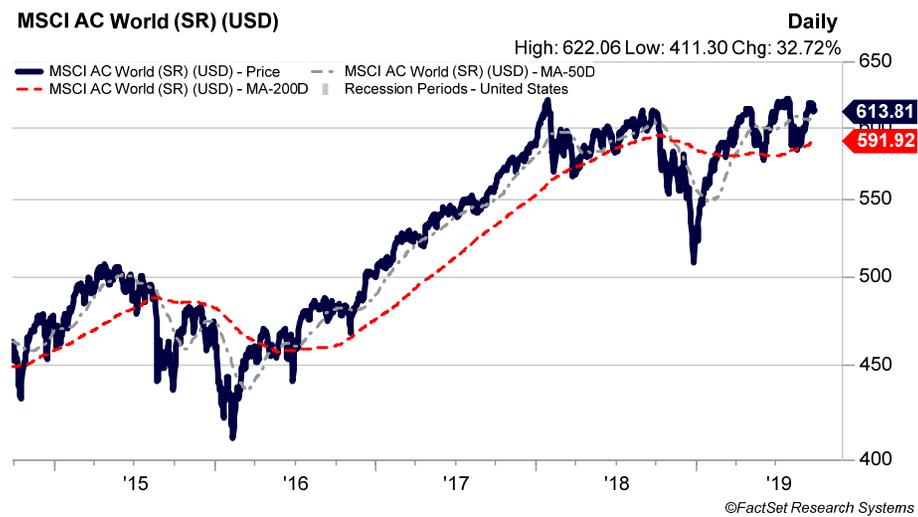


Observation Deck

Views from the Investment Policy Committee



4th Quarter 2019

Purpose

- The Observation Deck is a series of pictures designed to communicate points of view and to stimulate discussion and debate, it is NOT a set of recommendations
- Our commentary is not the result of any single data point or graphic, it is a reflection of the weekly conversations within the Investment Policy Committee and a set of perspectives that are derived from many observations accumulated over varying time frames
- Slides that are included in the Observation Deck are a subset of the scores of data points and graphics that the Investment Policy Committee views each week in assessing the status of the business cycle and the health of financial markets
- We hope that you enjoy the Observation Deck and recognize that the views and opinions expressed are capturing a moment in time and are subject to change without notice



Top
**Financial
Advisers**
2019

FT 300 Ranking June 2019

Macro TIP Chart

Tactical Investment Positioning

4th Quarter 2019

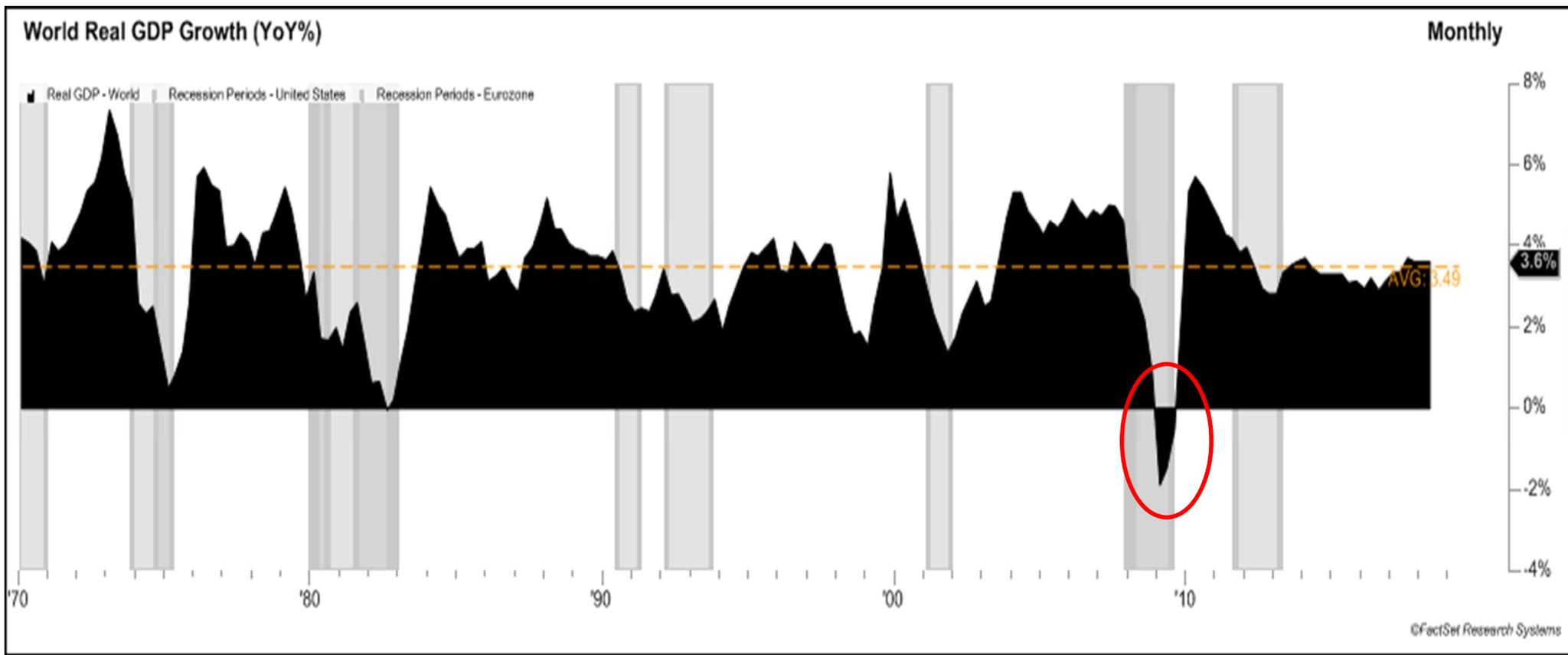
Strength of Conviction	Chg	Negative	Neutral	Positive	Rationale
Business Cycle					While consumption of services remains firm, global growth being dragged down by a lack of capital spending and very weak trade.
Financial Conditions					Monetary authorities rushing to provide accommodative support to financial conditions, trying desperately to stoke inflation.
Relative Preference	Chg	Neutral			Rationale
Asset Class		Bonds	Stocks		Growth concerns are placing pressure on bond yields around the globe. Stocks are supported by policy but face EPS headwinds.
Economic Sensitivity		Defensive	Cyclical		Profit cycle facing margin pressures from slowing growth and escalating trade tensions. Defensive sectors remain expensive.
Credit Quality		Sovereign	Credit		Credit spreads have tightened despite the growth concerns that have caused a rapid decline in rates. Tilt toward quality is prudent.
Duration Profile		Short Maturity	Long Maturity		Yield curve approaches inversion. Very little compensation for extending maturity risk. Benchmark duration is very long.
Commodities		Below Weight	Above Weight		Some demand destruction associated with global slowdown. OPEC appears dedicated to production levels that support price of oil.
Cash	←	Below Weight	Above Weight		Fed pivot toward easing means that cash yields are likely to once again decline. Like slightly elevated cash as safety measure.

