Inside Views From an Investment Management Leader

UPDATE

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About our Company

Company Profile:

Mitchell Anthony Capital Management is a private, boutique investment firm who has helped our clients grow and protect their wealth since 1991.

Key Offerings:

- *Personal wealth management*
- *Proactive investment strategies*
- *Proprietary research*
- *A professional team*
- *Fee-only services*

Distinguishing Values:

- *Passion for excellence*
- *Strategic focus*
- *A disciplined process*
- *Prudent risk management*
- *Comprehensive client care*
- *Superior long-term performance*
- *Sound judgment*
- *Objective Analysis*

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In the News

Check out MACM's new "Beat the Bogey" YouTube Series

If you have't already, check out MACM's new "Beat the Bogey" video series, where we publish fresh and insightful investment content on a regular basis. We sift out truth from the flood of the media's twisted commentary on hot issues facing investors today. Search "Beat the Bogey" on YouTube and look for our "Beat the Bogey" series icon to find our YouTube channel homepage, or use the following link: https://www.youtube.com/channel/UCoHAvcpQWpYvLDE0Vk6RMzw

Economic Review & Outlook

Equity Market Recovery Stalls as Global Conditions Ebb

US Economy Contines to Ebb & Flow

The recovery in the equity markets that began in January paused in the third quarter as investors became uneasy with weak economic data on global economic conditions, as well as a deteriorating industrial sector here in America. (pg. 4, figs. 1, 2). The consumer side of the economy remains quite robust and has contributed to optimism that has kept the market on a plateau and gave sellers reason to pause. (pg. 4, figs. 3, 4).

Most Equity Markets Advanced Near Previous 2018 Highs but have Plateaued

Most equity sectors were trapped in a trading range for most of the third quarter as optimism and pessimism continued to rise and fall throughout the quarter. Corporate American superstars such as the names in the FAANG have been challenged by concerns relating to Washington policy toward tech companies, increasing competition for content providers, and the changing product cycle for Apple. As a result these companies underperformed in the second quarter and caused underperformance by most of MACM's strategies which rely heavily upon investments in these top-quality names with great secular growth. The leadership in the equity market in the third quarter shifted to defensive names that seemed removed from the headline risk that faces tech, healthcare, and industrial names leveraged to global growth. Financial stocks are finally reporting some better earnings after a decade of promising growth but not delivering, and as a result the stocks have now trended higher over the last month or so. The sustainability of this is questionable as banks are heavily leveraged to global growth and the yield curve which is challenging. The industrial sector has seen the same sort of cycle play out. With the possibility of a recession on the horizon investors have quickly discounted highly valued corporate American superstars like Google, Amazon, Netflix, and Facebook. Very difficult to find anything wrong with the secular growth themes that are driving these great companies but a recession would certainly put a bit of a dent in their secular growth story. A recession seems unlikely and these names will likely get their mojo back once the economy is done ebbing and starts to flow higher again as trade concerns move to the back burner and pent up demand works its way into consumption again.

Mitchell Anthony
President
Chief Investment Officer

Healthcare typically would be a great performer in this kind of market with a defensive investment posture on the minds of investors given the concerns about recession, however the liberal Democrats are attacking the healthcare names and investors will not push these names up again until Trump is reelected.

Secular Themes Continue

Great secular growth names like Amazon and Google are still highly valued and as a result fail to look extremely attractive as investors worry about recession despite the fact that all areas of their business are performing quite well and the growth picture still looks amazing and early in the ballgame. Businesses decision to move to the cloud is in the second or third inning of the ball game and this will play out very well for Amazon's top-of-the-line web service business.

(continued on pg. 2)

Economic Review & Outlook (continued)

Further there is no sign that the move to Internet retailing from brick-and-mortar stores is even in the third inning of the game. The use of social media continues to affect consumers everywhere in the world and the products and services are well received despite the political concerns that remain about privacy. These names may ebb and flow for a while until it is clear that Warren is not going to be our next president.

