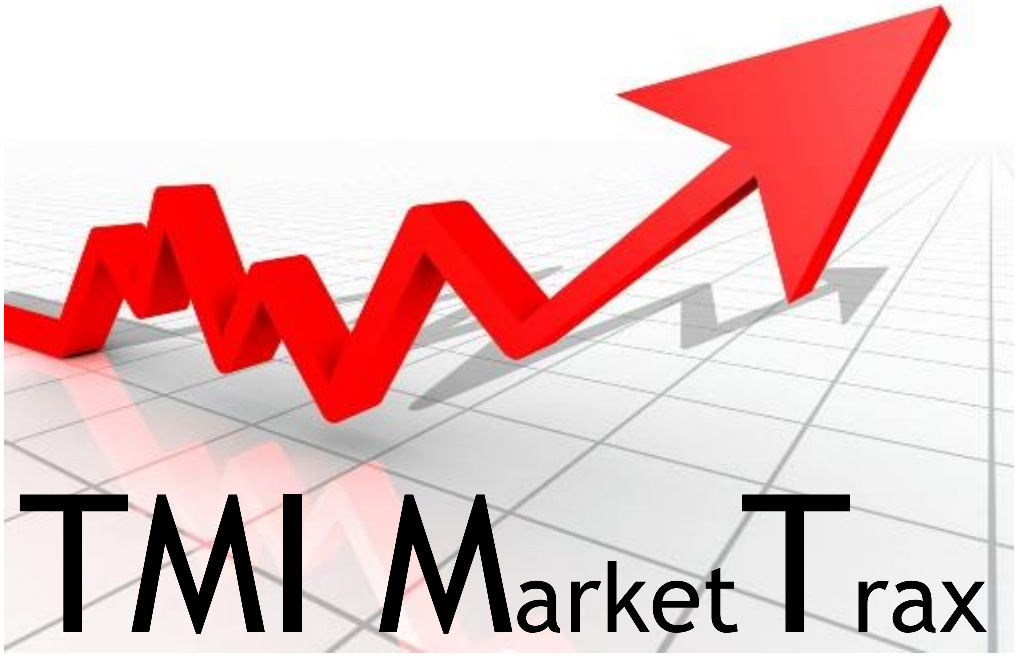


TMI MarketTrax

Market Commentary Quarterly

3Q2019

DEAL OR NO DEAL

"Deal or No Deal" is a popular game show with the U.S. version hosted by comedian and entertainer Howie Mandel. The game begins with a contestant choosing one of twenty-six briefcases, each case worth an unknown dollar amount ranging from $0.01 to $1 million. During the show, the contestant randomly selects from the remaining cases, revealing the dollar value individually, and that case is removed from play. Contestants hope they have originally selected a high value case or the one containing the $1 million amount, although his or her selected case value remains unknown until the end of the game. During the game, the banker, a secretive figure pulling the purse strings in the background, presents a monetary proposal to the contestant and opportunity to either accept ("Deal") or reject ("No Deal") the proposed amount based on the dollar value of the remaining unopened cases. As low dollar value cases are revealed, the offer goes up, reflecting the higher probability the contestant's originally selected case contains a high monetary value amount, while conversely a high dollar revealed case causes the banker's offer to go down. The contestant goes home with the original case's value or having accepted a prior monetary proposal.

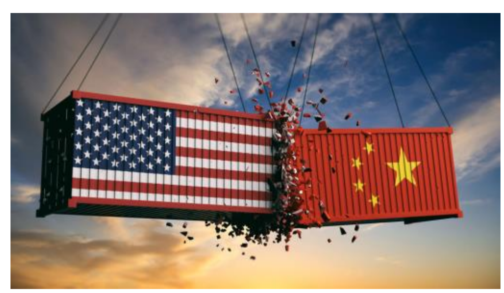
The proposed offer amount combined with the contestant's bravado, personal financial circumstances, risk tolerance, intended purpose for the funds, support from family or friends in the audience, input from the broader audience, and other unknown factors, leaves the contestant in an uncertain state on what decision to make. For those with a mathematical orientation and willing to calculate the probability weighted value of the unopened cases (yes, I've done the math), the dollar value offered by the banker is always too low. Briefcase models, of interest to some viewers, provide additional entertainment value to the show, having included Meghan Markle (prior to becoming the Duchess of Sussex of course), Chrissy Teigen, and other aspiring stars and/or future princesses.

