

The Compass

Fourth Quarter 2019

Executive Summary

- ❑ Volatility - the new normal?
- ❑ The S&P 500 gained a mere 1.19% in 3Q19, although it is up 18.74% year to date through 9/30/2019.
- ❑ S&P 500 earnings growth for 2Q19 came in at 3.2% versus 2Q18. 2Q19 revenues came in at 4.7% versus 2Q18.
- ❑ GDP came in at 2.0% for 2Q19, following 3.1% for 1Q19. Unemployment remains low at 3.5%. Inflation remains low at 1.7%.
- ❑ U.S. Treasury yields continue to be lower, with the 10 year closing the quarter at 1.68%.
- ❑ With all the global uncertainty, the U.S. markets remain the place where investors want to be.

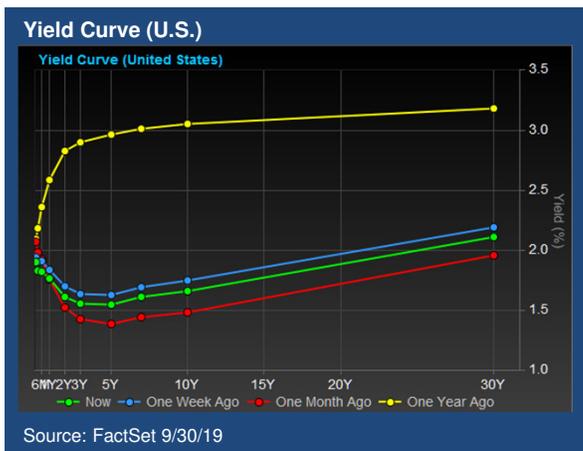
In this issue:

- ❑ Year End Checklist
- ❑ Staying Cyber-Safe on Vacation



Cypress Trust Company Investment Committee

Brian Skarbek, Chief Investment Officer
Norton V. "Cap" Coyle, Jr.
John George, CFA, CFP, CTFA
Dee Giannotti
Theodore A. Libby
Patrice J. Neverett
Theresa Strickland



U.S. Markets	9/30/19 Close	QTD % Change	1 Year % Change
Dow Jones Industrial Avg	26,916	1.19%	1.73%
S&P 500	2,976	1.19%	2.15%
NASDAQ	7,999	(0.09%)	(0.58%)
Russell 2000 (small caps)	1,523	(2.76%)	(10.21%)
Treasury Yields	9/30/19	6/30/19	One Year Ago
2 year	1.63%	1.75%	2.83%
10 year	1.68%	2.00%	3.05%
30 year	2.12%	2.52%	3.18%

Source: FactSet 9/30/19; U.S. Dept. of the Treasury.

Overview

So much to write, but so little time! As we put each of these quarterly pieces together we look to review where we've been and try to give insight on where we're heading. The last several quarters have been all about the increased level of volatility that has entered the markets, and perhaps even other areas in our lives. This causes us to ponder whether this is now the new normal, whereas periods of little to no volatility are the aberration. While volatility can be beneficial, it can also be unnerving for both traders and investors alike when it's unrelenting.

There are many issues on investors' minds such as tariffs and trade talks, global economic conditions, Brexit, recession fears, and the political landscape growing more intense as we move through election season. Each issue impacts market participants, no matter what side of the aisle you're on or your market outlook. Views and outlooks are as numerous as stars in the sky, but one thing that is certain is what happened yesterday. Throw Twitter and high frequency (computer) trading into the mix, and you have markets moving at an ever-increasing pace, leading traders and investors alike to act and react faster and faster to keep up. Or maybe they stay on the sidelines. While traders have to trade, investors can sit still, filter out the noise, and base decisions on solid data.