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Observation #1

Long-Term Growth Has Been Extraordinary

- The world has witnessed exceptional growth over the past 50 years, with large portions of the global population experiencing an extraordinary increase in their standard of living.
- Recessions within individual geographies (gray bars are recessions in US and Europe) are a normal part of the ebb and flow of business cycles, but global GDP has only fallen backwards once (2008-09).
- Economic growth may be slowing in many parts of the world, but an annualized rate of 3.6% through the 2nd quarter of 2019 suggests a global recession is a very low probability in the intermediate term.

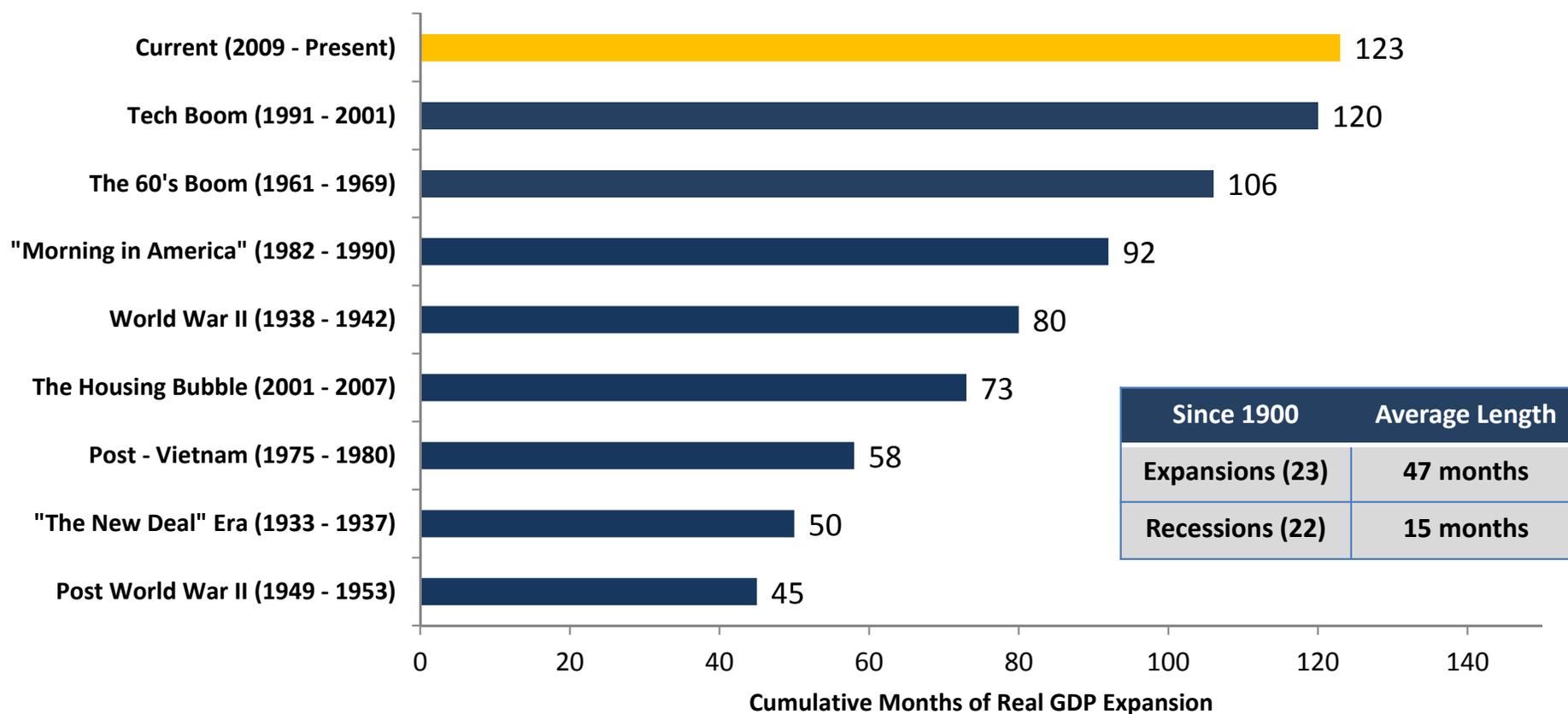


Observation #2

The Longest US Expansion in Modern History

- The NBER will soon confirm that the current business cycle is the longest economic expansion for the United States in modern history.
- Business cycles do not die of age, they are often extinguished by monetary and/or fiscal policy mistakes, both of which have come into question over the past year.

