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October 22, 2019

Four of our five asset classes had positive returns in Q3 2019; only commodities were down. Large US stocks had returns of about 1.7% but international stocks were down 1.6%. For the year, so far, all the key asset classes had a positive performance with Real Estate (REITS) leading the way with a 28.2% gain. Indeed, Investors remain unconcerned with the world economic conditions.

So far, we have resisted the temptation to forecast the market (it cannot be done reliably and consistently) and take dramatic preemptive actions as a result– a strategy that has worked out well for us. We are, however, using portfolio risk management tools to identify investments that offer less volatility than broad market funds. While we give up some upside potential with them we think this may be a viable approach, given our view that considerable upside is currently limited. By using them we hope clients will weather potential market declines, better.

Our investment approach is to accept uncertainty and focus on structuring sensible and prudent portfolios. We think some of these low volatility products will help us do that. We plan to keep portfolios diversified across the 5 main asset classes and to rely on fundamentals and evidence-based strategies, and remain cost-conscious. We think this is a sound investment approach.

Key Dates/Data Releases

10/1: Markit PMI Manufacturing Index, ISM Manufacturing Index

10/3: ISM Non-Manufacturing Index

10/4: Employment situation, international trade

10/8: Producer Price Index

QUARTERLY MARKET REVIEW: 2019 Q3

The Markets (third quarter through September 30, 2019)

The third quarter was full of ups and downs for stocks, much like the second quarter. Stock values moved in response to the rhetoric from the participants in the trade war between the United States and China. The Federal Reserve lowered interest rates two times during the quarter. More new jobs were added, but at a reduced rate, while wage growth continued. Manufacturing and industrial production remain muted, influenced, in part, by the waning global economy. Nevertheless, consumers were undaunted by economic developments, spending at a steady rate throughout the quarter.

July kicked off the third quarter in a somewhat lackluster manner, as the benchmark indexes listed here posted gains over June's respective closing values. The Nasdaq gained over 2.0% for the month, followed by the S&P 500, which rose 1.31%. The Dow and Russell 2000 inched ahead by less than one percent, while the Global Dow dipped by almost half a percent. The Federal Open Market Committee reduced short-term interest rates 25 basis points, which sent stocks reeling. However, strong corporate earnings reports, low unemployment, and higher wages helped ease investors' concerns by the end of the month.

August started with President Trump's threat to impose additional tariffs on Chinese imports, which sent stocks plummeting. Throughout the month, each of the benchmark indexes listed here continued to lose value. Even a final-week

10/9: JOLTS

10/10: Consumer Price Index, Treasury budget

10/11: Import and export prices

10/16: Retail sales

10/17: Housing starts, industrial production

10/22: Existing home sales

10/24: Durable goods orders, new home sales

10/28: International trade in goods

10/30: GDP, FOMC meeting statement

10/31: Personal income and outlays

push couldn't save stocks from posting month-over-month losses. The small caps of the Russell 2000 were hit particularly hard, falling over 5.0% in August. The Global Dow lost almost 3.5%, and the tech-heavy Nasdaq dropped more than 2.5%. The large caps of the Dow and S&P 500 also fell close to 2.0%. Oil and gas prices at the pump fell in August, while long-term bond yields plunged as prices soared.

September saw each of the benchmark indexes listed here post solid gains, led by the Global Dow, which rode a solid close to the month on encouraging economic data from China. The Russell 2000 climbed almost 2.0% ahead of its August closing total, while both the Dow and S&P 500 exceeded their respective August closing marks by respectable amounts. The Nasdaq gained about half a percent on the month. The Federal Open Market Committee once again lowered interest rates 25 basis points in September following July's 25-basis-point cut (the FOMC did not meet in August). By the close of trading on September 30, the price of crude oil (WTI) was $54.37 per barrel, down from the August 30 price of $55.16 per barrel. The national average retail regular gasoline price was $2.654 per gallon on September 23, up from the August 26 selling price of $2.574 but $0.190 lower than a year ago. The price of gold dropped by the end of September, falling to $1,479.30 by close of business on the 30th, off from $1,529.20 at the end of August.

