INVESTMENT PERSPECTIVE by Paul Martin, Managing Partner

Despite Recent Market Volatility, Stocks Remain Significantly Higher This Year

August 10, 2019

The second quarter saw a continuation of the first quarter rally, but with higher volatility, mainly driven by renewed concerns about the pending trade war with China. Bond prices benefited as yields fell in the face of this renewed uncertainty and the potentially negative impact of tariffs on the economy. Gold prices also rose in response to the latest turmoil over trade, but oil prices fell in the wake of the probability of weaker demand if the economy begins to slow.

The third quarter started off well for stocks, but prices began to roll over to the downside as trade tensions heated up again; however, at this time the S&P 500 is only down about 4% from its recent high and still up over 17% for the year.

Bonds, gold, and oil have maintained their second quarter trends, with bond and gold prices rising and oil prices falling.

Despite the latest negative news on the tariff front, stocks have held up quite well so far. While it’s a flip of the coin as to whether stocks give back more ground in the near-term, the odds are good that trade negotiations will eventually be successful (since it’s in the best interest of all parties to work something out), thereby relieving the trade related pressure on the economy and stock market.

Becoming of greater concern at this point is the further drop in interest rates relative to the Fed Funds rate. The Martin Capital Yield Curve Inversion Hedging Model, which has called economically driven bear markets within a few months of every bull market top since 1953, is moving closer to a sell signal. The saving grace, however, is that the Fed began to preemptively cut the Fed Funds rate last month prior to any significant signs of economic contraction, as was done in 1995 and 1998. These rate cuts helped the economy avoid a recession and allowed the stock market to power higher until the Fed severely inverted the yield curve in 2000. My guess is that the Fed gets it this time, as they did in 1995 and 1998, and will watch the yield curve closely and cut rates as necessary to prevent a severe inversion. If this proves to be the case, then odds are good that the bull market could still have a long way to run.

COMPARISON OF INVESTMENT RESULTS

<table>
<thead>
<tr>
<th>Martin Capital Advisors¹</th>
<th>S&amp;P 500</th>
<th>Russell 3000</th>
<th>Barclays Aggregate Bond Index</th>
<th>3 Month T-Bill</th>
<th>Consumer Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total²</td>
<td>2377.5%</td>
<td>1507.1%</td>
<td>1577.0%</td>
<td>401.7%</td>
<td>107.6%</td>
</tr>
<tr>
<td>Avg.³</td>
<td>11.9%</td>
<td>10.2%</td>
<td>10.4%</td>
<td>5.8%</td>
<td>2.6%</td>
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¹Total performance, net of commissions, fees, and expenses of all Martin Capital Advisors’ Flexible Growth Portfolios.
²Total compounded return, including reinvestment of dividends and interest.
³1991-2019 annualized return.

See Important Disclosure Notice on last page.
INVESTMENT RESULTS
January 1, 1991 to June 30, 2019

MCA FLEXIBLE GROWTH PORTFOLIOS TOP 20 STOCKS
as of June 30, 2019


INVESTMENT RESULTS
Martin Capital Advisors’ Investment Portfolios vs. S&P 500 and Barclays Aggregate Bond Indexes

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MCA claims compliance with the Global Investment Performance Standards (GIPS®).

Returns are shown in U.S. dollars net of fees.

Martin Capital Advisors, LLP has been independently verified for the periods January 1, 1991 to March 31, 2019 by Dabney Investment Consulting Associates, Inc. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

MCA Flexible Growth Portfolios Composite consists of all fully discretionary portfolios that are invested in publicly traded companies with the goal of maximizing long-term returns. These portfolios are classified as an all-cap core strategy, but predominately invest in large and mid-cap stocks, blending the characteristics of both growth and value investing. Each portfolio typically invests in 30 to 40 stocks that are rigorously selected to meet our core philosophy of investing in companies with an enduring competitive advantage that offer growth at a reasonable price. These portfolios are for investors who are willing to accept significant short-term volatility in the pursuit of superior long-term returns. The benchmark for this composite is the S&P 500 Index, which is an index of the 500 leading companies in the U.S. and is designed to reflect the risk and return characteristics of the large-cap U.S. equities universe.

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To receive a list of composite descriptions of MCA and/or a compliant presentation, contact Darby Ivins at (210) 694-2100, ext. 2, or darby@martincapital.com.