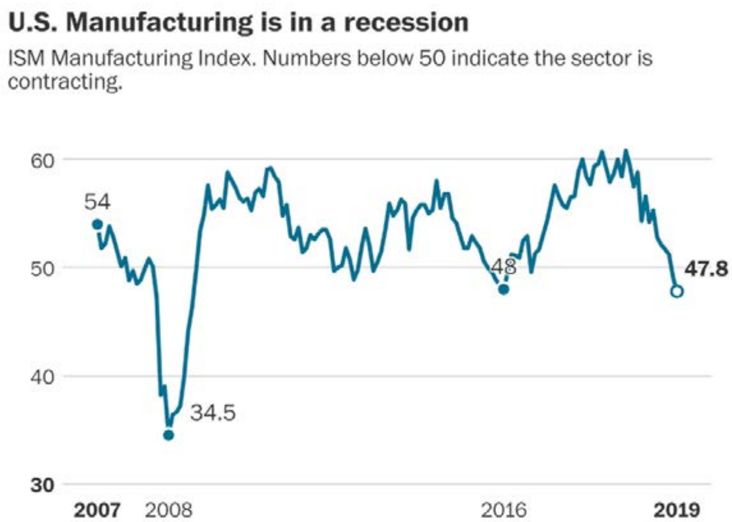
Market Review and Outlook

Investors withstood another volatile stretch during the third quarter, as the combination of trade uncertainty, escalating geopolitical risks, plunging global bond yields, and diverging economic conditions between the United States and other parts of the world produced mixed quarterly returns for global equities. Domestic stocks proved the most resilient to these market pressures, with the S&P 500 posting a quarterly total return of 1.7% (+20.6% YTD) and marking its best performance for the first three quarters of the year since 1997. International markets ceded a portion of their solid year-to-date returns, with developed international equities (EFEA) reporting a third-quarter loss of 1.0% (+13.4% YTD) and emerging markets (EM) declining 4.1% (+6.2% YTD).

We believe the trade war represents the most important factor that will determine the sustainability of the market's prolonged expansion. Given the current uncertainty around trade policy, corporations have been reluctant to engage in new spending plans and capital investments. This has already dampened domestic manufacturing data, which fell into recession during third quarter according to the closely watched Institute for Supply Management (ISM) manufacturing index.



Source: Institute for Supply Management (ISM); Washington Post

Manufacturing accounts for less than 15% of the U.S. economy, however, and the more important services side of the economy remains in expansion. Still, the downdraft in manufacturing activity could eventually have a spillover effect on consumer spending (70% of the U.S. economy) if the labor market begins to soften. Additionally, households could dial back purchases if tariff-induced price pressures begin to escalate when the threatened October 15 and December 15 tariffs hit consumer goods.

That said, the U.S. is better positioned than most countries to weather an extended tariff dispute, as trade accounts for the lowest percentage (27%) of its economy among all developed nations. Despite more than 18 months of sparring with China over trade, U.S. economic data still remains relatively resilient – as positive wage growth and a tight labor market continue to fuel consumer activity. Also, the Federal Reserve has adopted a more accommodative posture in recent months – serving as a counterbalancing force to trade-related headwinds. Nevertheless, economic expansion could be adversely impacted if a constructive agreement is not reached in the coming quarters. Our base case assumption is that a trade deal will be finalized within that timeframe, as it would be mutually beneficial for all parties to strike an accord as soon as possible. But there is an increasing risk that trade-policy confusion could remain a drag on global economic growth until after the 2020 elections.

As we move into the final quarter of this year, it's clear that global profit growth in 2019 will be much more subdued compared to prior years. The S&P 500 Index is projected to post earnings expansion of just 2.0% this year (versus 22% growth in 2018 and 12% growth 2017) – but still outpacing developed international markets like Europe (0.6% growth) and Japan (1.0% decline) and only slightly behind Emerging Markets (2.8% growth). Profit growth is projected to rebound across all regions in 2020, with Emerging Markets earnings increasing 13%, followed by the United States (+10%), Europe (+9%), and Japan (+5%). As is typical for early earnings estimates, we believe all of these growth forecasts will prove too high. However, assuming the trade headwinds subside and/or monetary policy stimulus gradually starts filtering down to the real economy, global profit growth should reaccelerate in 2020 – providing a constructive framework for equities over the medium term.