China remains a major threat to the US as the world's current economic superpower. This huge population is ambitious, hard-working, and very bright. Given this Trump does not want to allow them to cheat or get unfair advantage in any way and believes they must be forced to play fairly and not steal the lead but only earn it.

Government and Washington Policy

Central bankers around the world have recognized the global weakness and reacted with modest changes to monetary policy. Europe has been a bit more aggressive as problems there with consumption are more serious than elsewhere. In America the Fed has recognized the trade war and the impact on confidence and corporate spending and has moved to a more accommodative position as a result. (pg. 4, fig. 5). Trump likewise has sought an agreement and struck a phased in deal with China already that has eased tension.

The rally in Treasurys continued in the third quarter for reasons outside of just US recession fears. Obviously investors continue to fear recession even though the likelihood of it is poor, but directives from pension plan rules requiring allocations to bonds have got into the movement of money to highly valued bonds markets. Quite simply we just don't get recessions when employment is at all-time highs and consumer confidence is close to all-time highs, combined with steady trends in retail sales, consumption, and steady gains in industrial production. The housing market has been on a plateau now for a year, and is ebbing and flowing as new demand is developing and it may have another run here sometime in the next year as recession fears pass. (pg. 4, fig. 6). Right now the real estate market seems to be highly valued and more expensive than stocks.

Equity Market Leadership

It would seem that the defensive leadership in stocks could easily wane as soon as we start to see a pickup in global growth. Further the defensive leadership could fall to a renewed investment in secular growth names as earnings reports over the next few weeks convince investors that the secular growth stories of the FAANG are more valuable than the modest growth in defensive names.

We continue to believe that we are in an area of high valued assets and that all asset classes will be moving higher in unison as he economy ebbs and flows and the defensive leadership will likely lose ground to offensive leadership in the next quarter as the economy been begins to flow from the recent ebbs. Conversely if the economy slips further and ebbs more then we could see interest rates move negative and defensive names push higher and highly valued names push lower. This seems unlikely but is possible. We remain optimistic and believe the portfolio is well positioned for what lies ahead.

Table 1: Stock & Bond Market Returns — 9/30/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
Large Cap Growth (IWF)	1.7%	3.5%	Small Cap Value (IWN)	-0.4%	-8.5%
Large Cap Value (IWD)	1.5%	3.8%	Small Cap Growth (IWO)	-3.9%	-9.7%
Europe Asia Far East (EFA)	-0.8%	-1.0%	Emerging Markets (EEM)	-4.8%	-2.6%
Invest Grade Bonds (LQD)	3.4%	15.0%	High Yield Bonds (HYG)	1.3%	6.4%
Interm Treasurys (IEF)	2.8%	13.8%	Mortgage Bonds (MBB)	1.4%	7.8%

Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

Table 2: Real Estate & Commodity Returns — 9/30/19

	Quarterly Change	Trailing 12 Mos		Quarterly Change	Trailing 12 Mos
DJ US Real Estate (IYR)	7.9%	20.2%	DJ Commodity Index (DJP)	-2.0%	-8.2%
Int'l Real Estate (IFGL)	1.5%	8.9%	Goldman Commodity (GSG)	-3.8%	-16.9%
NAREIT Residential (REZ)	9.7%	30.1%	Gold (GLD)	4.3%	23.2%

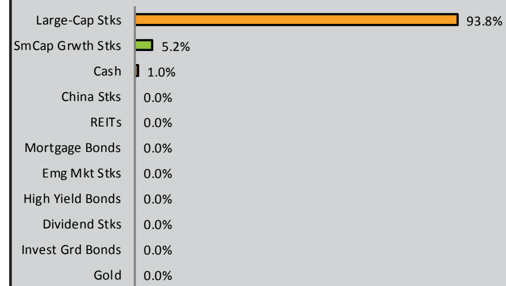
Source: Bloomberg, Barclay's Global Investors ETFs. Actual performance including dividends.

MACM Managed Accounts

Growth Portfolios

Dynamic Growth

A dynamic blend of stocks, bonds, commodities, REITs, and cash for growth investors with a bias toward timely asset classes.

