Investor Insights & Outlook

October 2019 3rd Quarter Concorde Investment Management

Domestic Economic Overview

A Message from Concorde Investment Management

Last year we rolled out an app for your smartphone that allows you to view your entire portfolio and includes a vault where you can access your quarterly reports, billing summaries, and share documents with Concorde from a secure portal. If you are not yet set up with the app and would like to utilize this feature, please contact Barbie Spicer for assistance.

The economy grew at an annualized real rate of 1.9% during the 3rd quarter according to the Commerce Department. Better than expected given the headwinds associated with global trade uncertainty. The growth was again driven by the strength of the U.S. consumer. Historically low unemployment rates and modest income growth have kept the U.S. economy humming along. Net exports (exports less imports) were a drag on the economy, driven by the issues related to Boeing and the 737 Max and thousands of GM employees going on strike in September. Government spending, the consumer, and housing were all positive contributors to GDP growth.

Business investment, which makes up 13.7% of GDP, was down 3% from the previous period and the trend line since the 2017 tax cut impact has been negative. Business investment, or capital expenditures, are purchases or investments that companies make in order to grow their underlying business.

Here are the numbers:

Q3 2019	-3.0%	Q3 2018	2.1%
Q2 2019	-1.0%	Q2 2018	7.9%
Q1 2019	4.4%	Q1 2018	8.8%
Q4 2018	4.8%	Q4 2017	8.4%

As we discuss with clients and other people in the business community, we know that part of the lack of investment is due to uncertainty on trade, both with China and with our North American trading partners. Congress has yet to approve the USMCA in part due the political situation in Washington. We don't expect a lot of certainty, one way or another, for another 12/13 months and even then it will be hard to determine what lies ahead for business. We continue to expect modest expansion of the economy and still are holding out hope for some portion of the trade issues with China to be resolved.

The Concorde Team

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International Economic Overview

Global manufacturing recession? The purchasing manager index (PMI) for manufacturing has dipped below 50 (above 50 implies expansion, below implies contraction) for the first time since 2012. Real global GDP growth was at 2.6% as of Q2 2019, slightly below the average of 2.9% over the last 15 years. While the domestic economy can be insulated from trade wars, Brexit, middle east turmoil, etc. by the U.S. consumer, other economies that are primarily import based or export based are all feeling the impacts of the global uncertainties.

World trade volumes went negative, year over year, in September. In Europe, Germany had a PMI print of 41.9 in October and 41.7 in September. This is the lowest since Q1 2009 for the Germans. The Eurozone in general had a PMI of 45.7 in October. It should be of no surprise that the European Central Bank restarted quantitative easing in order to attempt to trigger some sort of expansionary sentiment. The Chinese recently posted GDP of 6% which is the lowest in the last decade, although the slowing growth for the Chinese economy started in early 2018 as a result of monetary policy tightening and predates current trade negotiations. Regardless, all countries are feeling the effects of the trade disagreements, uncertainty, and ineffective monetary policy.

The United Kingdom's exit from the European Union was supposed to take effect by 10/31 however they received an extension from the EU until early 2020 and will now hold an election in December that should finally decide whether or not they will follow through with an exit. The initial referendum to exit the EU was voted on in June of 2016. 3.5 years should be enough time to figure out how to get it done.

Fixed Income

The fixed income markets displayed some interesting twists as the Board of Governors of the Fed reversed two of the late 2018 fed funds increases with 25 basis point reductions on August 1st and September 19th. Most market observers believe these changes are a correction of aggressive moves last year and that we are close to a rate level that is appropriate for current inflation and economic activity levels. In the bond market, Treasury ten-year yields were lower for the quarter, although higher at 1.65% than a low of around 1.45% reached in early September. Domestic corporate bonds generally saw a drop in yields with two exceptions. Yields rose and prices dropped for corporate issues holding the lowest investment grade and lowest below investment grade (junk) ratings. As concerns have increased that the current weakness in growth could accelerate and the fact that these bonds have been priced very expensively on a historic basis, prices fell for these segments in response.

Internationally, bond yields generally fell as central banks continue broad easing and once again concerns about future growth continue to impact the markets. Individual developed market corporate issues, particularly western Europe, have some appeal as a negative outlook appears imbedded in prices and selective emerging market sovereigns may be attractive, particularly if the current stability in some EM countries transitions to growth. We have modest exposure to these markets via diversified unconstrained institutional funds.

