Colorado Capital
MANAGEMENT

SPRING NEWSLETTER / APRIL 2019

CCM Update

Our newest advisor - Erica Blake!

We are pleased to announce the addition of Erica Blake to our team as a financial advisor and soon to be shareholder. Erica holds both the Chartered Financial Analyst (CFA) and the Certified Financial Planner (CFP®) designations, and brings over a decade of banking, portfolio management, and leadership experience.

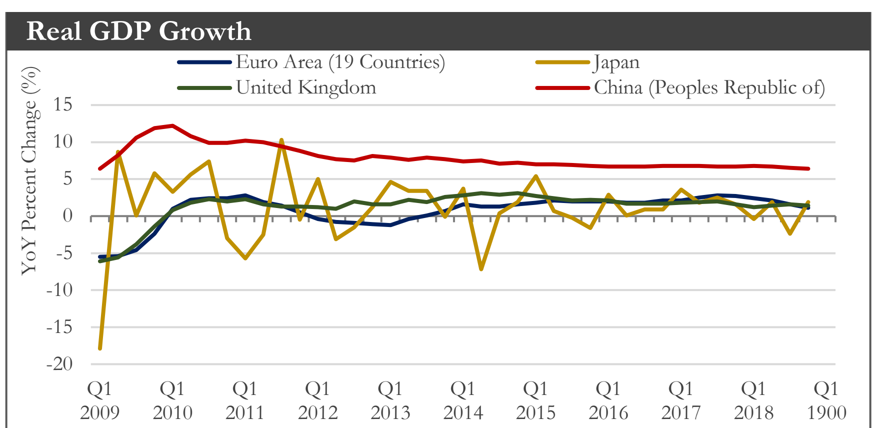
Inspired by Rich Dad, Poor Dad by Robert Kiyosaki, she pursued an education in finance to help people achieve financial freedom. She worked at a well-known bank and trust prior to CCM and founded her career on investment research, trading, and security analysis. She specialized in bond markets and has extensive experience with public equity markets.

In 2017, Erica led a team that researched and developed an environmental, social, and corporate governance (ESG) strategy. She became captivated by the concept of businesses focusing on the triple bottom line: people, planet, and profit. She earned a certificate in Corporate Social Responsibility at CU in 2018. Soon after, she sought out Colorado Capital Management due to its impact investment expertise and Certified B Corp status.

Economic Review

Overview: Despite steady first quarter results, we expect economic growth to slow, both in the US and abroad. U.S. GDP is expected to drop from approximately 2.9% last year to the 2.0% to 2.5% range in 2019. Global GDP growth for 2019 is now projected by the International Monetary Fund to be 3.3% (down from 3.5% in January and 3.7% in October). While the major developed economies appear to be slowing, economic activity in the developing world is expected to heat up later this year. An anticipated improvement in global manufacturing activity, weaker inflation, lower global interest rates, and an apparent calming in US-China trade tensions all support a firmer outlook in emerging market economies.

Against the backdrop of slower global growth, many central banks have adopted a more dovish stance. Most notably the Federal Reserve and the European Central Bank (ECB) have signaled that interest rate targets may now be on hold through all of 2019. Several other major



Source: Eurostat, Economic and Social Research Institute Japan, UK Office for National Statistics, National Bureau of Statistics of China

central banks have explicitly acknowledged in recent months that the next move in policy interest rates could be down.

Colorado Capital Management contributors and editors: Erica Blake, Steven Ellis, and Monica Mielke.

