Q-3 Report to Clients

October, 2019

Market Review

UNDERSTANDING THE GLOBAL ECONOMIC SLOWDOWN

The economic slow-down is all about global versus mercantile trade policy. Mercantile trade policy is rooted in ensuring a country's exports exceed imports. Viewing trade as a zero-sum outcome devolves to 'when imports exceeds exports, you lose'.

Affecting both equity and debt markets throughout the quarter is the tariff face-off between the world's two largest economies: The United States and China.

The President is committed to a make America great narrative. As such, he views most issues as 'you win, I loose'. In addition, the penchant of the Trump Administration to work through economic, political and security issues, with both allied and non-allied governments, by imposing tariffs or economic sanctions contributes to unsettling the global economy, business and investors.

Though at times there may be validity to this perspective, how one defines the elements of winning and losing determines whether the end conclusion is correct. In an ever increasing interconnected and accessible world, imposing artificial barriers to the sale and purchases of products promotes economic dislocation inefficient allocation of resources and increases the cost of both doing business and satisfying consumer demand. Additionally, when discussing surpluses and deficits the dollar value of both manufactured goods as well as services and intellectual technology, sectors in which the US economy excels, must be similarly evaluated.

Global and country specific economic advances of the late 19th and early 20th century has in no small part resulted from a reducing of trade barriers. Countries have been able to exploit their natural advantage to benefit their economic growth while allowing others to do similarly. The end result has been the advancement of communities and peoples.

In 2016, UNCTAD estimates world trade in goods and services approximated 21 trillion dollars. Because trade surpluses bring money into an economy, trade surpluses do contribute to the growth of GDP. Smaller economies are disproportionately advantaged by their ability to access global markets to sell raw material, goods and services.

It would be an error to attribute the decline in worldwide poverty exclusively to the benefits of trade. Nevertheless, it would not be inaccurate to suggest that trade has materially contributed to GDP growth. Diana Beltekian and Esteban Ortiz-Ospina draws on data and research from their work at the Global Change Data Lab of the University of Oxford. When evaluating global poverty, the metric of individuals with a standard of living greater than $10 a day has significance. That number has increased from 19.81% to 35% in the 24-years between 1981 and 2015.

Country-specific worker adaptation to the change wrought by global trade policy has contributed to the resurfacing of political populism. Absent social policies that provide a security net for those whose employment prospects are adversely impacted, there is understandable demand for the call to impose limits on the movement of goods as well as peoples across borders.

Tariffs play to this narrative by increasing the cost of product as it crosses borders. The cost created by tariffs are not borne by the exporter but the importer. As such, tariffs on Chinese products are paid by US businesses and consumers. Higher cost slows demand for manufacturing, which in turn reduces the need for raw and finished products used in the manufacturing process. These are often obtained through third parties from other countries. It is readily apparent how tariffs reduce global economic activity and contributes to economic slowdown.

To date, the increasing global slow down resulting from reduced demand for natural resources and manufactured product has had little impact on the US economy. Employment growth and low consumer debt has sustained US consumer confidence and propelled consumption forward. Unlike many other countries where manufacturing dominates domestic economic activity, domestic consumption contributes upwards of 70% of US economic activity. A slowdown of manufacturing, though never desirable, exerts less impact on the overall well-being of the US

economy. This reality, however, is not evenly distributed across the country. Manufacturing slowdown has had a disproportionate impact on select regions. The larger urban centers, for the most part, look to services, housing and consumer spending as the bulwarks of economic well-being. Smaller cities and more rural states, particularly in the mid-west may not be as fortunate.

In addition, many large US companies enjoy a global market for their product. This diversifies their customer base and affords a level of insulation to business activity. Brand dominance, which many of these companies enjoy, makes their product integral as stand-alone or component items. Smaller companies with more regional orientation, benefit from the size of the US consumer market, which insulates them from the global dynamics to which their counterparts in smaller countries are exposed.

Third quarter GDP rate of growth may well evidence a further slowing from the 2% of the second quarter.

Since January, the Federal Reserve has twice cut interest rates by 0.25 bp in an effort to sustain the US business cycle expansion, now in its tenth year. Interest cost reductions do have their limitations. First, with a 2% Federal Reserve Rate, there is little room to further reduce the cost of money to businesses and consumers. Second, the US has enjoyed low cost of money for in excess of ten years. Further incremental decreases will do little to stimulate more business economic activity, consumer debt refinancing and/or spending. The driver of the current economic slow-down, restrictive trade policy, will not be offset by lower interest rates. This slow-down in economic activity stems from economic uncertainty and that is a function of political policy, not economic events.

