Economic and Capital Markets Commentary

An Ounce of Prevention...

As we head into the final quarter of 2019, investors continue to evaluate a significant (and growing) set of uncertainties:

- The slowing pace of global growth,
- The limits of monetary policy,
- The continuing trade war, and
- Impeachment proceedings and the 2020 Presidential election.

Despite these uncertainties, the U.S. stock market, as represented by the S&P 500 Index, was little changed in the third quarter and remains close to its all-time highs as a result of solid economic data released in September and the Federal Reserve’s second straight interest rate cut. At the same time, the yield on the ten-year Treasury bond declined sharply over the summer. Historically, interest rate declines of this magnitude reflect concerns about the pace of growth going forward. However, other factors may also be influencing yields. For example, the U.S. remains one of the few developed markets offering positive yields on safe, short- and intermediate-term debt. This attracts money from overseas investors looking for a safe haven, and strengthens the U.S. dollar against other currencies.

Not listed above is the risk of recession, which while possible, is unlikely in the near term. Employment remains strong, home sales are showing signs of picking up (a possible beneficiary of lower interest rates), and consumer confidence, while off its highs, remains at levels consistent with further growth (consumers drive two-thirds of U.S. economic activity). As well, the Federal Reserve is proactively reducing rates in an attempt to prolong the current (record-breaking) expansion. At some point, the U.S. will experience another recession, but absent an unexpected shock, the most likely scenario is slower growth going forward, but growth, nonetheless.

That being said, equity investors will recall the sharp selloff in U.S. stocks in the fourth quarter of last year. From that perspective, one year later the outlook is less certain and the risks have increased. Therefore, as always, it is appropriate to review your asset allocation with your Portfolio Manager and discuss whether rebalancing is warranted.

Separately, Mitchell Sinkler & Starr is pleased to announce that Peter T. Toscani has joined us as a Portfolio Manager. Pete’s biography is on the following page, and we look forward to introducing him to clients in the coming months.
Peter T. Toscani, CFA, CFP® joined Mitchell Sinkler & Starr as a Portfolio Manager in October 2019. He is a graduate of the U.S. Naval Academy and a Navy veteran. Prior to joining Mitchell Sinkler & Starr, he was a Portfolio Analyst performing security analysis for Chartwell Investment Partners’ Berwyn family of mutual funds. Prior to this, he performed manager research, asset allocation and risk management for both SEI Corp. and Zeke Capital Advisors, an ultra-high net worth wealth advisory firm.

After completing his military service, Mr. Toscani worked as an Actuarial Analyst for Willis Towers Watson. He has been awarded the professional designations of Chartered Financial Analyst and Certified Financial Planner and is a member of the CFA Institute and the Philadelphia Securities Association.
Economic and Capital Markets Data

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2019</th>
<th>September 30, 2018</th>
<th>September 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>2977</td>
<td>2914</td>
<td>1972</td>
</tr>
<tr>
<td>Price / Earnings Ratio</td>
<td>19.6x</td>
<td>19.3x</td>
<td>17.5x</td>
</tr>
<tr>
<td>Yield</td>
<td>1.92%</td>
<td>1.80%</td>
<td>1.96%</td>
</tr>
<tr>
<td>Federal Funds Rate</td>
<td>2.00%</td>
<td>2.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>10 Year U.S. Treasury Yield</td>
<td>1.67%</td>
<td>3.06%</td>
<td>2.49%</td>
</tr>
<tr>
<td>Gold</td>
<td>1472</td>
<td>1191</td>
<td>1208</td>
</tr>
<tr>
<td>Oil (Brent)</td>
<td>61</td>
<td>83</td>
<td>95</td>
</tr>
<tr>
<td>GDP (Annualized)*</td>
<td>2.0%</td>
<td>2.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>3.5%</td>
<td>3.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Inflation (Annualized)</td>
<td>1.7%</td>
<td>2.3%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

* as of June 30, 2019
U.S. Unemployment Rate

Twenty Years

Rate

Sep-99  Sep-00  Sep-01  Sep-02  Sep-03  Sep-04  Sep-05  Sep-06  Sep-07  Sep-08  Sep-09  Sep-10  Sep-11  Sep-12  Sep-13  Sep-14  Sep-15  Sep-16  Sep-17  Sep-18  Sep-19

Courtesy of Bloomberg
Consumer Confidence Index
Twenty Years

Index Level vs. Months
U.S. Treasury Ten-Year Bond Yield

Five Years

Yield


Courtesy of Bloomberg
U.S. Treasury Ten-Year Bond Yield

Twenty Five Years

Yield

Sep-94 Sep-95 Sep-96 Sep-97 Sep-98 Sep-99 Sep-00 Sep-01 Sep-02 Sep-03 Sep-04 Sep-05 Sep-06 Sep-07 Sep-08 Sep-09 Sep-10 Sep-11 Sep-12 Sep-13 Sep-14 Sep-15 Sep-16 Sep-17 Sep-18 Sep-19

Courtesy of Bloomberg

Fourth Quarter 2019