LIBERTY CAPITAL MANAGEMENT

QUARTERLY OUTLOOK

Vol. XXVII - Number 3 Third Quarter 2019

The Economy

Let's update some key economic indicators.

The US Economy

A few quarters prior, we explained the importance of economic indicators as it relates to projecting how the economy will progress. The intricacies of the economy may often make individual investors feel overwhelmed and confused. So, to get a pulse on what is happening, follow economic indicators. Here's an update on some of the economic indicators Liberty Capital Management considers.

Consumer Spending

How is consumer spending doing?

Consumer spending has rebounded. The April sales were revised higher, and the May retail sales report was even stronger than expected. Q2 real consumption is running at a 3.50 to 3.75% quarter-over-quarter annual rate compared to 1.25% in Q1. The fundamentals supporting consumer spending are solid. Job gains, while slowing, have averaged 170k per month over the past three months, in line with most predictions. At 3.6%, the unemployment rate is at its lowest in nearly 50 years. Despite market and media commentary on slow nominal wage growth, soft inflation means real wage gains have strengthened, offering a strong foundation for domestic demand.

Real Gross Domestic Product (GDP)

How is real GDP doing?

According to the Bureau of Economic Analysis's "second" estimate, real gross domestic product (GDP) increased at an annual rate of 3.1% in the first quarter of 2019. The healthy pace was due in large part to temporary factors, including a sizeable buildup in inventories. We believe this will be reversed in the second quarter, holding headline growth to a softer 1.9%. In contrast, inflation has run below expectations. Some of the softness seen in the start of 2019 has proved transitory, but the otherwise strong economy is generating less inflationary pressure than projected. Simply put, U.S. growth remains solid. Consumption is strong, and industrial production is stabilizing in Q2.

The Employment Situation Report

How is the job market doing?

Non-farm payrolls rose by 224k in June, well ahead of expectations of 160k. Private-sector hiring expanded by 191k and government payrolls kicked in 33k. Goods-producing employment rose 37k, with 21k in construction and 17k in manufacturing. Services employment, meanwhile, rose 154k, more than doubling the 72k jobs created in May. Revisions were relatively minor, with 11k fewer jobs created over the previous two months relative to the previous estimate. The unemployment rate edged up to 3.7% from 3.6% in May, due to relatively strong labor force growth (335k) and an increasing participation rate (62.9% from 62.8%).

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Household survey employment rose 224k. Average hourly earnings were up 0.2% month-on-month, but the trend for growth over the past year edged lower at 3.1% (from 3.2%). An article in TD Economics stated, "So much for the slowing job market narrative. After a scare in May, job growth returned to form in June. Continued above-trend growth belies concerns that the American economy is turning over. At 3.7%, unemployment is low, but don't expect Fed officials to get too excited about it as long as inflation is soft and nominal wage growth is showing little signs of accelerating. Still, while an insurance cut may be on the table, this isn't the kind of data that means the start of an easing cycle."

The Bottom Line

While areas within the economy are slowing, it is likely to still be above the Fed's estimate of sustainable growth for 2019. As we've said in the past, as the consumer goes, so goes the economy. Consumer spending is likely to advance and remain a mainstay of economic growth. Even if the resilience of the American consumer are tested in the months ahead. The increased tariffs in May left consumer goods largely unaffected. However, the next (threatened) escalation in tariffs would hit nearly all consumer goods imported from China. The result could be noticeably higher prices, decreasing the purchasing power of U.S. households. Nevertheless, things aren't as bad as some try to make it.

Fixed Income

Lower for Longer

So far, 2019 has been a great year for fixed-income investors. Every fixed-income category has seen gains from the highest quality assets to the riskier asset classes. While total returns improve through the second half of the year, the yields will drop more. After flat to slightly negative returns from last year, the fixed-income market has steadily lowered rates for the first half of the year. The 10-year US Treasury note is hovering around 2.00%, though has dipped below 2.00% on some days. That is a long way from the 3.25% in the last quarter of 2018, and even farther from last year's projection of 3.50% - 4.00%.