DURATION of the Expansion Phase of the Business Cycle

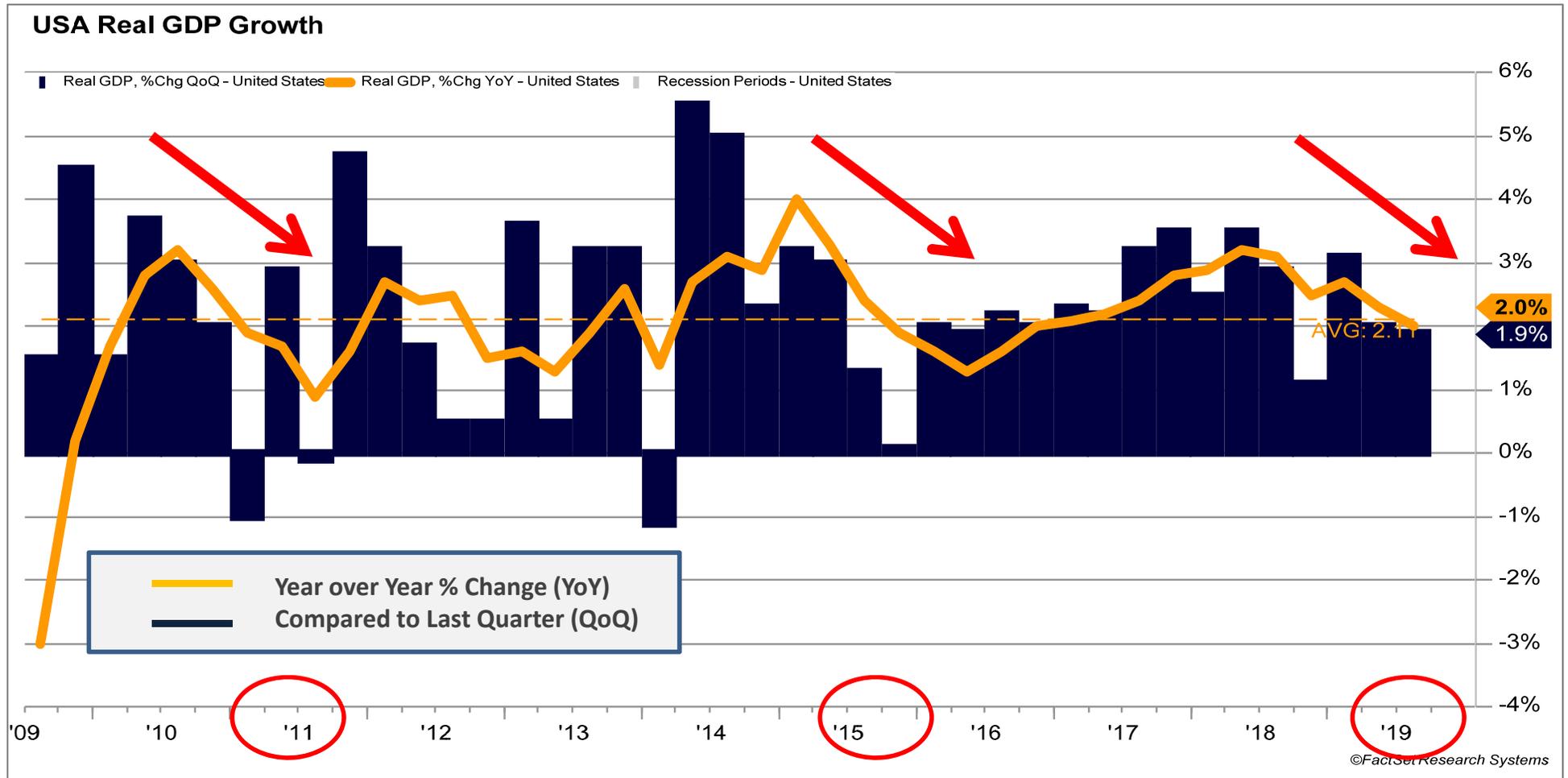


Source: NBER (National Bureau of Economic Research), As of September 30, 2019

Observation #3

Temporary Pause or Recession?

