

Investment Market Update



Recent housing, retail sales and consumer sentiment data indicate an economic downshift, and the bond market has reacted decisively. The 10-Year U.S. Treasury yield moved from 2.68% at the beginning of the year to 2.36%, signaling the market's belief that the Federal Reserve has already raised interest rates too far. The consensus seems to be that the Fed will need to lower rates soon in order to spur the economy if it falls into a recession. This is a sharp reversal from previous thoughts that rates would continue to rise in 2019. The flattening yield curve has even inverted a few times in the past week, indicating that the economic business cycle is mature and needs monetary stimulus to be sustained. The Federal Reserve has the ability to lower interest rates since inflation is a dormant 2% and unemployment is historically low at 3.8%. The recent, softer indicators were caused by the government shutdown, difficult trade and tariff negotiations with China and the 0.25% December rate hike, which all served to slow but not stop the economy. The deceleration in U.S. GDP growth from 3% to 2% is not unexpected, but there are investor concerns with weakening conditions in Europe and China.

The equity market is looking beyond the slowing economic indicators and is optimistically preparing for the Federal Reserve to lower rates. The S&P 500 Index had a great first quarter, led by the information technology, real estate investment trust, energy and industrial sectors. These are more cyclical sectors and

their leadership demonstrates a positive outlook of future earnings growth. There is strong investor sentiment that even with slower GDP and perhaps flat top-line revenue growth earnings can improve 5% or more over last year. The S&P 500 Index is trading near the average historical Price-to-Earnings ratio at 17x today, and with lower interest rates these valuations can continue to rise. With an imminent China trade agreement, continued stable employment, low inflation and a more patient Federal Reserve, we have ideal conditions for continued strong equity performance this year.

Our portfolios have a balance of growth and value equities that have growing revenues and earnings, positive cash flows and visible product pipelines. We focus on higher-quality, larger-size multinational companies that can

participate in global growth rather than trying to venture into international markets where there is greater currency, political, and interest rate risk. Recently, we have seen a great deal of speculation on cannabis stocks, bitcoin, and money-losing "unicorns" like WeWork, Slack, Lyft and Uber. These are clear signs that private equity firms are monetizing these assets so they no longer have to subsidize their losses. As a fiduciary, one of the main criteria to buy a stock in a company is that there is a clear and profitable business plan. The business plans of these companies need serious revision and a long time to demonstrate profitability.

Best, 

Michael Aloian - President, Trust & Investment Management Services, Chief Investment Officer

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Lessons from my father's shoebox

by Lory Weisensee

First, let me tell you that my father is doing great at age 79 and enjoying this beautiful Florida sunshine. The shoebox? Well, that was an eye-opener for me, so much so that I wanted to take a few minutes to share a personal experience.

As January and February rolled around, so did many of my father's year-end tax statements. Dad did a great job keeping them organized in a folder on his desk. He had a check list of all the statements he was waiting on and once they all arrived, he was ready to start his taxes.

This year was a little different, since his normal tax preparer had retired and he didn't know where to go, so he called me. Being the oldest daughter of three girls, I was honored to get the call and set up a time to meet with my dad. The day arrived, and I felt excited and happy to help.

We went to the kitchen table, where I had seen my mother and father work on their taxes when I was a little girl, so to be at the table was a special event for me. As we reviewed the tax statements, comparing year over year and joking about little things, he suddenly stood up and said, "Wait a minute."

He left the room in haste and returned with a shoebox, which looked to be over 40 years old. I could tell because the price sticker was still on the box - all leather men's loafers, \$9.98.

I had no idea what was in this box, but when he opened it, I saw receipts, hand-written notes and cancelled checks. I must have looked puzzled, then my dad said, "OK, let's get started with the charities."

I had really never thought of my father as a big charity guy. I knew he favored a few causes, but this box told me another story. As we removed piece after piece of paper, he told me why he gave money to each charity. He even shared a story from his past that I had never heard. As a child, he and his family were recipients of the kindness and goodness from a charity.

Things were moving along and we were in a full sort mode when I came across more than one receipt to a particular charity; actually, he had 24 receipts for this group. I asked him about it and he explained that he felt strongly about the good work they did helping out animals. I had not heard of this group before and I asked Dad if I could look them up. He said yes and forwarded me a recent email he had received from them.

Internally, I went into protector mode as I viewed each tab and read each story, saw photos of many cute animals and pictures of the charity's board members, I thought, "Well, maybe this is a legitimate charity." Then it hit me. There are great resources to help separate a legitimate charity from a fraudster.

Even a well-known charity can lose its nonprofit status if it fails to comply with IRS rules. The loss of this status can turn your donation into a non-qualified deduction. So it's important to do your research. I like to use the Guidestar.org website, which has a search bar at the top so you can type a charity's name in and find out interesting information about the organization. You can also use the IRS.gov/charities-nonprofit/taxexempt link, which allows you to search charities as well. Many charitable websites can "look legitimate," but I encourage you to make sure.

I wanted to share this experience I had with my father and encourage you to review your charities. According to the 2018 Giving USA report, Americans gave a total of \$410 billion to charities in 2017. Ensuring that your donations go where you want is important.

Your trust officer or portfolio manager is always here to help you. Want to learn more about charitable giving for 2019? Give us a call at 941-624-5400.

Lory Weisensee is the executive vice president of the Trust and Investment Management Services division at Charlotte State Bank & Trust/Englewood Bank & Trust. Lory has been with the bank over 20 years.



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Bank Donates to the Boy Scouts

In addition to helping clients with estate and investment planning, the Trust and Investment Management Services team is heavily involved in the community. Vice President and Portfolio Manager Samuel Kiburz, for example, serves as Scoutmaster of Boy Scout Troop 95, one of Charlotte County's oldest Boy Scout troops.

An Eagle Scout himself, Sam previously served as one of the leaders of Cub Scout Pack 13 in Punta Gorda. Troop 95 has been sponsored by Temple Shalom for more than 40 years and meets at the Port Charlotte synagogue every Monday night. As Scoutmaster, Kiburz works directly with the scouts, providing direction, coaching and support.

The bank recently helped Lisa Baird, Committee Chair for Troop 95, with a donation enabling her to participate in the Scouts' Wood Badge leadership training, which was conceived by Boy Scout founder Robert Baden-Powell and dates back to 1919.

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