Many economists are surprised by the falling interest rates. In January, when the Wall Street Journal surveyed 69 economists, not 1 predicted the 10-year yield would fall below 2.50% by June. The average forecast was about 3%.

Experts are uncertain if the economy is heading into a recession or simply just slowing down. A slowdown gives the Federal Reserve a little more time before a rate cut is necessary. Many people believe a rate cut this year, in the later portion of the third quarter, will occur. If the economy shows more significant signs of a recession, the Fed may more quickly respond and adjust. That move would surely push the 10-year Treasury below 2.00%. The overall market continues to send mixed signals. The inverted yield curve continues to hint at a possible recession. When shorter maturities have higher yields than longer maturities, the bond

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market is conditioned to prepare for a recession in the following 12 to 18 months. The slowing global economy and the ever-present trade and tariff worries continue to pressure the Fed to lower interest rates. The equity market suggests a different outcome with double-digit returns through the first half of the year.

For fixed-income investors, the opportunity to invest in 10-year US Treasuries above 3% seems to have passed. The increasing belief that interest rates will drop more and for longer becomes more apparent every week.

Limiting credit risk and diversification of fixed-income investment across corporate bonds, investment grade municipals and government securities is the best course of action in the current fixed-income market.

Equity Markets

The Market Loves to Climb a Wall of Worry

As many investment professionals point out, the market loves to climb the wall of worry. The current market has seen many potential headwinds over the past year yet has still risen to its highest highs of all time. These headwinds consist of weak spots across the global markets, ever-changing trade talks, cross-border tensions with different countries, political tension within the U.S. that could result in regulation changes, student loan debt, an inverted yield curve, and lastly Fed rate changes. Given all these potential setbacks, we have still reached new highs in the equity markets.

For the record, the DJIA, S&P 500, and NASDAQ indices were up for the second quarter 2.59%, 3.79%, and 3.58%, respectively, and for the year are up 14.03%, 17.35%, and 20.66%.

We currently have an economy that can withstand the backlash of a changing global trade environment. At Liberty Capital Management, we agree with using our current position of strength to achieve long-term gain for short-term loss. We also think these trade deals need to come to fruition sooner rather than later. These types of economic factors are nearly impossible to predict the outcome and timing of a deal, which can cause some near-term volatility in companies’ stock prices. Therefore, we continue to preach diversification across the market is key. For example, Huawei seems to be in our President’s crosshairs, which will adversely affect suppliers and businesses related to Huawei’s business. Apple, Skyworks, Intel, and Microsoft may go down, though U.S. Bancorp and Costco probably won’t see any change in stock prices. It’s also impossible to predict whether a Huawei ban is being used as a bargaining chip, or if it’s a long-term occurrence.

We have seen global tensions rise and fall. The main issues lie with Iran, Venezuela, China, and North Korea. The current tensions have caused problems across the board, mainly affecting the energy, tech, discretionary, and agriculture sectors. Global economic uncertainty and weakness are also factors we consider.

On U.S. soil, our own issues could potentially cause a market downturn. Warning signs include the growing amount of student loan debt and the inversion of the treasury yield curve. With student loan debt being as high as it is, spending and saving capacity of graduates is deeply limited. An enormous amount of high-yielding bad debt issued is preventing companies from meeting their covenants as borrowers. The 2020 elections also may cause sector volatility. Proposed regulations, which may or may not come to fruition, may cause this volatility. Examples include the healthcare sector, Amazon and Facebook (because they're being forced to break up, resulting in shares dropping), J.P. Morgan (which received fines for previous transactions), and/or Alphabet (being handcuffed for the way in which they can advertise from user's data).

