OCTOBER 2019

MARKETS DRIFT HIGHER HEADED INTO Q4

The third quarter brought a bit of volatility on trade tensions and softening economic data, but markets ultimately drifted higher. The domestic Standard and Poor's 500 Index returned 1.7% for the quarter, bringing the year to date return of the benchmark to 20.6%.

While interest rates and softening economic data stoked fears of a recession, we remind investors that a recession is not marked by the inversion of a yield curve, trade tensions, or market fears. A recession is a contracting of the economy and is defined as two consecutive quarters of negative GDP growth. We currently have not yet had one quarter of negative GDP growth. Most recent real GDP figures show a quarter over quarter growth of 2.0%, and year over year growth of 2.3%. The [yield curve inversion] is only one warning sign of recession (and it is generally an 18-24 month in advance warning sign). While a slow down of the economy is here, we are not currently in recession, nor do we foresee a recession in the short-term.

In the short-term we are not making substantive changes to clients' overall portfolios in response to volatility. We continue, however, to where appropriate rebalance and derisk as markets continue to come up against all-time highs. We are continually monitoring the markets and economic conditions and while no one has a crystal ball to forecast the exact time of a recession, we will address making any appropriate changes with clients when we believe economic conditions warrant. In the interim, we are counseling clients to be prepared for choppier markets with more volatility. A surprise trade deal with China could be the catalyst to propel markets higher by year-end. However, absent a trade deal, we see the potential for heightened volatility as softening economic conditions, the intensifying trade war with China, and the White House's stand off with the Fed all have the potential to give investors pause in the fourth quarter.

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Last Month's key economic data

Employment

We added 130,000 jobs in August and the unemployment rate has remained unchanged at 3.7%. The number of unemployed persons is little changed at 6.0 million. The labor participation rate is up slightly to 63.2%. Year over year wage growth came in at 3.2%. September numbers are scheduled to be released on October 4.

FOMC/Interest rates

The Federal Open Market Committee cut rates by another 25-basis points in September. The target range for the federal funds rate now stands at 1.75% to 2.00%. We await the Committee's next meeting on October 29-30.

GDP

GDP rose 2.0% in the second quarter, down from 3.1% in the first quarter. The Atlanta Federal Reserve's GDP tracking gauge expects a slowing in the third quarter. The advance estimate of third quarter GDP is due October 30.

Inflation and consumer spending

The *Consumer Price Index* increased 0.1% in August. Over the last 12 months, CPI rose 1.7%. Core prices, which excludes food and energy prices, rose 2.4% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services rose 0.1% in August. Producer prices have increased 1.8% over the 12 months ended in August.

Housing

Existing home sales rose 1.3% in August, after a rise of 2.5% in July. Year over year, existing sales are up 2.6%. The median price for existing homes in August was $278,200, off a recent all-time high, but up 4.6% from a year ago.

Manufacturing

Industrial production was up 0.6% in August, a surprise to the 0.2% expectation.

Imports and exports

US trade deficit fell slightly in July as both imports fell 0.1% and exports rose 0.6%. The trade deficit slipped to $54 billion from $55.4 billion.

International markets

Brexit continues to dominate European headlines. In September we saw an attack on Saudi Arabian oil infrastructure which was responsible for a supply disruption.

Consumer confidence

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, declined again in September and now stands at 125.1.

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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.