

Investment Insights

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Our Philosophy A broadly diversified portfolio gives our clients the best chance to achieve their goals while taking as little risk as possible to meet their goals. However, there are fundamental economic realities that warrant consideration as we construct and modify portfolios.

Assumptions & Outlook

- Yields for short-term U.S. Treasuries are now higher than yields for some longer term U.S. Treasuries. This “inverted” yield curve is uncommon and is frequently a predecessor of a recession.
- The Federal Reserve reduced rates two times in 2019 for a total of 0.5% reduction.
- The U.S. economic recovery continues at a moderate pace. We are seeing a slowdown in China & many parts of Europe.
- As of September 2019, our Circuit Breaker is showing a “Normal” sign, with the closing index value 5.6% above the “Underweight” indicator.
- U.S. economy is experiencing consistent economic growth with many positive signs: i.e. low inflation, low unemployment, low oil prices, low interest rates, etc. However, it appears that we are late in the economic cycle.
- The deadline for BREXIT is October 30th with Great Britain continuing to push for an extension.
- The longer term valuation metrics for both stocks and bonds are currently at very expensive levels, and as a result, future returns are projected to be below historic averages.
- If the current trade environment continues to worsen, it will likely have a negative impact on global economies.
- The U.S. federal, state and local governments continue to struggle with a burdensome public debt and massive unfunded future liabilities (i.e. Social Security, Medicare, retiree pensions, etc.).
- Economic growth combined with labor markets tightening may provide upward pressure on inflation; although we have not seen it yet.

Portfolio Implications

- We have returned to an abnormal investment environment with low interest rates, an inverted yield curve and high stock market valuations.
- Our investment policy provides the framework and discipline for making investment decisions. We continue to invest globally, in both stocks and bonds.
- High quality bonds provide near-term protection during a “flight to quality”, but they have delivered below average returns over the long-term.
- We continue to review, and stress test, our bond portfolios for sensitivity to rising interest rates, global diversity and potential “flight to quality” performance.
- We will continue to review cash holdings to make certain they are allocated appropriately.
- On a relative valuation, International Stocks appear attractive. We continue to look for opportunities to increase exposure in this area.

As always, thank you for your trust and confidence.

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