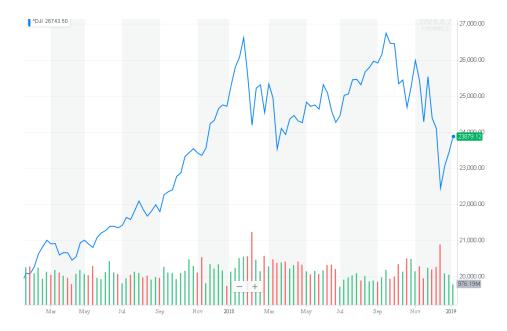
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January 9, 2019

Modestly positive is how we see the investment outlook and the economy as we look into the new year. Logic suggests a moderate increase in corporate earnings aided by the lower corporate and individual tax rates, economic growth rate of around 3%, little unemployment and a tapering off of societal stress now that political discourse has evolved from animosity to stalemate between the political parties. Legislative surprises are unlikely under these conditions.

Congressional power is about evenly distributed so that stalemate has become a political reality. If the legislature cannot agree to construction of a physical barrier on the southern border, then military deployment will be the likely substitute. With respect to the economy, there are as yet no warning signs of cyclical decline. Instead, the typical acceleration in wage rates and inflation is likely to be moderated, suggesting that the economic cycle is going to be stretched out and longer lasting than the average historical experience.

The stock market gyrations of the past year or so are depicted in the chart below.



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Political news flow will become more intense as the elections of 2020 approach and is off to a robust start with the focus on aggressive migration from south of the border, instigated and financed by parties who may become more evident in the months ahead. American opinion is believed to favor secure borders by around two to one. Social tension is likely to increase as the so-called government shutdown stretches on.

The international scene has been relaxed, with Europe moving away from integration, and back toward individual nationhood; and the Soviet Union having reverted back to Russia. Marring this picture, however, is the aggressive tone of a new Russian plan to arm warships and submarines patrolling the Atlantic near the eastern US with a new class of weapon referred to as the Kalibre nuclear missile.

Military spending is going to be rising. China has evolved into a diverse collection of commercial interests and big buyers of basic commodities from the US and the rest of the world. It makes and exports very large amounts of manufactured goods paid for in dollars. That makes it all the more surprising that the leadership has suddenly taken on a belligerent tone highlighted by comments about retaking Taiwan! Perhaps they are establishing a platform for upcoming negotiations and international conferences. Meanwhile China's financial condition has been going from very strong a few years ago to medium or worse, as a result of rapid growth in domestic consumption and debt.

Worldwide economic prospects for the next year or so are dampened by the pronounced decline in China's internal growth rate which is affecting Japan as well. Europe also is in an economic malaise and it is too early to predict anything much about 2020. Any support for a bullish investment attitude would have to be sparked by the surprisingly buoyant US economy.

much about 2020. Any support for a bullish investment attitude would have to be sparked by the surprisingly buoyant US economy.
Best wishes for a happy new year.
Sincerely,

John L. May