Key Economic Indicators			
Indicator	**Current (3/31/2019)**	**3 Months Ago (12/31/2018)**	**1 Year Ago (3/31/2018)**
US Economy			
Quarterly GDP	2.7%	2.6%	2.2%
Unemployment Rate	3.8%	3.9%	4.0%
U.S. CPI (Core)	2.04%	2.2%	2.1%
Interest Rates			
Effective Fed Funds Rate	2.41%	2.27%	1.51%
10- Year Treasury Rate	2.57%	2.83%	2.84%
Currency & Commodities			
Crude Oil (WTI)	$58.15	$46.51	$59.67
Gold Price	$1,302	$1,294	$1,365
Trade Weighted Dollar Index	127.2	128.5	118.1
Confidence			
Consumer Confidence Index	124.1	126.6	127.0
ISM Purchasing Managers Index	55.3	54.3	59.3
Stock Prices			
Dow Jones Industrial Average	25,929	23,327	24,103
S&P 500 Forward P/E ratio	19.0x	16.5x	19.7x

Key Indicators: The key economic indicators listed in the above table sugest that the U.S. economy remains healthy. While GDP growth is expected to slow (as noted above), the outlook for the remainder of 2019 is also fairly promising. Positive factors include rising wages, low unemployment, low interest rates and high levels of household confidence. However, there are a few risks to this view, such as slowing growth in Europe and China, and uncertainty surrounding U.S. trade and fiscal policy. Lawmakers will need to extend the current budget deal and raise the current debt ceiling to avoid another government shutdown.

U.S. GDP Growth: U.S. GDP growth in the first quarter exceeded most expectations, particularly in light of the partial government shutdown that extended into late January. However, growth is expected to slow in coming quarters due to the fading effect of the 2017 tax cuts and the 2018 government spending increases.

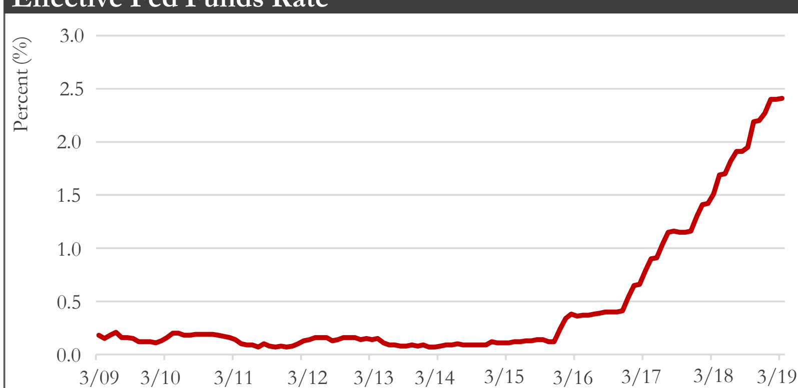
Some are predicting a contraction in GDP as a result of the recent partial inversion of the yield curve (meaning short-term interest rates were higher than some longer-term rates), since this condition has often signaled an upcoming recession. However, we believe that a more sustained inversion of the curve, along with higher interest rates and weaker economic fundamentals would be necessary to realistically signal a forthcoming contraction in the economy.

Labor Market: One measure of strength of the economy is the strong labor market. The unemployment rate today is a very modest 3.8%. The Department of Labor recently announced that the number of workers claiming unemployment insurance reached its lowest level in 50 years.

Inflation: Inflation remains well contained. While the core inflation rate remains close to the Fed's 2% target, the broadest measure of consumer prices (including food and energy) is up only 1.5% over the past year.

Interest Rates: After a period of exceptional market volatility late last year—brought on by concerns over slowing global growth, trade tensions and the Fed's policy stance—the Federal Reserve seems unlikely to raise interest rates this year and may be nearly finished with the series of increases it began more than three years ago now that U.S. economic growth has been slowing. The FOMC meeting in late March left its policy rate unchanged in a range between 2.25% and 2.5%.

Effective Fed Funds Rate



Source: Board of Governors of the Federal Reserve System

Mild inflation pressures, a sharp pullback in financial risk-taking and clear threats to U.S. growth have led to the Fed's new wait-and-see stance. Given a muted inflation backdrop and global economic and financial developments, this period of patience will likely last into next year.

