EQUITABLE Trust

Trustees and Investment Advisors

THIS ISSUE

Time to Reflect on Risk
Edward A. Burgess, CFA
Senior Vice President
and Chief Investment Officer

Market Diary

Retirement Planning
W. Keith Keisling, JD, CTFA
Vice President and Trust Officer

"Courage is fear that has said its prayers."

– Dorothy Bernard, *Actress* 1890-1955

TIME TO REFLECT ON RISK

Despite renewed fears of an intensifying trade war with China, political sclerosis regarding Brexit, an attack on Saudi oil facilities, problems in the short-term funding markets and the possible impeachment of the President of the United States, the stock market held up well, gaining 1.7% in the quarter.

A strong start in July was quickly undone by early August thanks to increased tariffs between the U.S. and China. The trade "truce" of the second quarter ended as President Trump announced on August 1st 10% tariffs on $300 billion worth of Chinese imports, citing a failure by the Chinese to fulfill promises to increase purchases of U.S. agricultural products. Later that month, China retaliated by levying various new tariffs on $75 billion worth of U.S. imports. The President immediately responded by increasing existing tariffs on all $550 billion of Chinese imports. This tit-for-tat has weighed on financial markets since.

With recent policy rate cuts from the European Central Bank and more recently by the Fed, there is now roughly $15 trillion in negative-yielding debt worldwide. With the U.S. as one of the few safe, positive-yielding refuges in the world, foreign investors are tempted to buy Treasuries, thereby pushing down their yields. However, when inflation is taken into account, real yields are negative everywhere. The mere existence of negative interest rates is evidence that monetary policy is no longer able to grow and sustain economic growth.

Investors seeking current yield must pay heed to large cap domestic equities. Of the S&P 500 stocks, 56% report a dividend yield higher than that of the 10-year Treasury and 43% have yields greater than the 30-year bond. Generating positive cash flow now requires taking more risk than in the recent past (see chart on top of next page).

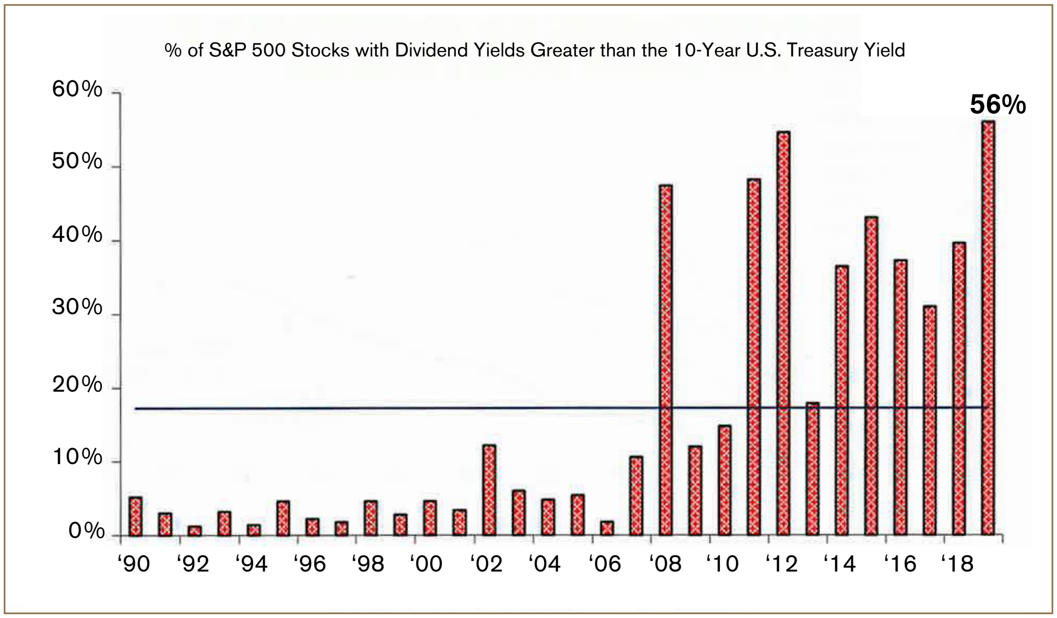
The mix of a 3-month/10-year U.S. yield curve inversion, weakening inflation expectations and the Fed's desire to keep the dollar from appreciating relative to other currencies argue for further cuts in the Fed Funds rate. The Federal Open Market Committee is no longer unanimous about cutting, however. Skeptics on the FOMC argue that already-negative real Fed Funds rate shows that monetary policy has reached its limit.

Across the Atlantic, Germany and the U.K. may already be in recession. Data from other industrial economies show slowing, as well. Looking at data back to the 1970s reveals that the U.S. has never followed the world into recession.

(continued on next page)

TIME TO REFLECT … *(continued)*

56% of S&P 500 Stocks Now Sport A Dividend Yield Greater Than The 10-Year Treasury



Source: Strategas

The U.S. has always led. And with consumer spending at approximately 68% of GDP, the U.S. consumer is a significant factor in the world economy. Fortunately, domestic consumer sentiment remains high.