Lower interest rates reduce bank profitability as well as investment and saving's yields. With the ten-year Treasury Bond yielding at or below 2%, investors must turn to riskier investments in an effort to generate return. This has buttressed the US equity markets despite the slow-down in corporate business activity and profit growth.

European markets continue to slow and data available on the German economy suggest that country, like other European countries, may be or may soon be in a recession. Europe and Germany in particular is heavily dependent on the manufacturing export market for growth.

The UK economy remains unsettled as the Brexit decision awaits resolution. Uncertainty contributes to the reduced flow of foreign investment. Japan's consumer confidence declined as the global slowdown in manufacturing affects Japan's export-oriented economy.

China's economic expansion was slowing prior to the imposition of US tariffs. Industrial production grew at 4.4% from around 7% at the start of 2018. The cost advantages of Chinese manufacturing were already under pressure due to competition from other developing countries where the cost of production is lower. Long standing supply lines established by global companies advantage Chinese manufacturing. Tariffs on Chinese products, however, are incentivizing companies to expand supply chains by seeking partners in other countries that may not be subject to restrictions now imposed on their Chinese sources. Projections suggest Chinese GDP growth will drop below 6% and continue to slide with the passage of time.

Again, this does not occur in isolation. It ripples through to the global economy that has piggy backed on the growth of the Chinese economy.

Market Indicators

Q-3 global equity growth slowed throughout the quarter. Positive market activity in September 2019 allowed the quarter to end roughly similar to the previous quarter.

The Federal Reserve reduced interest rates in July 2019 and September 2019. Central Banks in many countries also lowered interest rates in an effort to stimulate local economic activity. In Europe, negative interest rates are a reality and quantitative easing, the purchase of securities by the central bank to infuse more funds into the economic system, was again on the table as a monetary program. It is unlikely monetary policy without concomitant fiscal policy (increased government spending) will have much benefit. Because of ongoing deficits, many countries lack the ability to increase government spending. Germany, which enjoys surpluses, is extremely reticent to increase spending or

institute deficit spending. The US economy continued to add jobs but the pace of growth and aggregate hours worked slowed. Consumer confidence declined.

Q-1 Indices performance:

Standard & Poor's' 500 Index (from Robert W. Baird & Co. 'Market Chart Book'))-
Q1- +13.7%
Q2- +4.3%
Q3- +1.7%
Dow Jones-
Q1- +11.2%
Q2- +3.2%
Q3- +1.8%

Q-1 Bloomberg Barclays US Aggregate Bond Index (from Morningstar)*-
Q1- +2.9%
Q2- +3.08%
Q3- +2,27%

*The above market data is provided for illustration purposes only and has limited applicability to investment portfolios differently constructed. The indices described serve as an indication of overall market performance for both US domestic and fixed income instruments.

Seslia News

By quarter end all of our clients' surplus cash is deployed in meaningful investments. There is the continuing effort to upgrade the quality of individuals investments. We accomplish this by revisiting performance and reviewing the holdings of mutual fund, closed end and index fund products as these are known to us. Because portfolio holdings are dynamic and manager or product reporting is after the fact, we rely on the type of investments that comprised prior portfolio holdings for an indication of what may be the portfolio's current holdings.

The reduction in investment yield poses a challenge to decision making on your behalf. Strictly conservative investments will produce non attractive returns. As such, based on the size of the investment portfolio, the track record of the investment manager or product itself, and our knowledge of the individual client, we have moved marginally along the risk return continuum to generate what we believe are more acceptable returns for our clients while honing the spirit of the guidance you provided us in your investor profile.

We urge all of our clients to continually update their investment profile as warranted and for those who have not taken the opportunity to provide us new and representative profiles, we urge you to do so as soon as possible.

Schwab has eliminated its $4.95 transaction charge for certain on-line equity and ETF trades. These trades are now completed at no cost to you. In order to qualify for this pricing, however, you must be enrolled with Schwab for paperless notification of trade confirms, notices and statement. **It is important that you sign up for electronic notifications and reduce your transaction cost. Should you require assistance, please contact your Seslia representative.**

Seslia's quarterly reports are sent by email to clients who have provided us their email and registered for the afore-mentioned electronic notification from Schwab. **Please call your Seslia representative and make sure they have your email address to ensure you continue to receive these reports.**

Within the month, Seslia Securities will have its new web site on-line. We invite you to visit from time to time. We will upload our quarterly reports to this site along with other non-urgent yet relevant information for our clients.

Finally, we invite you to make note of our telephone numbers and email addresses and reach out to us whenever you believe a conversation is desirable or necessary. We are able to address most of your needs via telephone or electronically. This is particularly desirable given the downtown congestion and the limited availability of parking in our neighborhood.

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