



Third Quarter 2019 Market Commentary

Domestic Equity Market Recap

The S&P 500 managed to scratch out a gain of +1.70% in the third quarter, outperforming most other international markets once again. For the year, domestic large cap stocks have now returned +20.55%. With a little help from an accommodative Fed, the stock market continued to shrug off the risks that have been omnipresent this year. These include: the economic risks and political

spectacle surrounding Brexit; impeachment proceedings against President Trump; the trade war with China; Middle East military tension; an inverted domestic yield curve; and a slowing world economy. Notably, value strategies outperformed their growth brethren over the past month. Indeed, with the exception of large cap where growth and value returns were roughly equal, value outperformed

growth for the three month period. The strength in value was perhaps driven by a spike in the 10 year Treasury yield from approximately 1.43% to over 1.85% in the middle of September. Value strategies often outperform growth strategies in rising rate environments and it will be interesting to see if this phenomena is sustainable.

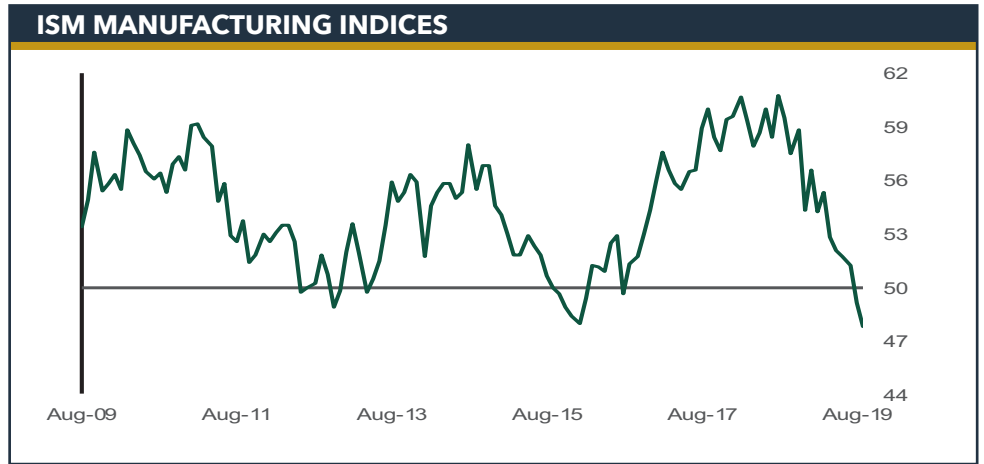
BENCHMARK RETURNS (3 TO 10 YEAR ANNUALIZED)

| EQUITY INDICES (%) Period Ending 9.30.19 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
|---|-------|-------|-------|-------|-------|-------|-------|
| Large Cap | | | | | | | |
| S&P 500 | 1.87 | 1.70 | 20.55 | 4.25 | 13.39 | 10.82 | 13.22 |
| Russell 1000 | 1.73 | 1.42 | 20.53 | 3.87 | 13.18 | 10.61 | 13.22 |
| Russell 1000 Growth | 0.01 | 1.49 | 23.29 | 3.71 | 16.89 | 13.38 | 14.93 |
| Russell 1000 Value | 3.57 | 1.36 | 17.81 | 3.99 | 9.41 | 7.78 | 11.45 |
| Mid Cap | | | | | | | |
| Russell Mid Cap Core | 1.97 | 0.48 | 21.93 | 3.19 | 10.70 | 9.10 | 13.07 |
| Russell Mid Cap Growth | -1.14 | -0.67 | 25.23 | 5.20 | 14.51 | 11.12 | 14.08 |
| Russell Mid Cap Value | 4.06 | 1.22 | 19.47 | 1.60 | 7.82 | 7.55 | 12.29 |
| Small Cap | | | | | | | |
| Russell 2000 | 2.08 | -2.41 | 14.15 | -8.92 | 8.21 | 8.17 | 11.18 |
| Russell 2000 Growth | -0.82 | -4.18 | 15.31 | -9.67 | 9.76 | 9.05 | 12.22 |
| Russell 2000 Value | 5.13 | -0.57 | 12.80 | -8.27 | 6.53 | 7.16 | 10.04 |

