CARY STREET PARTNERS

A LUXON FINANCIAL COMPANY

October 11, 2018

VIEWPOINT: STEEPENING U.S. YIELD CURVE PROVOKES SELL-OFF

Federal Reserve interest rate increases have been underway for the better part of two years. But those increases have not been fully reflected in the longer end of the maturity curve- that is until the past few weeks. The yield curve has finally begun to steepen, that is short duration rates significantly lower than long term rates. Higher long- term rates begin to compete for capital with equities at some point. No one knows precisely at what rate that occurs, supporting evidence suggests 5%. One consequence of higher rates is that equity markets frequently weaken as they struggle to price in the new dynamic. Keep in mind that markets will move to price in any significant information, positive or negative, very quickly. This happens with earnings, interest rates, economic releases- the entire news cycle if you will. Consequently, markets will be well ahead of the end of any cycle. Given an inflation rate of 2 to 3%, and nominal GDP of approximately 5%, the end - point of this cycle is likely in the range of 3 ½ to 4%.

The way investors should handle this situation is to re-visit their financial plan and asset allocation. Weak markets are opportunities for capital accumulators to invest at lower prices. They are helpful to accomplish long term goals such as college funding or retirement. For investors in the spending phase of a plan, careful allocation to short term bonds and alternative equity hedging strategies are a solution, not in the tactical sense of timing markets, but rather in the sense of maintaining exposure to these strategies in all market conditions as a precaution to large portfolio drawdowns.

LONG TERM RATES BECOME A SIGNIFICANT PROBLEM AT 5% OR HIGHER.

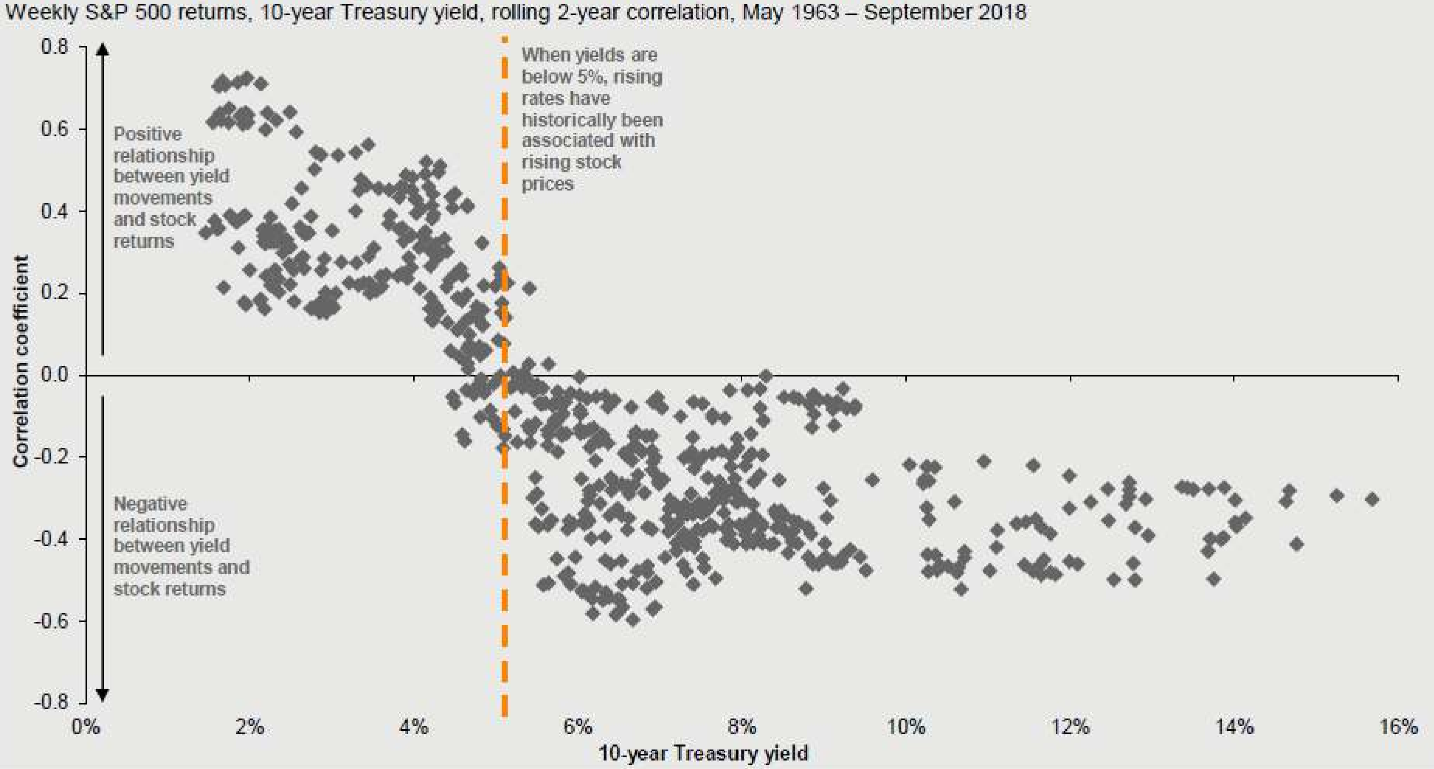
10 YEAR TREASURY RATES ARE APPROXIMATELY 3.23% AS OF OCTOBER 10, 2018

Interest rates and equities

GTM – U.S. | 16

Correlations between weekly stock returns and interest rate movements

Weekly S&P 500 returns, 10-year Treasury yield, rolling 2-year correlation, May 1963 – September 2018



Source: FactSet, FRB, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Markers represent monthly 2-year correlations only.
Guide to the Markets – U.S. Data are as of September 30, 2018.

J.P.Morgan
Asset Management

This material is prepared by Cary Street Partners and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of October 11, 2018 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by Cary Street Partners to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Luxon Global, its officers, employees or agents. This material may contain 'forward-looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This material is intended for information purposes only and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, Luxon Global funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.