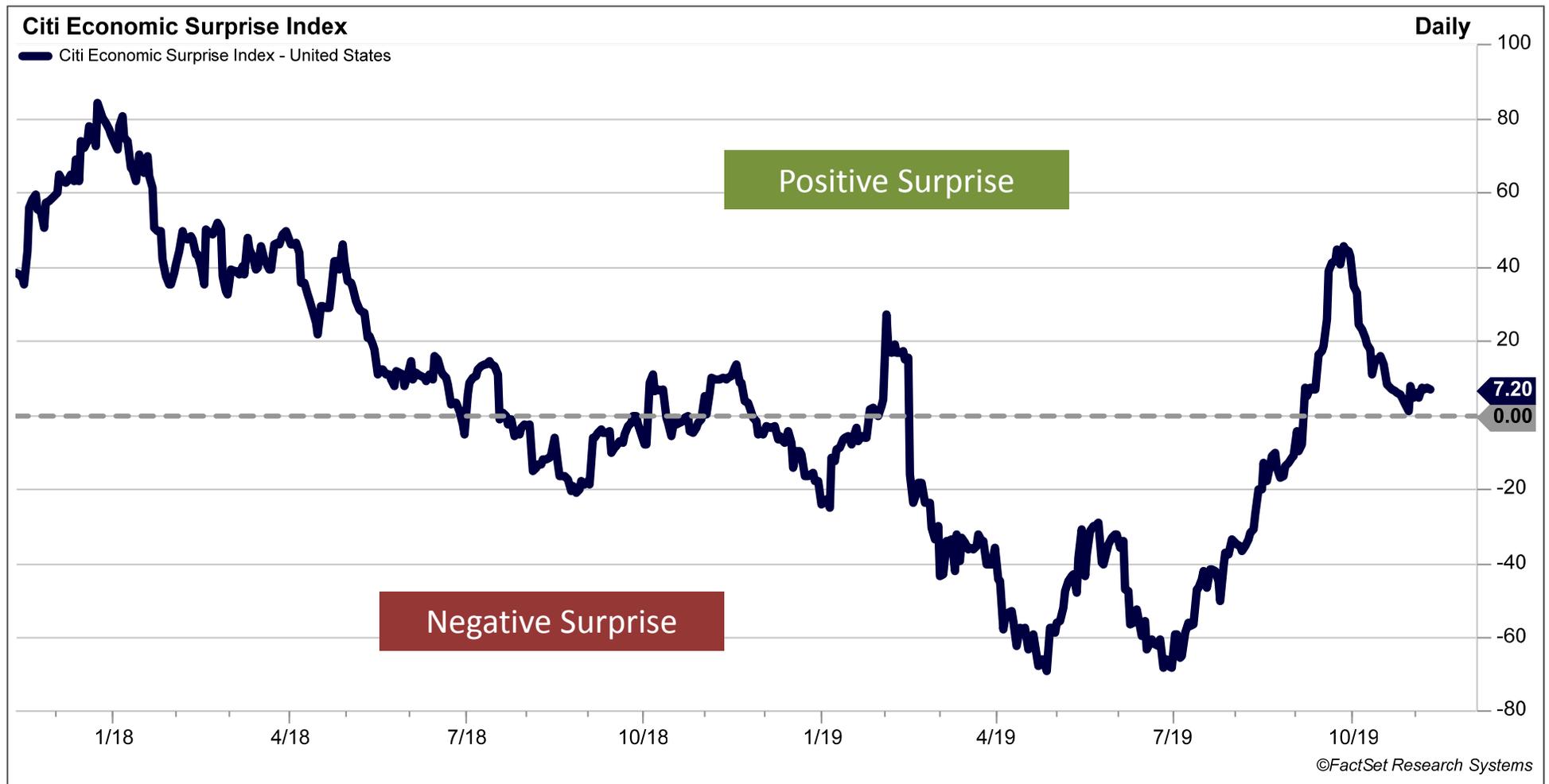
- The current US economic expansion that began in 2009 has experienced two periods of notable vulnerability, a slowing growth trend in 2011 and again in 2015 (red arrows).
- Is the business cycle experiencing another temporary pause or is it destined to finally fall into contraction as we enter 2020? The current estimate for 4Q19 real GDP growth is just 1.0% q/q.



Observation #4

Better Data or Reduced Expectations?

- Financial markets tend to react to results that are relative to investor expectations, making the measure of Surprise a helpful tool.
- Much of the economic data remains poor, but the surprises have increasingly been to the upside, suggesting investors have lowered their expectations and, perhaps, the data has reached a bottom.