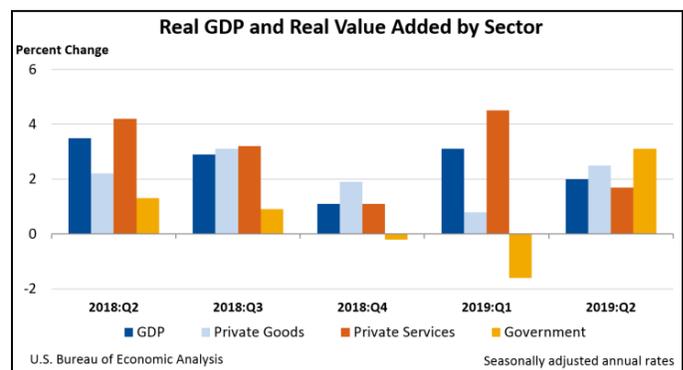
In less than 90 days, we will be ushering in another new year. While I can't take credit for this next comment, get ready for all the 20/20 (2020) and Clear Vision outlook comments. 2019 has been a great year so far coming off a terrible 4Q18. Here's to learning from the past and not repeating it.

Economic Backdrop

The Fed lowered rates by 25 basis points in August and again in September of this year, bringing the Federal funds rate to the 1.75%-2.00% level. Another 0.25% cut is expected in October. In its September 18, 2019 press release, it stated that "the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low." The unemployment

rate declined to 3.5% in September, its lowest rate in 50 years. Employment in health care and in professional and business services continued to trend up, according to the Bureau of Labor Statistics. Average hourly earnings increased by 2.9% over the past 12 months. Inflation came in at 1.7% for the 12 months ending in September; excluding food and energy the index came in at 2.4%. The energy index declined -4.8% in this same period.

The third estimate for 2nd quarter 2019 Gross Domestic Product (GDP) came in at 2.0% following 3.1% for the 1st quarter 2019. The deceleration in the second quarter is attributed to downturns in inventory investment, exports, and nonresidential fixed investment, partly offset by increases in consumer and government spending. (Source: U.S. Bureau of Economic Analysis.)



Equities

Although a bumpy ride, the S&P 500 returned 1.19% in the 3Q 2019 and is up just shy of +20% for the year. Not bad considering the many headwinds as we mentioned above, and this also takes into account a rebound from the 4Q 2018. The S&P 500 is essentially flat over the last 12-18 months.

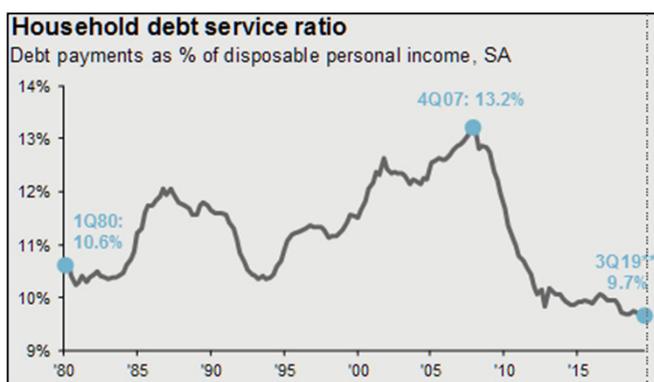
Earnings in 2Q19 for S&P 500 companies were up 3.2% as compared to 2Q18. This was led by Communication Services, Health Care, and the Financials sectors, each reporting at least double-digit growth. On the other side were Technology, Energy, Industrials and the Materials sectors, reporting numbers in the red.

Revenues for 2Q19 were again positive, reporting 4.7% growth overall for S&P 500 companies versus 2Q18. Communication Services and Health Care were the standouts with double-digit revenue growth. Only two sectors did not report positive growth, Technology and Industrials, each down slightly by -0.3%.

