Investor Insights & Outlook

April 2019 1st Quarter **Concorde Investment Management**

Domestic Economic Overview

A Message from Concorde Investment Management

Last year we rolled out a new client access portal and app for your phone or tablet and we hope you are enjoying. The new access portal allows you to view your entire portfolio and retrieve reports and other documents from a secure vault. If you would like to use this feature, please contact Barbie Spicer for assistance.

Slow and steady wins the race. The U.S. economy will set a new record for length of expansion if our growth continues through July. June will match the longest growth period of 1991-2001. There are not any significant fundamentals in this economy that signal a recession at this time. Even the yield curve, which inverted during the first quarter (which at times has reflected the fact that the Fed has tightened policy too far near the end of an expansion) may no longer be a reliable predictor of recessions. This recent inversion may be due in part to the overall leverage in the system and that central banks are artificially suppressing long term interest rates.

GDP grew at a faster pace than expected in the first quarter with an initial growth number of 3.2%. The upside beat was helped by a lower trade imbalance with higher exports and imports contracted. There was also a large inventory build, which could be companies preparing for increased tariffs or increased demand, and consumer spending increased 1.2%.

The 'headline' news regarding the Q1 economy was probably that we had the longest government shutdown on record to start the year. This Administration made it as painless as possible for its workers and it ended up only costing around round $11B, which is not a significant number to the overall economy.

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Domestic Economic Overview (continued)

The shutdown delayed possible tax refunds but any impacts were temporary and the growth in spending accelerated towards the end of the quarter. A rebound in consumer spending, declining US trade deficit and a solid labor market all are contributing to continued growth. We have the least amount of layoffs and lowest unemployment rate in 50 years which is requiring companies to boost wages and benefits to workers. We still see quality health in the US consumer who have deleveraged considerably since the 2009 recession/housing collapse, and some slack in capital spending by corporations. At some point, business investment should increase as soon as capital allocation by corporate treasurers is deemed to have a higher return on capex than on stock buy backs. Any clarity on the Chinese trade discussion will lift business investment spending. Overall we continue to expect growth in the US economy.

International Economic Overview

From August 2018 through January 2019 leading economic indicators were missing market expectations. During Q1 those same indications started to reverse course and the eurozone, Japan and Emerging markets all began having data that was missing by less than expected. Not totally positive but not as bad as it had been indicating, either. Global PMI for manufacturing and services were both above 50 as of March which indicates growth and Global real GDP growth was 2.6% at the end of Q4.

China, constantly being discussed because of the trade dispute, is the big driver in global economic activity. The portfolio management team had to opportunity to listen to a presentation from Kyle Bass, noted hedge fund manager that was one of only a handful of people to see the credit crisis in 2007 forming, and his entire presentation was on China and their economic situation. He is unofficially advising the U.S. negotiating team to address United States' trade issues with China which are substantial and real. They include the theft or forced transfer of intellectual property; lack of bilateral investment rights, giving ownership or control of investments; onerous non-tariff barriers; unfair subsidies or benefits for state-owned enterprises; and the lack of rapid enforcement of any disagreements. The last point is critical as no deal will be made that is not measurable and enforceable. It is in both countries' interests to get a deal done and we believe the odds are high that something fair will be announced this year. If not, the repercussions will be difficult for China to overcome.

Fixed Income

Corporate credit markets reacted predictably to the rally in stocks and improvement in investor confidence during Q1, providing significant total returns in a short time period. The corporate to U.S. Treasury spreads that we highlighted last quarter narrowed to some degree but are still wider than the levels at the beginning of 2018. Below investment grade corporates (aka junk bonds) generated one of the highest quarterly total returns in the history of the ICE BofAML US High Yield Index. Valuations for these higher risk securities remain more expensive than the last 30-year average. On the other hand, 10-year Treasury Note yields actually dropped from 2.7% to 2.41% at quarter end. This is somewhat unusual especially considering the drop in yields during Q4 as investors sought quality refuge as concerns over slowing growth increased. At least part of the reason for this decrease is the continued weakness in inflation expectations and the relative attractiveness of quality domestic yields for international investors. This lack of concern over rising inflation is a significant reason why the Fed has put a pause on raising the fed funds target at least until the second half of 2019.

The higher risk segments of international credit markets such as European high yield and emerging markets also generated good total returns in early 2019 and are the only sizeable markets with cash yields higher than U.S. government and high grade corporate markets. Regarding recommendations for a prudent and balanced fixed income strategy we continue to emphasize short to medium term U.S. Treasury and Agency issues, short term investment grade U.S. corporates, short term revenue based municipal issues and only very selective exposure to U.S. lower grade corporates and developed and emerging market issues. An extended economic expansion or a surprising increase of inflation could generate higher yields for medium and longer term bonds, leading to our rationale for continuing to emphasize shorter to medium term maturities in core fixed income holdings.