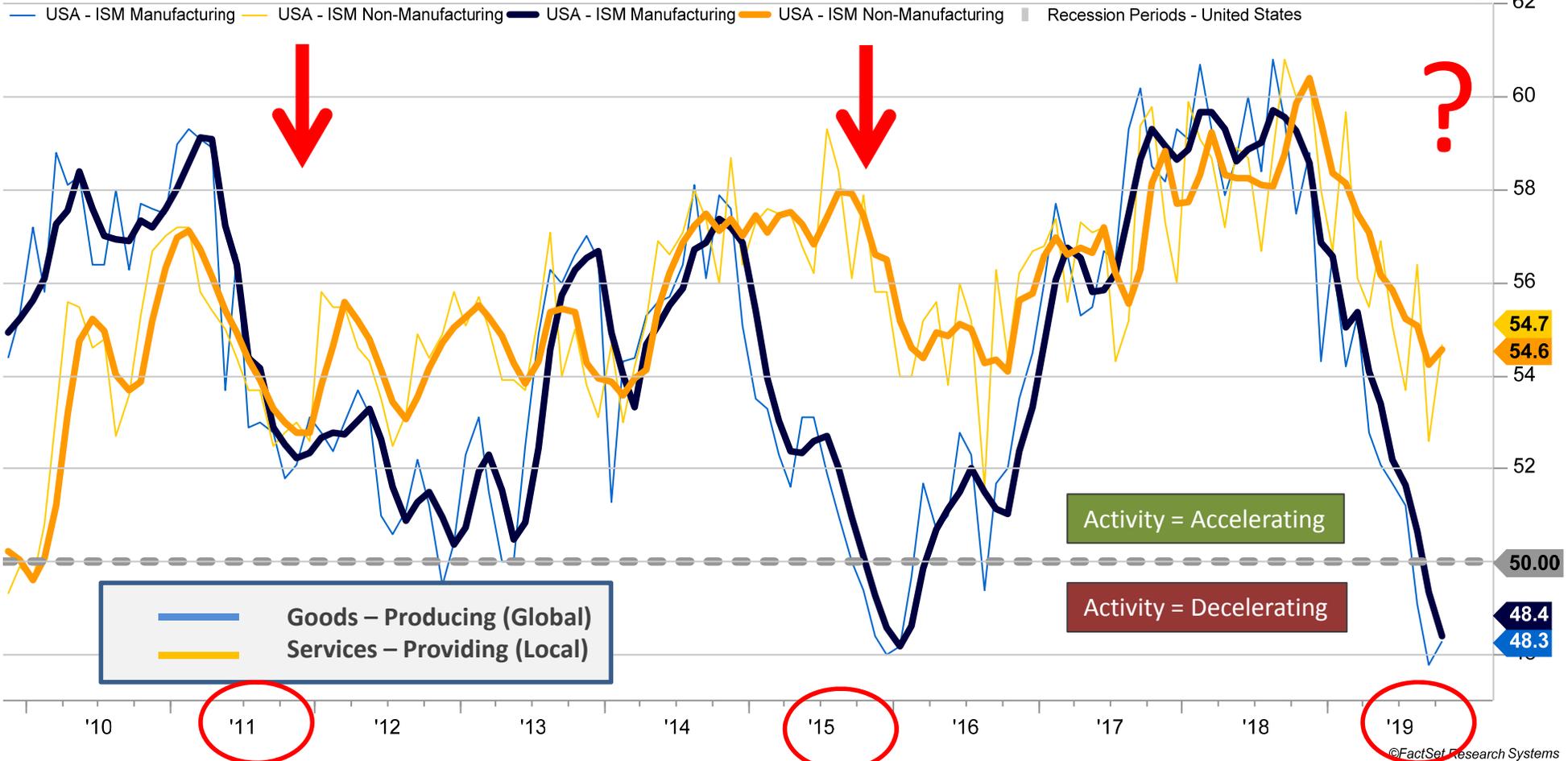


Observation #5

Goods versus Services

- Services (gold line) tend to be generated and delivered locally with greater stability, while Goods (blue line) are produced and transported from many regions of the globe (Trade).
- So far, the data looks a lot like the economic pauses of 2011 and 2015 (red arrows), but the next few months will be critical in determining whether current conditions are in deeper trouble.

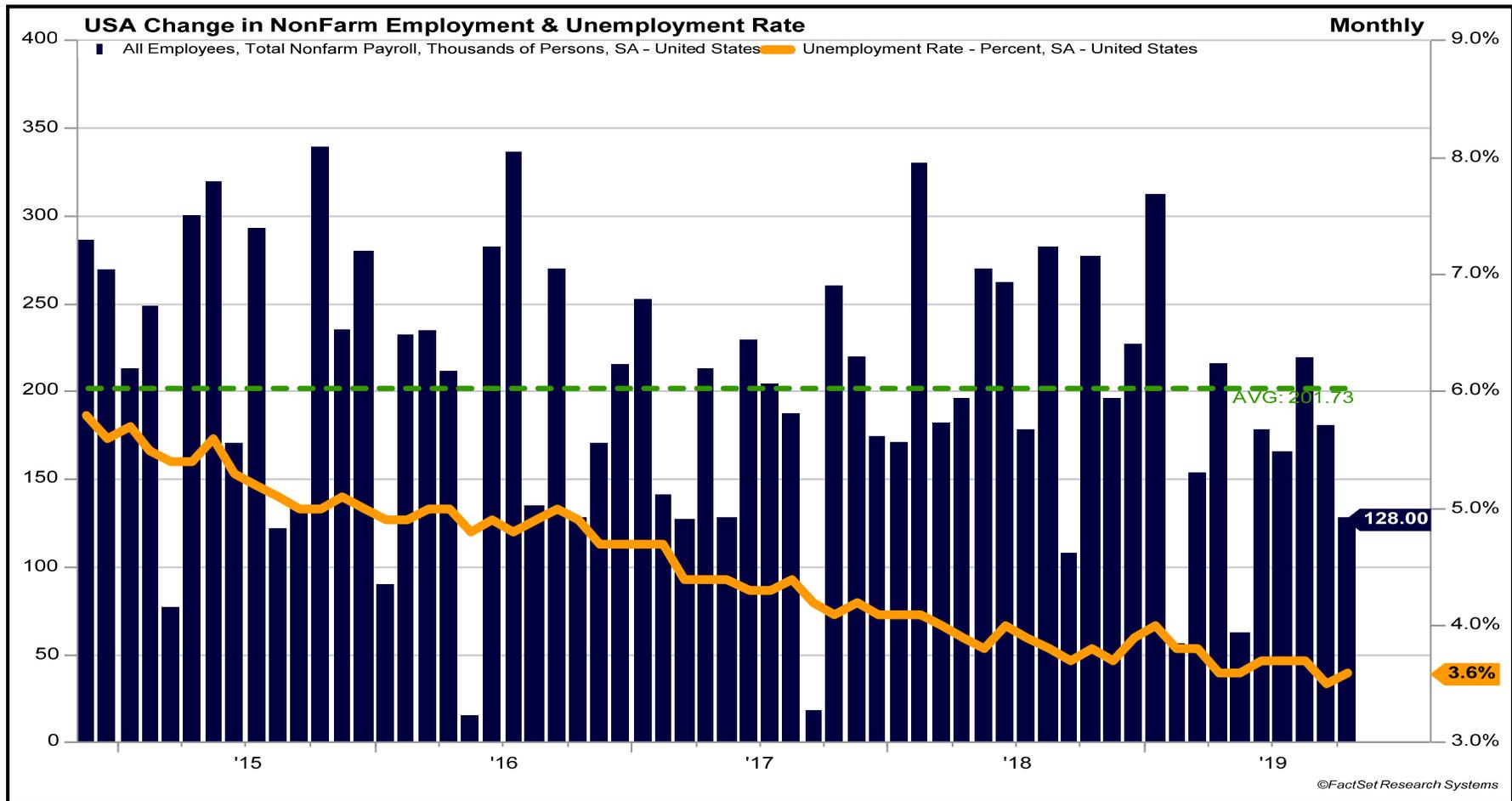
ISM Manufacturing & Non Manufacturing - 3m MVA v Latest



