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November 2018

Market Update
(all values as of 10.31.2018)

Stock Indices:

Dow Jones	25,115
S&P 500	2,711
Nasdaq	7,305

Bond Sector Yields:

2 Yr Treasury	2.87%
10 Yr Treasury	3.15%
10 Yr Municipal	2.76%
High Yield	7.08%

YTD Market Returns:

Dow Jones	1.60%
S&P 500	1.43%
Nasdaq	5.83%
MSCI-EAFE	-11.49%
MSCI-Europe	-12.21%
MSCI-Pacific	-10.41%
MSCI-Emg Mkt	-17.48%
US Agg Bond	-2.15%
US Corp Bond	-3.50%
US Gov't Bond	-2.45%

Commodity Prices:

Gold	1,217
Silver	14.27
Oil (WTI)	64.86

Currencies:

Dollar / Euro	1.13
Dollar / Pound	1.27
Yen / Dollar	112.80
Dollar / Canadian	0.76

Macro Overview

Historically volatile October was validated once again by dramatic price swings for both stocks and bonds. Among the catalysts behind the volatility were rising rates, a strong dollar, tariffs, and waning benefits stemming from the tax cuts.

Markets are transitioning from a deflationary environment to an inflationary environment, returning to levels that the Fed classifies as normalized. Rising rates are encroaching upon various consumer driven areas, including mortgages, auto loans, and lines of credit. Rising mortgage rates are weighing on the housing market, hindering certain buyers from affording higher payments.

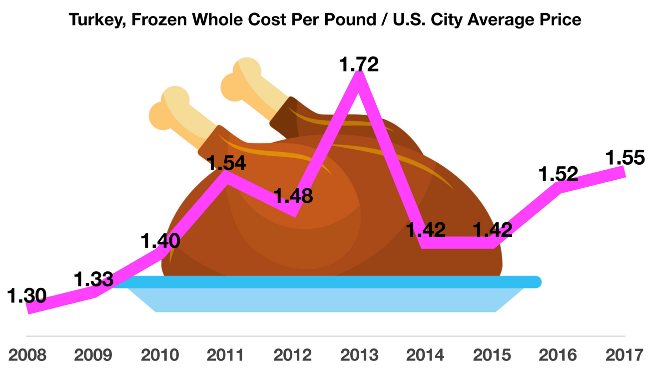
The long awaited rise in interest rates is spurring a shift in equity valuations as company assets and profits are being reassessed as rates start to gradually rise for both consumers and businesses. Most analysts and economists agree that rising rates tend to signal that a broader economic expansion is underway. Optimistically, valuations for equities have fallen, making prices more attractive for active investors and buyers.

Earnings released for the nation's largest banks this past month revealed that economic expansion is taking hold. Consumer and business loans are fundamental to the banking business and act as a gauge of the strength of the economic environment. Banks noted that their consumer and business loans were in exceptionally good standing with no issues of borrowers staying current on their loan payments.

The federal deficit, which ended its fiscal year for 2018 in September, grew 17% to $779 billion. A drop in government revenue from personal and corporate tax cuts is the primary reason.

Energy forecasts by the U.S. Energy Department and International Energy Agency are expecting a higher than average price for gasoline this fall, diverting from the normalized drop in prices following the summer months. Factors affecting prices include less available supply from domestic and international producers as well as reimposed sanctions on Iranian oil exports.

As the holidays approach, turkey will once again be the favored bird for millions of Americans. The National Turkey Federation estimates that about 46 million turkeys are consumed each Thanksgiving. Turkey, relative to other items in the grocery store, has remained relatively inexpensive over the years, having risen by roughly 17% over the past decade.



(Sources: U.S. Department Of Energy, International Energy Agency, Federal Reserve, BLS; CPI-Average Price Data, National Turkey Federation)

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30-YEAR CONFORMING MORTGAGE RATES HIT A RECORD HIGH OF 16.63% IN 1981

Historically Volatile October Did It Again – Domestic Equity Markets

Stocks in all categories suffered in October as the month saw declines across all major indices. The initial imposition of tariffs hit U.S. company earnings in October as well with rising material costs hindering profits. Aluminum, steel and smaller components were among the items affecting manufacturing costs the most. Several U.S. companies plan to increase prices on their products in order to maintain margins and profitability levels.

Rising U.S. Treasury yields derailed an upward trend in the market, raising borrowing costs for companies. Some analysts believe that operating margins may have peaked in the 2nd quarter as operating expenses such as wages are on the rise. A rotation from growth to value stocks were key trades during the market pullback as buyers favored value.

