

MARKET COMMENTARY – OCTOBER 1, 2019

*Can't you feel 'em circlin', honey?  
Can't you feel 'em swimmin' around?  
You got fins to the left, fins to the right,  
And you're the only bait in town.*

Much to my chagrin, Mrs. Born is a shark movie fanatic. Her love affair with the monsters from the deep knows no bounds and is not finicky. From granddaddy *Jaws* to the truly terrifying *Open Water* she has us planted on the couch. From lesser quality stories such as *The Shallows* or *47 Meters Down* to *The Meg*, we watch in anticipation of that dreaded dorsal fin or quick-cut to rows of razor teeth. But we are even corralled (quite by force) into enduring such questionable films with titles like *Sand Sharks*, *Avalanche Sharks*, or *Sharktopus*.

As suggested above and in Jimmy Buffett's tongue-in-cheek lyrics, the sign that mayhem is coming to a screen near you is that frightful warning from a solitary fin knifing through the sea. We were reminded of these surfacing marine predators as we scanned the economic horizon and began to see fins cresting the waves, circling at a distance. The question remains whether they will sense our current spot in the economic cycle as wounded prey to soon be devoured. Or, will they keep away, preferring to find easier quarry?

October will tell us a lot. Third quarter earnings reports will soon begin to give us a snapshot of what activity was like over the prior three months. But managers usually give commentary as to how the quarter they are in is shaping up and adjust any forecasts for it while they give us their numbers. All indications are that 3Q was solid. And though real growth is still the consensus for all of 2019 and 2020, we would not be surprised if predictions for 4Q results begin to show moderating strength.

To tease out our reasons for this new position, we must turn to manufacturing. The making of physical things is no longer the driving force of our modern economy. And it hasn't been for a long time. However, manufacturing still employs a lot of folks who spend money to buy things. In the US, the GM strike idled about 50,000 workers, not

immense in the grand scheme of the entire economy. But it might be enough to help tip the sector as a whole from growth to slight contraction. Overseas, in Europe and China, manufacturing has been contracting for several quarters. We've long said the trade war by itself was not enough to tip the world into recession but was able to trim growth. Add in the results of a recent poll where over 70% of global CFOs expect a recession by the end of 2020 and a self-fulfilling prophecy might be in the works.

Please keep in mind that we are NOT calling for an immediate pull-back. We are saying that amidst the current true strength of the global economy, potentially worrisome fins are surfacing. Employment remains solid, earnings expectations remain strong. Yields have been dropping. Home sales and durable goods orders are firm. Consumer confidence is high. Inflation is subdued.

Last month we declared that we wanted to remain on the offensive. And that call has not changed. But we acknowledge new risks and therefore will be more selective in how we go charging forward. Clients can expect some pruning of gains in portfolios where appropriate and a reallocation of the proceeds for further growth. The adjustments we make in the remainder of the year and into 2020 can be viewed as a way to right-size our clients' risk (not eliminate it).

So, let's not be like the naïve young lady in the Buffett tune. Rather, we must be aware of the dangers lurking in the murk. Let us don the proper gear so that our hard work and portfolios may swim safely through a thrashing school of the cartilaginous predators and once again find clear feeding grounds of their own.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

Jason Born, CFA  
President