



**BECKER CAPITAL  
MANAGEMENT**

August 6, 2019

EVERETT SCHOOL

AUG - 8 2019

EMPLOYEE BENEFIT TRUST

Everett School Employee Benefit Tr.  
Darla Van Duren  
PO Box 2098  
Everett, WA 98213

Dear Darla:

It has been another interesting quarter for the bond markets. Trade talks, the inverted yield curve, and the Federal Reserve all combined to contribute to a continued bond market rally this quarter. Treasury rates dropped to levels last seen in 2016, with the 10-year closing out the quarter with a yield of 2%.

Trade talks and tariff implementation have put a damper on manufacturing and business investment at home and abroad, as business leaders are hesitant to expand pending the uncertainty. The US and China are meeting this week, but expectations for an agreement remain low.

The inverted yield curve continues to be fretted over. While the 2-year – 10-year spread was positively sloped at +25 basis points at quarter end, the 3 month-10-year spread was negative 8 basis points. This condition has persisted for several months and is sometimes heralded as a precursor to an economic recession.

The Federal Reserve continued to soften their statements, adding in concerns about muted inflation and uncertainties about their outlook. Chairman Powell has specifically noted that ongoing uncertainties about global economics, investment, and manufacturing are weighing on the economic outlook for the U.S. economy. Fed Funds futures have been very volatile. The futures began the quarter with a 23% chance of a fed cut by their July 31 meeting and finished with certainty of a price cut, along with a 15% chance of a 50-basis point cut for this meeting. At this point the market is pricing at least 50 basis points in cuts, and as many as 75 basis points before year end.

Despite these uncertainties, the economy still exhibits strength: Gross Domestic Product (GDP) grew at a higher than expected 2.1% annualized rate for the second quarter, unemployment remains low at 3.7%, and consumer spending remains strong. The US has set a record for the longest expansion on record (albeit an expansion with a slow average growth rate). This expansion may be less about government administrative policies and more a function of the severity of the Great Recession.

With the continued decline in interest rates and our short duration positioning, your fixed income account underperformed the general market in the second quarter, with the account returning 0.74% versus the Bank of America Merrill Lynch 1-12 year index performance of 1.70%.




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Economically, things have been going well, and maybe the country doesn't truly need the Fed to lower interest rates. Perhaps what we really need is less uncertainty to move the bond markets to more "normal" rate reactions.

At this point, the Everett Schools account has wound down and cash is the only asset held. It has been a true privilege to work with you and Everett Schools. We wish you continued success.

Please don't hesitate to contact us with any questions.

Sincerely,

  
Deidra Krys-Rusoff