AMI Quarterly Commentary

Growth Through Stability

Q3 ▪ 2019

Capital Market Outlook

Stocks continued to move higher during the third quarter, although with far less enthusiasm than during the first half of the year. The S&P 500 increased 1.70% during the quarter and the index is up more than 20% year-to-date. The key tenets of the story for the market didn't change materially, with significant risks from trade conflicts offset by an increasingly accommodative policy stance from the Federal Reserve. While economic data remains generally supportive, some cracks are beginning to appear, especially in sectors of the economy heavily reliant on trade with China.

The Trump administration's approach to the ongoing trade conflict with China became more confrontational during Q3, criticizing the Chinese for reneging on promises to buy additional U.S. agricultural products. The ongoing democracy protests in Hong Kong add another element of risk to an already turbulent relationship between the two countries. The prospect of impeachment also adds a wrinkle to the negotiations, given that the Chinese may try to hold off on striking any deal as the next administration may be more accommodative.

The inversion of the yield curve, which first occurred in mid-August, pressured stocks for several weeks, as inversion is widely viewed as a signal of a looming recession. However, we believe it is less likely that this inversion was an indicator of likely recession, but rather due to other global issues such as negative rates in the EU. That said, central bank accommodation was enough to support stocks, as the Fed cut rates by 25 bps in both July and September, while signaling a willingness to continue supporting the economy.

Firm Summary

- Founded in 1994
- Located in Los Angeles, CA
- Employee Owned
- Total Firm-Wide AUM: ~$1.7 billion

Portfolio Management Team

Christian Sessing, CFA
Chief Investment Officer, Lead Equity Portfolio Manager

William Tanner, CPA
Co-Founder & Chairman, Co-Equity Portfolio Manager

Andrew Zamfotis, CFA
Co-Equity Portfolio Manager

Following a weak reading from the ISM manufacturing and services reports, the jobs report for September was viewed as adequate, with the economy adding 136,000 jobs despite missing estimates slightly. The report was interpreted as being supportive of further Fed accommodation through the end of the year. Going forward, the key to growth will be consumer spending. While wage growth and low unemployment suggest the consumer should remain confident into the fourth quarter, consumer spending may be impacted by the constant stream of negative news headlines. The resilience of the consumer in the face of this negativity will be a key theme to watch in the balance of the year.

AMI
ASSET MANAGEMENT

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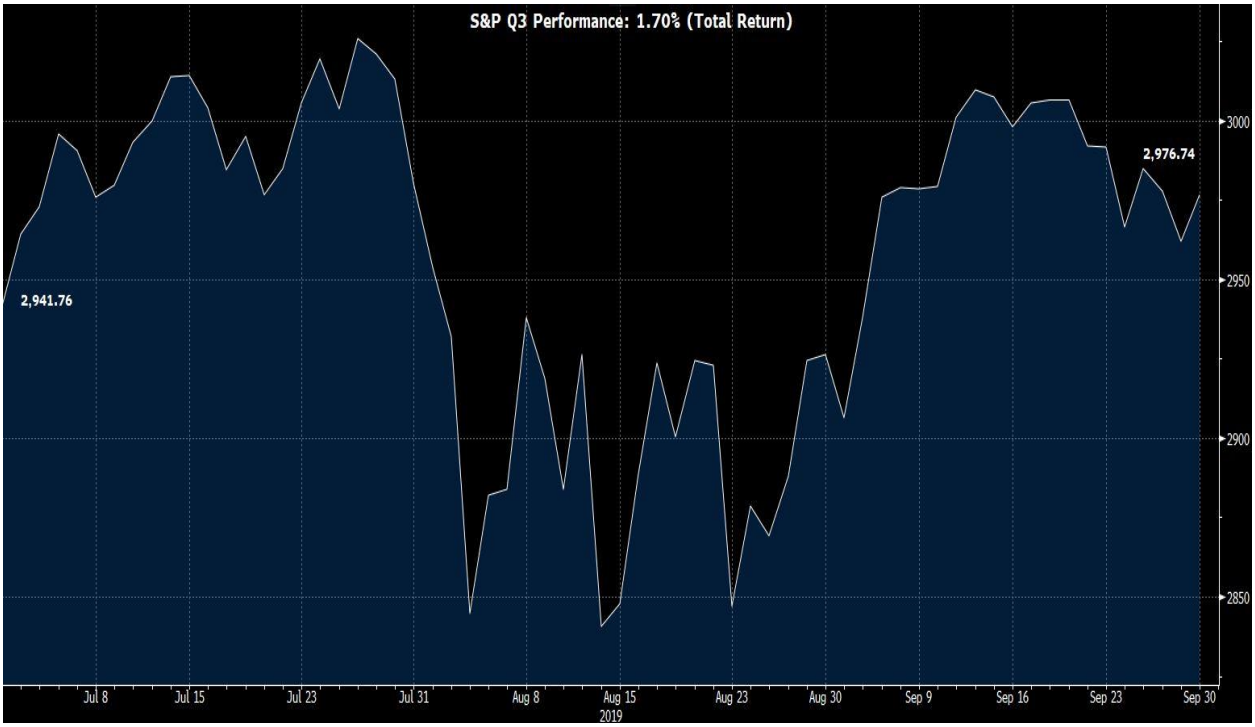
AMI Outlook

There is no doubt that earnings growth has slowed, with growth below 2% for the second straight quarter in Q2 and expectations for negative growth in Q3. That said, earnings are still expected to grow for the full year 2019 and in 2020. Lapping the benefit from tax cuts last year, currency headwinds and given macro uncertainty, slowing growth is to be expected. Given this growth, we believe valuations in certain sectors and companies are appealing. At AMI, we remain prudent by investing in high-quality companies positioned to outperform regardless of the overarching economic environment.



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