Observation #6

US Consumer Paychecks

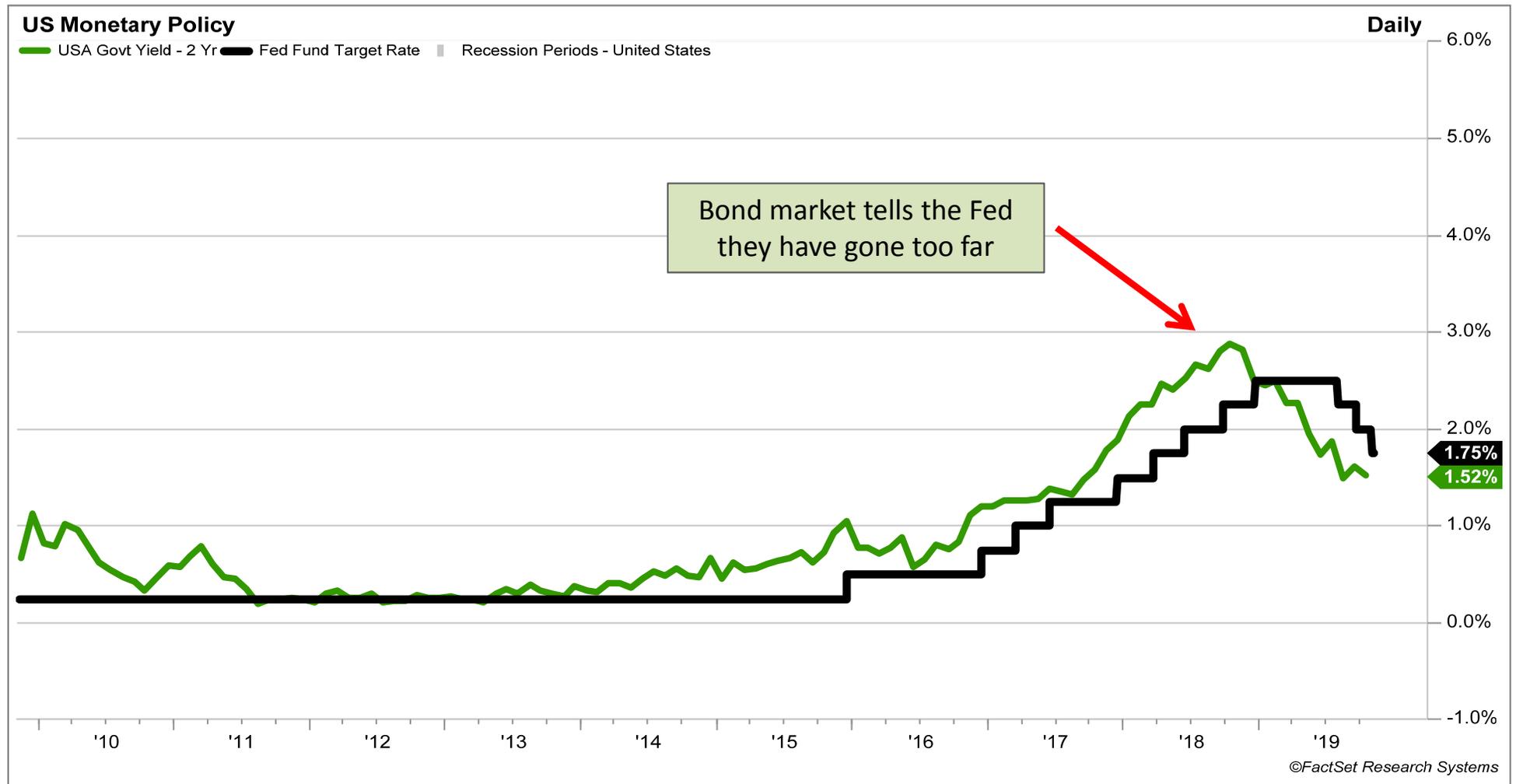
- The global economy has arguably been held together by the strength of the US consumer and their confidence in receiving a paycheck.
- The Unemployment Rate (gold line) is hovering near a 50 year low, but the number of jobs created by the economy each month (blue column) may be starting to show fatigue, seven of the past ten months have created fewer jobs than the five year average (green line).



Observation #7

Bond Markets – Don't Fight the Fed

- Bond markets were comfortable with the Fed's desire to "normalize" interest rates (blue line) while the global economy was expanding at a healthy rate of growth.
- When investors started to worry that the Fed may not be recognizing the magnitude of the economic slowdown and risks from global trade tensions, the market (green line) sent a signal to the Central Bank.



