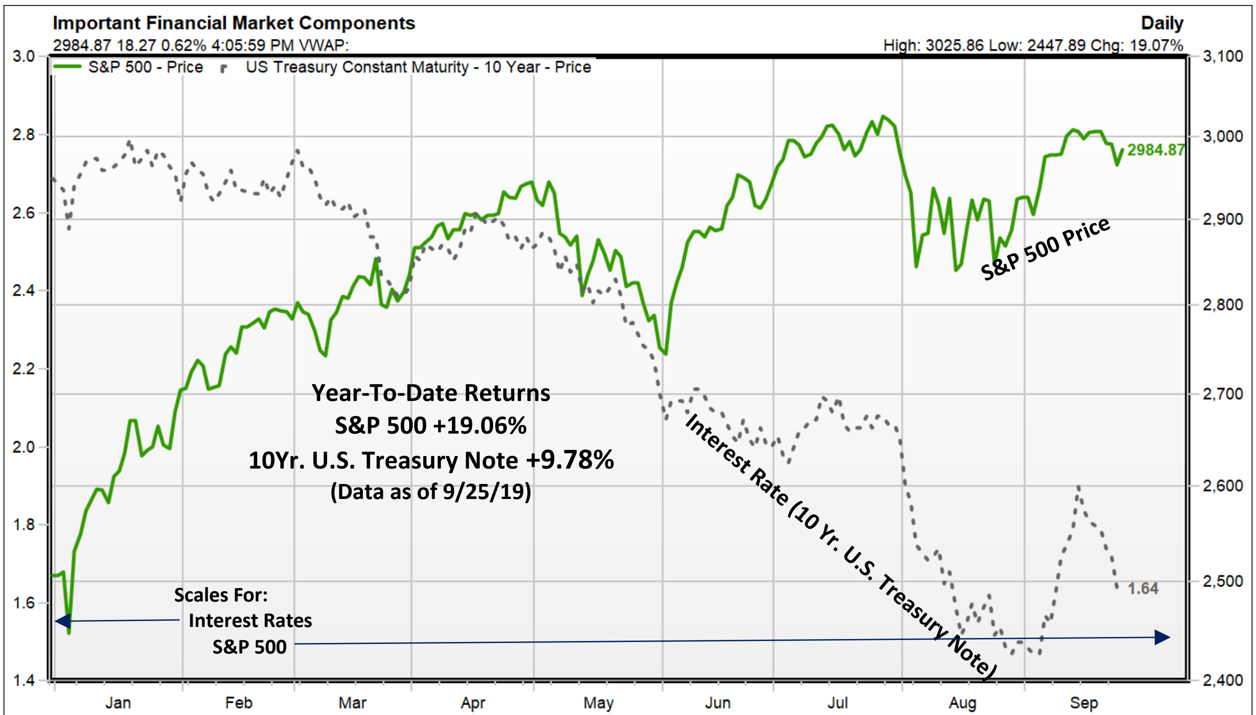
ECONOMIC & FINANCIAL MARKET UPDATE – SEPTEMBER, 2019

Quite A Year Thus Far!

Where We Are

It's hard to believe that within a few short days we will be entering the year's final three months and begin thinking about the holidays and end of year. At the same time, we should reflect back on what has recently occurred in the financial markets. As one can see from the chart below, the first nine months of this year have certainly been rewarding to investors. This, despite a multitude of challenges that occurred during the first three-quarters of the year. Even our earliest optimistic outlook for positive returns (see previous *Economic & Financial Market Updates*) have been exceeded.



Source: Factset Research Systems

Notwithstanding the continuing challenges of global and U.S. economic slowing, the problems in Hong Kong, Brexit, a "trade war" with China, North Korea and Iran "saber rattling", increasing discord in Washington, severe (at times) market volatility, and even an inverted yield curve (short-term interest rates exceed longer rates), the S&P 500 has marched importantly higher and retained the title of the second longest[i] bull market in history.

