Vertex Planning Partners
LLC

Quarterly Market Review

Q3

Third Quarter 2019

Economy

Monetary Policy

What's Happening:

- In Q3, the Fed cut rates twice 25 basis points after a pause at the beginning of the year and following four rate hikes in 2018.
- The Fed's cuts are viewed by the market as a reaction to slowing global growth as well as the drop in longer-term interest rates (10-year bonds), which have created yield curve inversions domestically (long-term rates lower than short term rates).

What does this mean?

- In the past yield curve inversions were cues for investors to begin the countdown to the next recession. Since short term funding costs are higher than longer term funding, this negatively impacted bank lending creating a pullback in company spending and investments.
- This time is different? Usually yield curve inversions occurred when short term rates were pushed up by the Fed when longer term rates remained the same. However, this year short term rates have remained stable, while long term rates have steadily dropped in 2019.
- Corporations are also less dependent on bank lending for financing (unlike private companies), and generally receive a benefit to falling interest rates when they issue corporate bonds.

Economy

Fiscal Policy

What's Happening:

The US Government has continued to run a large fiscal deficit, which has been additive to US Gross Domestic Product (GDP). With low rates due to global demand of safe assets, presently the historic deficit levels have not had major impacts of Treasury demand.

What does this mean?

The budget has typically been run at a surplus this late in a market cycle in prior expansions. Although the spending has not been penalized by higher interest rates, the large amount of expenditures should rapidly grow the amount of treasury bonds needed to be issued in the future, which may lead to an explosion in costs if interest rates ever rise in the future. These issues will be interesting to note during the next election cycle.

Geopolitics

What's Happening:

Trade war has been joined by impeachment talks and Middle Eastern strife as Geopolitical events have impacted markets.

What does this mean?

The trade war headlines have continued to impact market price volatility and have translated into real concerns in GDP growth within both European and Asian economies. The US has also added uncertainty to the stability of the Presidency coming up on an election year. US stock market prices have benefitted overall from certain tax and trade policies from the current administration that might be at risk with a change of parties.

Economy

GDP

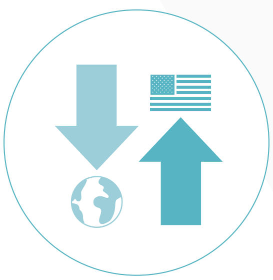
What's Happening:

Unrevised seasonally adjusted Q2 Real GDP growth (inflation adjusted) increased 2.0%, lower than 2018 Q2 at 3.5% and 2019 Q1 3.2%

What does this mean?

The US economy is growing at a slower pace, with continued low unemployment and inflation.

Markets



Equity

US Large Company stocks had positive returns overall, but the fear of an economic global slowdown pushed up bond proxies as investors sold of international and emerging market stocks. The heightened volatility was characterized by a shift from Growth/Momentum stocks to Value/Lower Volatility strategies.

Fixed Income

As the fed has lowered short term rates, longer duration bonds and corporate credit have continued to rally. As yields have fallen, risks have risen in the bond market as the low coupons on today's treasury bonds and longer dated provided low compensation for their price risk if inflation begins to build due to rising prices of goods and services.

Current Strategy

Our opinion, along with several investment managers we follow, is the global economy is slowing, and in the US, we are in the later stages of the business cycle.

This slowing growth environment is still positive for risk assets, and we have not made major changes to our portfolio allocations. On the asset class level, we are wary of the risks within the bond market and have looked to diversify our holdings across intermediate high-quality bonds as well as higher yielding international bonds.

We continue to tilt towards lower volatility equity strategies (particularly in international assets). Exposure to real assets (Global REITs and Equity Infrastructure) have particularly benefited from continued economic growth and lowering interest rates, and we expect to continue our exposure.