For the third quarter, large caps performed better than small caps. The Dow and the S&P 500 each finished 1.19% above their respective second-quarter closing values. The tech stocks of the Nasdaq broke about even for the quarter, while the Russell 2000 and the Global Dow lost value. For the quarter, the price of crude oil (WTI) was $3.79 per barrel lower than its June 28 price. Gold closed the third quarter $66.00 higher than its second-quarter closing price. And the national average retail regular gasoline price, at $2.654 per gallon on September 23, did not change from its average price at the end of the second quarter.

Market/Index	2018 Close	As of September 30	Monthly Change	Quarterly Change	YTD Change
DJIA	23327.46	26916.83	1.95%	1.19%	15.39%
Nasdaq	6635.28	7999.34	0.46%	-0.09%	20.56%
S&P 500	2506.85	2976.74	1.72%	1.19%	18.74%
Russell 2000	1348.56	1523.37	1.91%	-2.76%	12.96%
Global Dow	2736.74	3021.34	2.31%	-1.73%	10.40%
Fed. Funds	2.25%-2.50%	1.75%-2.00%	-25 bps	-50 bps	-50 bps
10-year Treasuries	2.68%	1.67%	17 bps	-33 bps	-101 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** Total employment increased by 130,000 in August after adding 159,000 (revised) new jobs in July. The average monthly job gain so far in 2019 fell to 158,000 per month (223,000 in 2018). Notable employment increases for August occurred in professional and business services (37,000), health care (24,000), financial activities (15,000), and social assistance (13,000). The unemployment rate remained at 3.7% in August. The number of unemployed persons fell slightly to 6.0 million (6.1 million in July). The labor participation rate edged up 0.2 percentage point to 63.2%, and the employment-population ratio was 60.9% (60.7% in July). The average workweek increased 0.1 hour to 34.4 hours for August. Average hourly earnings increased by $0.11 to $28.11. Over the last 12 months ended in August, average hourly earnings have risen 3.2%.

- **FOMC/interest rates:** The Federal Open Market Committee followed July's 25-basis-point cut by lowering interest rates another 25 basis points in September. The federal funds rate range has been decreased by 50 basis points so far this year. Interestingly, the Committee's action was not unanimous. Of the 10 members voting, 1 voted for a 50-basis-point reduction, while 2 members opted for no rate reduction. Nevertheless, in support of its decision to reduce interest rates, the Committee noted that inflation continues to run below the Fed's 2.0% target rate, business fixed investment and exports have weakened, and global economic developments are uncertain.

- **GDP/budget:** Economic growth slowed in the second quarter but was still solid. According to the third and final estimate of the gross domestic product, the second quarter grew at an annualized rate of 2.0%. The first quarter saw an annualized growth of 3.1%. Consumer prices and spending increased in the second quarter, rising 2.4% and 4.6%, respectively. Pulling the GDP down in the second quarter were negative contributions from business fixed investment (equipment, software, structures, etc.) and exports. The federal budget deficit was $200 billion in August ($119.7 billion in July). Through the first 11 months of the fiscal year, the government deficit sits at $1,067 billion,18.8% more than the deficit over the same period last year.

- **Inflation/consumer spending:** Inflationary pressures remain weak, as consumer prices showed no increase in August and are up 1.4% over the last 12 months. Consumer prices excluding food and energy inched up 0.1% in August (0.2% increase in July) and 1.8% since August 2018. In August, consumer spending rose 0.1% (0.5% in July). Personal income and disposable (after-tax) personal income climbed 0.4% and 0.5%, respectively, in August.
- The Consumer Price Index increased 0.1% in August following a 0.3% advance in July. Over the 12 months ended in August, the CPI rose 1.7%. Energy prices fell 1.9% on the month with gasoline down 3.5%. Prices less food and energy rose 0.3% in August — the same increase as in July. Since last August, core prices (less food and energy) are up 2.4%.