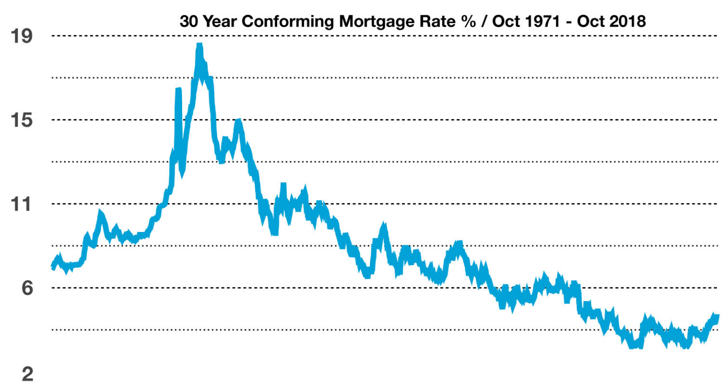
The drop in equity valuations during October has adjusted the expected price/earnings (PE) ratio for the S&P 500 from 18.8 times to 15.6 times, thus attracting buyers at lower valuations.

(Sources: U.S. Treasury Dept., Reuters, Bloomberg)

Mortgage Rates Rise To Seven Year High – Housing Market Review

Thirty-year mortgage rates have surged to the highest levels in seven years, increasing borrowing costs at a time when the housing market is slowing and prices have been falling. The 4.86% conforming rate at the end of October was the highest rate since April 2011, according to data from Freddie Mac. The average 15-year conforming mortgage rate climbed to 4.29% over the same period of time.

Optimism about economic growth has led to higher inflationary expectations, which eventually translate into higher interest rates and mortgage rates. Over the past two years, the yield on the 10-year U.S. Treasury has increased from a historical low of 1.35% in 2016 to 3.15% at the end of October. As a gauge for mortgage rates nationally, the increase in the 10-year Treasury has led to an overall increase in mortgage rates. The concern economists have is that as mortgage rates continue to increase, home sales and affordability may begin to falter. A tight job market and rising wages may help alleviate the rise in mortgage rates, as a strong labor market and higher payrolls help maintain demand for homes.



Even with the recent rise in mortgage rates, rates are still low on a historical basis. As of this past month, the average mortgage rate since 1971 has been approximately 8.09%. Over the past 46 years, mortgage rates have transitioned from the 5% range in the early 70s to over 14% in the late 70s and early 80s, with the 30-year conforming rate hitting a record high of 16.63% in 1981.

(Sources: Freddie Mac, Bloomberg, U.S. Treasury)

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Yields On A Rise – Fixed Income Overview

Yields rose across all fixed income sectors in October, with the benchmark 10-year U.S. Treasury yield rising from 2.99% to 3.23% mid-month. Even with the current rise in rates, yields are still below historical averages.

Some analysts are expecting a slow and moderate rise in rates over the next few months as the Fed orchestrates its monetary policy strategy. There is a growing consensus among analysts that the Federal Reserve is raising rates in order to have the ability to lower rates as a stimulus, should an economic slowdown ensue.

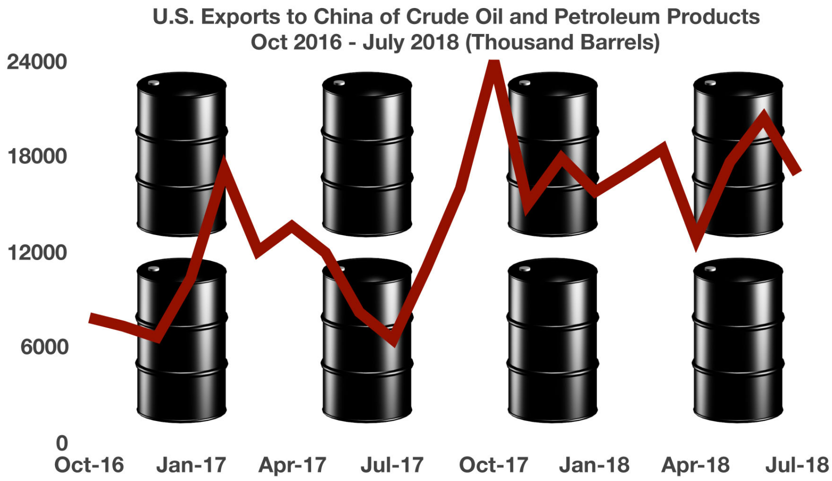
As long as economic growth prevails, heavily-leveraged companies have the ability to expand during a healthy economic environment.