The last number of quarters in the financial markets can be compared to the show's title and theme, with the China trade dispute generating the most economic uncertainty and resulting interim financial market volatility. Negotiations to level the international trade playing field are led by President Trump, while supported by well-respected businessman and Secretary of Commerce Wilbur Ross, Secretary of

IN THIS ISSUE

Deal or No Deal

Derived from the original Dutch game show with the same name, contestants select one of 26 briefcases, valued from a penny to $1M, and then eliminate the rest by revealing their values while receiving offers for their case along the way (logo courtesy of NBC)



US - China Trade

A trade dispute between the US and China has been ongoing since the US announced tariffs on steel and aluminum on March 9, 2019.

Treasury and former investment banker Steven Mnuchin, Director of Trade and Manufacturing Policy and former economist Peter Navarro, Director of the National Economic Council Larry Kudlow, and U.S. Trade representative Robert Lighthizer. Trump's bravado and claimed reputation as a dealmaker ("Trump: The Art of the Deal") has put China in a cynical position, unwilling to bend like less formidable countries with marginal negotiating power. With a long-term focus, President of the People's Republic of China (PRC) Xi Jinping, who was elected for a life term in 2018, can wait out President Trump's term(s) should he wish to do so. U.S. trade personnel are equally guarded, as it is our understanding earlier negotiations broke down when Chinese representatives were unwilling to provide written assurance of adherence to deal terms.

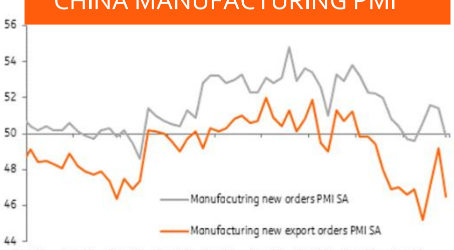
Larry Kudlow is the Director of the National Economic Council. Bloomberg photo by Aaron P. Bernstein.

The negotiations have been a headwind to economic activity and corporate decision making, estimated to have reduced U.S. economic growth by up to 0.5%. President Trump initiated tariffs on Chinese exports around the same time as President Jinping's life term election, with additional tariffs levied since that time in an effort to advance the stalled talks. Due to the U.S. strong service and consumer-oriented economy and resulting importation of significantly more goods from China than the U.S.

TARIFF

According to Investopedia, "A tariff is a tax imposed by one country on the goods and services imported from another country."

CHINA MANUFACTURING PMI



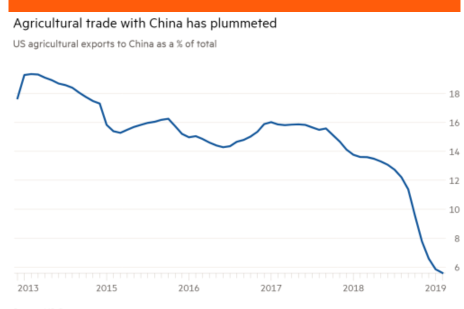
(courtesy seekingalpha.com)

exports to China, China's economic and export activity has slowed much more than U.S. export activity to China, by a ratio of roughly 4:1. U.S. businesses who use imported intermediate Chinese inputs in their manufacturing process are most affected by these tariffs. Those unable to absorb or pass on these higher prices charged on finished goods have seen a decline in top line revenues and/or margins.

Similarly, U.S. agricultural exports have suffered, as the Chinese have placed tariffs on these goods, attempting to expedite the trade dispute by going after Trump's middle-America electoral base.

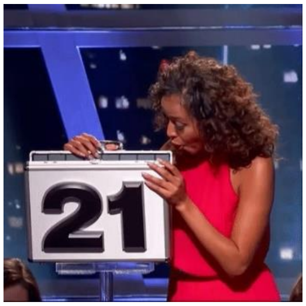
While levying additional tariffs on Chinese exports has been cause for economic disruption, these efforts have seen little pushback from foreign domiciled businesses who have also seen technology and processes copied, foreign markets who suffer from uneven trade balances, or even from the Democratic party who would equally like to see more domestic jobs created. Like the dollar value offer after a briefcase reveal, as trade negotiations have gone through cycles of progress and disappointment, the markets have moved in reaction to these updates. Threats and implementation of higher tariffs have been met with equity market

US-CHINA AGRICULTURAL TRADE



declines, whereas signs of a potential agreement have resulted in equity market advances. Only investors with short-term trading-oriented strategies have been able to prosper in this range bound market environment, whereas most investors rotated into less economically sensitive areas (bonds, consumer staples, real estate, and utilities) as economic and geopolitical uncertainties rose.

Unable to negotiate a complete, all-encompassing agreement, trade talks have now moved towards interim, partial agreements. We suspect the initial agreement once signed will get favorable headlines and will allow Trump to claim some degree of success but will lack material substance.



