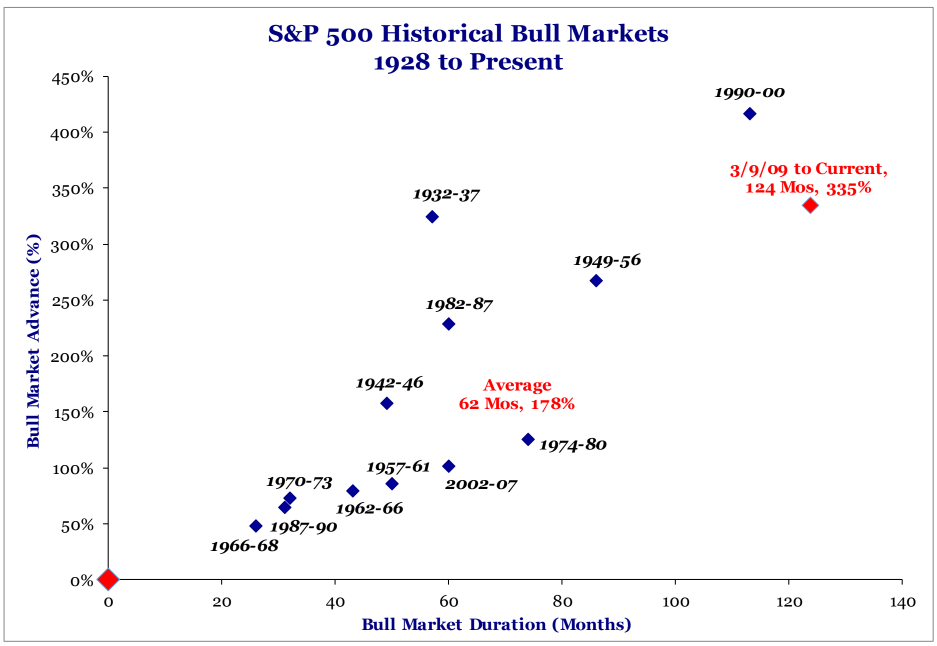
QUARTERLY REVIEW AND OUTLOOK
THE CATERPILLAR BULL MARKET

It's a fact that bull markets do not die of old age. Usually an economic problem emerges or a political mistake occurs that moves the economy into a stall or moderate decline. With that in mind, the current bull market is now the longest on record at 124 months (Chart 1).

CHART I

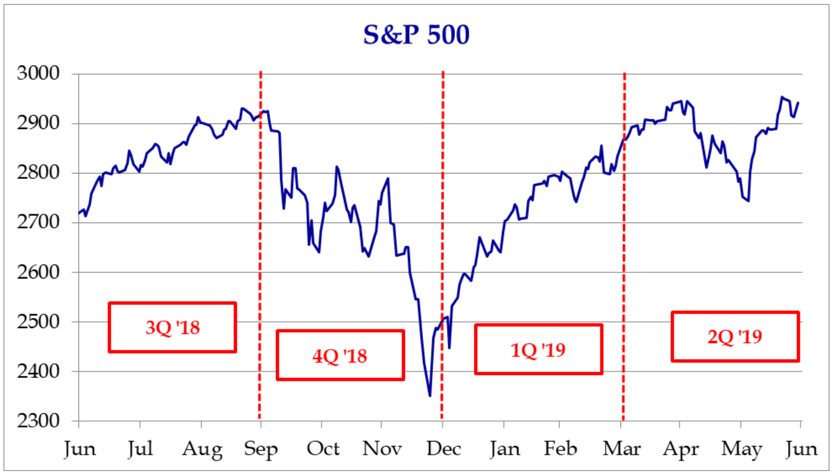


Source: Strategas

Interestingly, this bull market is up about 335% from the trough of March 9, but is still behind the 10-year bull market gains of about 400% set between 1990 and 2000. This reflects, to some degree, the slower pace of economic expansion in the current cycle versus the stronger GDP growth of the past. Moreover, the average p/e ratio of the market at 17 times projected earnings is still around the average for the stock market over many decades.

Nevertheless, market volatility can, and is likely to, remain pronounced over short periods of time (Chart II).

CHART II



Source: Strategas

The decline in the fourth quarter of 2018 reflected concerns of a slowing global economy and worry that the Federal Reserve may remain less than accommodating for short-term interest rates. We believe the current global slowdown remains a concern for the market. The global Purchasing Manager's Index (PMI) has slowed for most countries in the last few months. The PMI measures the economic trend in the manufacturing and service sectors as viewed by purchasing managers. More directly, it measures the current and future expectations of purchasing managers. Generally, when the PMI falls below 50, it is thought that an economy is slowing or in contraction. As Chart III indicates, the U.S. and all major countries have seen a slowdown in their PMI in the last year.