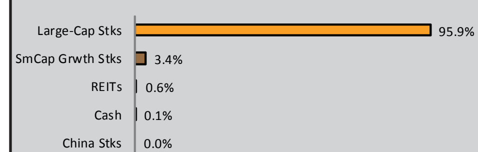


Growth

A portfolio of large- and mid-cap US stocks that are industry leaders with strong brands and timely products.

Diversified Equity

A global, all-cap equity portfolio following economic trends across capitalization and geographic ranges.



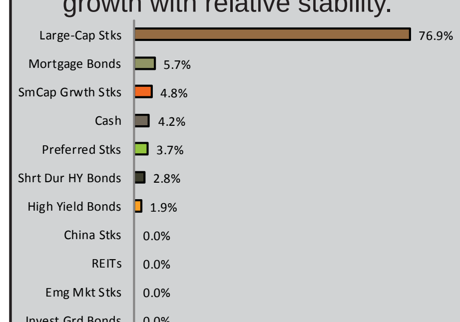
Focused REIT

A portfolio of companies whose primary business is owning and leasing real properties.

Balanced Portfolios

Asset Allocation for Income

A portfolio of stocks, bonds, and cash for moderately-conservative investors seeking income and growth with relative stability.



MACM Research Spotlight

MACM'S "Beat the Bogey" Series: Pulse Check on the Healthcare Sector

With the 2020 election right around the corner, MACM's research team recently spent time conducting a pulse check on the healthcare sector for our "Beat the Bogey" YouTube series. Indeed, healthcare is usually at the forefront of debate during any election cycle. In fact, a recent Wall Street Journal poll had nearly 25% of all respondents citing healthcare as the #1 issue for the government to tackle. MACM dug in to a sector that seems to generally be under attack by politicians and the media to better understand the landscape for investors and consumers in general.

Background: Healthcare & the Affordable Care Act

Believe it or not, it's been nearly a decade since the ACA was passed into law. It may not feel like it though, as the ACA actually only began implementation in 2013 given the complexity and scope of the changes being made. That said, how did this landmark bill impact our healthcare system? Surely sick and low-income consumers have been big winners, as the bill precluded health insurers from denying coverage for pre-existing conditions, and implemented subsidies for a large swath of lower-income Americans. As a result, the rate of insured Americans shot up from 82% to more than about 90% within the first few years after the ACA was implemented. However, health insurance premiums have risen swiftly since 2013, doubling in many instances, as insurers have been forced to cover more sick people and provide a higher floor of minimum coverage benefits (i.e. maternity care). For those consumers not being subsidized, paying for health insurance has become an increasingly difficult burden to bear.

Politicians: What are the Proposals?

As always, politicians on both sides of the aisle have much to say about what should be done with our healthcare system. In fact, the Trump administration has already taken steps to dismantle the ACA by repealing the individual mandate, which had required people to purchase health insurance or pay a tax. There's also a case running through the judicial system which could potentially end the ACA entirely, where a judge found that the remainder of the ACA is not severable from the individual mandate – that is, one can't exist without the other. In this case, the repeal of the individual mandate would necessarily cause the whole ACA to be repealed.

The Trump administration would unsurprisingly prefer to see the whole ACA dismantled, favoring the private market to operate efficiently on its own. Payors would once again be able to provide a full range of benefits, so consumers would not be forced to pay for more insurance than they want. However, Trump would still arrange specialized coverage pools for pre-existing and high-risk patients, coverage for which has been one of the most universally praised aspects of the ACA.

On the democratic side, there are effectively two camps: those that favor government run Medicare-for-All in some form, and those that would rather prefer to see full reinstatement of the ACA. Front-runners Warren and Sanders support a single-payor, government run Medicare-for-All system, in which private insurance is effectively eliminated. On the other hand, leading candidate Biden would continue to permit private insurance, and seek to ensure all the tenets of the ACA are implemented (i.e. the individual mandate).

