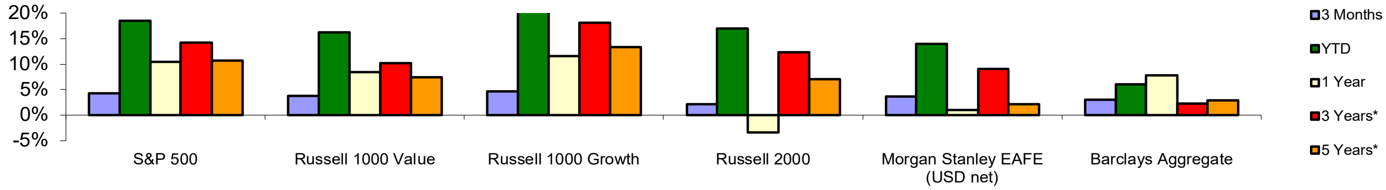
Timberline
Investment Management, LLC

MARKET OVERVIEW

06/30/19

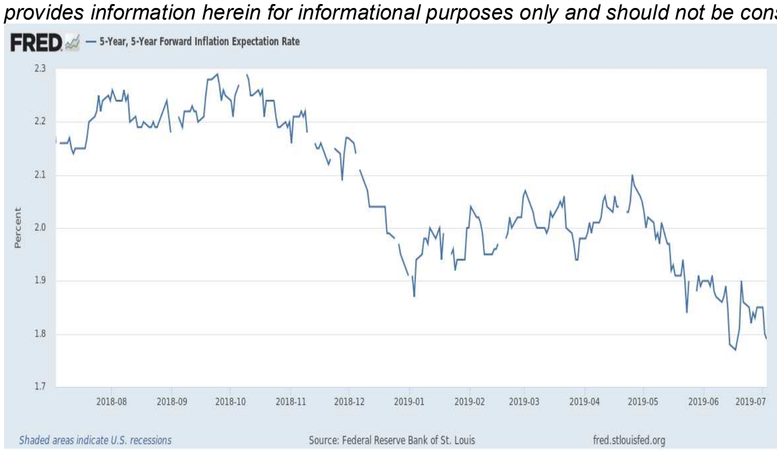
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	4.30%	18.54%	10.42%	14.19%	10.71%
Large Company Value	Russell 1000 Value	3.84%	16.24%	8.46%	10.19%	7.46%
Large Company Growth	Russell 1000 Growth	4.64%	21.49%	11.56%	18.07%	13.39%
Small Companies	Russell 2000	2.10%	16.98%	-3.31%	12.30%	7.06%
International Stocks	Morgan Stanley EAFE (USD net)	3.68%	14.03%	1.08%	9.11%	2.25%
General Bond Market	Barclays Aggregate	3.08%	6.11%	7.87%	2.31%	2.95%



ECONOMIC OVERVIEW

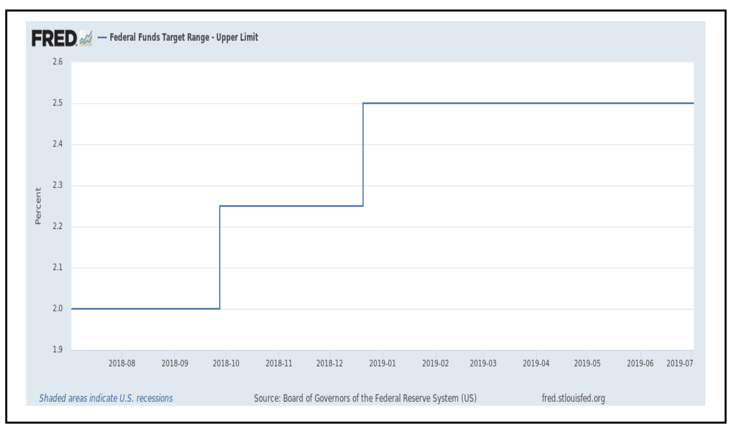
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.00%	2.41%	**-17.01%**	2.85%	**-29.82%**
Short-term Rates	Effective Fed Funds Rate	2.40%	2.43%	**-1.23%**	1.91%	**25.65%**
Consumer Inflation	Consumer Price Index	255.155	253.113	**0.81%**	250.646	**1.80%**
Wage Growth	Average Hourly Earnings	27.90	27.71	**0.69%**	27.05	**3.14%**
Job Growth	Total Non-farm Payrolls	151,308	150,796	**0.34%**	149,007	**1.54%**
Average Workweek Hours	Avg. Weekly Work Hours	34.4	34.5	**-0.29%**	34.5	**-0.29%**
Economic Output	Gross Domestic Product	21,060	20,885	**0.84%**	20,041	**5.08%**

Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.