Oil Prices: Oil prices jumped dramatically during the first quarter, rising close to 30%, but this was simply recovering lost ground. At roughly $60 per barrel, prices today are comparable to levels a year ago, and also are fairly consistent with long-term trends.

Housing: The housing market had a rough go over the past year. Existing home sales and housing starts both ended 2018 down more than 10% from year ago levels. These two indicators have been the latest signs of how much the housing market struggled in the last few months of 2018. Higher mortgage rates, political uncertainty, stock market turbulence and growing frustration over a lack of starter home inventory has caused many buyers to pause.

However, as seen in the chart below, the deterioration in housing affordability over the past several years has reversed in recent months. Mortgage rates have emerged some 60 basis points below their peak, and home price growth has slowed just as wages have accelerated. All of this would suggest that fundamentals are ripe for a rebound in home sales and gains in residential investment in 2019.

Homebuyer Affordability Composite Index

Source: National Association of Realtors

Global Developments

• **Brexit:** The British Parliament rejected Prime Minister Theresa May's Brexit deal for a third time, leaving the country no closer to an exit plan after more than two years of bitter wrangling. Now the Brexit outcomes that once seemed radical have become more likely. These have included another referendum to revoke the exit altogether, a general election or a sudden breakaway from the EU.

It is expected that the most likely short-term outcome will be that the government will ask the EU to postpone Brexit again to avoid the expected widespread disruption arising from severing current trading arrangements with the U.K.'s closest trading partner.

• **China:** Beijing lowered its economic-growth target this year to between 6% and 6.5%, after reporting the slowest economic growth in nearly three decades last year. To counter the slowdown, the authorities have ramped up spending on rail and other infrastructure projects, urged banks to lend more to small businesses, and lowered taxes for households and businesses.

Market Performance

Following a difficult fourth quarter during which the S&P 500 dropped 13.5%, optimism returned during the first quarter of 2019. Boosted by a suddenly dovish Fed and a White House that appeared reluctant to further increase tariffs on China, the S&P 500 posted its best quarterly gain since the third quarter of 2009 and its best first quarter since 1998. The benchmark S&P 500 Index rose 13.7% during the first quarter, the Dow Jones Industrial Average was up 11.8%, and the Nasdaq Index jumped 16.9%. Results overseas were also positive as the MSCI EAFE index rose 10.0%, and the MSCI Emerging Markets index produced a 9.9% return. Fixed income markets generated positive results as well as global bond yields fell. The Barclays U.S. Aggregate Bond index gained 2.9% while the Barclays Global Aggregate ex. US Bond index rose 1.5%.

Domestic Equities: The first quarter rally was fueled by shifts in government policy. As recently as December, the Federal Reserve was planning additional interest rate hikes in 2019. But following its March meeting, the Fed left interest rates unchanged and projected no rate hikes in 2019. The Fed also laid out a plan for slowing the reduction of its large bond holdings. Also contributing to the first quarter rally was improving sentiment surrounding U.S.-China trade negotiations. President Trump cited "substantial progress" in ongoing negotiations with Beijing when announcing a delay in increasing tariffs on Chinese imports that were scheduled to go into effect March 1st.

International Equities: Calendar year 2018 was a disappointing one for international equities as the asset class largely underperformed the U.S. stock market. Weakness overseas was driven by concerns about slowing global economic growth and the resulting potential impact on corporate profits.

Market Performance *(continued)*

The first quarter of 2019, however, saw a shift in sentiment as investors became optimistic that economic growth would stabilize, and earnings growth would turn modestly positive. The MSCI EAFE index rose 10% during the quarter. Key drivers of this shift in sentiment have been a seemingly less hawkish Federal Reserve, a decrease in trade tensions, and early signs of stabilization in China, where the rate of economic growth has been slowing.

Fixed Income: Fixed income markets generally produced positive results during the quarter as a more cautious Fed ended three years of monetary policy tightening. Falling interest rates positively drove returns as the 10-year Treasury bond yield dropped from 2.7% to 2.4% during the first quarter.

