



MarketWatch

MARINE BANK
Trust & Investment Management

Conference Call Summary

Joe Terril, Terril & Company, Featured Speaker

As discussed in last month's call, there is no question that the world economy is slowing down. It is not crashing, but it is slowing. This fact was further confirmed this morning when FedEx announced their earnings and discussed the slowing movement of freight.



Currently, most of this economic slowdown is outside the United States. Some think that it is just a matter of time before that slowdown impacts the United States economy while others think the United States economy will be isolated from future impacts. We are in the latter camp and do not believe this issue will show up on the front door anytime soon.

Over the last two to five years, we have discussed the move around the world towards economic freedom. Last week Europe announced a plan based on the old haggard strategy of lowering interest rates to get the economy going. However, the problem with the economy is not due to interest rates. Interest rates have been zero to negative over the last two years, and that has not helped the economy. It is absurd to think that making them even more negative would somehow stimulate the economy. Europe's problems are due in part to their high taxes and government regulatory socialism. These problems prevent them from competing with other countries around the world where there is economic freedom. Alternatively, Ireland cut taxes and government restrictions and their economy is doing well even though their interest rates are higher.

We do not foresee the bad world economy showing up in the United States. The United States recently cut corporate income taxes to encourage businesses. By allowing companies to bring money back from around the world without it being confiscated by the IRS, they can spend the funds. Although we believe there

is a long way to go, government regulation in the United States is certainly moving in the right direction.

Our position is that world slowdown is real, but it is not predicated somehow on interest rates being too high. While it is being affected by the trade war between China and the United States, it is not based on what is happening. Rather, business spending is slowing down due to wait and see attitudes. In other words, it is a confidence issue right now, not a reality issue. Some type of resolution with the trade war would further enhance our ability in the United States to continue our economic expansion.

The lack of economic freedom in Europe, as mentioned previously, is the entire premise of why Great Britain voted for Brexit and wants to leave the European Union. Great Britain realizes that, with all the added cost that the government puts on European businesses, they cannot compete around the world. Therefore, they want out of the European Union. If Great Britain is going to continue to prosper, they must compete. To compete, they cannot operate under the current European bureaucracy, taxes, etc. How to leave the European Union efficiently is a side issue.

We believe the trend toward more economic freedom is going to continue as countries all over the world realize that to have a vibrant economy, you must have vibrant business. To have a vibrant business, you cannot overtax and regulate. You must allow economic freedom. Recently markets are flat to down ever so slightly as concerns on trade persist. We see some encouraging structural changes in the markets. Investors appear to be moving from the growth stocks at any price model, to increasing holdings of value stocks. Investors are beginning to appreciate companies with sales, positive cash flows, cash dividends and stock buybacks.

On the interest rate structure, a bit of backlash is forming around the world that basically states you cannot continue to say the solution is simply to cut interest rates. We are in the minority on this thought, but we believe the low in interest rates was recently made when the 10-year U.S. government bond traded as low as 1.40% and the 10-year German Bund traded as low as -0.75 of 1%. We believe that a year from now we are more likely to see a 10-year government bond in the United States with a yield closer to 3%. This thought contrasts with others that are expecting yields to go to zero or even negative. Our expectation is based upon a pick-up in the rate of inflation.

ClientQuestions



Monthly conference calls with time for your questions about the state of the markets are just one of the many personalized services offered by Marine Bank's Investment Management Team. This **MarketWatch** update is a summary of our monthly call.

Joe, what is your opinion on oil now that there has been an attack on Saudi Arabia? Doesn't this fit our portfolios well?

Response: Yes, it does fit our portfolios because we are basically over-weighted in domestic energy (i.e. production in the United States). Because Saudi Arabia is in the Middle East where things are volatile the more production we have in the United States, the better it is for our holdings. Our companies transport domestic oil, either sending it to refineries or to Corpus Christi, Texas, to be exported to other parts of the world. The more fees they collect for this, the better it is for us. It is obvious that oil supplies outside the United States are subject to these geo-political risks. This should allow production in the United States to continue to grow.

The one issue that has not yet been addressed is what Saudi Arabia's response will be if, in fact, Iran is behind this attack on Saudi oil fields. The Trump Administration put further restrictions on Iran and was openly planning on meeting with government officials from Iran. There was some thought that sanctions against Iranian oil would be lifted. Now, it appears that chance is zero. Even though Saudi Arabia believes they can complete all necessary repairs in 30 to 45 days, the event favors more production in the United States.

Recently, there was news that short term interest rates are trading higher. Why is this happening if the Fed is going to cut rates again today?

Response: This question likely refers to the recent volatility in the repo market. The repo market is a very short-term maturity market, sometimes just one day or one week. Back in 2008 and 2009, interest rates started to trade higher in this repo market mainly because banks around the world began to question each other's liquidity and credit. Therefore, they demanded higher interest even in a market where collateral is given and an agreement is made to re-purchase at the same price plus an interest rate. This is currently getting publicity because people are worried that banks around the world are, once again, becoming worried about each other's credit and, as such, are demanding a higher rate of interest. We do not think this is the reason that interest rates are trading higher. Rather, it is more a result of how much debt has recently hit the world markets. Dealers need to short term finance the inventory. They are carrying more inventory than usual. Thus, they are being forced to pay a higher interest rate to finance that inventory. The issue is also complicated by poor regulatory changes that prevent banks from using their short-term liquidity for this financing. It is more of a technical situation, rather than a repeat of 2008 and 2009. We expect short-term interest rates to trade back down.

With that said, even though the Fed is planning on cutting interest rates this afternoon, probably by 0.25%, the market has begun to take an opinion that we are not going to see three, four, or five more interest rate cuts over the next 18 months. Employment in the United States is high and all the economic news coming out in United States is positive. The markets are beginning to change their opinion about future interest rate cuts. We doubt interest rates are headed 1% or 1.75% lower than they are right now. Rather, maybe we are only going to see them 0.25% lower than they are right now. This afternoon we will certainly get more guidance when the Fed holds their press conference.



Our next monthly conference call will be:
October 16th 2019
November 20th 2019
at **10:30 a.m.**

To participate, dial
1.866.210.1669

When prompted, enter code **8558354#**

Email your questions to Annette in advance:
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John "Joe" Terril
President of Terril & Company, a St. Louis based, independent wealth management firm. Terril & Company has been overseeing retirement plans, IRAs and individual investment portfolios for over 37 years, an important keystone of Terril & Company's philosophy remains ensuring no conflicts of interest exist between the company and its clients.