Similar to the opening of a $5,000 briefcase, we don't believe a Phase I agreement will move the needle sufficiently to change the economic metrics and unfortunately will leave little motivation for the Chinese to progress to Phase II. Our preference would be for representatives to continue negotiating aggressively without a deal, perhaps allowing the Chinese economy to soften further to motivate them to agree to more stringent terms. While this would keep the U.S. economy below potential, with a favorable underlying economic base we suspect U.S. businesses would be willing to accept further short-term disruption for greater certainty of a deal with material long-term benefits. We have yet to receive a call from trade representatives for our input.

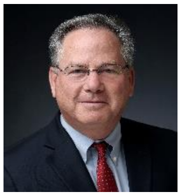
Meanwhile, domestically, politics remains the focus of the media, including the Democratic primaries and efforts in the House to impeach President Trump, even though this effort is doomed to fail the Republican controlled Senate. More economically important legislation, including the USMCA bill to replace NAFTA, estimated by the U.S. International Trade Commission to raise GDP by 0.35%, remains tabled. With a negative bias towards Trump, major news sources continue to underpromote the underlying resilience of the U.S. economy and the record low unemployment rate, causing most investors to view the markets with caution. Rather than celebrate the successes, many investors continue to fixate on the extended length of the business cycle, expecting a recession to be right around the corner. We do not anticipate a U.S. recession in the near future and the believe the moderate growth environment can persist for an extended period.

However, trade disputes and sluggish global growth have weighed on the pace of economic activity and encouraged the Federal Reserve to unwind some of their 2018 rate hikes. Reductions of 0.25% in the Fed funds rate took place in both July and September. We viewed these cuts favorably, helping to remove the economic uncertainty caused by tighter monetary policy. The bond market responded favorably to these actions, with an adjustment downward across all maturities. The longer end of the curve declined the most, with the 10-year Treasury falling from 2.0% to 1.67%, and the 30-year Treasury falling from 2.53% to 2.11%. These low rates have further stimulated financial activity from corporate borrowers, through refinancing and/or M&A activity, as well as from consumers through mortgage refinancing and home buying. With more money in their pockets from this refinancing activity, on top of the confidence from the improved job market, higher discretionary spending is likely. From an investment perspective, we continue to view current levels of Treasury interest rates as too low, especially relative to inflation expectations in the 1.5%-2.0% area which implies a very low or negative "real" yield (after the effects of inflation).

With average investor positioning defensively and cautious backdrop, equity markets have been relatively rangebound. For the 3rd quarter, the more stable domestic large-cap. S&P500 index generated positive results with a total return of 1.7%. However, the more economically sensitive small-cap. Russell 2000 declined by 2.4%. U.S. based investor returns in international markets were negative, down 1% and 4.1% for the developed MSCI EAFE and Emerging Market equity indices, respectively, as the broad U.S. dollar index remained a headwind by rising 3.4%. The EAFE index was actually up 3.2% for investors in Euro terms. Given the strength of the bond market and downward move in interest rates, the Barclays Aggregate Bond index was up 2.3% in the quarter, outperforming the broad domestic equity Russell 3000 index by roughly 1.1%. The more interest rate sensitive U.S. Long Govt./Credit index generated an even more robust 6.6% return.

While benefitting from our overweight to large cap. stocks, bond market and dollar strength went against our expectations and tactical positioning, causing portfolios to underperform their benchmarks during the period. To those market strategists who suggest investors become more defensive and accept the current caution, we say "No Deal." We don't accept the generally pessimistic view currently being discounted by the market. Although above most longer-term valuation criteria, we believe current equity levels do not adequately reflect the potential for a Chinese trade deal, the signing of USMCA,

the potential improvement in sentiment and spending resolutions would have on the economic growth, revenue and earnings improvement, and equity markets. While suggesting a higher risk tolerance than some might advocate, we like our case and are comfortable waiting for a higher offer.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TMI Market Trax is written by TMI Trust Company's Mark Teichner. Questions or comments on TMI Market Trax, contact Mark Teichner at mteichner@tmico.com. The material herein is based on data from sources considered to be reliable, but it is not guaranteed as to accuracy, does not purport to be complete and is subject to change without notice. This communication is for informational purposes only. Use by other than intended recipients is only allowed prior to TMI Trust Company's consent. Sender accepts no liability for any errors or omissions arising as a result of transmission. Any comments or statements made herein do not necessarily reflect those of TMI Trust Company or its affiliates.

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