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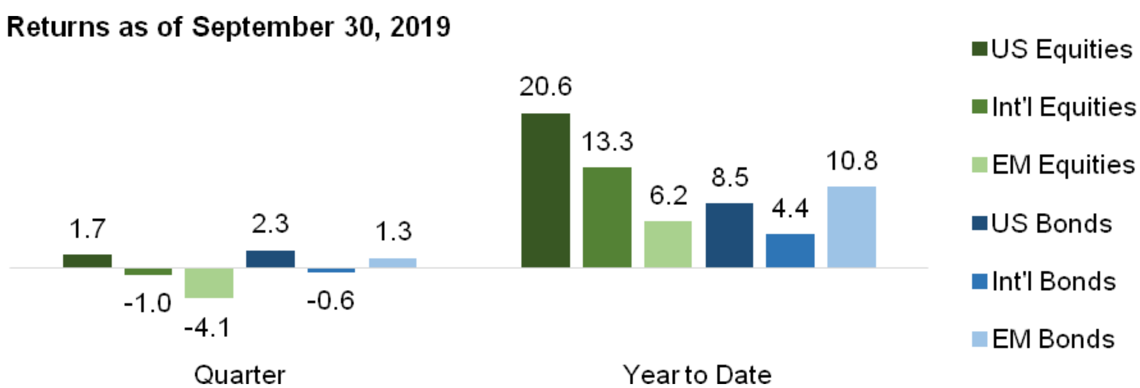
Dear Clients,

The major indexes were mixed in the third quarter with the S&P 500 and DJIA having moved higher. The technology heavy NASDAQ was flat for the quarter and small cap stocks were down a bit. Stocks were volatile in the middle of the quarter with the Cboe Volatility Index (VIX) touching its highest level since the start of the year on August 5th.[1]




## Trade Optimism Drive Early Gains

The quarter began on a strong note as stocks popped up on the first trading day of the quarter, following news over the previous weekend of a truce in the U.S.-China trade war at the G-20 summit. Both sides agreed to hold off on further tariff increases, and the White House eased a ban on sales to Chinese telecommunications giant Huawei Technologies, giving a particular boost to semiconductor stocks. Disappointments on both the China and monetary policy fronts soon derailed the market's gains. On August 1st, stocks suffered their biggest intraday plunge since May, after President Trump announced that the U.S. would impose a new 10% tariff on the roughly USD 300 billion in Chinese imports not currently facing duties. Chinese officials allowed the yuan to fall below 7.0 per U.S. dollar, a threshold that they kept the yuan from breaching over the past decade. September saw trade negotiations get back on track, at least partially, helping markets stabilize. Stocks had one of their best days on September 5th, after news broke that Chinese and U.S. negotiators were preparing to meet in Washington in early October. A series of conciliatory gestures from both sides further supported sentiment.

In early October President Trump stated that the U.S. had reached a Phase 1 agreement that would take several weeks to write and that both sides could officially sign by November. If completed, it would provide relief to American farmers and businesses, increase protection for American intellectual property and keep the U.S. from increasing tariffs on $250 billion of Chinese goods to 30%.[2]

1. Source: T. Rowe Price
2. Source: AssetMark

**Federal Reserve Update**

In the U.S. many people assume that the President controls the economy.  Certainly, the President plays a major role. We would suggest, however, that the real power to control the U.S. economy on a day-to-day basis resides with the Federal Reserve Bank (Fed).  Many times over the last several years, markets have placed a heavy emphasis on the Feds willingness to cut interest rates.  By cutting rates two times so far this year the Fed has calmed some nerves in the short term.  It may even cause some fears over trade wars to slightly diminish.  We would argue that the rate cuts potentially weaken the Feds power when real economic turmoil hits.  The Fed should consider using their considerable power to act during crisis, not because they feel the pressure from Washington, Wall Street or a few media types selling hysteria.  With an economy growing at 2.2% this year, cuts in the Feds rate do not seem warranted.