Kyle Aron
Senior Analyst

However, while the parties debate which health insurance model to use, both sides uniformly continue to harp on high drug prices, among other criticisms of the sector - all of which serves to create a fair amount of uncertainty over the healthcare space.

Industry Breakdown: Headwinds & Tailwinds

After reserving a certain amount of caution for the healthcare sector generally amidst the politics of an election cycle, what remains of note in the different industries?

Healthcare payors are facing difficulty adjusting to enrollment trends after the repeal of the individual mandate, while also dealing with the potential for a very uncertain future in a Medicare-for-All world. However, some payors have had recent success with vertically integrating their businesses, helping them better control costs of care. United healthcare, for example, has rolled both providers (OptumHealth) and prescription drugs (OptumRX) into its business.

Pharmaceutical companies are dealing with a cloud of uncertainty around drug pricing, as both political parties seek to reduce drug costs. The Trump administration also seeks to index prescription drugs to an "international price index" plan, slashing prices in the process. Of note, however, is the aging and longer-living US population, supporting a strong customer base for this industry. The biotechnology space faces similar concerns as political pressure to keep prices lower dampens investor hopes and may be stifling future innovation.

Device makers have been the best performing group of late, with significant expectations being built up around healthcare innovations. Research and development spending has seen a significant uptick in recent years. Indeed, consumers are perhaps more closely linked to healthcare via wearables and other devices than ever before. However, the extent of exciting healthcare devices in the pipeline remains to be seen, and high investor expectations have left quite a bit of downside if there is disappointment.

SEE MORE ONLINE

To see our full pulse check on the healthcare sector video, use the following YouTube web address: https://www.youtube.com/watch?v=x234USN-MwQ
Be sure to follow along with our Beat the Bogey video series!

Equity Market Spotlight: Sector Performance

	Quarterly Change	Trailing 12-Months
Utilities	8.3%	26.2%
Real Estate	7.8%	22.1%
Consumer Staples	5.9%	16.1%
Technology	2.7%	8.4%
Comm Services	2.0%	5.5%
Financials	2.0%	4.0%
Industrials	0.8%	1.3%
Consumer Disc	0.6%	1.8%
Materials	-0.2%	0.9%
Healthcare	-2.8%	-3.9%
Energy	-6.8%	-21.4%

Data based upon Russell 1000 Index and GICS sectors. Source: Bloomberg Financial

2019 Q3: Equities Pause

Equities were mostly flat in the third quarter, as business sentiment and manufacturing conditions waned amidst continued trade tensions. Pockets of leadership emerged in defensive sectors, with utilities and consumer staples posting high single-digit returns in Q3. Indices remain near all-time highs, however, as investors seem somewhat optimistic that positive developments may soon fuel equities higher. As governments around the world have moved into accommodative modes, the global ebb might soon reverse course and flow forward with an uptick in growth. Moreover, with the next election only about a year away, the Trump administration has every incentive to roll out the subsequent phases of a trade deal with China without delay.

Economic & Financial Market Charts

Figure 1 - Source: MACM / Bloomberg Financial

Graph of US Industrial Production, showing a slight downward tilt recently

Figure 2 - Source: MACM / Bloomberg Financial

Graph of US PMI, showing a steady decline throughout 2019

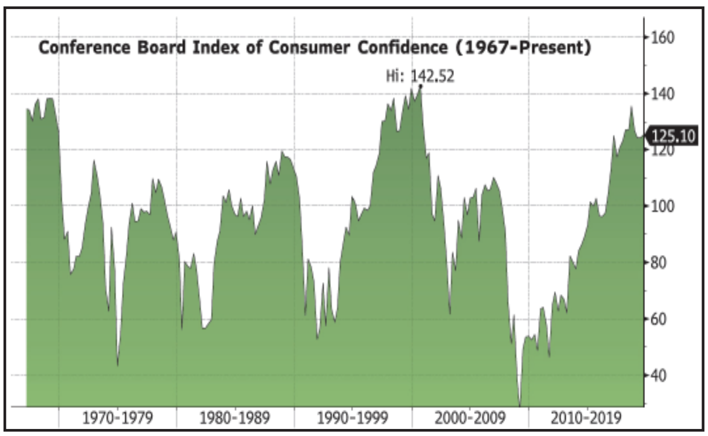


Figure 3 - Source: MACM / Bloomberg Financial

Graph of US Consumer Confidence, showing resilience as it remains near all-time highs