A positive dynamic noted by economists and analysts is that a recession may be averted as the yield curve has not inverted, meaning that long-term rates are still higher than short-term rates. (Sources: U.S. Treasury Department)

China Not Placing Tariffs On Imported Oil From U.S. – International Trade

Part of the tariffs imposed by China on U.S. goods from the United States included crude oil when first announced in June. The Chinese have since reconsidered the tariff and have left it off the initial list of $16 billion worth of U.S. imports.

As reliance on imported oil has dramatically fallen for the United States, the reliance has increased for China. The International Energy Agency (IEA) estimates that China will rely on energy imports for 80% of the country's energy needs by 2040, up from 70% currently.



Refineries in China have become accustomed to the higher quality of light sweet crude oil imported from the U.S., among the easiest and least expensive to refine in the world. China's largest suppliers of oil are currently Russia and Saudi Arabia, supplying a heavier and more costly crude to refine than U.S. crude oil. Many analysts believe that even if China does eventually place tariffs on American oil imports, other buyers in Asia will step in and buy the supply due to the favorable characteristics.

(Sources: U.S. Dept. of Energy, IEA, Commerce Dept.)

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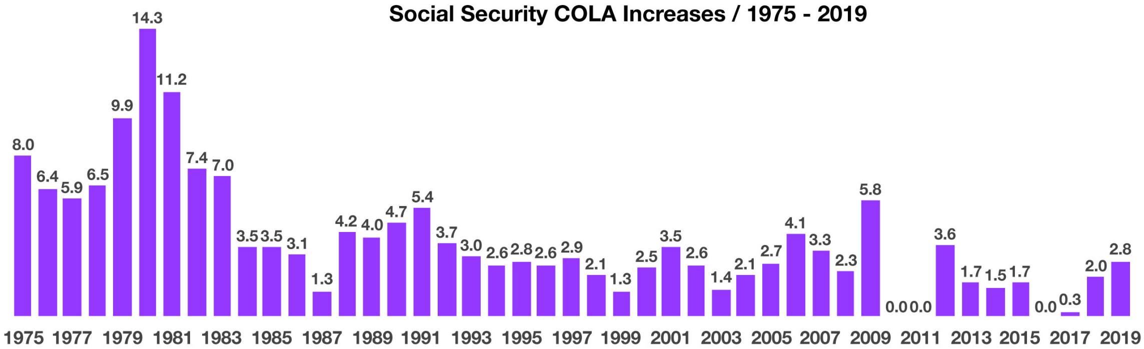
THE 2.8% INCREASE IS THE LARGEST INCREASE SINCE A 3.6% INCREASE IN 2012.

Social Security Payments Increasing By 2.8% – Retirement Planning

Social Security recipients are due to receive the largest increase in benefits in seven years. But for many recipients, the increase in payments will go towards higher Medicare costs. As of September 2018, over 67.6 million Americans currently receive Social Security benefit payments, with 46.3 million aged 65 or older.

The Social Security Administration announced a 2.8% increase in benefit payments effective in late December 2018 for disability beneficiaries and in January 2019 for retired beneficiaries. The 2.8% increase is the largest increase since a 3.6% increase in 2012. Many are concerned that the 2.8% increase may not cover expenses that are rising at a faster rate, including other essential items such as food and housing. The latest increase also affects the premiums for Medicare Part B, which covers doctor visits and outpatient care. Medicare premiums are expected to increase at the beginning of the year, minimizing net increases in Social Security payments.

The establishment of Social Security occurred on August 14, 1935, when President Roosevelt signed the Social Security Act into law. Since then, Social Security has provided millions of Americans with benefit payments. The payments are subject to automatic increases based on inflation, also known as cost-of-living adjustments or COLAs which have been in effect since 1975. Over the years, recipients have received varying increases depending on the inflation rate. With low current inflation levels, increases in benefit payments have been subdued relative to years with higher inflation. The COLA adjustment for 2019 is 2.8%, a steep increase from the 2017 adjustment of only 0.3%.



Over the decades, Americans have become increasingly dependent on Social Security payments, however, for some Americans it may not be enough to rely on Social Security alone. Unfortunately, Social Security is a major source of income for many of the elderly, where nine out of ten retirees 65 years of age and older receive benefit payments representing an average of 41% of their income. Over the years, Social Security benefits have come under more pressure due to the fact that retirees are living longer. In 1940, the life expectancy of a 65-year old was 14 years, today it's about 20 years. By 2036, there will be almost twice as many older Americans eligible for benefits as today, from 41.9 million to 78.1 million. There are currently 2.9 workers for each Social Security beneficiary, by 2036 there will be 2.1 workers for every beneficiary. (Source: Social Security Administration)