Although we continue to see a low rate environment domestically which may stay in place for an extended period, the risk of holder long term issues if yields rise even modestly is high. We continue to emphasize quality via Treasury, agency and mortgage backed securities along with investment grade corporates. Even though conditions have improved for some state and municipal bond issuers over the last 5 years, we have focused primarily on revenue-oriented tax-free bonds where appropriate for some client accounts.

Equity Markets

U.S. stock markets had modest losses for the third quarter as a result of August weakness, detracting slightly from strong earlier gains, leaving year to date returns in the low double digits. Reported earnings have continued to proceed at a low single digit growth rate as the economy slows compared to last year. Through September 30, U.S. indices are basically flat with regard to performance since the start of 2018, despite strong earnings growth in 2018 and the smaller gains this year as concerns over the impact of slowing international economies on the U.S. are digested. Traditional valuation metrics have become cheaper over this time period and portray reasonable valuations even if growth remains very slow and interest rates stay within recent ranges.

The potential for upside exists if domestic growth stabilizes or increases and/or interest rates stay at current levels or go lower, which would enhance fundamental equity valuations. Looking at sector performance for the year to date reveals an interesting mix. Real estate and utilities have risen strongly based on lower bond market yields which helps groups with higher dividends. In addition, the technology sector has performed strongly (+30.3 % S&P 500 tech sector) despite some retrenchment by a few large market leaders, as overall strong trend growth is rewarded in an economy that is slowing. When considering individual company stocks for investment we continue to focus on businesses with strong free cash flow generation and market leadership and continue to find a reasonable number to hold and invest in.

Internationally, most developed indices except for Japan were down less than 10% for the quarter, however, remain positive for the year. The broader emerging markets moved higher despite relative weakness in the larger Chinese, Indian and Brazilian markets. The vast majority of international markets have experienced at least a 20-30% decline at some point over the last 2-3 years, the technical definition of a bear market. There are early signs of stabilization in some of these economies and if there is even a modest rebound in activity there is room for good equity returns from current levels, which are reflecting continued gloomy conditions. Although always more volatile, the long term growth that is likely in emerging markets warrants some exposure for equity investors.

Why Financial Literacy is Important

Source: Advisors Websites

Being financially literate in today's economic climate is more important than ever. Understanding finances can help you make better money management decisions, budget your money properly, adequately save for college, and be financially prepared for retirement. While it may sound daunting, financial literacy starts with a budget. Today, only one third of Americans have a budget that they actively use when making financial decisions, although 75% of Americans believe you should have a budget.

With more of the burden placed on consumers to make educated decisions about things they may have little knowledge of, it's important to educate yourself properly, no matter what your age. Here are a few reasons why financial literacy is so important today:

1. Longer Life Span – In 1960, the average lifespan was 69.7 years. Today, it's 78.7 years; an increase of nearly ten years. And while no one is complaining about living longer, the fact is that because we're living longer, we'll need to save more money for retirement. However, a new statistic shows that 22% of Americans have less than $5,000 saved for retirement. By educating young Americans about finances, it's likely that more will start planning (and saving) for retirement sooner.

2. Reduced Pensions – The rule of thumb years ago was that you spent your professional life with one company, and retired with a healthy pension. Employees had little, if anything to do with managing that pension, and were not required to understand investments, where they should invest, and how much of their money they should invest. Today, aside from the public sector, the majority of businesses have done away with pensions, instead offering employees the chance to participate in a 401(k) plan, where they'll need to make decisions on how much of their money they wish to contribute, as well as where their investments should go.

3. Social Security Benefits Not Enough to Live On – The average Social Security benefit paid per month is $1,461; not nearly enough to live on comfortably. It's vital that retirees have another source of income, whether from other retirement accounts, a 401(k) or IRA, or a savings account.

4. Aggressive Credit Card Companies – Today, people can receive dozens of solicitations for credit cards on a weekly basis. It's easy to succumb to the temptation, and equally easy to find yourself thousands of dollars in debt. By understanding the role that credit cards should play in your financial health, you are much less likely to overspend, and use the cards properly.

5. The Death of Cash – Only 18% of Americans state that they use cash to make most of their purchases. While debit cards and electronic payment apps have certainly simplified the buying process, they have also left us with a curious detachment to our money, making it much easier to overspend without seeing the immediate consequences as we did with cash, when we could simply look in our wallet and see our cash dwindling. But by being proactive about our financial health, we can learn to pay closer attention to the consequences of our spending, no matter how a purchase is paid for.

While implementation of a financial literacy curriculum in schools is a positive trend towards financial literacy, we all need to take a long look at our financial health and see if we need a refresher course in financial literacy.