

Economic & Market Commentary

Market Update – October 2019

The first month of the fourth quarter was positive for global stocks (+2.8%), which have now gained +19.1% year-to-date. Although US large cap (+2.2%) and small cap (+2.6%) had moderate gains within the month, their year-to-date returns are strong at +23.2% and +17.2%. Bonds are all up with their year-to-date numbers coming in at +9.1% (international), +6.8% (intermediate), and +7.9% (TIPS). Alternative asset classes (REITs, commodities, and reinsurance) moved higher, while managed futures decreased.

Economy

- Real GDP Growth came in at an annualized +1.9%, reinforced by consumer spending which increased +4.6%.
- Despite slowing 2019 gains, unemployment came in at 3.6%.
- Housing starts fell 9.4% to a 1.26 million-unit pace, the shrinkage driven by multifamily construction. Even with the slowdown, total starts are up 1.6% from a year ago.

Stocks

- U.S. small cap took the lead this month (+2.6%) while U.S. large value (+2.2%) and U.S. small value (+2.0%) closely followed
- A similar theme carried out in the international developed markets with small value being the leader (+5.2%), small cap closely following, (+4.8%), and large cap and large value coming in positive as well (+3.6%).
- Emerging markets came in strong (+4.2%) with Russia leading the charge (+8.7%).

Bonds

- Bonds rose somewhat with U.S. short-term and TIPS coming in positive (+0.3% each) and international lagging (-0.8%).

Alternatives

- Global REITs (+2.3%), commodities (+2.0%), and reinsurance (+0.4%) held positive while managed futures fell behind (-3.0%).

Source: Morningstar Direct, <https://www.marketwatch.com/story/how-retirees-should-react-to-the-impeachment-inquiry-2019-10-02>.

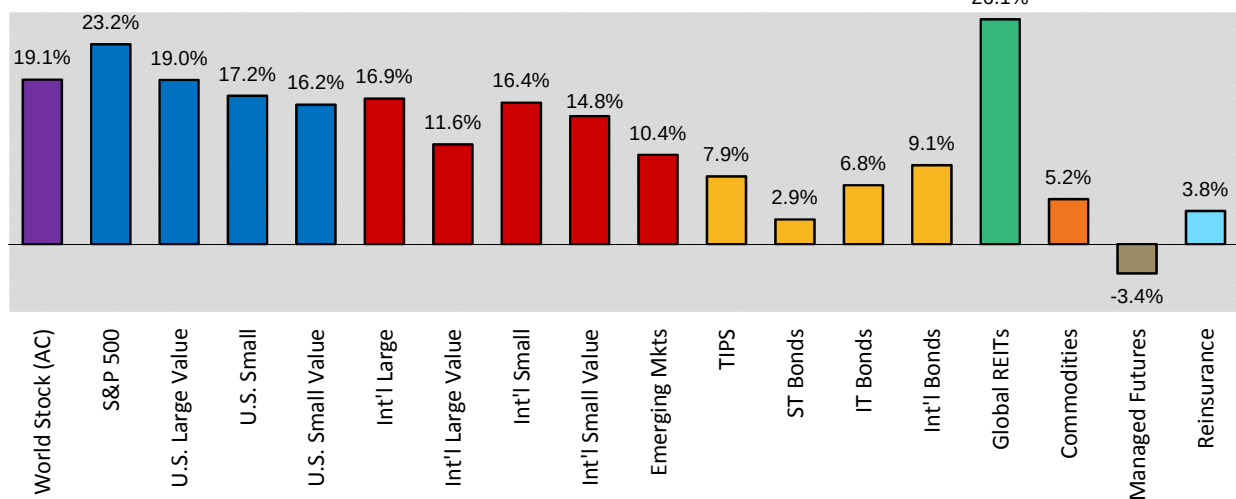
Unpleasant Dinner Table Topics

Politics and religion. Two of the most commonly debated subjects. So why bring one of them up? With impeachment rumors flooding the headlines, it's pertinent to address the political questions surrounding the dinner table. Will this disturb my investments? Should I pull my portfolio out of the market?

The impeachment proceedings of 1974 and 1998 corresponded with differing economic performance. The events leading up to the Nixon impeachment in 1974 transpired at the time of a bear market, triggered by the OPEC oil embargo. The Clinton impeachment in 1998 paralleled with a plunge in the market due to the Asian currency crisis and the near collapse of the Long Term Capital Management hedge fund. Furthermore, by the time the Senate acquitted Clinton in February 1999, the stock market had rebounded over 20% from October 1998 when the proceedings began as the Dotcom Bubble marched on. Therefore, whether impeachment proceedings progress or a specific party takes the majority control, smart investing is at the forefront of everyone's mind. That being said, does impeachment or a party holding political office actually influence the ebb and flow of the stock market?

