Investor Insights & Outlook

January 2020 4th Quarter **Concorde Investment Management**

Domestic Economic Overview

A Message from Concorde Investment Management

In 2018, we rolled out an app for your smartphone or tablet 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.

"Every discussion of the Trade War is connected to the President's reelection chances. Meaning as long as the economy is doing well, the President's reelection chances are higher. We expect the President believes this which is why we expect a trade deal to be reached with enough time to see benefit in the economic activity of the U.S. prior to the election. <u>That would equate to a Q4 2019 or Q1 2020 deal."</u> ~ Concorde Quarterly Letter Q2 2019.

As we expected, phase 1 of the trade deal between the U.S. and China was announced in December and signed in early January 2020. While the full details of phase 1 have not been detailed, timing of signing was always going to be in Q1 specifically because it can increase GDP numbers in an election year. The U.S. also passed the United States Mexico Canada Agreement (USMCA) in the House in December and the Senate in January. Broad bipartisan support in both Houses of Congress (385-41 in the House and 89-10 in the Senate) and the agreement now sits on the President's desk. Both trade deals are bullish for an already strong economy.

The economy grew at an annualized real rate of 2.1% during the 4th quarter according to the Commerce Department. The U.S. consumer continues to be the driving engine. Wages for rank and file workers are rising at the quickest pace in more than a decade, including faster than the highest 25% of earners. Pay for the bottom 25% of wage earners rose 4.5% in November whereas the top 25% of earners rose 2.9%. We have been anticipating wage increases given that unemployment is at the lowest level in 50 years. Higher wages, as a result of a tight labor market, usually result in higher prices for consumers. The elusive consumer price inflation the Fed has been looking for might be finally ready to rear its head.

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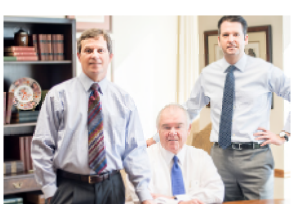
The Concorde Team



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Domestic Economic Overview (continued)

There are no immediate domestic headwinds to growth in the U.S. between now and the end of the year. Even the recession fears that spiked in August of 2019 due to fear of an inverted yield curve have subsided. Consumer strength, business spending on the heels of the China deal and the USMCA, government spending and net imports are all positive and are likely to be accelerating during 2020. As of this writing, the current Administration is talking of another package of tax cuts to pass prior to the election. While we don't have details, further stimulus isn't necessary but pro-growth policies will never be shunned. If we were to discuss a concern it would be the overall debt level of the U.S., state and local governments and the annual deficits that continue to grow, seemingly without sufficient concern by policy makers in Washington. Eventually, it will be time to "pay the piper", but nobody seems to be worried or concerned about the immediate future.

International Economic Overview

The Conservative Party in the UK secured a landslide victory in December. While Brexit wasn't officially on the ballot box, Conservatives vowed to see it through and Boris Johnson ran on a "get Brexit done" platform. Britain now will leave the EU on 1/31/2020 as Mr. Johnson promised. Economically, the Brits have been preparing for this for 3.5 years so the impact on their economy should be limited. The UK will be free to negotiate new trade agreements and first up will be the U.S. as we are the UK's largest export markets, importing $121 Billion in goods and services from the UK in 2018.

As mentioned in the Domestic Economy section of this letter, the U.S. and China agreed to Phase 1 of the trade deal in December and signed it in January. Details have still yet to be released but tariffs have been frozen and we expect the Chinese imports of U.S. agricultural products to increase materially. The most important aspect of any agreement with the Chinese will be around forced technology transfer and IP protections. While there was inclusion of stronger Chinese legal protections for patents, trademarks and copyrights, there was not anything "measurable and enforceable" as it relates to technology transfer. Just Chinese commitments to follow through on previous pledges. Those aspects will be material to Phase 2. Regardless, the initial signing was good news for both the U.S. and Chinese economies, which drive overall global activity. The Chinese must be particularly pleased they got something done in December as January brought about the Coronavirus and fears of an overall slowdown to their economy. Their growth is increasingly driven by consumption and virus fears will have a short-term negative impact on their economy, especially given it is happening during their New Year on January 25th, which is essentially our July 4th and Christmas rolled into one holiday.

Looking back over the previous few quarters, global growth had been slowing, driven by trade war realities and fears. Touching on the purchasing managers index, it briefly dipped below 50 as of our last report (signaling contraction) but has since rallied and sits just above 50 as of 12/31/19. All in all, good news on the International stage and removal of the uncertainty of an eminent all-out trade war should favorably impact overall global growth in 2020.

Fixed Income

After falling from 3.20% in October 2018 to below 1.50% in early September 2019, the yield on the 10-year U.S. Treasury Note rose gradually during the last quarter of 2019, reaching as high as 1.90%. This modest rise might be the beginning of a response to other fixed income markets that may have significant repercussions. The other markets we refer to are government bonds in primarily developed European countries. Ten-year yields in most of these markets, including Spain, Portugal, the UK, Australia, Germany, France and Italy, rose between a quarter and a half percent in Q4. These are not only significant changes for yields that are mostly mired in negative territory, but the reversal toward 0 and positive yields could prove positive for financial institutions and their local economies. The potential detrimental impact for U.S. fixed income investors and issuers is that part of the support for domestic bonds related simply to yield differential could be waning. This will be worth monitoring not only from a fixed income investing standpoint but also from an equity valuation perspective. As a result of this potential trend and the flat yield curve, we continue to emphasize short-term Treasury issues for our government liquidity investing.