In the near term, we expect markets to remain choppy as myriad risks threaten to rattle already skittish investors. Absent a material geopolitical or economic disruption though, we continue to believe equities offer the best investment prospects among the major asset classes (stocks, bonds, and cash) and we would view temporary corrections as buying opportunities. The record long U.S. economic expansion won't last forever, but for now it remains supported by resilient household spending and looks unlikely to morph into a deeper downturn any time soon. With earnings multiples continuing to hover around the historical average, valuations appear reasonable – particularly amid today's low interest rate environment. Given that backdrop, we think this secular bull market is capable of generating additional upside.

Core Portfolio

During the third quarter, we purchased Advanced Micro Devices and CVS Health Corporation.

Advanced Micro Devices makes processors that act as the main computing brains for personal computers, servers, and graphics cards, competing against semiconductor bellwethers Intel and Nvidia. In recent years, AMD has improved its competiveness across central processing unit (CPU) and graphics processing unit (GPU) products for personal computer end markets (50% of revenue) and other consumer electronics. Additionally, its latest product pipeline includes a server processor that dramatically outperforms Intel's competing chip at a fraction of the price. We believe the superior performance/price profile of this chip will provide an opportunity for AMD to gain significant market share in the server space over a multi-year period. While the shares are not cheap on an absolute basis at 31.0x forward earnings, we believe that valuation multiple is justified by the company's ability to grow its earnings base exponentially over the next several years as overall semiconductor demand expands and AMD continues to gain market share.

CVS Health operates more than 9,800 retail and specialty pharmacy stores in the U.S. and is the country's largest pharmacy benefit manager (with ~30% PBM market share). In late 2018, the company purchased health insurer Aetna and its 22 million members to create a fully integrated healthcare model (retail pharmacy, PBM, health insurance, specialty, and retail clinics) that we believe will position it well to benefit from changing market dynamics longer term, including new reimbursement models (the shift to value-based care). Due to near-term industry challenges and a temporary surge in balance sheet leverage following the $70 billion Aetna acquisition, the company's stock is trading near-record low valuations. At less than 9.0x forward earnings, we believe CVS offers a compelling investment opportunity as the market is undervaluing the growth that should become more evident in the coming years.

Equity Income

Master Limited Partnerships (MLPs) declined 5.0% during the quarter, but are still up 11.1% since the beginning of the year. Despite the largest oil outage in recent memory following the mid-September bombing of Saudi Arabia's oil processing facility, oil prices were down 7.5% in the quarter as the market quickly shrugged off fears of a supply disruption and left oil prices largely unchanged from the levels before the attack. With no sustainable positive catalyst for oil prices near term and market flows indicating a broad migration away from energy investing, midstream operators' stock prices may be range bound near term. We continue to see attractive upside opportunity over the medium and longer term, however, as private equity transactions for non-core assets – as well as outright purchases – continue to suggest the public market is undervaluing midstream assets by more than 20%. With strong/sustainable cash flow supporting MLPs' 8+% dividend yield, we also believe these securities offer a compelling source of income amid this otherwise barren interest yielding environment.

Fixed Income

Government bond yields in the U.S. and Europe tumbled during the quarter – with the 30-year U.S. Treasury yield closing at a record low of 1.94% in late August. Some investors believe today's extremely low government bond yields are forecasting a U.S. recession, but we think those fears are premature. Rather, we believe the decline in treasury yields is more reflective of the gravitational pull from negative interest rates in places like Japan and Germany. With unattractive yield sources in their own countries, foreign investors are accumulating U.S. bonds – which drives up U.S. Treasury prices and pushes yield lower. In other words, the decline in U.S. rates has more to do with the weakness overseas than it has to do with economic fundamentals in the United States. We believe interest rates could remain under pressure in the U.S. over the coming quarters if these factors persist, but we do not anticipate U.S. Treasury yields will turn negative.

We thank you for your continued confidence and trust. As always, we welcome your comments and questions and look forward to our conversations.

Parkside Investments, LLC

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Please contact your Parkside representative at 312/778-7700 if there are any changes to your financial situation or objectives, or if you wish to modify any restrictions on your account.

Parkside Investments, LLC maintains a business continuity plan and periodically reviews the plan for disaster preparedness. In an emergency, news updates will be posted to our website *www.parksideinv.com* ***until the critical situation has been resolved. You may also contact us through our individual phone lines and e-mails or by our main phone 312/778-7700 and e-mail address*** *info@parksideinv.com*. ***Your calls and e-mails will automatically forward to other devices away from our offices.***