- According to the Producer Price Index, the prices companies received for goods and services rose 0.1% in August after increasing 0.2% in July. The index increased 1.8% for the 12 months ended in August. Prices for goods fell 0.5% in August, pulled down by falling energy prices. Prices for services increased 0.3% last month. However, the price index less foods, energy, and trade services jumped 0.4% in August after dropping 0.1% the prior month. The price index less foods, energy, and trade services increased 1.9% over the last 12 months.

- **Housing:** Activity in the housing market can be described as erratic at best. Existing home sales jumped 1.3% in August after climbing 2.5% in July. Year-over-year, existing home sales are up 2.6%. Existing home prices fell in August, as the median price for existing homes was $278,200, down from July's median price of $280,800. Nevertheless, existing home prices were up 4.7% from August 2018. Total housing inventory for existing homes for sale in August decreased to 1.86 million (1.89 million in July), representing a 4.1-month supply at the current sales pace. After falling close to 9.5% in July, sales of new single-family houses climbed 7.1% in August. New home sales are up 18.0% over their August 2018 estimate. The median sales price of new houses sold in August was $328,400 ($305,400 in July). The average sales price was $404,200 ($372,700 in July). Inventory at the end of August was at a supply of 5.5 months (5.9 months in July).

- **Manufacturing:** According to the Federal Reserve, industrial production rose 0.6% in August after falling 0.1% July. Manufacturing output advanced 0.5% following a 0.4% drop in July. In August, mining output and utilities climbed 1.4% and 0.6%, respectively. Total industrial production was 0.4% higher in August than it was a year earlier. Orders for durable goods increased for the second month in a row in August, climbing 0.2% after increasing 2.0% in July. New orders for capital goods used by businesses to produce consumer goods fell 2.1% in August. New orders for capital goods excluding transportation increased 0.5% last month, while new orders for capital goods excluding defense fell 0.6%.

- **Imports and exports:** Both import and export prices ebbed in August, falling 0.5% and 0.6%, respectively. For the year, import prices are down 2.0%, while export prices are off 1.4%. In August, a drop in fuel prices was the main drag on import prices, while falling agricultural and nonagricultural prices pulled export prices lower. The latest information on international trade in goods and services, out September 4, is for July and shows that the goods and services deficit was $54.0 billion, down from the revised $55.5 billion deficit in June. July exports were $207.4 billion, $1.2 billion more than June exports. July imports were $261.4 billion, $0.4 billion less than June imports. Year-to-date, the goods and services deficit increased $28.2 billion, or 8.2%. Exports decreased $3.4 billion, or 0.2%. Imports increased $24.9 billion, or 1.4%. The advance report on international trade in goods (excluding services) revealed the trade deficit rose to $72.8 billion in August, up from $72.5 billion in July. Exports of goods in August were $137.8 billion, $0.2 billion more than July exports, while imports of goods were $210.6 billion, $0.5 billion more than July imports.

- **International markets:** British Prime Minister Boris Johnson attempted to shut down Parliament for several weeks as part of his effort to shunt opponents to his plan to push through a "no deal" Brexit by October 31. However, the UK Supreme Court ruled the move was unlawful. This decision will likely put pressure on Johnson to resign. How this affects Brexit moving forward remains unclear. Household spending helped push the eurozone gross domestic product ahead 0.2% in the second quarter. The eurozone economy has grown 1.2% year-over-year. In China, economic activity worsened in August as industrial production slowed to its weakest pace since 2012, most likely impacted by the trade war with the United States.
- **Consumer confidence:** While consumer confidence has been relatively strong for much of the year, it did fall back in August. Consumers' assessment of current business and labor market conditions decreased, as did consumers' short-term outlook for income, business and labor market conditions.

Eye on the Month Ahead

Economic growth has slowed so far this year, as lagging export orders have quelled manufacturing output. Wages continued to grow, while consumers ratcheted up their spending. The fourth quarter will likely ride the ebb and flow of economic and world events, not the least of which is the ongoing trade war between the world's two economic giants: China and the United States.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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