Observation #8

Stock Markets – Don't Fight the Fed

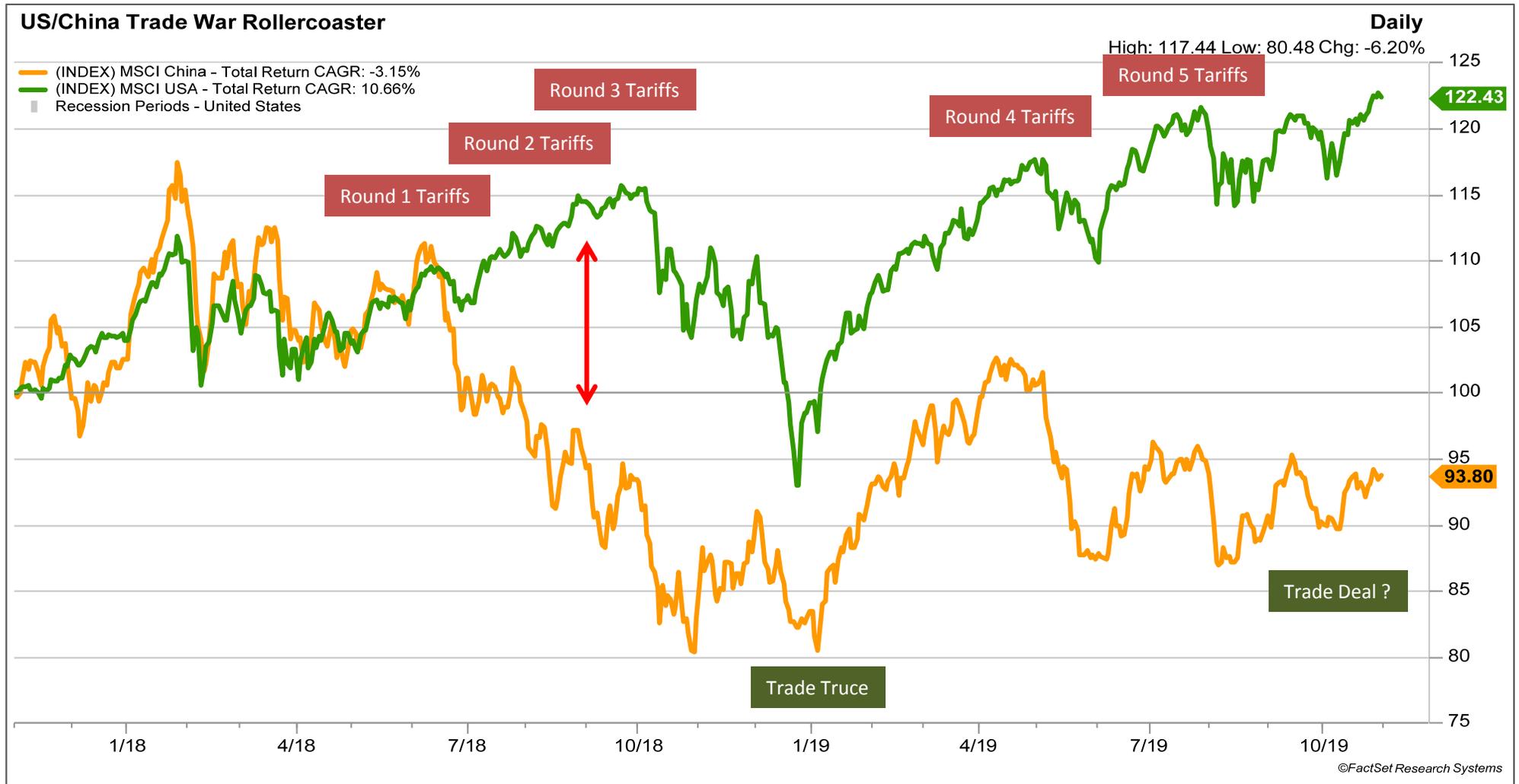
- Stocks can tolerate rising interest rates (blue line) as long as the economy is healthy enough to generate a growing stream of profits.
- When investors started to worry that the Fed may not be recognizing the magnitude of the economic slowdown and risks from global trade tensions, the market (gold line) sent a signal to the Central Bank.



Observation #9

Trade War Rollercoaster

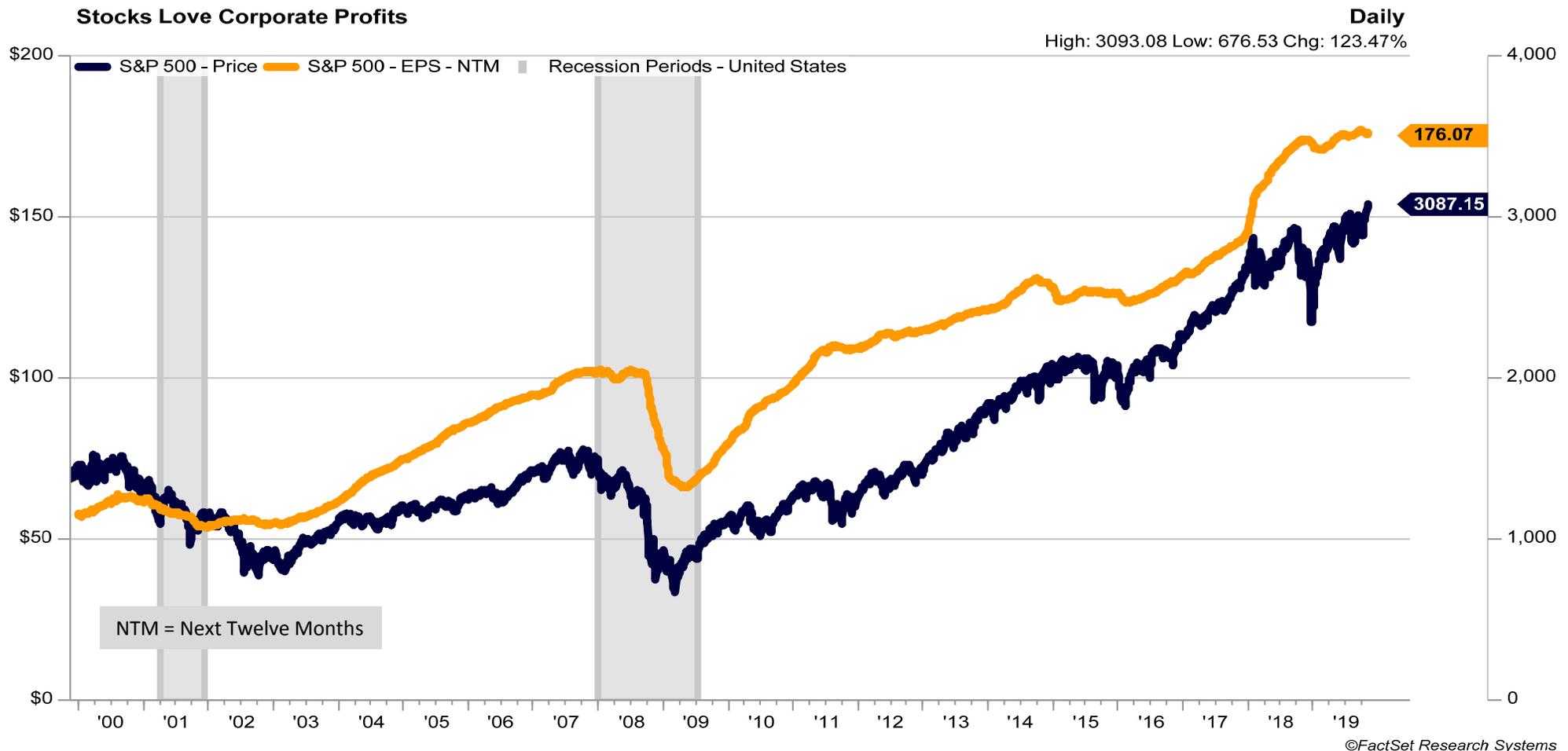
- Stocks in each country attempt to discount the risks from each policy move in the ongoing trade war.
- The initial reaction (red arrow) to the trade tensions was to sell China's stock market (gold line) and continue to buy the US stock market (green line), but they have been highly correlated ever since.