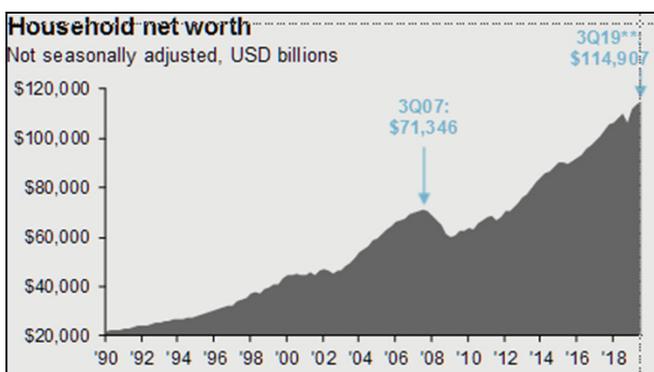
As we head into 3Q19 earnings season, it will be important to note not only how businesses have dealt with headwinds (currency translations, tariffs, etc.), but also how management will articulate strategic planning for 2020 and beyond. This will give all investors a hint on future valuations and growth.

Fixed Income

While we expect to see more activity in the equity markets, the fixed income arena is where the action's been over the last 3-9 months. Long-term yields have come down significantly since the end of 2018 and this quarter continues that momentum. This is perplexing as the U.S. economy appears to be at worst okay, and by other metrics quite strong. GDP continues to grow with the most recent release running at 2%. The 3-month average for jobs added is 143,000. Unemployment is at 3.5%, the lowest in 50 years. The consumer is strong; debt payments as a percentage of disposable income is 9.7% at the end of 3Q19, its lowest level in 40 years, while household net worth continues to improve. Consumer spending is robust, contributing nearly 70% to GDP. This data indicates an economy that is still expanding, albeit slowly.



Source: FactSet; J.P. Morgan Asset Management; BEA.



Source: FactSet; J.P. Morgan Asset Management; BEA.

The issue that fixed income investors around the world are dealing with is \$14 TRILLION of sovereign debt trading with negative yields. This has helped pushed U.S. rates down, with the 10 year U.S. Treasury closing at 1.68% at the end of 3Q19. We also saw the yield curve invert in the last 90 days. Even though it was for a shorter period of time than other times in history, it tends to be a warning sign for the economy and predictor of recession. Spreads have tightened as the curve at levels has flattened. This is a major concern. As a result, fixed income investors needing to meet income stream requirements are then forced to either take more risk (lower credit ratings), or go further out on the yield curve (longer maturities). Or even worse, both!

Outlook

Let us be the first to wish you Happy Holidays!

With the holiday season right around the corner, this always seems to be the quarter that flies by the fastest. The markets seem to be moving in that same fashion (we recognize that velocity and volatility can be confusing and frustrating). Headline news can weigh on investors and traders as we again trade near all-time highs. While valuations could be questioned, the U.S. markets continue to be the place to invest, even if we are the best house on a bad street.

As we close out this decade and move into the next, the future is unclear, but our process (vision) is 20/20. You had to see that one coming!

Always vigilant, our commitment to you is to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.

All of us at Cypress Trust Company wish you and your family a safe, happy and healthy holiday season, and prosperous New Year.

Year End Checklist

As we approach a busy year end, a little advance planning can free you up to enjoy friends and family and the festivities that the holidays bring. A few items to consider:

- Check the designated beneficiary on your retirement account(s) to ensure that the named beneficiary still meets your intention.
- Did you turn 70 ½ this year? Are you over 70 ½? Required minimum distributions (RMDs) must be taken from certain retirement accounts to avoid penalties. You can use the RMD from your IRA to gift to charity. Your CPA can help determine if this makes sense for you.
- Now is a good time to plan for year-end gifting. The IRS allows you to gift up to \$15,000 per person in 2019 (\$30,000 if gifting jointly with your spouse) without filing a gift tax return.
- Did you realize a gain or loss during the year from the sale of an asset, such as a business, real estate, or club membership? You will want to discuss with your CPA as well as your investment officer to see how it may impact year end investment planning.
- Did you have a major life event happen this year, such as a birth, death, marriage, or divorce? If so, consider reviewing your estate planning documents to incorporate any changes that may need to be made.

Your investment officer/trust officer team is ready to assist you with these items. Please give us a call to let us know how we may be of service to you.