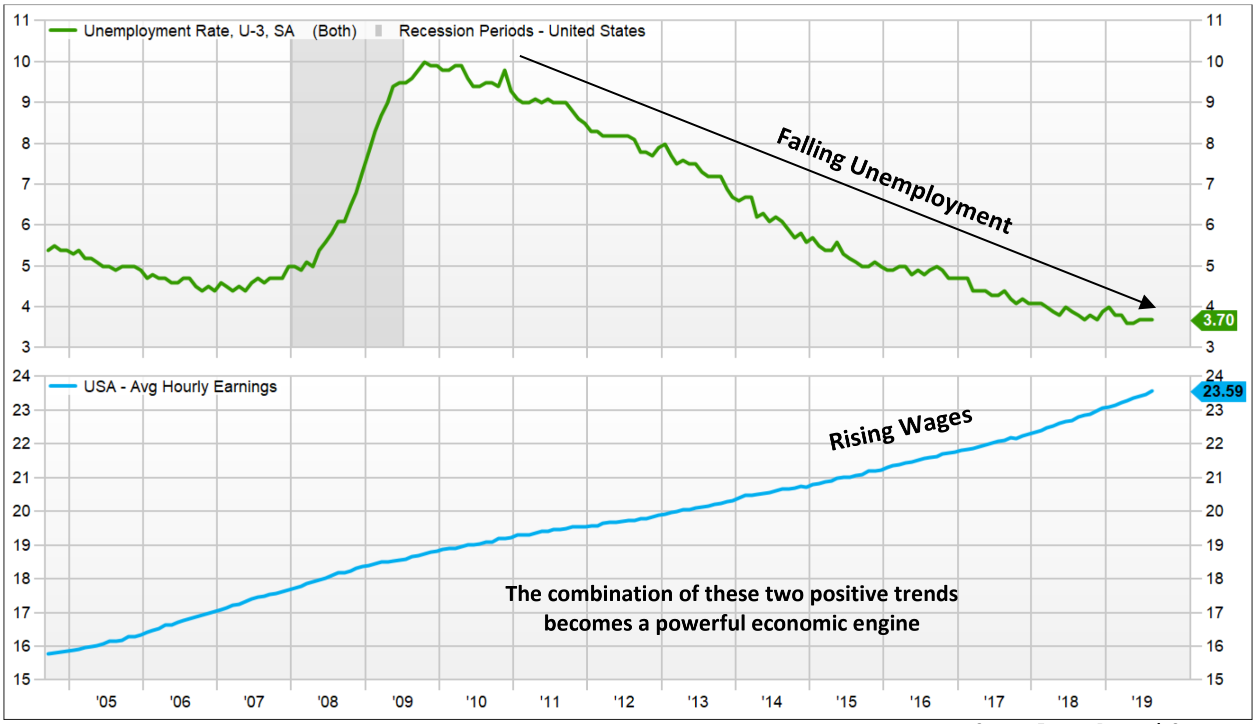
Overcoming The Challenges

The challenges described above and in previous updates are real, require intense focus and analysis and are always incorporated into our strategy and tactics. Our optimistic outlook for 2019 however, has been based on the stronger fundamental picture that we continued to see developing in the U.S. which eventually led to this economic expansion becoming the longest economic expansion in U.S. history[ii] e.g., 40 consecutive quarters of economic growth.

Unparalleled growth in employment (the lowest unemployment rate in 50 years[iii]), continuing growth in corporate earnings, a low/no inflation environment, historically low interest rates, strong consumer and business sentiment, and recently, improving wage growth have, and continue to be, some of the catalysts that have stimulated the economy and the stock market. The charts displayed below illustrate several of these positive influences.

Employment & Wage Growth

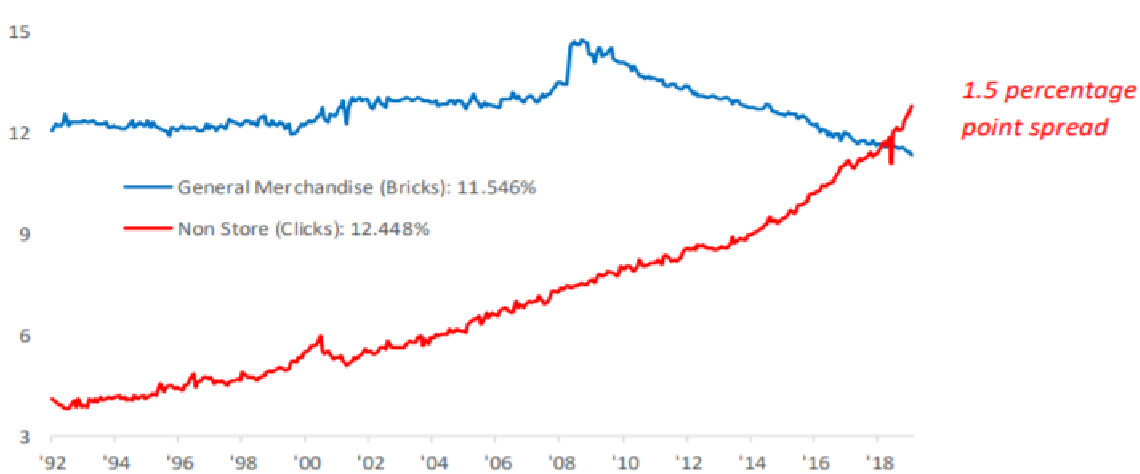
Critical To An Economy Dependent (70%) On Consumer Spending



