BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY
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As we enter the fourth quarter of 2019, we can't help but ask ourselves if there might be any "early Christmas presents" in the form of better than expected economic news or strong corporate earnings surprises in the weeks ahead. We'd certainly welcome just enough to give the market an upward jolt between now and when Santa comes to town.

By far, the biggest impediment to growth, profitability and continued stock market momentum is the trade war with China. Though it is often said that markets climb a wall of worry, the cumulative economic impact of tarrifs and ancillary consequences of the 'China problem' are indeed growing. We're greeted daily with an abundance of rhetoric on the subject which fuels either a bump up or pull back in the markets as investors attempt to opportunistically divine whether what they're hearing is progress or rhetoric. Not the ideal foundation from which healthy bullish markets climb upwards.

The second most pressing debate on Wall Street is whether the consumer can continue to drive economic growth as data shows that both manufacturing and service economies are slowing, contributing to increased discussions regarding the possibility of a recession. Consumers representing 70% of economic activity continue to subsidize growth due to historically low-unemployment, rising wages, growing savings and investments—and are demonstrating their willingness to…well…consume. In fact, last week's reported 3.5% unemployment rate is the lowest in 50 years (since 1969) and definitely supports the case that consumers are alive and well. Robust consumption is arguably the highest form of 'voting with one's wallet' and thus a vote for the economy. Lower interest rates and compelling mortgage rates are fueling increased home sales, renovations, furniture & appliance purchases, and refinancings, all of which put money back into the economy and, in turn, stimulate further growth. Is the consumer going to continue to pull the economy along, or will they succumb to slower manufacturing impeding economic growth and possibly push the U.S. into recession?

Although front page issues can pressure both the equity and bond markets, as well as consumer and investor sentiment, we're mindful that headlines do not provide a clear vision for what may lay ahead for the economy Trade, impeachment and other challenging U.S. policy issues may present short-term fault-lines encroaching upon investor confidence, while Fed interest rate policy continues to induce directional uncertainty about their view of the economy. Finally, next year's presidential election is sure to put a lid on congressional legislation and create even more gridlock in Washington amid rather heightened levels of political turmoil.

As to the possilbity of a recession, any such predictions are only guesses at best. Economists can often be as 'unreliable' as your local weather forecastor. We note that recessions, as they occur, are not uniformly damaging to the economy. Under strict defintions, recessions certainly reflect a slowdown, yet also produce conditions necessary for a re-booting of the economy. This is manifested by degrees of slower growth and lower sustainable corporate profits until government and central bank stimuli catalyze a return to more robust levels.

Despite the aforementioned conflicting economic indicators and the ongoing trade war with China, the 10+ year stock market rally continues, with a third quarter average gain of 1.75%, taking year-to-date equities appreciation to over 20%. Can markets possibly continue to climb from here—third quarter earnings may likely provide the answer.

As we enter the third quarter earning reporting season this week, investors will be focused on whether corporate profits turn negative for the first time since 2016 as many economists are predicting. Slowing earnings are anticipated for both the 3rd & 4th quarters this year, as well a decline in manufacturing which will contribute to slowing GDP, on balance, may heighten market concerns through the final quarter of the year.

The bottom line for Blue Granite clients, is that our investors continue to benefit from economic growth and a very long and rewarding stock market rally. We're pleased to report that year-to-date, as well as for 3 and 5 years periods, Blue Granite's Core Strategy returns remain well ahead of our Balanced Benchmark Index.

While we endeavor to make you aware of economic and market issues that can impact investment results, your partners at Blue Granite are confident that we can continue to generate above average returns on your behalf with our conservative and balanced approach.

We thank you for your continued support, and please do not hesitate to call us if you have anything you wish to discuss.

Warmest regards,

Scott John Dave