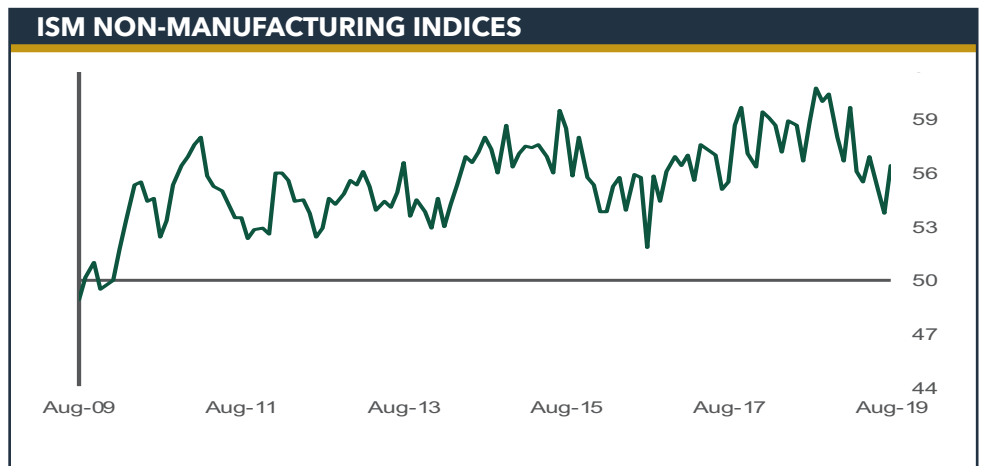
Source: Northern Trust and FactSet

Domestic Economic Highlights

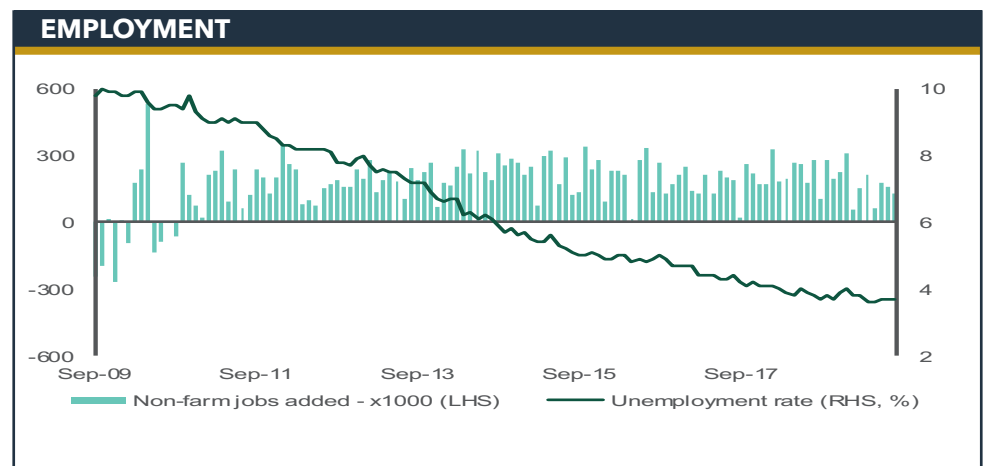
The domestic economy, while showing some signs of slowing, continues to show solid if unspectacular growth. The deceleration in the economy is best reflected in the ISM Manufacturing Index (graph to the right) which has signaled a contraction in the industrial economy for the last two months. The non-manufacturing part of the economy, as exemplified by the ISM Non-Manufacturing Index, continues to reflect expansion albeit at a slower pace (graph to the right). More importantly, the consumer economy, which represents 80% of the total domestic economy, remains healthy with low unemployment, strong consumer confidence, and some indications of an improving housing market (graphs to the right and next page).