Source: Factset Research Systems

On the subject of consumers, for the first time in history, August online retail sales (shown below) exceeded "bricks & mortar" sales as a percent of total retail general merchandise sales. This trend is extremely important for retailers when one realizes that total retail sales have been increasing at a 4%+ annual rate, but online retail sales recently have been increasing at a 20% annual rate, the fastest rate since December, 2000[iv]. More competition, possibly lower prices, great for consumers and inflation.

Total Share of Retail Sales: Stores vs. "Clicks"



Source: BESPOKE Management Inc.

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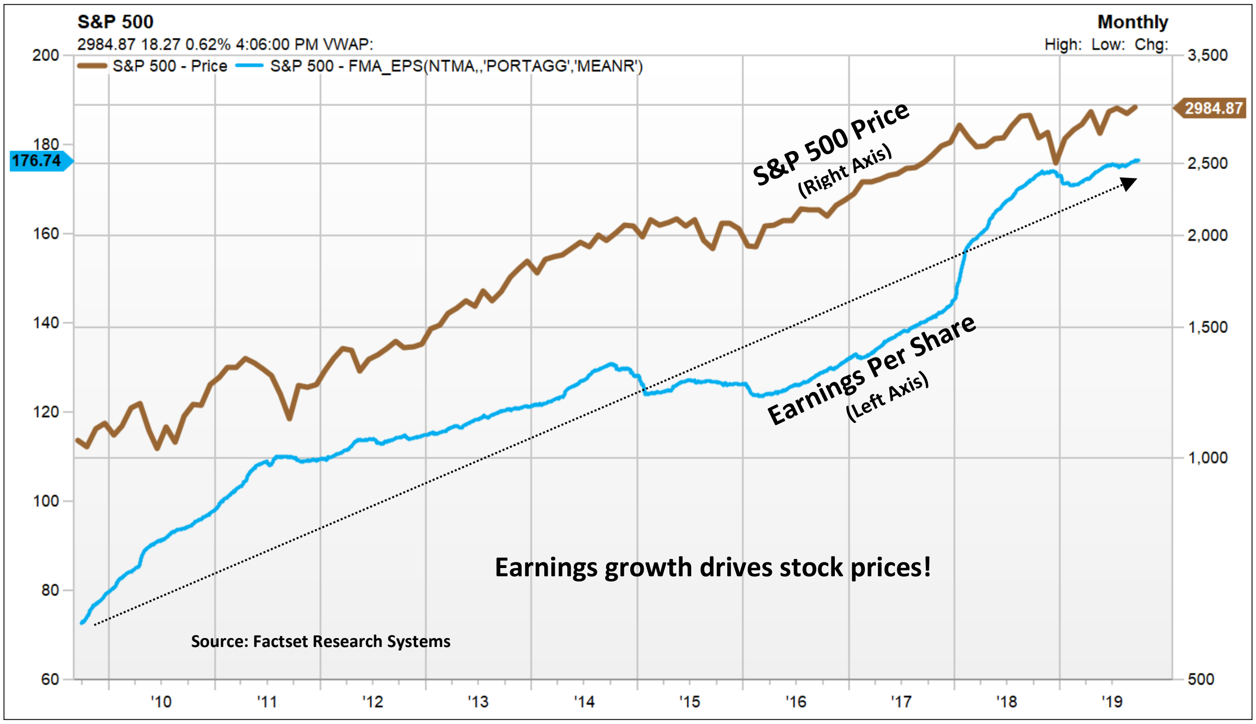
In addition to favorable employment and wage factors, another positive trend that has influenced our confident outlook has been the continued growth in corporate (S&P 500) earnings. It is growth of per share earnings that “drives” stock prices and as long as earnings growth could be anticipated, we felt optimum exposure to stocks was warranted. The relationship between S&P 500 earnings per share growth and the S&P 500 index is displayed below.

