Windrush Wealth Management

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Wow, what an interesting 3rd QTR of this year! Between the Chinese/American tariff war and our "over the top" government challenges from both sides, it is a sound testament on how our markets have held up as well as they have. The broader market represented by the S&P 500 was only slightly lower over the quarter while the international markets average was lower by over 2% compared to the US. We are starting to see some cracks in the armor with the manufacturing index in the US dropping for the second month in a row to below 50% (which would normally signal a contraction or a slowdown) but we must remember that part of that index is subjective since it is a survey. Also, manufacturing is no longer isolated in one country or the other. S&P500 manufacturing companies obtain parts or manufacturing services from all over the world and we do know many other country economies around the world are in true recessions such as Germany. On the other hand, the US consumer is continuing to spend at a robust level.

"The Inverted Yield Curve and Fixed Income"

We experienced in September an event called "The Inverted Yield Curve" and this inversion is sometimes considered a red flag that a recession is coming. In simple terms, it is when the longer term 10- year US Treasury's yield or interest is lower than the shorter term 1- or 2-year US Treasury. This happens when institutional buyers are concerned about longer term rates and thus, they go buy a large quantity of those 10-year bonds, they pay a premium, and thus the interest they will earn is lower. Could this be different? Maybe. What transpired prior to the inversion is that many global central banks dropped their rates further since their economies are struggling. Institutional investors in those countries had a decision to make, "do we buy our governmental bonds that are paying my clients zero or even below zero or do we buy US Treasuries that are paying us a "good" rate as well as being backed by an economy that is doing well compared to ours?". Many chose to buy the US Treasuries.

Outlook

Analysts are expecting earnings reports by US companies in the 3rd QTR to be lower by anywhere from 2% to as much as 6% than the previous 3rd QTR of last year but we must remember that the 3rd QTR of 2018 was record breaking. Analysts also have a tendency of being pessimistic so usually, the surprise on the upside is about 60% of companies beating their estimates. We continue to see record breaking low unemployment (lowest in 50 plus years) and we are increasing wages. Our economy is 70% driven by the consumer and if the consumer has money, they usually spend it. We are expecting a slowdown in the growth of the economy though and thus we are taking a more conservative approach to the end of the year. We have rerouted dividends and capital gains from the mutual funds to cash rather than reinvestment. We have also increased our exposure to assets that in the past have shown a lower volatility vs expected returns as well as more socially responsible funds. We do continue to like the health care industry in general, but it has been hurt this year by the Democrats interest to nationalize it via "Medicare of All". Humana recently completed a study that found nearly 25% of every dollar spent on healthcare is wasted with most of those dollars going to administrative complexity. This is another reason why we like companies which use technology to create solutions to streamline operations.

Call me if you have questions, comments, or concerns. Our website is now functional at www.windrushwealth.com.

Sincerely,

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