Source: Northern Trust

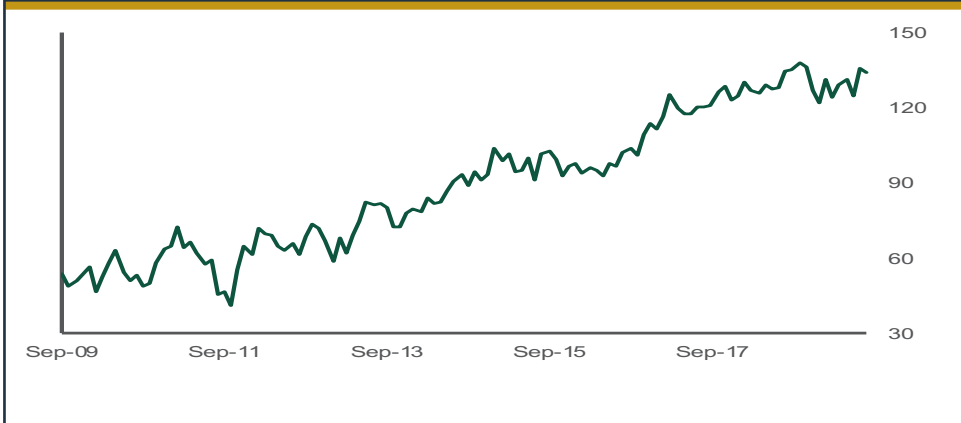


Source: Northern Trust



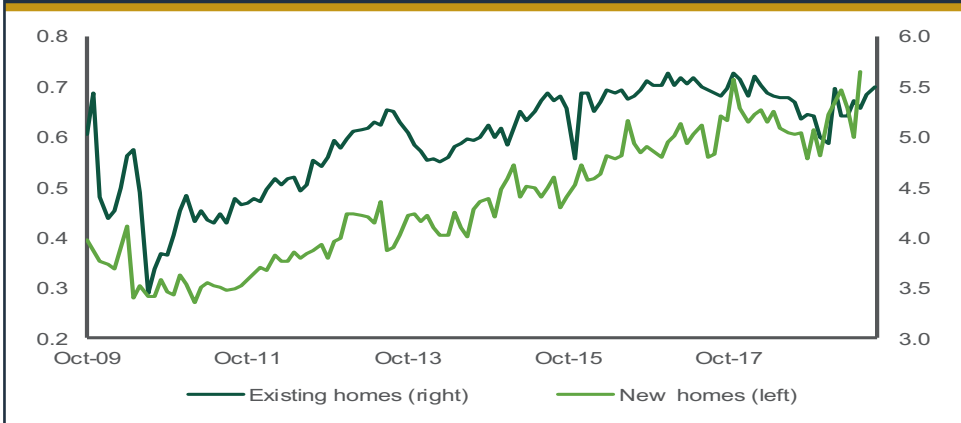
Source: Northern Trust

CONSUMER CONFIDENCE – 1985 = 100



Source: Northern Trust

SALES – MILLIONS, SAAR



Source: Northern Trust

International Equity Market Recap

Source: Northern Trust and FactSet

European stock markets declined in the quarter amidst signs that the Eurozone might be slipping into a recession. Germany is the most important economy in the Eurozone, and recent German economic data indicated that the country's economy might be contracting. The German economy is heavily geared toward exports, particularly to China. The US-China trade war has resulted in a slowing Chinese economy, causing its stock markets to decline and negatively impacting imports from Europe, and from Germany in particular. Additionally, the Trump administration has announced

BENCHMARK RETURNS (3 TO 10 YEAR ANNUALIZED)

| EQUITY INDEXES (%) Period Ending 9.30.19 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
|---|------|-------|-------|-------|------|------|------|
| MSCI Europe | 2.96 | -1.49 | 14.16 | -0.11 | 7.21 | 2.96 | 5.17 |
| MSCI Japan | 4.19 | 3.21 | 12.00 | -4.62 | 6.57 | 5.92 | 5.78 |
| MSCI EAFE | 2.89 | -1.00 | 13.39 | -0.75 | 7.09 | 3.86 | 5.49 |
| MSCI Emerging Markets | 1.90 | -4.16 | 6.14 | -1.69 | 6.34 | 2.72 | 3.73 |
| China Shanghai | 0.36 | -3.73 | 15.71 | 2.75 | 2.60 | 4.39 | 3.76 |

trade tariffs on European goods in the wake of a recent World Trade Organization (WTO) ruling related to European subsidies to Airbus. In response, outgoing European Central Bank president Mario Draghi recently reinstated the bank's bond

purchasing program and a host of other stimulative measures. However, the potency of such monetary actions might be waning. Most Emerging Markets declined in the quarter due to slowing economies and a continued strong US Dollar.

