From the desk of the CIO
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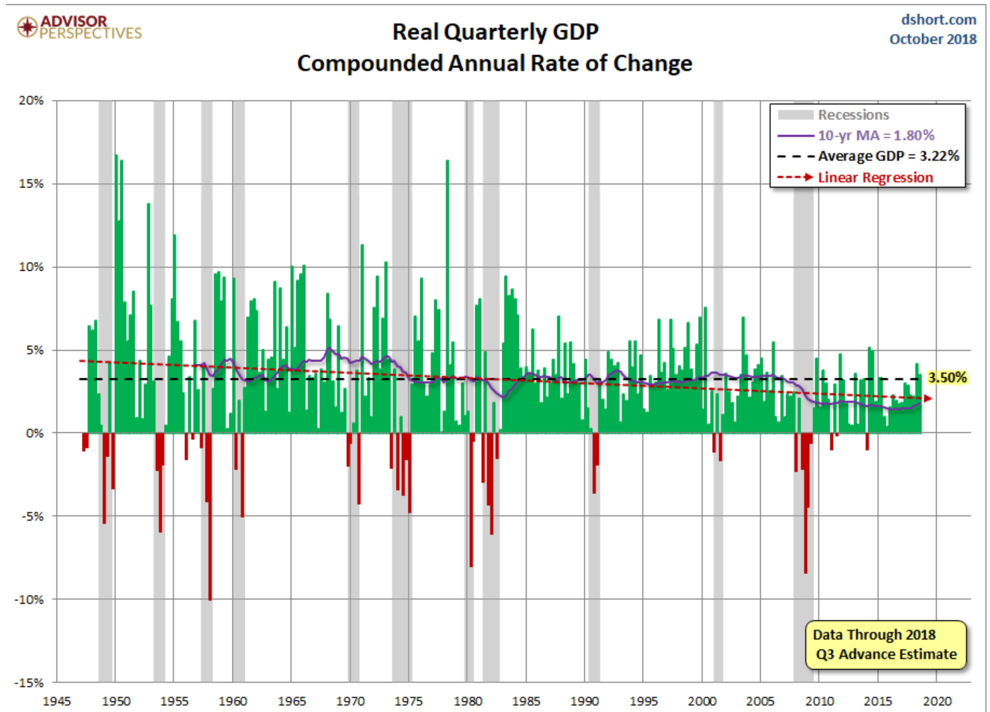
Market Correction Data Check

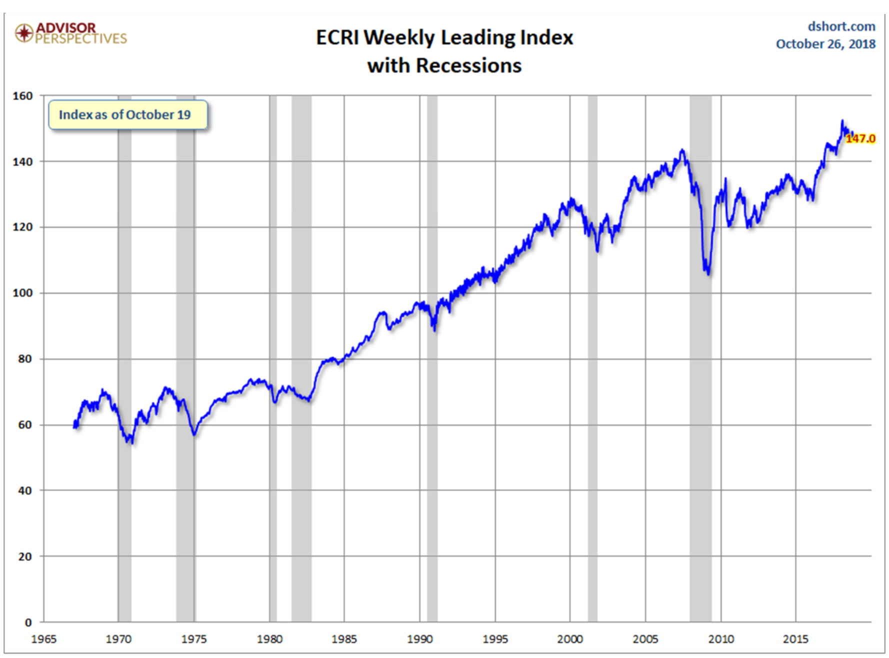
Following yesterday's market bounce, the S&P 500 finally reached technical correction territory at 10% below the prior high for the index. I have always found it informative to assess current and forecasted macro-economic conditions when markets decide to pitch a fit.

To the right is a chart of real quarterly GDP changes with recessions marked by the grey areas. The first of three readings for third quarter GDP was just released. Although less than the remarkable 4.2% we experienced in the second quarter, 3.5% is nothing to sneeze at in a mature and developed economy, like the United States. Economic conditions are pretty good at home and are still above the long run average of 3.22%.

So, that's the rear view mirror look at economic conditions. What's the forecast for the future? For that we turn to the Conference Board's "weekly leading index" of economic conditions.



As you can see in the chart below, the leading index of economic conditions as of October 19th did decline in the last week but only to 147.0 from 147.5. The index is just under its all-time high a few weeks ago. In looking at rear view mirror data and forecasts of future conditions, the set up just isn't there for the next recessionary trough. Therefore, by process of elimination, we can conclude that the intraday correction and recent spike in volatility is related to something else that has been recently introduced into the equation. Whatever could that be? Oh yes, the Fed has been increasing the target short-term federal funds rate and the yield on 10-Year U.S. Treasury bonds has been on the rise. Yup, that'll do it. In our view, it's all about the Fed and the language included in the minutes from the last meeting that indicated continued increases.



That said, tariffs have certainly contributed to the recent decline as well. The impact is supply chain disruptions and bumpy trade between countries. Companies are having difficulty obtaining various component parts at reasonable prices, forcing them to cancel or delay orders.

If the Fed re-ups with some language indicating that future rate increases will be data dependent and global trade tensions subside, that should go a long way to settling markets. We have already observed "smart money" investors buying securities at today's lower prices and we expect that to continue with more volatility along the way.

We'll continue to keep a close eye on all the variables as stewards of your financial resources, a position we take quite seriously. Have a wonderful weekend!