The Federal Reserve and the European Central Bank have both strongly indicated they will lower rates and that they have the ability to give this economy some fuel if the data deems it necessary. It appears the recent poor economic data will cause the equity markets to rise based on the expectation of the Central Bank's stimulus. Investors believe the stimulus will be enough to further extend the longest economic expansion in history. This plays into the idea the market loves to climb the wall of worry.

All the bearish components to our market mentioned previously make up this wall of worry. Resolution or positive news regarding these hindrances will cause markets to skyrocket. The inability of an investment professional to predict the results and timing of these issues is why timing the market doesn't pay off on a statistical basis. It is also why research shows proper diversification is paramount in achieving the most return per unit of risk and asset allocation should continue to be monitored and updated as needed. Overconfidence in one's ability as an investor and ignoring research may cause poor returns, especially on a risk-adjusted basis.

"Overconfidence in one's ability as an investor and ignoring research may cause poor returns, especially on a risk-adjusted basis."

As your investment advisors, we weigh various scenarios and additional data to formulate our strategies to handle these issues. This, coupled with our clients' long-term objectives and tolerance for risk, maps the way in which we achieve our results without excessive risk. Yes, there are plenty of headlines to raise our eyebrows, but this market still has room to grow. We remain focused on the changing economic winds and will adjust portfolios accordingly.

By the Way…Compliance Issues

Privacy Policy

We understand that you expect your personal information to be confidential and secure. Protecting your privacy is very important to us, as well. We maintain physical, electronic, and procedural safeguards that comply with Federal regulations to guard your nonpublic information. Your June statement mailing package contains more information and detail regarding our privacy policy.

Kenneth J. Carbaugh ~ Charles L. Dettloff ~ Robert D. Foster ~ Spencer M. Lendzion

Focus On . . .

American Tower Corporation (AMT)

American Tower Corporation (ATC) is a holding company. The Company operates as a real estate investment trust (REIT), which owns, operates and develops multitenant communications real estate. ATC's segments include U.S. property, Asia property, EMEA property, Latin America property, Services and Other. Its primary business is property operations, which include the leasing of space on communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities, and tenants in various other industries. Its U.S. property segment includes operations in the United States. Its Asia property segment includes operations in India. The EMEA property segment includes operations in Germany, Ghana, Nigeria, South Africa and Uganda. The Latin America property segment includes operations in Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. Its services segment offers tower-related services in the United States.

The Company (AMT) has attained a growth rate of 16.71% over the past 5 years and is expected to continue to grow by 16.29% over the next 3-5 years. It boasts a solid ROE of 23.34% despite a low debt to capital ratio. This stock provides long-term stability and quality that Liberty Capital Management looks for.

American Tower Corporation (AMT) NYSE — **Last 208.63**

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Price Change - YTD	31.89%
Dividend Yld	1.76%
P/E	28.54

Capitalization

% LT Debt to Total Cap	76.41 %
Owned by Institutions	95.06 %
Market Capitalization	92,218.90
Avg Daily Vol (Last 30 Days)	2,016,431

Business Overview

American Tower Corporation is a leading wireless and broadcast communications infrastructure company that owns, operates and develops communications sites. Their primary business is leasing antenna space on multi-tenant communications sites to wireless service providers, radio and television broadcast companies, wireless data providers, government agencies and municipalities and tenants in a number of other industries. They also offer tower-related services domestically, including site acquisition, zoning and permitting services and structural analysis services, which primarily support their site leasing business and the addition of new tenants and equipment on our sites.They are a holding company, and they conduct their operations through our directly and indirectly owned subsidiaries and joint ventures. Their principal domestic operating subsidiaries are American Towers LLC and SpectraSite Communications, LLC. They conduct their international operations through their subsidiary, American Tower International, Inc., which in turn conducts operations through its various international operating subsidiaries and joint ventures. Their international operations consist primarily of their operations in Brazil, Chile, Colombia, Ghana, India, Mexico, Peru and South Africa.They report their buisness in three segments: Domestic Rental and Management, International Rental and Management and Network Development Services.