CHART III

Manufacturing PMIs

	Jun-19	Jun-18	Jun-17
U.S.	50.6	55.4	52.0
China	49.4	51.0	50.4
Japan	49.3	53.0	52.4
UK	48.0	54.0	54.2
France	51.9	52.5	54.8
Germany	45.0	55.9	59.6
Italy	48.4	53.3	55.2
Spain	47.9	53.4	54.7

Expanding ≥ 52 | **52 > Neutral ≥ 50** | **Contracting < 50**

Source: Bloomberg

As of June 2019, the vast majority of the major global economies saw a trailing twelve-month slowdown as PMI contracted. Only the U.S. and France remain above 50 in the index. Since the market tends to anticipate, the current stock market recovery at all-time highs reflects a combination of continued good corporate earning growth expectations, an expectation that the Federal Reserve is likely to cut interest rates in the near future and the likelihood that the global slowdown should show some recovery in the second half of 2019 and into 2020.

THE CATERPILLAR BULL

CHART IV

Source: Strategas

We call this current bull market the caterpillar bull market. It is slow, it is long and it has many legs to it. The focus on global quantitative easing in the last ten years has pushed up monetary liquidity, inflated asset prices, reduced inflation and, as can be seen in Chart IV, created low global interest rates. Indeed, we now have about $13 trillion (not billion) dollars in global debt earning a negative yield (you get back less than what you put in). How economists square this as a positive defies logic. Sovereign debt in Germany, France and Japan are currently earning negative returns through 2029. In Japan, the 30-year government bond yields 0.35%. The German bund 30-year yield is even lower at 25 bps (1/4 of 1%). The good news is we have low global interest rates despite global GDP growing at 3%. Combined with low inflation, slow U.S. and European growth may continue for some time.

The stock market understands this disconnect and rewards the overall valuation of the corporate world at about a 17 times p/e on future earnings. This is hardly a high valuation given the current risk-free rate of return. While many growth stocks sport p/e ratios in the mid-20s, it is not unreasonable since growth is valued at a premium in this economic environment.

At this juncture, we think only a political error or a mistake by the Federal Reserve would jeopardize the current stock market outlook. Thus, we remain moderately constructive on the expectation of a continued easing of monetary policy, slow but steady GDP growth and a moderate rise in corporate profitability in 2020.

PORTFOLIO STATEGY

We have long focused on developing a digital sensitivity in our portfolio. In accordance, we have added two new names to our core portfolio that underscore this shift.

LEIDOS (LDOS)

Leidos provides I.T. and consulting services to the U.S. government. The company generated over $10 billion in sales in 2018, making it the market share leader in government I.T. Leidos' core competency is to customize and integrate software for various government agencies. The company does this in four segments: defense (30% of sales), civil (33%), intelligence (19%) and health (18%). The defense segment provides the technology behind various sensor and reconnaissance systems (i.e., unmanned flight software, naval combat systems and secure communications). The civil segment mainly provides airport agencies (FAA, TSA) with air traffic control systems and cargo inspection systems. Leidos' systems manage over 60% of the world's air traffic. Leidos' health segment integrates healthcare systems for the U.S. government. They're the leading systems integrator for the deployment of an electronic health records system for DoD hospitals. The intelligence segment provides mission software systems and cyber operations to the U.S. intelligence agencies. The company generates nearly all its income in the United States (98%).

SAP SE (SAP US)

SAP is a market-leading enterprise software company serving over 430,000 customers including 92% of the Fortune Global 2000. The company's best known for its Enterprise Resource Planning (ERP) solutions which provide businesses with real-time insights into sales and operations, supply chain analysis, finance/accounting, inventory management and customer experience. SAP is the largest company in Germany, with a market cap over $150 billion. The company generates revenue in three segments: cloud (26% of sales), software licenses and support (57%) and services (17%). Geographically SAP generates 39% of revenue in the Americas, 45% in EMEA and 16% in Asia-Pacific and Japan.

After years of passively monitoring SAP, we finally invested after reading management's 2023 initiatives for cloud growth and margin expansion. The company just reported 26% constantcurrency growth in new cloud bookings, making SAP the fastest growing cloud company in the enterprise software space. Most importantly, the company announced expectations to improve operating margin by 1% per year for five years. This is significant because historically SAP's strong growth (five consecutive years of +5% sales growth) hasn't resulted in improved profitability. Over the next five years, we expect SAP will generate +5% annual revenue growth and margin improvement for the first time in over a decade. Management also expects to triple its cloud revenue (25% of CAGR) over the next five years.

ANDRES FERNANDEZ JOINS KPCM

KPCM is pleased to announce that Andres Fernandez has joined our firm as a Vice President and Investment Advisor in our Great Neck office. Prior to joining Kings Point Capital Management, Andres served as Vice President, Financial Consultant at Charles Schwab & Company. He served in Schwab's high net worth group. We are extremely pleased to have Andres join our firm.

We continue to focus on taking prudent risk in this rising market. We remain committed to preserving the capital of our client base when more difficult economic trends become apparent.

Jack L. Salzman Senior Managing Partner	Jeffrey P. Bates Managing Partner	John A. Marshall, IV CFA, CFP® Partner
Jason D. Beaird, CFA Director	Ken Lynn VP, Investment Advisor	Andres Fernandez VP, Investment Advisor

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It should not be assumed that investments made in the future will be profitable or will equal the performance of investments discussed in this letter. On request, Kings Point will provide to you a list of all of the investments made by it in the last year.

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