There are multiple factors to consider ranging from the lack of correlation between a specific party and the stock market, to sticking with facts over emotion when making investment decisions. There is currently not enough evidence to support one party holding the majority as a boost or downfall for the markets. In fact, historical indicators point toward a split congress coinciding with the best returns. A study was recently conducted to examine the impact of impeachment on current returns. Simply put, "increases or decreases in the probabilities of Trump being impeached couldn't even explain 1% of stock market gyrations". With that in mind, it is important to not let your emotions sway your investment decisions. Factual support lies within diversification and maintaining a long-term vision for your portfolio. We believe such diversification can protect your portfolio in times of economic uncertainty.

MARKET RETURNS Year-To-Date as of 10/31/2019



MARKET RETURNS - Longer Term Annualized as of 10/31/2019

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	2.2%	23.2%	14.3%	14.9%	10.8%	13.7%	9.1%
U.S. Large Value	1.5%	19.0%	11.1%	11.2%	8.4%	12.1%	8.0%
U.S. Small	2.6%	17.2%	4.9%	11.0%	7.4%	12.3%	8.2%
U.S. Small Value	2.0%	16.2%	4.4%	8.4%	6.3%	11.7%	8.0%
Int'l Large	3.6%	16.9%	11.1%	8.5%	4.3%	5.4%	5.3%
Int'l Large Value	3.6%	11.6%	5.5%	6.3%	2.1%	3.8%	4.3%
Int'l Small	4.8%	16.4%	8.2%	8.4%	7.1%	8.2%	7.9%
Int'l Small Value	5.2%	14.8%	6.9%	6.9%	6.3%	7.9%	7.9%
Emerging Mkts	4.2%	10.4%	11.9%	7.4%	2.9%	3.8%	7.9%
World Stock (AC)	2.8%	19.1%	12.0%	11.1%	7.0%	8.9%	7.3%
BONDS							
TIPS	0.3%	7.9%	9.0%	2.4%	2.3%	3.4%	3.9%
Short-Term Bonds	0.3%	2.9%	3.4%	1.5%	1.0%	0.6%	1.6%
Interm-Term Bonds	0.4%	6.8%	8.7%	2.7%	2.6%	3.0%	3.6%
International Bonds	-0.8%	9.1%	11.4%	4.6%	4.9%	4.6%	4.8%
ALTERNATIVES							
Global REITs	2.3%	26.1%	23.1%	9.7%	7.5%	11.5%	7.7%
Commodities	2.0%	5.2%	-2.6%	-0.7%	-6.7%	-4.4%	-3.1%
Managed Futures	-3.0%	-3.4%	1.5%	-2.7%	1.6%	1.3%	4.8%
Reinsurance	0.4%	3.8%	2.3%	2.5%	3.7%	6.1%	7.0%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtly Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

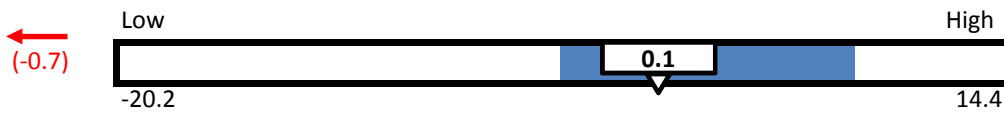
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Economic Indicators

Leading Economic Index Year over Year Change (%)



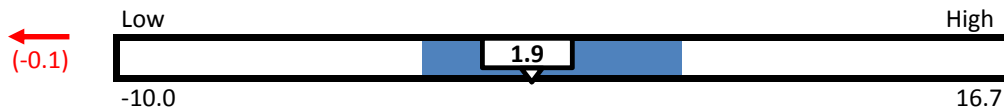
Unemployment (%)



Inflation CPI (YOY %)



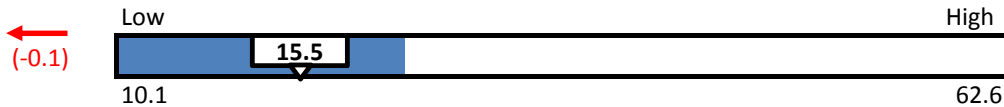
Real GDP Growth (%)



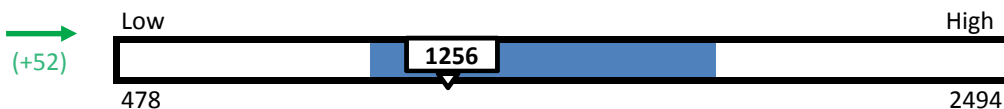
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

**See appendix for sources and data ranges*

Appendix

Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure

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