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Market Update
(all values as of 09.30.2019)

Stock Indices:

Dow Jones	26,916
S&P 500	2,976
Nasdaq	7,999

Bond Sector Yields:

2 Yr Treasury	1.63%
10 Yr Treasury	1.68%
10 Yr Municipal	1.47%
High Yield	5.65%

YTD Market Returns:

Dow Jones	15.39%
S&P 500	18.74%
Nasdaq	20.56%
MSCI-EAFE	9.85%
MSCI-Europe	10.66%
MSCI-Pacific	8.64%
MSCI-Emg Mkt	3.65%
US Agg Bond	8.52%
US Corp Bond	13.20%
US Gov't Bond	9.72%

Commodity Prices:

Gold	1,479
Silver	17.08
Oil (WTI)	54.27

Currencies:

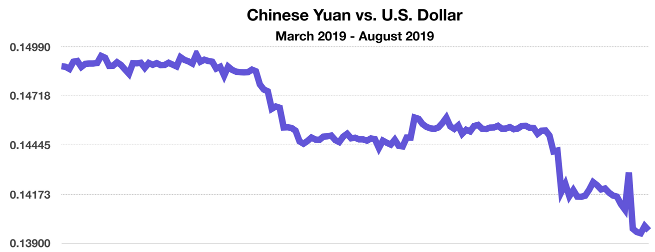
Dollar / Euro	1.09
Dollar / Pound	1.22
Yen / Dollar	107.90
Dollar / Canadian	0.75

Macro Overview

A 15% tariff was imposed on roughly 40% of consumer products imported from China effective September 1st, affecting over $100 billion worth of annual imports. An additional slew of products from China is scheduled to be assessed a 15% tariff on December 15th, applicable to nearly everything imported from China by year end.

The announcement of additional tariffs on Chinese imports into the U.S. caused prolonged uncertainty surrounding the extent of the ongoing trade tensions. Since tariffs are dictated by trade policy, some believe that a potential delay or reversal of a portion of the scheduled tariffs is possible.

China let their currency, the yuan, fall in response to the U.S. decision to apply additional tariffs, thus weakening the Chinese currency and making Chinese exports more competitive internationally. Concurrently, the U.S. Treasury Department designated China as a currency manipulator in early August, a designation that addresses potential unfair trade practices. China's currency fell 3.7% against the U.S. dollar in August, the single largest monthly drop in 25 years.



The Congressional Budget Office (CBO) estimates that the U.S. budget deficit will surpass $1 trillion in 2020 and continue to expand to over $1.3 trillion by 2029. The ten year projection is based on increasing tax revenue but with slower GDP growth of 1.8% per year.

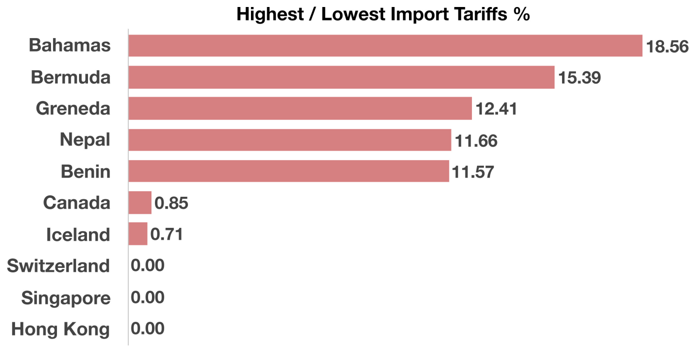
Stocks have been resilient since the beginning of the year despite ongoing tariff threats, slowing global economy, softening earnings projections, and uncertainty surrounding international debt issues. All eleven sectors of the S&P 500 Index were positive year-to-date as of the end of September.

Recession fears fueled volatility and uncertainty as bond yields continued to fall. Economists view higher short-term rates than long-term rates, also known as an inverted yield curve, as a signal of slowing economic growth in the future. Any validation of an upcoming recession is subjective with expectations varying from economist to economist.

Global yields continued their decline during the quarter with 30-year German government bond yields falling below 0% while the 30-year U.S. Treasury bond yield dipped below 2% for the first time on record. Roughly $16 trillion worth of global bonds now carry negative yields, of historical significance in the fixed income markets.

