

MARKET AND ECONOMIC REVIEW & OUTLOOK

AN UPDATE FROM THE ADVISORS AT GASKIN ASSET MANAGEMENT

CHARLOTTE, NORTH CAROLINA

Can you believe it's already Thanksgiving? Turkey and dressing with lots of gravy. Pumpkin pie made from scratch by yours truly. The Macy's Day Parade. The National Dog Show. Bears vs. Lions. Rest. Leftovers. Is that it?

What are you thankful for today? Do you ever wish we could all just slow down for more than a moment to take a thoughtful assessment of our blessings as we celebrate Thanksgiving? Yet, it seems that just as the retail outlets proceed directly from Halloween costumes to Christmas trees, we quickly move past this time of thankfulness into the mass rush of holiday spending and general craziness. Why does Thanksgiving get passed over with such ease? Like Independence Day, it's an important and meaningful "American" celebration. So why do we so often treat Thanksgiving as merely the appetizer before the main course - Christmas. While other nations may have their own versions of thanksgiving, ours is uniquely American. It means different things to each of us. Most of us were born here due to the decisions or circumstances of those who came before us. Regardless of how you or I came to live in this amazing land, we each have much for which to give thanks. Thankfulness is in our collective national DNA. I hope this year has been filled with opportunity and blessings for you. Yet I know that we each face challenges and loss in our time. Our hope is that you will have an opportunity to spend a little time in the coming days with family and friends. At Gaskin Asset Management, we are thankful for much! We are especially thankful for you!

Outlook

Speaking of gratitude, we're thankful for a Dow Jones Industrial Average that broke to a new record on November 15th as it crossed the 28000 threshold for the first time in history.ⁱ Many economists and market strategists attribute this to improving economic conditions following the not too distant fear of a looming recession sparked by the interest rate inversion experienced earlier in the year. According to Sarah Chaney of The Wall Street Journal, U.S. unemployment dropped to 3.5% in September which marked its lowest level since December of 1969.ⁱⁱ To put that into a little perspective, Richard Nixon was president and most of those outside of D.C. had never even heard of the Watergate Hotel. It's been a long time since unemployment was this low. In our judgment, the investment markets are looking at the employment picture as a sign of strength in the economy. Other factors are working in the economy's favor such as interest rates. Barron's writer, Randall Forsyth, notes that the improving economic conditions have led to higher yields for the 10-year note which has pushed higher as short-term rates have declined.ⁱⁱⁱ With the yield curve back to a more "normal" slope, investor fears of an imminent recession appear to be receding. In addition to improving conditions for employment and interest rates, corporate earnings are providing a lift to the markets. Earnings for S&P 500 companies have dropped from previous quarters but have not fallen as much as feared. Wall Street Journal writer, Gunjan Banerji, notes that as of November 1st, 342 of the 500 companies in the S&P 500 had posted earnings results with about 75% beating market expectations.^{iv}

3rd Quarter 2019 Review

Though many market-influencing variables remain in play, the S&P 500 neared all-time high levels in September. The markets have a lot to contend with as we close out the third quarter and the month of September. Financial fundamentals are taking a back seat to political considerations and trending sentiment partly because the data has

been mixed, reports Raymond James' Doug Drabik, managing director for fixed income research. Raymond James Chief Economist Scott Brown says job gains and wage growth should support consumer spending growth into 2020, more than offsetting a slow patch in business investment, while the Federal Reserve (Fed) has again lowered short-term interest rates to ensure against downside risks.

Adding to the mix are impeachment inquiries, unsettled Brexit, growth concerns in Germany and China, and pending U.S. elections. Trade negotiations between the U.S. and China remain uncertain, though officials are set to meet in both October and November, increasing optimism for a mini-deal. However, Washington Policy Analyst Ed Mills expects fluctuating sentiments between the two countries to fuel market volatility through the 2020 election.

On the other hand, Chief Investment Officer Larry Adam credits cooling trade tensions between the U.S. and China, an additional Fed rate cut of 25 basis points (bps) and solid domestic U.S. economic data for a rebound in risk-asset performance this month, which led the S&P 500 to rise to within 1% of all-time highs. The U.S. dollar also rose to its highest level since May 2017, and the 10-year Treasury yield bounced approximately 25 bps after it hit its year-to-date lows and lowest level (1.46%) since July 2016 on September 3.

In September, the Fed had to address a liquidity crunch in the repo market, which briefly spiked money market rates. In response, it may bring forward the start of a mini quantitative easing, according to Fed Chair Jerome Powell.

The month ended positively for the S&P 500 (1.72%), Dow Jones Industrial Average (1.95%), NASDAQ (0.46%) and the Russell 2000 Index (1.91%). The quarter also ended positively for the S&P 500 (1.19%) and the Dow Jones Industrial Average (1.19%), but negatively for the NASDAQ (-0.09%) and Russell 2000 Index (-2.76%).