Staying Cyber-Safe on Vacation

By Jim Parry, Vice President IT Services
Cypress Trust Company

It's a great practice to prepare to be cyber-safe with your devices and data while on vacation. Think of your smartphones and devices as being just as important as your wallet. These devices contain everything from your banking and payment information to your family photos, and ensuring they are secure and protected when away from home is critical. One of the most simple and effective ways to stay cyber-secure is to continuously update your devices. These updates don't just contain new features; they fix security flaws and keep you protected.

Password/passcode protect your devices: Always establish a strong passcode with at least six numbers when protecting the lock screen of your smartphone. On laptops, a minimum eight-character password is recommended, including uppercase and lowercase letters, special characters, and numbers. Set your device to lock after a specified amount of time once you have the passcode or password set. This will require you to enter the code or password after your device has been idle for the set time period; it will prevent a criminal from getting onto your device if you accidentally leave it unlocked.

Book your trip with trusted sites: When planning your trip and booking airfare, lodging, and rental cars, it is important to complete those transactions with trusted, known businesses. Double check the reviews and reputation of a site you are unfamiliar with, but are considering using for your booking. By sticking to reputable sites, you guarantee a higher standard of security for your data and transaction.

Keep track of your devices: Not only are your devices themselves worth a good bit of money, but your sensitive information that is accessible on that device is also valuable. Ensure that you keep your devices close at hand or put them away safely when not in use. Theft of mobile devices, from smartphones to tablets and laptops, is very common.

Limit your activity on public Wi-Fi networks: Public Wi-Fi networks that do not require credentials or some sort of login are not protected by encryption, so browsing activity is not secure from prying eyes. To ensure your information is not at risk, avoid logging into your personal accounts or making transactions while on public or hotel networks. Use your phone carrier's Internet connection or use your phone as a personal hotspot when logging into personal accounts or conducting transactions. Ensure your device is set to ask your permission before connecting to a wireless network while on your trip. If you intend to use a hotel's wireless network, verify which network is the correct one to use with a member of the staff. This will avoid the fake Wi-Fi networks that are sometimes set up to mimic hotel Wi-Fi networks.

Don't overshare on social media: Consider posting updates about your trip after you return. Criminals may see that you are away from home based on social media content and attempt to steal from your home. If you also share too many details about where you are on your trip, bad characters may attempt to contact your family and friends with a variety of scam tactics. Consider setting your social media accounts to only allow friends to view your posts and content.

At Cypress Trust Company, protecting our clients' privacy is a top priority. We take precautions to protect your information and believe that such protection is vital to our business. We maintain physical, electronic, and procedural safeguards to store and secure client information to protect against unauthorized access. It is important for clients to implement similar precautions when using their personal computers. As part of our commitment to help you stay cyber-aware, look for tips and recommendations in each issue of The Compass newsletter which you can use to help keep your personal information safe.



Cypress Trust Company is a boutique corporate fiduciary that focuses exclusively on providing customized trust and investment management services for successful individuals and their families, non-profit organizations, foundations and endowments. As an independent Florida-chartered trust company, we are governed by an elected board of directors and regulated by the Florida Office of Financial Regulation. Cypress Trust Company maintains full-service offices in Palm Beach, Naples, Vero Beach, Winter Haven, and Jacksonville, with additional representation in Sarasota and The Villages.

Important Notes

This does not constitute an offer or solicitation. This information should not be considered investment advice or a recommendation to buy or sell any particular security. Opinions expressed reflect the judgment of the authors and are current opinions as of the date appearing in this material only. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy and it should not be regarded as a complete analysis of the subjects discussed. The information in this material and specific securities mentioned are not representative of all securities purchased, sold or recommended for clients. Actual portfolio holdings will vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities. Past performance does not predict future results. Content should not be construed as legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

NOT FDIC INSURED | NOT GUARANTEED | MAY LOSE VALUE

251 Royal Palm Way, Suite 500, Palm Beach, FL 33480 | info@CypressTrust.com | cypresstrust.com | 1-800-439-8745