The Relationship Between Growing Earnings & Growing Stock Prices



Besides the factors discussed and displayed above we are beginning to see evidence that the trend of slowing U.S. economic growth may be reversing. For the first time in a number of months, industrial production and bank loans are increasing; mortgage applications and housing starts both improved more than expected for the first time in more than ten years and even home builder sentiment and regional indexes of manufacturing have improved. While these “green shoots” are reason to maintain optimism, the real key to continued U.S. (and global) economic growth is the productive resolution to the trade issues that exist between the U.S. and China. While negotiations are currently in process, it is difficult to estimate when a settlement might take place.

As we have mentioned previously, being optimistic, patient and long-term oriented has not kept us from being tactical and opportunistic when market opportunities presented themselves. As the equity markets again reached all-time highs several months ago (July) we modestly reduced equity exposure in order to maintain the discipline of asset allocation targets. Proceeds from these modest sales were generally reinvested into high quality short-term investments such as U.S. Treasury bills or CD’s to take advantage of attractive short-term interest rates and the inverted yield curve. Some of these modest reserves were later reinvested back into stocks when the market experienced a period of short but significant volatility just a month later.

What About The Future?

As we have mentioned throughout 2019, we do not anticipate a U.S. recession this year nor do we anticipate one likely beginning before the later-half of 2020, if then. The consumer, whose spending accounts for approximately seventy percent of U.S. GDP, appears to be in a very solid position with a job, an increasing salary, a high, by historic standards, Net Worth, and debt payments as a percentage of disposable income, that are less than they were ten years ago.

On the other side of the coin, the U.S. Fed has turned quite "dovish" and has now reduced the Fed Funds rate twice during the past two months. The first rate cut in more than ten years occurred on July 31st of this year when the Fed reduced rates by 25 basis points. That cut was followed by a second 25 basis point cut at the FOMC Board meeting on September 18th. The rationale for these cuts in quick succession was the continued slowing in the global and domestic economies attributed in large part to the impact of the tariff and trade war uncertainties. This stimulative action is taking place not only in the U.S. but by central banks across the globe in an attempt to increase and stabilize economic growth.

Seeing the recent improvement in housing, manufacturing, and broad-based industrial production further reinforces our continuing optimistic outlook.

A summary of the ***Positive*** and ***Negative*** factors that serve as the foundation for our outlook, strategy and tactics is shown below. As you view these factors, you will find that they have not materially changed since our last ***Economic & Financial Market Update*** (6/30/19) or even the first "Update" of this calendar year.

Positive Factors	Concerning Factors
The domestic economy (GDP) continues to grow.	Increasingly weak global economic data.
Federal Reserve actions turns simulative.	Heightened geopolitical tension.
Consumer Sentiment strong.	Inverted yield curve.
Domestic & global inflation near record lows.	Weak housing starts and auto sales.
Corporate earnings continue to grow.	U.S. Leading Economic Indicators "flat".
U.S. Hourly Wages increase.	Political discord & 2020 presidential race.
U.S. unemployment at 50 year low.	
Stock valuations modest.	
Equity market technicals (breath) remain positive.	

Portfolio Strategy

As always, our objective in managing client's assets is to meet expectations for principal and income growth while providing the highest level of client service/administration possible. We do that by focusing on achieving longer-term, net after-tax returns while maintaining well-diversified and balanced investment portfolios.

For some time now we have emphasized equity investments in the Technology, Healthcare and Industrial sectors because those companies are often the leaders in innovation and critical to long-term economic growth. We anticipate continuing that emphasis into the foreseeable future.

With respect to fixed-income (bond) investments, we have focused on investing in short-to-intermediate maturity bonds rather than extending maturities and possibly losing flexibility. While returns may have been heightened by lengthening maturities, we believe flexibility, quality and liquidity are paramount right now because of the elevated level of bond prices and extremely low yields.

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Thank you very much for the opportunity to serve you. We value highly our relationship with you and would appreciate any questions, comments or critique' that you would like to share with us and we look forward to meeting with you in the near future

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[i] Current bull market 3/9/09 to 9/25/19; 3,852 days; longest bull market 4,494 days from 12/4/97 to 3/24/00

[ii] National Bureau of Economic Research, 6/2009 to 9/2019, 123 months

[iii] Bureau of Labor Statistics, previous low 3.6% December, 1969

[iv] Census Bureau of the Department of Commerce, August, 2019 survey