Equity Markets

Domestic and international markets recovered strongly during the first quarter, essentially erasing the correction in the fourth quarter. Domestically, investors were encouraged by a more dovish Federal Reserve policy outlook and the realization that a slowing economy did not necessarily mean a recession was imminent. International equity markets also recovered although not to the degree of U.S. indices, continuing their recent under-performance. Growth and cyclical segments posted the best returns domestically and three of the four sectors we highlighted as most attractive in last quarter's comments, energy, industrials and media (consumer discretionary) had three of the best five sector returns. Most developed and emerging international markets had around a 10% total return (Japan lower, China higher) as global risk markets continue to correlate highly in the post credit crisis, low interest rate era. Although the primary internal Chinese market rebounded nicely, it had moved lower for most of 2018 and several observers continue to be concerned that growth is lower than published statistics and longer-term macro issues will evolve into significant burdens.

spurring a recession in the near term might just be the negative impact on consumer and business confidence from an extended period of instability in the credit and equity markets.

Looking at prospects for U.S. markets from a historic perspective, valuations fall roughly in what we consider to be a fair range, with earnings yield spreads and dividend yields the most attractive metrics. Price to cash flow and book appear modestly expensive. The key to many valuation methodologies are interest rate levels (typically 10-year government bonds) and if they remain in the recent range (2.5-3.25%), they support current levels. We have been using discount rates higher than market rates for our valuation work for most of the last 10 years and feel that lends a cushion in decision making. Utilizing the conservative rate structure and modest revenue growth projections is producing attractive price targets for a number of individual equity ideas. In particular we find appealing valuations in energy, media and some technology companies. Developed international markets, particularly western Europe, are historically cheap and likely this is justified to some degree. However, we believe a modest exposure is warranted as there are always some individual businesses and sectors that should do well even in a stagnant, politically challenged region. Emerging markets as a whole should generate above average growth; however, we elect to get most of our exposure there from developed economy based large cap businesses who have established a track record of success in those riskier regions.

How to Create and Maintain a Budget

Source: Advisors Websites

Whether you're earning a six-figure salary or just out of college, creating and maintaining a budget is a must. Having a budget that you actually use can help keep spending under control, bolster your savings account, adequately plan for retirement, and keep debt at a manageable level.

Creating the budget is actually the easy part. But how do you create a budget that you'll actually use? One of the keys is your mindset. Stop looking at a budget as a negative and look at it as the way to reach your financial goals.

So how do you create a functioning budget – one that you will utilize in the coming months and years?

Here are a few pointers:

- Personalize it. Don't just accept the default categories that are typically offered in most budget templates. If you don't spend a lot of money on vacations, but you like expensive dinners out, make sure that you include dining out as an expense category. If you find that you begin to take more vacations, you can always add that category down the road.
- Be sure to include one-offs and other incidental expenses. Most of us are aware of how much money we spend on clothing, on entertainment, or for our mortgage and utilities. But what about the things that can pop up and potentially derail any budget if they're not accounted for properly? Things like an emergency trip to the vet for Sparky, a replacement vehicle after your car simply dies in the driveway, or even unexpected school expenses your child forgot to tell you about. These things happen and in order to account for them properly, they need to be included in any budget that you create.
- Include accurate income projections. When we're budgeting our income, it needs to be the income that we know, or reasonably expect to earn. Not the commission you may earn, not the year-end bonus that you may or may not receive, not the income from the part time job that you intend to get, but as of yet, don't have. Only include the income that you are currently earning.
- Create an 'actual' column. This more than anything can help you stick to your budget. Take the time at the end of the month to enter all of your actual expenses and compare them to your budgeted amount. If you're under, congratulations! If not, take a look at where you fell short and see if you need to make an adjustment, or just scale back your spending a little bit more.
- Include retirement savings in your budget. It's so important to start planning your retirement early. While younger folks may be willing to put this off, don't. The sooner you start to plan for retirement, the earlier you can retire (if you want), or simply have the lifestyle that you wish. Even if you're on a tight budget, include retirement savings.
- Make your budget fluid. Like everything in life, things change from year to year, and sometimes from day to day. Make sure that your budget reflects your situation today, not your income level and expenses from five years ago.
- Make it a habit to review your budget once a month, where you can make any changes, add to remove categories, or even adjust budgeted amounts.

It's time to stop looking at a budget as a negative and start using it to achieve your financial goals.