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It is so much easier to write the quarterly letter when there is a lot to write about. This quarter, there may actually be too much. The third quarter of 2019 witnessed record low yields, an inverted yield curve, and an equally dramatic rebound in rates. The equity markets, while not as dramatic, had their own periods of volatility. For the quarter, the Dow closed up 1.83%, and the S&P was up 1.7%. For all the wild swings the 10yr. Treasury bond closed with a yield of 1.70%, with the 2yr. Treasury hovering around 1.55%. The most pressing issues for the bond and stock markets are: 1) the success or failure of global trade talks; 2) slowing global growth as a result of the trade wars; 3) Iran's aggression in the Middle East, specifically and most recently their bombing of Saudi oil fields; 4) political uncertainty, and to a lesser extent, 5) the violent protests in Hong Kong.

It is a well documented fact that for decades China has been imposing steep tariffs on goods imported from the U.S., stealing our intellectual property, and generally making it difficult for American companies to do business in their country. Therefore, while it has some short-term unpleasant side effects, bringing China to heel, or at least trying to make trade more mutually beneficial, will ultimately benefit the United States. Another cause for concern is that economies outside the U.S. have slowed, in part due to trade uncertainties as well as other issues such as aging populations, socialist policies, and shifting preferences for products such as cars. Germany, historically a strong economy with a strong auto manufacturing sector, currently has a 10 year bond with a negative yield. This means investors actually pay the German government to hold their money. Other developed economies like Japan also have negative interest rates. These negative rates are a sign of slow growth, or no growth around the globe.

Iran recently attacked the Saudi oil fields, and intelligence reports suggest more attacks are on the way. In the past, this would have caused oil prices to sky rocket. However, the U.S. is now the largest producer of oil and gas, so the attacks have had a muted effect on prices. The real issue today is what, if anything America and its allies should do to try to defend a Middle East ally. This same question applies to the protests in Hong Kong over a proposed Chinese extradition policy. These issues, as well as other geopolitical tensions and the aforementioned economic slowdown, have kept the equity markets on edge, and driven investors to seek safety in U.S. Treasury bonds. So, while bond yields have rebounded, we continue to have a 10 year bond with a yield well below 2%.

The United States has been somewhat immune to these growth challenges in spite of our domestic political uncertainty. The Federal Reserve has begun to lower the Fed Funds rate again. Consumers and home buyers are confident and benefitting from low unemployment, low interest rates, reasonable gasoline prices, and muted inflation. US household wealth rose to a record $113.5 trillion during the quarter. That's up 88% from its cyclical low during Q1-2009. Even compared to the previous cyclical peak, during Q3-2007, household wealth is up 59%. The ratio of household net worth to disposable personal income was 6.9 during Q2, continuing to hover near the record high of 7.0 recorded during Q4-2017.

We remain relatively optimistic about our economy and the equity markets, but continue to be on alert for changing data or a meaningful shift in the investment environment.

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