Canandaigua National Trust Company

QUARTERLY PERSPECTIVE

FALL 2019

The Global Economy, Trade, and the Fed

Despite what many would consider a tumultuous past few months, world stock markets rallied from late August lows to finish slightly higher for the third quarter of 2019. In the US, the S&P 500 inched up 1.2% for a YTD gain of 19%, extending the longest bull market on record. Developed international markets declined slightly while emerging markets continued to lag. Bonds settled higher with the yield on the 10 US Treasury bond falling to 1.67%, highlighting a rare instance where both risk assets and safe assets increased in value, reflecting investor's unease with the path of the global economy.

2019 Performance Year-to-Date through 9/30/2019

	3rd Quarter 2019	YTD 2019
S&P 500	1.70%	20.55%
Russell 2000	-2.40%	14.18%
MSCI EAFE (Net)	-1.07%	12.80%
MSCI Emerging Markets (Net)	-4.25%	5.90%
Bloomberg Barclay's U.S. Aggregate Bond	2.27%	8.52%

Source: Zephyr StyleADVISOR

Through the end of 2019, investors will likely focus their attention on three primary areas: the global economy, trade issues and what the US Federal Reserve (the Fed) may do. Although each can be viewed on a stand-alone basis, the interplay between them may have a meaningful impact on market returns across all asset classes.

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Vice President
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Stephen is a member of the Investment Committee, which is responsible for the oversight of CNB's Wealth Management process. He is also responsible for the daily management of client investment portfolios. He holds the professional designation of Chartered Financial Analyst.

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While the US economy remains on a stronger footing than most of its international peers, worldwide economic growth is clearly slowing. Europe's economy may have ground to a halt with recent measures of business activity the lowest in 6 years. China's economy has also continued to slow, albeit to a rate that is still outpacing other major developed nations. Forecasts of GDP for the US have continued to decline but are not yet indicating an elevated probability of imminent recession, even though a recent Wall Street Journal poll of economists suggests that the manufacturing sector is in recession and the service sector is posting much slower growth. And what do market observers point to as a primary drag on economic growth? Trade uncertainty.

Trade issues have dominated the financial headlines for much of 2019 and the third quarter was no exception. A resolution to the trade dispute between China and the US has proven elusive and the fit-and-start nature of negotiations has been disruptive to businesses worldwide. In the US, agriculture has been especially hard hit with implications for farmers and ancillary businesses like manufacturing and transportation. While China has recently stepped up purchases of some agricultural products like soybeans, shipments remain far short of pre-trade war levels. Some wonder if China is merely trying to buy their way out of the trade dispute rather than address the structural reforms that the US is insisting upon.

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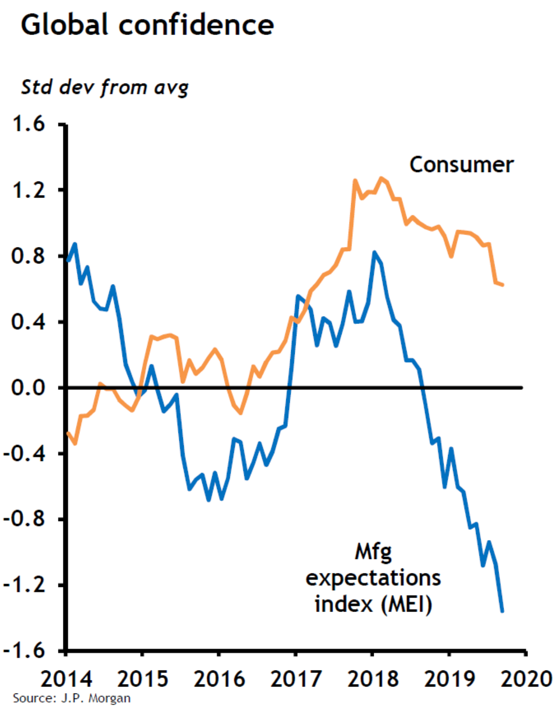
For many, the seemingly ad hoc nature of tariff impositions and the tit-for-tat response by each nation has created an atmosphere of uncertainty that has left many businesses unwilling to commit capital to business expansion, exacerbating the economic growth issues highlighted above. All of this has not gone unnoticed by the Federal Reserve.



The third quarter was a busy one for the Fed with cuts to interest rates in both July and September in an attempt to prolong the economic expansion. Just a year earlier the Fed was raising rates but has now joined along with 16 other central banks in lowering rates in the third quarter. A recent release of notes from the September Fed meeting show officials growing more concerned about weakness from trade and slowing global growth and the deleterious effect they may have on domestic hiring. Job growth has slowed as of late but remains steady and wage pressures are muted. Those factors along with a lack of inflation pressure may mean that the Fed has room to comfortably reduce interest rates further - although the amount and timing of further cuts is an open issue as a minority of Fed members questioned whether any additional cuts were needed at all. Above all, the Federal Reserve needs to maintain its independent role and not allow its decisions to be influenced by other government entities.

Markets enter the fourth quarter in a somewhat fragile state and it's important that investors not get caught up in the noise being generated on a daily basis. A well-diversified investment portfolio that is rebalanced periodically and structured for long-term results is a great antidote to the impulse to react (or over-react) to the 24/7 news cycle. It is also a great time to meet with your advisor to ensure that you're well-positioned for 2020 and to discuss any tax or planning issues before year-end.

Our Investment Committee

Our investment philosophy combines knowledge of the macro economic environment with a rigorous asset allocation and selection process. Our investment choices are driven by our Investment Committee, as opposed to any one advisor. This committee of experienced, credentialed people meets on a regular basis to oversee the asset allocation, individual assets (such as stocks, bonds, mutual funds, ETFS and third party managers), economic data, performance and investment policy for our clients and our firm. The team constructs and maintains diversified portfolios built to help you meet your long-term goals. Let us know if we can help you better understand the options available to you.

1180 WHAM **Ask the Experts**

Our professionals are featured on radio talk show *Ask the Experts* to discuss a variety of financial topics. The show is broadcast on WHAM 1180 Saturdays at 8:00 pm.

2019 Shows
November 23