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INVESTMENT SUMMARY

3rd Quarter 2019

Financial markets were mixed in the third quarter, with major asset class performance ranging from small negative returns to incremental positive gains. The primary U.S. stock and bond benchmarks rose by about 2% in the quarter, while small-cap and International equities fell by a similar amount. Signals from the broader economy were also mixed. While personal income growth in the U.S. has been rising, it hasn't translated into commensurately higher consumer spending. On the manufacturing side of the economy, orders have been registering at decade lows, even though housing-starts and durable goods production have shown positive momentum from the Summer into Fall.

During the quarter, the Federal Reserve cut interest rates a quarter point in response to the slowing U.S. economy. In a concerning turn of events shortly thereafter, the basic plumbing system of the U.S. financial markets showed stress by way of the repo market (which is a facilitator of daily liquidity to our largest banks). While the Fed was able to temporarily address the problems in the repo market, it serves as another current example of imbalances in our financial system.

The China and United States trade dispute is the prominent issue impacting market performance and the global economy today. With the first tariffs being implemented in 2018, world GDP growth has slowed, and stock prices have been moving sideways for twenty months and counting. According to a recent Chief Financial Officer survey taken by Duke University, 70% of U.S. CFOs and 80% of international CFOs are forecasting a recession in the year 2020. In the survey, they raise concerns about the ramifications of the trade war, which include a decline in global manufacturing, a worsening market sentiment, and a growing hit to business confidence. Recently, the Commerce Department reported that this on-going trade war is having a real economic impact, highlighting China's recent fall from the United States' largest trading partner to its third.

The financial markets are always factoring in future information, and the 2020 Presidential election is now on the horizon, along with the recently initiated Presidential impeachment inquiry. Politics in Europe are also active, with leaders in Germany and Italy under pressure for poor economic results and budget deficits. Lastly, the ongoing Brexit saga has a fast approaching deadline of October 31st. If a deal is not reached with the EU, it could result in a chaotic no-deal exit for the United Kingdom. Putting it all together, we see geo-political developments continuing to impact markets as we push further into the mature phase of this historic economic expansion.