The U.S. market seems to be appraising the possibility of a change in the party occupying the White House. If impeached and convicted, Trump's party would almost certainly be replaced in the next election. Short of a conviction, the economy might play a larger role in the election outcome. Only once in more than 100 years has a president (Calvin Coolidge) been re-elected when a recession occurred within two years of the election. Two presidents have lost re-election since World War II; the only two with rising unemployment rates in the election year (Jimmy Carter and George H.W. Bush).

If Democrats manage to retake the White House, their odds of adding a takeover of the Senate improve. With a unified Democrat government, many policies affecting the economy and markets would change; e.g. increased regulation, higher tax rates and changes to the health care sector could easily re-order the list of leaders and laggards.

For now, we note that bull markets generally end when a large number of the following conditions are met: a “blow-off” top, heavy inflows into equity funds, a surge in merger and acquisition activity, unbridled interest in IPOs, rising interest rates, weakening upward earnings revisions, erosion of the number of stocks making new highs, a shift toward defensive stocks and widening of credit spreads. While almost none of these conditions are observed now, we must also acknowledge there is a first time for everything.

We do not predict recessions or bear markets and are not doing so now. We do suggest, however, that this is a good time to assess whether the bull market of the last few years has made riskier assets a larger portion of client accounts. Where it has, rebalancing may be in order. As always, we stand ready to address your questions and concerns.

Market Diary Period Ending September 30, 2019

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.50	1.66	2.24	1.55	0.98	0.55
Barclays Aggregate	2.27	8.52	10.30	2.94	3.38	3.75
Barclays Municipals	0.81	4.73	6.42	2.38	2.55	3.06
Barclays High Yield	1.33	11.41	6.36	6.09	5.38	7.95
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	-0.03	16.20	1.38	9.75	6.66	8.36
U.S. Stock Market (S&P 500)	1.70	20.55	4.25	13.45	10.85	13.26
U.S. Mid-Cap Stocks (S&P 400)	-0.09	17.87	-2.49	9.42	8.90	12.58
U.S. Small-Cap Stocks (S&P 600)	-0.20	13.46	-9.34	9.37	9.90	13.04
International Stocks (MSCI AC World ex US)	-1.80	11.56	-1.23	6.36	2.91	4.46
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	0.42	5.06	1.16	1.87	0.85	1.92
Commodities (Bloomberg Commodity)	-2.35	1.39	-8.71	-3.06	-8.12	-4.84
Gold (S&P GSCI Gold Total Return)	3.82	14.21	22.47	3.02	3.27	3.59

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

RETIREMENT PLANNING

I will soon be entering another phase of my life – retirement! *"Am I really that old?"* I ask myself. Although I'm looking forward to it, there's a touch of anxiety, too – after all, it's something I've never done before. A serious reduction in income awaits my wife Malinda and me, which could have a profound effect upon our standard of living.

Fortunately for us, years ago we began implementing many of the ways of preparing – financially, that is – for our retirement years. These include:

(a) saving by contributing to IRAs and to Equitable Trust's 401(k);

(b) allocating our investments primarily to equities;

(c) living within our means;

(d) having a realistic awareness of what our retirement expenses will be; and

(e) delaying the taking of Social Security benefits to a later date in order to obtain the annual increase of approximately 8% (adjusted for inflation).

I might add that having access to the investment services of Equitable Trust has greatly facilitated my saving and investment efforts.

There was one final step, though, and that was to gather all our pertinent financial information and share it with our financial and retirement planning specialists, who are both Certified Financial Planners and Chartered Financial Analysts.

Using Malinda's and my data, our assets and liabilities, wherever held and recorded, were aggregated electronically in a financial planning program and updated automatically. As a result, any transaction in any of our accounts – the posting of a dividend in one of our IRAs, for example – automatically shows up and is accounted for. Malinda and I are also able to log in and see the aggregated information for ourselves at any time.

(continued on back page)

RETIREMENT PLANNING... *(continued)*

The consolidation of information facilitated Malinda's and my conversations about our post-retirement plans: *How soon should we sell our current residence and downsize? How long should we delay the taking of Social Security? Do we have an adequate reserve for emergencies?* The interactive nature of the program gave us insight into how even seemingly small changes in finances can have a potentially long-lasting effect upon our financial future.

Equitable Trust has found this same fundamental process is extremely beneficial to, and appreciated by, many of its clients who are not concerned exclusively with retirement issues. This same structure and process is used to monitor and maintain large and complex estate portfolios with assets of varying types and structures.

Malinda and I learned that financial planning with Equitable Trust is an ongoing process and not a single undertaking. We will have the opportunity to further consult with our advisors as long as we remain clients of the firm. We will even schedule annual "check-ups" similar to those with our primary care physicians. After all, financial health is important, too.