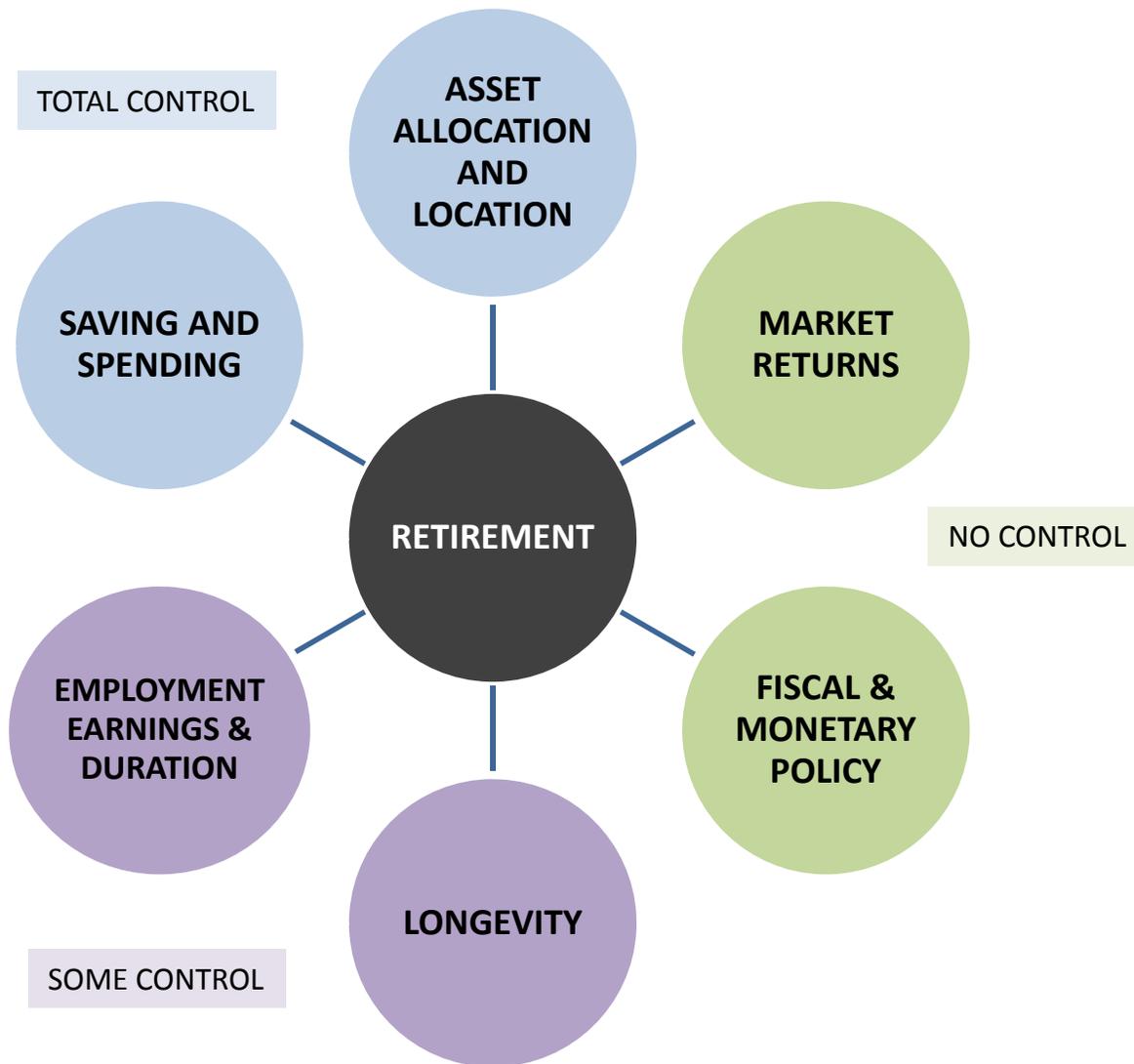
Observation #10

Profit Expectations Drive Stocks

- Business Activity from the Goods Producing and Services Providing segments of the global economy will determine the path for profits.
- If investors expect the trajectory for profits (gold line) to move higher, then stock prices (blue line) are likely to follow, but investors must be aware of the risk to stocks if profits decline over the next year.



Control Your Retirement



A SOUND RETIREMENT PLAN

Make the most of the things that you can control.

Select the Investment Advisor that is best positioned to evaluate the factors that are somewhat or completely out of your control.

Review the results with your Investment Advisor at least annually.

JP Morgan Asset Management "Guide to Retirement"

Disclosure

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