Argentina is close to defaulting on its government debt, owing approximately $50 billion of long-term debt primarily held by foreign investors throughout the world. Argentina's currency, the peso, fell 25% against the U.S. dollar in August, the steepest drop since its last currency crisis. (Sources: Commerce Dept., U.S. Treasury, Federal Reserve, CBO, Bloomberg, S&P)

Countries With Highest & Lowest Import Tariffs – International Trade Policy



Some countries impose import duties, also known as tariffs, on certain imports for various reasons. Import duties on products that may hinder or compete with an industry or product produced in that country may have tariffs imposed in order to limit imports that may have negative consequences.

Imports brought into a country at below market prices may be considered dumping, where tariffs can act as a restraint against such tactics meant to gain marketshare via unfair trade practices. Limited resources and production capabilities may require certain countries to openly import necessary goods and raw materials with no tariffs in order to satisfy the demands of its citizens and industries. Based on data from the World Bank, Switzerland, Singapore, and Hong Kong are among those that impose no tariffs on imported products and materials. (Sources: World Bank; 2016 data, CIAWorldFactBook)

Rates Edge Up Slightly In September – Fixed Income Overview

Bond yields edged higher in September, rebounding from the lows reached in August. The 10- year Treasury bond yield rose from 1.47% at the beginning of September to 1.68% at the end of the month. The rise in yields affected loan rates as they had just reached lows in August not seen in years.

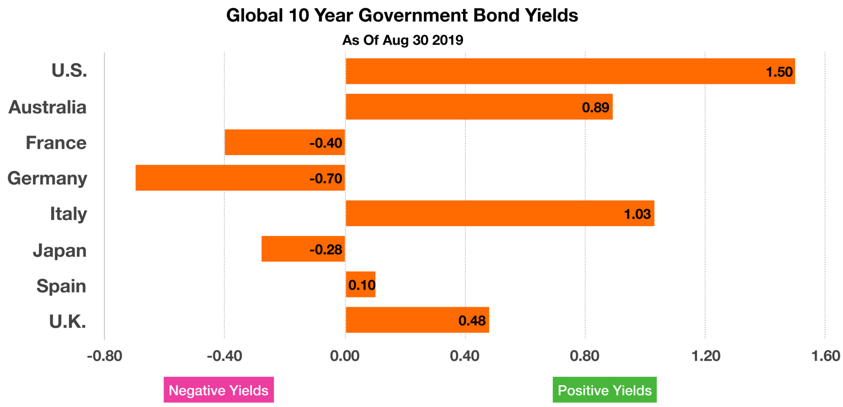
Additional rate cuts in Europe by the European Central Bank (ECB) pressured bond yields lower in Europe and Asia. Bond markets are eagerly awaiting indications of any further rate reduction in the U.S. by the Fed, perhaps prompted by economic data.

Low mortgage rates continue to fuel home sales nationally, with the rate on a conventional 30-year fixed mortgage at 3.64% at the end of September, down from 4.51% at the beginning of the year. (Sources: FreddieMac, ECB, U.S. Treasury)

Developed countries whose 10-year government bond yields were below 0% as of the end of August include France, Germany and Japan. (Sources: Bloomberg, U.S. Treasury)

U.S. Treasuries Remain Attractive – Global Fixed Income Overview

Even as the 10-year Treasury yield fell below 1.5%, it is still offering a more attractive yield than most other developed country government bonds. Yields for 10-year government bonds in Germany and Japan yielded -0.69% and -0.27% respectively. Such negative yields mean that investors are basically paying the governments of Germany and Japan to hold on to their funds. International investors not only pursue the best yields possible, they also seek the safest debt possible.

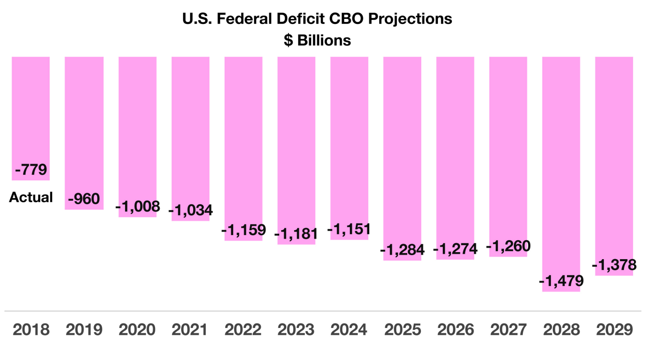


The U.S. continues to offer the most transparent and liquid debt worldwide of any country or company. U.S. Treasury bonds are also held for trading purposes and for currency control. If too many bonds are bought, then lower rates may weaken the currency, a trade strategy utilized by countries to stabilize or alter exports.