Elsewhere in the domestic credit markets, corporate and municipal markets remain firm as spreads narrowed incrementally in late 2019. Many market strategists believe select below investment grade (junk) corporates represent better value than investment grade. Our current stance is that individual corporate issues in the lower investment grade and higher junk spectrum is the place to look for modest value in today's market with extensive knowledge regarding potential improvements in individual companies the key to value. Within municipals, issuance and net inflows both increased in the last half of the year. We continue to emphasize short term revenue, specific project and redevelopment agency project bonds in the tax-free sector.

Equity Markets

A strong fourth quarter capped a calendar 2019 year performance that more than made up for the very weak last quarter of 2018 and modest negative results for all of 2018. The technology, communication services and financial sectors led this performance, all exceeding 30% returns for the year. All sectors had strong positive performance, with energy the laggard at up 11.8%, despite a strong fourth quarter related to other groups. Growth indices continued to outperform value, although by a lower margin than some recent years. Broad based domestic indices including all capitalizations and styles generated annual returns of between 22% and 36%. Value stocks actually had several short-term periods of outperformance during 2019 that may indicate the potential for a market shift. Regarding valuations and potential future returns, current multiples of earnings and cash flow are reasonably justified at current or even modestly higher interest rates. With multiple expansion unlikely, future long-term returns are likely to be in the range of average earnings and cash flow growth, which will be less than the annualized total returns experienced over the last decade.

Internationally, developed and emerging market indices performed well, recovering from performances that were significantly worse than the U.S. in 2018. Typically more volatile, individual major emerging markets returns varied considerably, ranging in U.S. dollars from up 7.6% in India to up 52.7% in Russia. Valuations in developed markets, particularly Western Europe, are at a large discount to the U.S. Recent analysis shows however, that a large part of the performance lag for international stocks in recent years relates to the sector mix in those indices. For example, non-U.S. markets contain high concentrations in materials, financials and energy (more value oriented) which have performed poorly. The domestic concentrations are currently in technology, health care and communication services (more growth oriented), which have provided a large portion of the recent outperformance. We continue to believe that moderate exposure to internationally based companies is warranted for long term, fundamentally based investors and are maintaining our exposure to those areas.

What Are Your Planned Giving Options?

Source: Advisors Websites

Most nonprofit organizations today offer a variety of planned giving options that supporters can take advantage of. If you're committed to supporting an organization into perpetuity, planned giving provides you with the option to do so.

While consulting with your tax or financial advisor is recommended before making any planned giving decisions, it can be helpful to gain some understand about the various options that are available, and which of these options are more likely to suit your own particular financial needs and personal philanthropic philosophy.

The following are just a few of the ways you can continue to give back to your favorite causes for the foreseeable future:

Leave the organization a bequest – one of the easiest ways to support your favorite organization is to simply name them in your will or through a trust. You can choose to leave a stated amount to the organization or leave a percentage of your estate.

Stocks, Bonds, Mutual Funds or Securities – Donating appreciated stocks, bonds, or mutual funds will increase the impact of your gift to the organization while also providing you with significant tax savings. In most cases you will be able to transfer the securities directly to the organization in question, but be sure to check with your financial planner for more specifics on tax benefits.

Life Insurance or Retirement Plans – If you're more comfortable leaving your estate to your immediate heirs, you can still choose to support your favorite organization by naming them as the beneficiary of your life insurance plan, retirement plan, or annuity assets.

A Charitable Gift Annuity – A bit more complicated than a simple bequest, a charitable gift annuity allows donors to gift the nonprofit of their choice with a significant sum of money. The minimum charitable gift annuity is typically $10,000. Once that donation has been received, the nonprofit then will provide you with a set income determined by the money donated. This payment ends upon death, with the nonprofit then retaining the balance left in the annuity. It's important to check with a financial advisor about the laws in your state regarding charitable gift annuities. You may also want to check with the organization that would receive the funds, as not every organization has the resources in place to accept charitable gift annuities.

A Charitable Remainder Trust – A charitable remainder trust is similar to a charitable gift annuity, though because of the expense of administering a separate trust, the minimum donation amount typically starts at $100,000, with the donor receiving an annual amount until the trust is completed, with the nonprofit receiving the remaining funds.

Real Property – While not gifted as frequently as stocks, bonds, and securities, some do choose to leave real property to a beloved nonprofit organization. Real property can include buildings and land. Again, be sure to check with the organization in question to ensure they can accept this type of donation.

Personal Property – While personal property can also be bequeathed to an organization, it's important to check with the organization first to determine whether they can accept these items.

Being aware of the numerous planned giving options available will make it much easier for you and your financial advisor to create a plan that will work best for you.