**PERS Corner**

The 2019 Oregon Legislature responded to mounting pressure of the rising cost of the PERS pension system by narrowly passing Senate Bill 1049.  Bill 1049 cleared the first hurdle in the Senate by passing with a bare 16 vote majority.  The Bill went to the Governor's desk and was signed into law on June 11th.  It's important to note that the bill only affects current public employees and future retirees, not current retirees benefits.  The highlights from the bill include:

1. Tier 1 and Tier 2 diversion of 2.5% of IAP contributions to support PERS pension debt.
2. Tier 3 and Tier 4 diversion of 0.75% of IAP contributions to support PERS pension debt.
3. Public employees earning less than $30k a year would be exempt; first $30k exempted for all public employees.
4. Places a Final Average Salary cap at $195k, indexed for inflation.
5. Eliminates the 1039 Rule for retirees, employers must continue PERS contribution, retirees may not accrue additional PERS benefit.

Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf.  We look forward to discussing your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

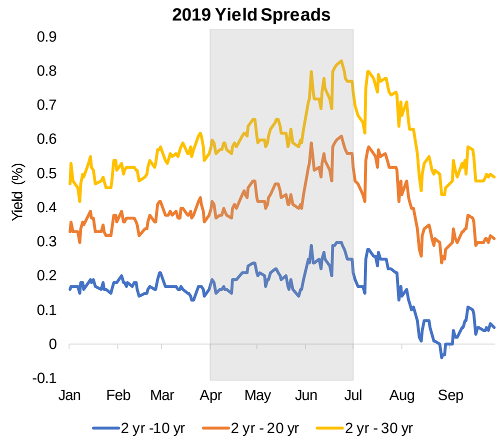
Kadi

Kadi F Hinz
Financial Planner*, MSFA

## Indicators to watch if a recession is around the corner

| | Warning sign | Average Lead Time (mths) |
|---|---|---|
| Inverted Yield Curve | 10-year yields below two-year yields | 15.7 |
| Corporate Profits | Declining from cycle peak | 26.2 |
| Unemployment | Rising from cycle trough | 6.1 |
| Housing Starts | Declining at least 10% from prior year | 5.3 |
| Leading Economic Index® | Declining at least 1% from prior year | 4.1 |

**Inverted Yield Curve**




Source: Capital Group – Guide to Recessions, US Department of the Treasury





Inverted Yield Curve – important because Fed hiked short term rates too high or investors want long term bonds over riskier assets

Corporate Profits – important because Businesses cut investment, employment & wages as profits decline

Unemployment – important because Consumers cut back spending as unemployment rises

Housing Starts – important because Homebuilders cut back on housing projects when economic outlook is poor

Leading Economic Index® - important because Gives broadest economic look through use of multiple indicators

Seen some indicators lean in the way of a recession, but not at an extreme level to derail the economy in the near term. Expect to see slow growth and continuation of expansion for a couple more years. But there are risks out there, including trade conflicts, which could lead to unexpected consequences.

Yield curve did invert but not an immediate panic. Also debate over whether yield curve is distorted based on Fed actions so may be less reliable indicator

Since the beginning of the year we saw yields take a plunge across all maturities, reaching multi-year lows. When looking at the spread between 2 year Treasuries and either 10, 20 and 30 year Treasuries – what is interesting to note is that year to date there was little difference in the spread between 2 and 20 or 30 year bonds. (2-20 spread went from 0.33 to 0.31 and 2-30 spread went from 0.47 to 0.49). What really moved was the 2 to 10 year spread that has fallen (0.16 to 0.05) to a flat curve.

While curve inversions tend to precede recessions by around 15 months and deterioration in the US economy, the recent inversion in shorter end of the curve is likely been driven more from negative rate pressure and slowing growth abroad than any significant concern about the US economy.

1. Source: AssetMark Market Insights Q3 2019.