May 30, 2019

Dear client,

Re: **<u>SFP Conference call - Wednesday, June 12, 2019 at 6:30 p.m.</u>**

It was nice to talk with you the other day when I called you to discuss the impending merger with BSFG. Some of you may have some unresolved questions and I would like to answer them for you. I can answer any questions that you may have either on the next conference call or if you would like to talk with me personally, I am always available. On the upcoming conference call, we will discuss the current state of the global markets and the ongoing trade conflict between the U.S. and China. The economic landscape is changing and I have mixed feelings on the direction of the stock market. As I mentioned in my last newsletter and last conference call, we took precautionary action to protect any downside in the investment portfolios and we will continue to carefully monitor the situation.

The long term consequence of this trade war and the recent elections in Europe point to a decoupling of the Chinese, European and American economies, a rearrangement of the global supply chains, and the emergence of regional free trade blocks. American semiconductor companies will face headwinds.

The tensions between the United States and China have been the dominant risk for global security markets this past month. As usual, the stock market has been set back and this year's rally has been stalled and the bond market is signaling that it expects the Federal Reserve to cut interest rates. This trade dispute is much less about soybeans and trade deficits, but more about technological superiority. The damage to China/U.S. relations will be long lasting.

A few long term investment implications can be drawn from this. The odds of any quick breakthrough on trade appear to be slim unless President Trump softens his demands. Each country is playing tit-for-tat. Imposing tariffs is a form of fiscal tightening and it will not be painless for the U.S. economy which is already showing signs of slowing.

Markets are hypersensitive to any trade development that could escalate the U.S./China trade skirmish. The Trump Administration has a strong political incentive to get tough with China and China has nationalistic tendencies. Already, Apple sales have been falling in China as Chinese consumers switch to Xiaomi and Huawei. Mistakes on both sides could lead to a self-reinforcing downward spiral in trade leading to lower consumer confidence and corporate profits at a time when global growth is slowing.

It is possible that President Trump could make a desperate attempt to engineer an economic boom in the run-up to the November 2020 elections. If successful, this would drive up Treasury yields and spur a rebound in the U.S. stock market. We put the odds of this happening at 60%.

On the other side of the coin, it is quite possible that a populist Democrat may win the 2020 elections which could mobilize voters who are fed up with mainstream political candidates. After all, Trump did this in 2016 and the recent European elections demonstrate that this could be a possibility here as well. A populist elected official would have negative implications for stocks and the U.S. Dollar.

We invite you to tune into our next conference call on **Wednesday, June 12, 2019 at 6:30 p.m** to discuss the current state of the global markets and to answer any unanswered questions about SFP joining BFSG. To join the conference call, **please dial the toll-free number: 1-800-914-8405. Once prompted, enter the access code: 5486434, followed by the # button**.

I hope your summer is off to a good start!

Best regards,

Steve Yamshon
Investment Counsel