	12/31/18 Close	9/30/19 Close	Change YTD	% Gain/Loss YTD
DJIA	23,327.46	26,916.83	+3,589.37	+15.39%
NASDAQ	6,635.28	7,999.34	+1,364.06	+20.56%
S&P 500	2,506.85	2,976.74	+469.89	+18.74%
MSCI EAFE	1,719.94	1,895.72	+175.78	+10.22%
Russell 2000	1,348.56	1,523.37	+174.81	+12.96%
Bloomberg Barclays U.S. Aggregate Bond Index	2,046.60	2,219.97	+173.37	+8.47%

Performance reflects price returns as of 4:00 p.m. ET on September 30, 2019.

Here is a look at what's happening in the markets both here and abroad, as well as key factors we are watching:

Economy

- Brown reports that recent economic data have been mixed, reflecting continued strength in consumer spending, but general weakness in manufacturing. Fed Chair Powell noted that businesses report that trade policy uncertainty has discouraged them from further investment.
- Strong household sector fundamentals should continue to support consumer spending growth and offset weakness in other sectors, Brown adds, but a deterioration in labor market conditions would shift that outlook.

Equities

- Overall, Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy, and his team maintain a generally positive bias toward equities. Madere notes it is too soon to tell whether the recent improvement for cyclical sectors, like banks and industrials, is sustainable – however, if the trend continues for these deep cyclical sectors and former leading sectors rebound, he sees this movement as a market positive.
- He expects the third quarter to end with flattish earnings growth, however, he does expect more supportive growth from the average stock, led by companies with more exposure to the U.S. and less exposure to overseas markets.
- While overall the technology sector is faring fine, the tech-heavy NASDAQ has underperformed slightly due to former leaders, like software and IT services, falling slightly as former lagging sectors, like semiconductors and hardware, perform above their norm.
- Madere sees earnings season and the upcoming trade talks as the most important influences to monitor in the coming weeks and expects any market reaction to impeachment proceedings to be short-lived. He views short-term volatility as a buying opportunity.

Fixed income

- The federal funds rate is now in the 1.50%–1.75% target range.
- With many economic and geopolitical factors at play, interest rates have fluctuated from week to week. However, Drabik believes the long-term outlook continues to reflect lower rates as, for example, the 10-year Treasury has rallied and pushed rates down 35% year-to-date as of September 30, 2019.

International

- Year-to-date, 46 central banks around the globe have cut interest rates. In addition, key banks such as the European Central Bank (ECB) have announced yet another asset purchase program, Drabik reports. The combined balance sheets of the ECB, Fed, Bank of Japan and People's Bank of China have ballooned to nearly \$19.4 trillion. This has been a key factor in bringing interest rates down and will continue to affect rates as long as this accommodative monetary practice continues.
- Despite continued uncertainty over Brexit in the U.K., the pan-European equity markets in September had their best monthly performance since June, reports European Strategist Chris Bailey. He says this was aided by the European Central Bank's quantitative easing efforts.
- Chinese economic data continued to slow during September, and the country's policymakers also loosened policy around both monetary and fiscal initiatives. Local Asian markets were buoyed by perceived warmth between the U.S. and China regarding trade, and a trade deal between the United States and Japan was signed.
- Global markets continue to offer typically lower valuations and higher dividend yields, says Bailey, although they are based in economies where global investors remain concerned about the potential for future growth.

As trade negotiations and global affairs progress, your advisor will continue to watch for movements that may affect your financial plan. In the meantime, please reach out to him or her if you have any questions.

Looking Forward

This year has been fraught with anxiety causing issues in politics, the environment, international relations, crime, the markets and maybe even close to home for you or me. So, as we enter the holiday season, we hope that you will relax a little, worry less and enjoy this time with family and friends. Personally, I've taken to watching less "Impeachment Coverage" and more Turner Classic Movies when I get home at night. That's not to suggest that we should put our heads in the sand. We do need to be ever vigilant as we monitor the economy and markets and react appropriately. But after we've heard or read the same news bits about two or three or twenty times, maybe there's a better way to spend the remaining hours in our day. Did I mention impeachment? Speaking of "impeachment news", it's worth noting that the impeachment and trial of 1999 was barely a blip in the bull market of that decade.^v We believe the fundamental factors driving our economy and the markets are still in place.

Please allow me to close with a word of thanks. It is with a sense of duty and gratitude that we serve you. We could not possibly do this without your support, understanding and participation in the process. Thank you! Happy Thanksgiving!

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ⁱ "Blue Chips Reach New Milestone", The Wall Street Journal, November 16-17, 2019, p. A1

ⁱⁱ Chaney, Sarah. "U.S. Jobless Rate Hits 50-Year Low", The Wall Street Journal, October 5-6, 2019, p. A1

ⁱⁱⁱ Forsyth, Randall W. "Take That, Murphy!", Barron's, October 14, 2019, p.5

^{iv} Banerji, Gunjan, "Resilient Corporate Profits Soothe Fears of a Slowdown", The Wall Street Journal, November 1, 2019, p.A1

^v Forsyth, Randall W. "What, Us Worry?", Barron's, November 18, 2019, p. 7