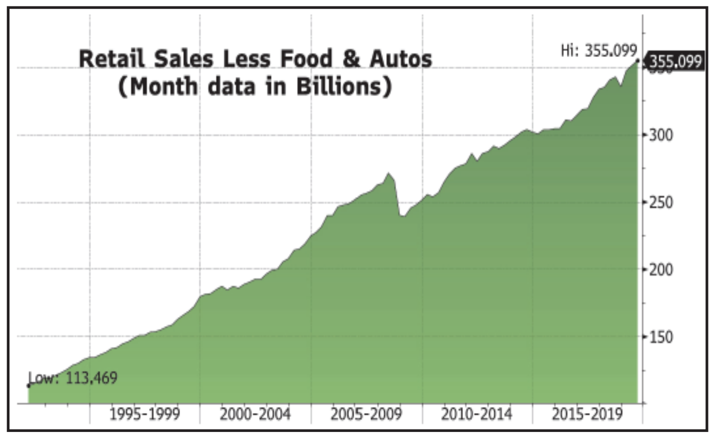


Figure 4 - Source: MACM / Bloomberg Financial

Graph of US Retail Sales, continuing higher along the existing upward trend

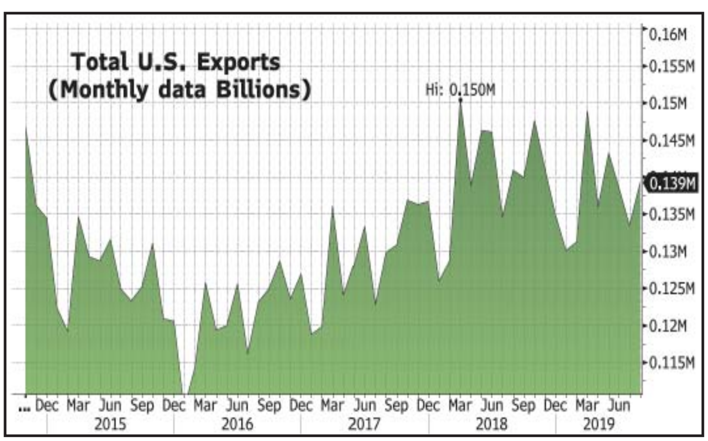


Figure 5 - Source: MACM / Bloomberg Financial

Graph of US Exports, shown as choppy amidst a modest downward trend

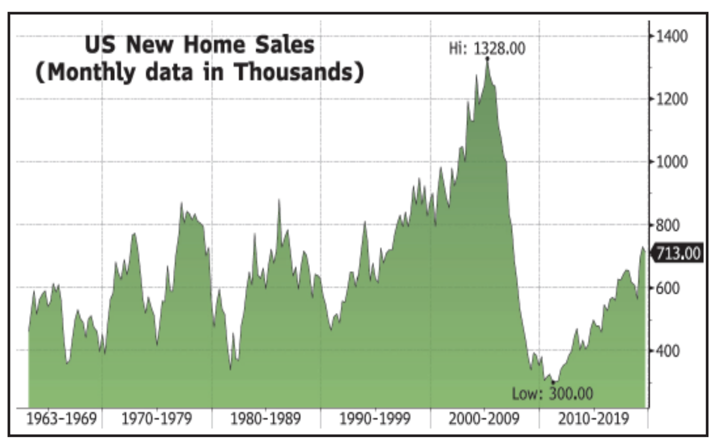


Figure 6 - Source: MACM / Bloomberg Financial

Graph of US New Home Sales, showing a plateau after prior gains