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Third Quarter Comment
October 13, 2017

Dear Client:

The turbulent third quarter would be characterized by North Korean belligerence, President Trump's tweeting, repeated disasters by Mother Earth, continued Middle East unrest, along with the horrific events in Las Vegas and Charlottesville. This unsettled environment caused municipals to follow the Treasury market with ten year yields falling from around 2.00% to around 1.80% in early part of September before closing the quarter with a 2.02% yield.

Economic growth continued to advance at an annualized rate of 3.10% in the first half of the year. However, GNP is expected to moderate to a 2 ½% pace with an inflation rate contained at a 2.0%. Despite the unemployment rate hovering around 4.5%, the weak wage pressures will keep a lid on inflation. Demand for fixed income from an aging population in a moderate to slow growth low inflation setting, suggests that interest rate pressures will remain subdued. As the Fed tightens periodically, interest rates will climb but at a moderate rate over a long period of time (longer than most people think). We will continue to invest in high grade municipals and will extend our durations when 10 year Treasuries yields climb to 2.50% to 2.70%.

Finally, with supply of new municipal offerings down roughly 15% from a year ago, and demand remaining strong we expect municipal yields to remain in a fairly narrow price range. As in Economics 101, an increase in demand of a good along with diminishing supply results in an increase in price (as in the case of fixed income securities - lower yields) in a perfect world. However, we live in an imperfect world with a future filled with unknowns and challenges as in the past. They will be met and we will have economic bumps along the way but I do not expect interest rates on municipals to move dramatically in the 4th quarter or in 2018.

Best regards,
Stephen Steglitz
Beech Hill Advisors, Inc.