



August 5, 2019

Collective Family Office
235 St Charles Way, Suite 200
York, PA 17403

SPECIAL MARKET UPDATE – FEDERAL RESERVE, TARIFFS, AND CURRENCY MANIPULATION

Dear Investor,

As you may be aware, last Wednesday July 31, the Federal Open Markets Committee – the monetary policy arm of the Federal Reserve Banking System - voted to lower the target Federal Funds rate (the interest rate banks charge one another for overnight loans) from a range of 2.25%-2.50%, down to a range of 2.00%-2.25%.

This type of action stimulates economic growth and has been categorized by many as an “insurance cut” meant to preemptively protect the markets from the risk of a recession. It also supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and muted inflation near the Committee's 2% objective are the most likely outcomes, but uncertainties about this outlook remain.

Additionally, the markets are pricing in another two rounds of 0.25% interest rate cuts by January 2020, with rates expected to fall to a range of 1.25%-1.50%. We believe the cumulative impact of these interest rate cuts pushes out the prospect of an economic recession in the US past the 2020-2021 time horizon and is a quite favorable for investors in the equities markets.

Yet Friday’s actions from President Trump countered this stimulus when he announced another round of tariffs of 10% on the ~\$300M of Chinese exports not previously subject to these charges. And the Chinese response to this latest round of tariffs – namely to devalue their currency in order to keep Chinese exports competitively priced relative to the dollar - further negatively impacted the markets. With the S&P 500 down ~4.5% since the end of July, many investors may be worried about this latest round of market volatility.

While trade war escalations and tariffs remain the largest risk to the markets in our purview, our thesis remains that strong labor markets, healthy consumer spending, modest economic growth, and an accommodative Federal Reserve, will continue to support modestly rising stock prices over the next 12-

18 months. We will continue to actively monitor the US-China trade conflict and are prepared to act swiftly should our expectations change.

If you have any questions or concerns or would simply like to discuss this or any other issues further, please do not hesitate to call us anytime.

Looking forward to speaking soon,

Brian Luster
Chief Investment Officer
Collective Family Office
717 296-1585
Brian.Luster@CollectiveFO.com