Federal Deficit Projections Top $1 Trillion – Fiscal Policy Review

The Congressional Budget Office (CBO) establishes budget forecasts based on various factors that are constantly changing. Among the factors are fiscal policy, economic projections, as well as trade policy initiatives. Projections are revised on a regular basis by the CBO and may change or be modified contingent on fiscal policy and government outlays such as Social Security and health care expenses.

The most recent projections reveal a federal budget deficit exceeding $1 trillion in 2020, an estimate based on current fiscal circumstances and the economic environment. Projections over the next 10 years show an average annual budget deficit of $1.2 trillion between 2019 and 2029. The estimate represents a deficit of 4.4% to 4.8% of GDP, above the 50-year average. Even though tax revenues are estimated to grow, GDP is expected to expand at a more conservative pace. Current estimates show GDP growing at 2.3% in 2019, yet the CBO projects an average annual GDP growth rate of 1.8% over the next 10 years.



The three largest expense items for the federal government have been and are projected to be Social Security, health care programs, and interest paid on government debt. Rising interest rates may become more of an issue as rates may eventually head higher for government debt, with future debt issuance becoming more expensive for the U.S. as rates slowly rise. (Sources: CBO; Update To The Budget & Economic Outlook 2019-2029)

U.S. Recessions – Historical Note

Historians and economists claim that there have been 47 recessions in the United States dating back to the Articles of Confederation, which was ratified in 1781. The duration and intensity of each recession has been unique, with various factors affecting economic conditions contingent on current circumstances.

Ironically, the 1980-1982 recession was driven by inflation and rising interest rates creating an expensive and restrictive environment for consumers and businesses. Modern recessions occurring in the 19th and 20th centuries have resulted from financial crises and market driven events, while recessions that occurred in the 18th century were primarily driven by war and the weather due to the dependence on agriculture.

Talk of an upcoming recession in the news has been a focal discussion as low rates and weakening economic indicators create an argument for a recessionary environment. Economists and analysts see recessions as an economic cycle driven by expansions and contractions.

(Source: Federal Reserve; fred.stlouisfed.org/series/JHDUSRGDPBR)

Stretch IRA Rules May Change – Retirement Planning

Rules surrounding the distribution of funds from an Inherited IRA may change. Those most affected by the new rules are retirees with generous IRA balances intending to leave funds to their children and grandchildren. Known also as Stretch IRAs, which have allowed IRA beneficiaries to stretch distributions and taxes over an extended period of time.

Both the House of Representatives and the Senate have drafted their own versions of the new rules. The House has named the legislation the Secure Act, which stands for the Setting Every Community Up For Retirement Enhancement Act. Both versions essentially accelerate the distribution and taxation of Inherited IRA funds going to non-spouses.

A current rule that will remain the same is allowing a spouse to rollover their deceased spouse's IRA to a spousal IRA and take Required Minimum Distributions (RMDs) based on their life expectancy. Inherited IRA rules will be modified by the newly imposed legislation, affecting non-spousal beneficiaries such as children and grandchildren, the most common types of inherited IRA beneficiaries. For years, legislation has allowed inherited IRA beneficiaries to distribute funds over the course of decades based on the beneficiary's life expectancy. Revised legislation will require inherited IRAs to be distributed entirely within 10 years. The distribution could be taken as intervals, at the end of the period, or whenever desired, as long as the entire account is disbursed within 10 years. Both versions do allow distribution exceptions for minor children, disabled beneficiaries, and beneficiaries not more than 10 years younger than the deceased IRA owner.

A challenge for inherited IRA beneficiaries is the tax implication of accelerated distributions over a much shorter time period. Some beneficiaries may also run the risk of falling into a higher tax bracket especially if they are working. The Senate version allows for a stretch on the first $400,000 of IRA assets with the exceeding balance distributed within 5 years. Both versions would apply to inherited IRAs with the original owner's death occurring after December 31, 2019.

(Sources: https://waysandmeans.house.gov)