EXPECTED FORWARD INFLATION RATE – Over the past year and using 5-year Treasury yields, we see that the outlook for future inflation has declined to about 1.8%,

FED FUNDS UPPER TARGET RATE – Over the past year, the Fed has moved its short-term interest rate target higher with a 2.5% upper limit at this time. With expected inflation (see above chart) now notably lower than the target range, a Fed rate adjustment looks plausible.



10-year Government Interest Rates:

United States:	+2.00%
Germany:	- .32%
Japan:	- .16%

10-YEAR GOVERNMENT RATES AS OF 6/28/19 - 2% yield for a U.S. 10-year Treasury note looks low on its own but looks good for global bond investors finding negative rates elsewhere.

Data sources: Frank Russell, Ishares, St. Louis Federal Reserve. MSCI. Marketwatch

A look at the 2q19 performance of major investment asset classes (domestic equities, international equities, small company equities, fixed income) paints a very friendly picture with each class producing low single digit returns. Consistent results like this are nice but rather unusual. Fixed income results were positive due to falling interest rates. Falling interest rates are typically associated with periods of economic weakness that does not always bode well for equities. Equities, on the other hand, gained and expressed an element of confidence in future prospects which is typically an unfavorable situation for bonds.

This conundrum may oddly represent the very complicated nature of the time period. Trade issues with China leads the lis t but one can also add signals of a rate cut from the Federal Reserve, modest inflation conditions despite tariffs, some slowing in the domestic economy, and negative 10-year interest rates from developed economies like that of Germany and Japan. At the risk of being wrong in a matter of hours or even minutes, I'll take a shot at each of these items.

Trade issues with China currently appear to be in a time-out period where each side has made some modest concessions, threats have been pulled back, and talks are resuming. Despite this, existing tariffs on China products are significant and there is a meaningful level of "sourcing" leaving the country. Though some of this is encouraging, I doubt that a meaningful and final agreement will come anytime soon. I believe China negotiators will recognize that the next presidential election is not far off and that it may make little sense to settle when an entirely different administration potentially takes control relatively soon. While China may painfully try to drag things out, I doubt if Trump will react with additional tariffs for political reasons. Such tariffs may create more visible consequences for the domestic economy than those currently in place. Furthermore, the administration may see that current tariffs are exacting enough pain to eventually motivate China to seek settlement down the road.

While current tariffs may not be creating severe product price consequences, I believe there is enough ambiguity where a certain amount business expansion and investment has been delayed due to tariff uncertainties. This and the passing of the maximum impact period of tax cuts may be moving the economy into a more modest growth trajectory. Add modest inflation to the equation and you have the Federal Reserve giving serious consideration to a cut in short-term rates as soon as this month. It seems odd that a rate cut should occur when GDP and employment conditions are very healthy. On the other hand, the Fed's current target rate range is notably higher than expected inflation (see graphs provided) so an adjustment makes some sense. A Fed cut can also be viewed as a move to catch up with bond markets that have already pushed the domestic 10-year Treasury rate to 2% and negative levels in certain countries as mentioned. All this points to a very strange level of central bank manipulation, especially overseas. This has distorted long-term interest rates across the globe and, in my mind, diminished the value of yield curve analysis (studying the difference in short-term and long-term interest rates) as a leading indicator for the economy.

As mentioned in previous reports, I continue to believe that patience will be needed by investors and that there will eventually be an actual or a direction of trade settlements welcomed by both sides while the domestic economy maintains a good growth trajectory. Given this plus the helping hand of the Fed and energy independence, I believe long-term investment potential remains solid.

With that, thank you again for your business and interest in Timberline. It is a pleasure and privilege.

Gregg Giboney, CFA
President & Portfolio Manager
Investment Advisor Representative