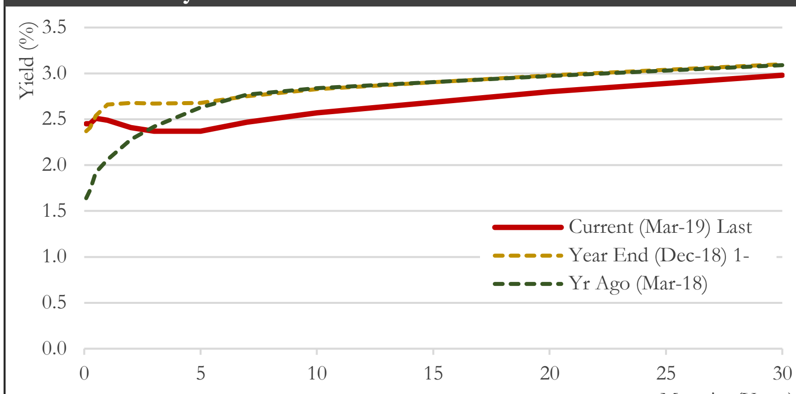
Outlook

U.S. Equities: Although U.S. equities moved sharply higher during the first quarter, the economy continues to slow. We have been flirting with an inverted yield curve and year-over-year corporate earnings growth will likely be negative when first quarter results are reported. The year-to-date rally has pushed equity market valuations significantly higher. Margins are under pressure as a result of a stronger dollar and rising wages and input costs. And analyst revisions have moved into negative territory. Given these dynamics, a market pullback seems increasingly likely. However, recent responses from policymakers on interest rates and trade do have the potential to extend market gains and postpone the decline.

International Equities: In developed overseas markets, European equities remain challenged by slowing economic growth and political risks. Significant corporate earnings improvement may prove difficult in this environment. Japanese equities are supported by attractive valuations, shareholder friendly corporate behavior, central bank stock buying, and political stability, but their earnings outlook is also uncertain. A disruption in global trade or a greater-than-expected slowdown in China are significant risks, especially in Asia.

In emerging markets valuations remain attractive, even after the year-to-date rally, and fears about broad emerging market contagion from mid-2018 have fallen. Accommodative policy measures in China and a dovish shift by the Federal Reserve are tailwinds.

U.S. Treasury Yield Curve



Source: Board of Governors of the Federal Reserve System

Fixed Income: A slowing, but still growing, global economy should be supportive of fixed income markets. Global inflation pressures remain subdued and are unlikely to drive short term changes in world monetary policy. The current less aggressive stance from the Fed has eased pressure on fixed income assets from rising short term rates. Interest payments, rather than capital appreciation, should be the dominant driver of bond returns in the quarters ahead. US Treasury Bonds remain an attractive potential hedge against an equity downturn, as the historical negative correlation between the returns of US equities and government bonds is expected to continue.

Sources: Capital Market Consultants, Dept. of Labor, Dept. of Commerce, Bloomberg, Morningstar.

INVESTMENTS / PLANNING / IMPACT

COLORADO CAPITAL MANAGEMENT provides investment management and financial planning to high-net-worth individuals and their families. As fee-only advisors, we place your interests first as we develop prudent and thoughtful financial strategies designed to both limit risk and meet specific long-term goals. We also offer sophisticated impact investing strategies for investors wishing to combine financial returns with positive social and environmental impact.

Colorado Capital Management is a Certified B Corporation (an independent certification for corporate social responsibility) and a Registered Investment Advisor (meaning we are registered with the SEC and have a fiduciary duty to always act in the best interest of our clients).

Colorado Capital MANAGEMENT
Enriching Lives

4430 Arapahoe Ave.
Suite 120
Boulder, CO 80303

Phone: 303.444.9300
Fax: 303.444.2027
info@coloradocap.com
www.coloradocap.com

Certified B Corporation

RiA STANDS FOR YOU.