INVESTMENT NOTES: WEEK OF NOVEMBER 4-10, 2018

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THE US CONSUMER- The US consumer has remained strong leading the consumer discretionary sector in the US to outperform the S&P 500 by 4.9%. Banks continue to lend liberally to consumers- however- it is curious that Goldman Sachs' Marcus bank has recently cut loan origination targets for its consumer lending platform for 2019. This pullback reflects the firm's growing concerns about the consumer debt market according to Bloomberg.

INFLATION- Have US bond yields moved up due to positive growth or is it because of inflation? Or is it some combination of the two? ISM Manufacturing Prices Paid just jumped from 66.9 to 71.6- this is one of the biggest increases for the price of goods leaving the factory gate since mid-2011.

The U.S. is seeing higher wage pressures and reports continue to flow about producer related costs. Here is a quote from the Royal Dutch Shell CFO last week (we are analyzing the stock for a possible buy) – " We are seeing some more inflation stress than perhaps one or two years ago. However, it is putting pressure and we're going to have to work harder to offset that inflation and continue to drive a cost-competitive company. So the pressure's there, we're managing it". So the plan is to offset a confident consumer.

It is for these reasons we are increasing our TIPS investment in the fund.

Inflation is not just a US concern. The French have a nationwide protest scheduled for November 17th to protest the current cost of living. The roadblocks are supported by 78% of the people. Macron's reforms will make life more affordable in the long run but with an approval rating of only 26% he might not be around to see it.

REAL ESTATE- Thoughts of inflation usually bring thoughts of inflation hedges or real assets such as real estate. It seems millennial's do not want to buy previously owned homes and remodel. They are buying new homes. This is perhaps why the U.S. sales of previously owned homes is on its longest losing stretch since 2014 and yet the median price of homes is increasing. Commercial real estate is also giving confusing signals. The vacancy rate for Chicago-area industrial property is at its lowest level for 17 years while the availability of big box retail space hit an all-time high last year. However, big box retail is not being re-zoned for industrial usage. One interesting real estate sale to watch will be the penthouse at 111 West 57th Street in NYC which has a current asking price of $57m. In 2015 some of the units in the same building were priced up to $100m. We are cautiously looking at the homebuilders as they had been decimated but recovered lately. They could still be attractive as they are trading on an average P/E of 7x with 18% long-term growth in profits.