Economic Commentary

July 15, 2019

Index Total Returns	QTD	YTD	12 M
Domestic Equities			
S&P 500	4.30	18.54	10.42
DJIA	3.21	15.40	12.20
Nasdaq	3.88	21.34	7.81
Russell 2000	2.09	16.97	-3.35
International Markets			
MSCI EAFE	3.68	14.03	1.08
MSCI EM	0.61	10.58	1.21
Fixed Income			
US Treasury	3.01	5.18	7.24
US Credit	4.27	9.35	10.34
Municipal Bond Index	2.14	5.09	6.71
US Corporate High Yield	2.50	9.94	7.48

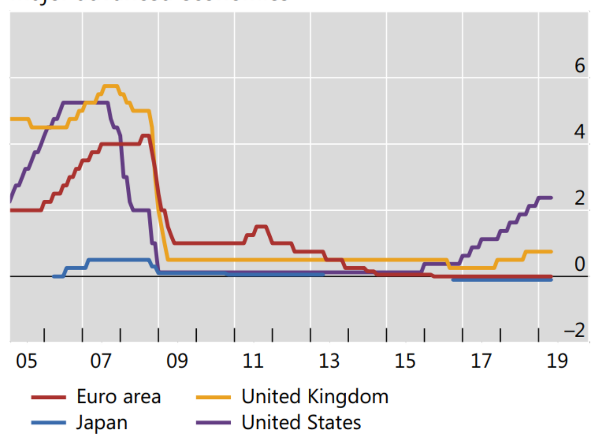
"Long train running"

- Doobie Brothers

As of July 1st, the current economic expansion is officially the longest since 1854, which is as far back as economists have attempted to date business cycles.

EXHIBIT 1: Central Bank Policy Rates

Major advanced economies



Source: Bank for International Settlements

A quick look at **Exhibit 1**, however, reveals a somewhat disturbing situation. Despite ten years of economic expansion, only the US and the UK have been able to raise overnight rates at all since the Great Financial Crisis (although the ECB tried in 2011 for a brief period). As eager as the Federal Reserve was to move away from the zero bound, the tightening campaign couldn't even get the Fed Funds rate to 2.5% before the financial markets sent sharp signals that no more tightening could be tolerated. With the global economy handcuffed by a massive debt burden, the costs of servicing the debt simply can't rise much without causing serious distress to the real economy. Economic growth itself is difficult to sustain due to this debt burden, aging demographics, slow growth (or outright contraction) of the working age population, and disruptive technology that keeps inflation at bay while widening the wealth gap. So even though the current expansion is now a record-breaker, the markets are still displaying numerous distortions that stem from the Financial Crisis. **Exhibit 2** shows

EXHIBIT 2: TOTAL GLOBAL DEBT WITH NEGATIVE YIELDS ~ $13T

Source: Bloomberg L.P.

Maple Capital Strategy & Portfolio Changes

We made a number of changes during the second quarter. We sold Qualcomm, Schlumberger, Corteva, and Dow. This capital was redeployed into holdings where we see strengthening company fundamentals, and again, where stock prices appeared opportunistic. Specifically, we increased the weighting in Texas Instruments, DuPont, and Elanco.

On the fixed income side, we believe selectivity is important since quality spreads are tight and taking risk is simply not rewarded with much additional yield. To that end, we have been investing in a variety of issues to increase diversification across industries as well as high quality municipal issues where appropriate.

We maintain the belief that a diversified portfolio of high quality and long-term earnings compounders reduces risk and outperforms over the full cycle. This requires occasional position size adjustment.

how the record amount of global debt with negative yields has grown.

Equity markets appear more "normal" yet remain quite dependent on central bank stimulus, as if low policy rates are a magic elixir that masks all the underlying problems.

Performance Spike Thanks to the Fed, a Repeat of 1Q19

Fed Chair Powell continued on the dovish pivot theme he began in January with comments that suggested a rate cut could be imminent. Much like the first quarter, the equity markets celebrated this development despite lingering uncertainties from the trade war that have lowered the pace of global growth.

A key reason the Fed may cut rates is the persistence of below-target inflation. Despite an unemployment rate below 4% and many industries reporting difficulty in hiring skilled labor, wage costs remain tame and inflation is simply not responding the way economic textbooks would predict. This low inflation "puzzle" provides the Fed an opportunity to give in to the markets that were clearly calling for a halt to rate hikes at the end of 2018.

In another repeat of the first quarter, fixed income markets rallied across the board which led to positive total returns. Government bond yields declined by 40 basis points across most points on the yield curve and spreads in nearly all sectors moved tighter. "Risk on" was prevalent again with credit leading the way. At this point, bond investors are essentially convinced that easy money policies are here to stay enabling even the riskiest companies to refinance their debt with ease.

Municipal bonds also had positive returns this quarter with even the most troubled states now displaying some resolve in dealing with their burgeoning debt piles. In the interest of brevity we'll leave the details out but municipal bonds remain a sound way to lower your tax burden and earn predictable tax exempt income.

Tech Sector Slips to Second Place

Not everything from the first quarter was repeated in the second. In equities, Technology was only the second-best performing sector in the quarter, supplanted by the Financial sector. Financials performed well as the Federal Reserve Board approved attractive capital return plans for the large banks and credit metrics remained favorable. And while the Health Care sector was the worst-performing during the first quarter, it was the second-worst performing this quarter, as political uncertainties continue to weigh on the group. Taking the laurels as the worst-performing sector was Energy, which fell in sympathy with lower oil and natural gas prices. Energy markets fell mainly due to the expectations for slower global growth.

Summary

Given the turn in monetary policy now unfolding, the current expansion appears likely to continue, particularly since the Fed and other central banks appear to be monitoring financial conditions more closely than ever before. At times, it does appear the financial markets are dictating to the central banks, perhaps owing to the depths of the Crisis of '08, the many lingering distortions, and policymakers' fear of a repeat. The take-away is that a downturn in financial markets may very well be the catalyst for ending the current expansion, so policymakers appear intent on keeping the markets happy.

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