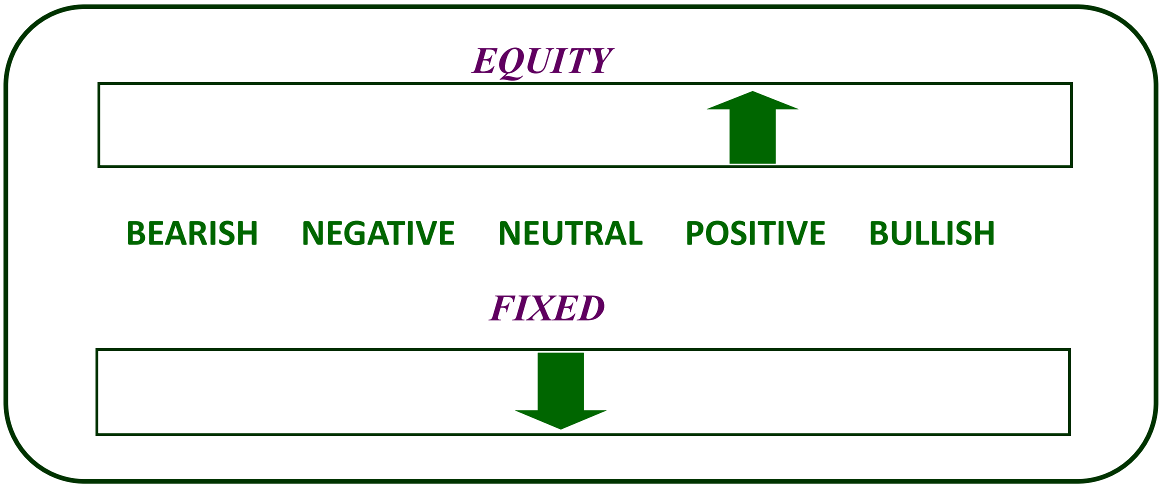
Earnings	$	%	Growth Rates
Latest Quarter	1.84 dn	41.27%	5 Yr Historical
Latest 12 Months	7.31 up	9.39%	16.71%
Zacks Consensus			LT Future
Current Quarter	1.87 up	7.47%	
Current Fiscal Year	7.52 up	171.48%	
Next Fiscal Year	8.45		16.29%
Revenues			5 Yr Historical
Latest Quarter	1,813 Mil up	4.11%	
Latest 12 Months	7,512 Mil up	0.96%	16.71%
Dividends			5 Yr Historical
Indicated Rate & Yield	3.68	1.76%	
Increases Last 5 Years	19.00		21.04%

Key Ratios & Measures	Current	High	5 Year Low	Avg
P/E	28.54	35.85	17.61	50.95
Price to Book	15.72	11.9	5.2	8.0
Price to Cashflow	24.79	20.5	16.1	18.8
Price to Sales	12.33	9.6	7.8	9.0
Return on Equity	23.34	20.3	9.5	15.3

BETA S&P 500 0.42

LIBERTY CAPITAL MANAGEMENT

MARKET BAROMETER



- The next (threatened) escalation in tariffs would hit nearly all consumer goods imported from China. The result could be noticeably higher prices, decreasing the purchasing power of U.S. households. Nevertheless, things aren't as bad as some try to make it.
- Limiting credit risk and diversification of fixed-income investment across corporate bonds, investment grade municipals and government securities is the best course of action in the current fixed-income market.
- Yes, there are plenty of headlines to raise our eyebrows, but this market still has room to grow. We remain focused on the changing economic winds and will adjust portfolios accordingly.

~ Closing Figures as of June 30, 2019 ~

DJIA	**26600**	**10 yr. Treas.**	**2.01%**	**Funds Target**	**2.25% - 2.50%**
S&P 500	**2942**	**3 mo. T-Bill**	**2.13%**	**Prime Rate**	**5.50%**

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