WASATCH
CAPITAL MANAGEMENT OF
RAYMOND JAMES®

MARCH 2019

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INSIDE THIS NEWSLETTER

Market Update. - Thoughts by Mark Lazar

I made my money the old-fashioned way… I was very nice to a wealthy relative right before he died.
- Malcolm Forbes

After a not-so-merry Christmas for the markets (stocks, bonds, REITs, and commodities), the S&P 500 is up over 20% from its 12/24/18 low, and over 11% year to date. While the market is impossible to predict in the short-run, we were very clear in our January missive that the December blood bath was emotional rather than fundamental, and we expected a speedy recovery. A big kudos to you for turning both a deaf ear and a blind eye to the supposed pundits who foretold of pending doom and gloom when things were at their worst. Sometimes you just have to buckle up and hold on for the ride.

Item	Data point
Year-to-date S&P 500 Return	11.49%
Year-to-date Bond Index Return	1.44%
Year-to-date Foreign Index Return	8.45%
Year-to-date Emerging Market Index	7.80%
U.S Forecast GDP 2019[1]	2.50%
Unemployment Rate	3.80%

**All hyperlinked data as of 3/11/2019*
[1]Kiplinger's, 3/1/2019

What's in store the rest of this year? There are no recession clouds on the horizon, employment is strong, and earnings are forecast to increase roughly 3.9%. According to the CNBC Market Strategist Survey, the 17-firm consensus estimate for the S&P 12/31/19 value is 2941, which would be a 4.4%+ increase (not including dividends) over the current level of 2817. Will this come to pass? Who knows, but the fundamentals point higher and this would be a reasonable multiple of projected earnings.

There's been a lot of banter over the years about the federal budget. Ironically if not hypocritically, each party is only concerned about debt when the other party is in power. However, once they're in the driver's seat, miraculously, budget concerns magically disappear. Debt problem? What debt problem?

Let's break down the numbers. Most of the data below is from the U.S. Debt Clock, which is a fun, albeit disheartening, website to visit. Please check out the link if you aren't familiar with it.

- U.S. national debt: $22.11 trillion
- U.S. debt per taxpayer: $180,598
- U.S. debt per citizen: $67,329
- Student loan debt: $1.58 trillion
- U.S. federal tax revenues: $3.39T
- U.S. federal budget: $4.26T
- U.S. federal budget deficit: $870B

A government is similar to a household in the sense that it has income (tax revenues) and it has expenses, which are as follows:

- 62% Mandatory spending; Social Security, Medicare, and Medicaid
- 8% Interest payment on national debt
- 30% Discretionary spending: Defense, Health & Human Services, education, VA, Homeland Security, Energy Dept., HUD, State Dept, NASA, other agencies

In 2019 the federal government will collect $3.39T in federal taxes, however, our profligate government will spend $4.26T, leaving a shortfall of $870B. Where does Uncle Sam get the money? He hawks bonds. U.S. Treasury securities are the primary means of funding federal debt. Who owns U.S. debt? Here's the breakdown:

- 42% Foreign governments & investors

- 23% Federal Reserve, state, and local agencies
- 16% Institutional investors; pension plans, mutual funds, etc.
- 12% Other holders; government sponsored enterprises, businesses, broker dealers, etc.
- 7% Banks & insurance companies

When does the national debt become a problem? When the credit markets say it is. But that ain't today. The bond market exacts swift vengeance upon irresponsible governments in the form of high interest rates on their debt. For example, in September of 2009, Greek bonds were yielding 4%. Just over two years later the rate the Greek government had to pay to fund their budget deficit was over 40%. How did they "fix" it? Bailouts from the Eurzone and the IMF. Then bondholders took big haircuts on their Greek bonds. Greece's solution was different than prior sovereign defaults due to the euro common currency and the ECB controls the money.

Governments don't default on their debt the way individuals or corporations do. Rather, they monetize their debt; meaning they "print money" to devalue their currency and repay bondholders with devalued currency. Russia did this in 1998. Who paid the price? Individual bond holders, commercial banks, pension plans, insurance companies, and foreign central banks who trusted the Russian government to be good stewards of their investment; these bondholders ultimately took a 25% haircut on their "safe" government security.

One common myth worth taking a minute to dispel is regarding who has control; the bondholder or the nation that borrows the money? Unlike private debt, where bondholders typically have a senior claim against assets, public debt doesn't work that way. Holders of public debt cannot put the bonds (call the loan), nor do they have a claim on assets. Rather, the issuing government holds all the cards and can choose to explicitly or implicitly default on its debt.

The world could write off the losses of Greece since their economy is small relative to Europe. However, a default by a major country would have horrific consequences, especially if that country happened to issue the world's reserve currency. But U.S. debt woes are not a foregone conclusion. Uncle Sam doesn't need to pay off the debt anytime soon but he does need to get his fiscal house in order, and that means starting with a balanced budget … two words that Washington bureaucrats seem to have forgotten the meaning of.

RAYMOND JAMES

Raymond James At A Glance

Raymond James has delivered **124 consecutive quarters of profitability**. We credit much of this performance to the firm's client-first perspective and adherence to its founding core values of **professional integrity, advisor independence, and a conservative, long-term approach to investing**.

BY THE NUMBERS

- Approximately **7,800** financial advisors
- Over **3,100** locations (United States, Canada and abroad)
- Approximately **$725 billion** in total client assets
- More than **2x** required total capital ratio
- BBB+, **stable outlook credit rating** (S&P)

DID YOU KNOW?

In 2018, Raymond James was named to the FORTUNE 500 list for the third year in a row, moving up 38 spots – from 469 to 431.

Continuing its tradition of giving back, Raymond James and its associates donated **$56.4 million** to charitable organizations in 2018, including **$6.25 million** to the United Way and its partner agencies.

Raymond James was the first in the nation to publish its Client Bill of Rights, setting the standard for the industry.

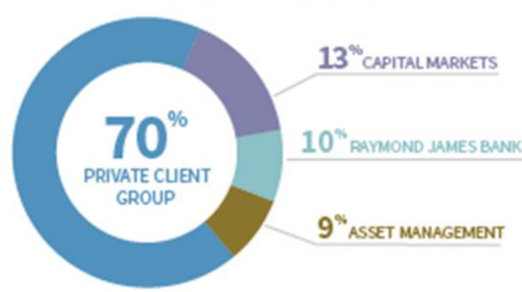
STRENGTH AND STABILITY

Diluted quarterly earnings per share

A DIVERSIFIED SET OF BUSINESSES*

Total $7.3 billion

Total net revenue shows fiscal year data ending Sept. 30, 2018



* Charts are intended to show relative contribution of each of the firm's four core business segments. Dollar amounts do not add to total net revenues due to "Other" segment and intersegment eliminations not being depicted. Other includes the firm's private equity activities, as well as certain corporate overhead costs of Raymond James Financial including the interest cost on our public debt.

Wasatch Team Updates

Mark

Mark, Savina, and a few friends soaking up some sun & surf in the Caribbean.

Morgan

Deer Valley has enjoyed countless snow days this past year. Morgan is loving the 120" base and about to jump into Daly's bowl and ski the 28" of new powder that fell last weekend.

John

Every year John volunteers at the Sundance Film Festival. Here he is, all smiles after another great film.

Elisha

Elisha teaching sweet little Josie how to take the perfect selfie.

Melissa

Please welcome Melissa to the team, our newest associate! Melissa is a recent transplant to Utah, joining us from the equity sales and trading desk at Raymond James in San Francisco. Welcome to the team Melissa!!!

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