Domestic Bond Market Recap

In support of a slowing economy and perhaps to halt the rise in the US Dollar, the Federal Reserve implemented two 1/4 % rate cuts during the quarter. The domestic yield curve continues to be inverted between 1 year and 10

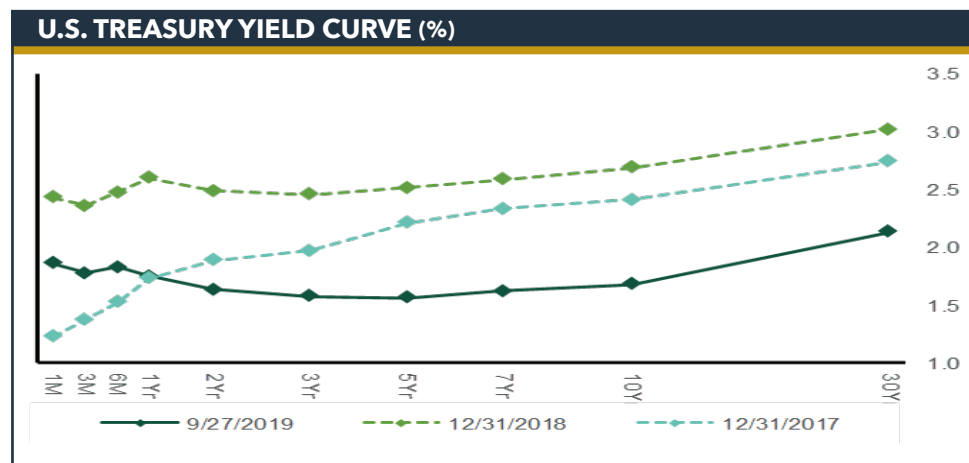
years (see graph below). This is often, but not always, a harbinger of recession. Negative yields continue to populate almost all of the European bond markets (graph below) . This phenomena has led to a weak Euro versus the US Dollar.

In spite of the mid-September rate spike, the yield-to-maturity on the 10 Year US Treasury fell from the 2.00% level at the beginning of the quarter to around 1.68%. Longer duration bonds exhibited robust performance during the period.

BENCHMARK RETURNS (3 TO 10 YEAR ANNUALIZED)

| FIXED INCOME INDICES (%) Period Ending 9.30.19 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
|---|-------|------|-------|-------|------|------|------|
| Bloomberg Barclays Aggregate | -0.53 | 2.27 | 8.52 | 10.30 | 2.92 | 3.38 | 3.75 |
| Bloomberg Barclays Gov/Credit | -0.76 | 2.64 | 9.72 | 11.32 | 3.16 | 3.61 | 3.94 |
| Bloomberg Barclays Treasury | -0.85 | 2.40 | 7.71 | 10.48 | 2.24 | 2.91 | 3.08 |
| Bloomberg Barclays Interm Gov/Credit | -0.36 | 1.37 | 6.41 | 8.17 | 2.40 | 2.68 | 3.05 |
| Bloomberg Barclays LT Gov/Credit | -1.91 | 6.58 | 20.93 | 21.88 | 5.56 | 6.81 | 7.42 |

Source: Northern Trust



Source: Northern Trust

Global Interest Rates

| | Negative yields | | | | Yields between 0% and 1% | | | Yields between 1% and 2% | | | Yields between 2% and 5% | | | Yields greater than 5% | | |
|-------------|-----------------|-------|-------|-------|--------------------------|-------|-------|--------------------------|-------|-------|--------------------------|-------|-------|------------------------|--|--|
| | 1Y | 2Y | 3Y | 4Y | 5Y | 6Y | 7Y | 8Y | 9Y | 10Y | 15Y | 20Y | 30Y | | | |
| U.S. | 1.74 | 1.62 | 1.56 | | 1.54 | | 1.61 | | | 1.66 | | | 2.11 | | | |
| Canada | 1.71 | 1.58 | 1.51 | 1.44 | 1.40 | 1.38 | 1.36 | 1.36 | 1.35 | 1.36 | | 1.51 | 1.53 | | | |
| Australia | 0.82 | 0.77 | 0.74 | 0.74 | 0.75 | 0.81 | 0.87 | 0.93 | 0.99 | 1.02 | 1.25 | 1.44 | 1.63 | | | |
| Greece | 0.34 | | 0.35 | | 0.69 | | 1.07 | | | 1.33 | 1.77 | 2.05 | | | | |
| UK | 0.46 | 0.36 | 0.29 | 0.28 | 0.28 | 0.21 | 0.26 | 0.32 | 0.40 | 0.48 | 0.71 | 0.88 | 0.97 | | | |
| Italy | -0.25 | -0.27 | -0.12 | 0.00 | 0.21 | 0.24 | 0.49 | 0.58 | 0.63 | 0.82 | 1.37 | 1.56 | 1.91 | | | |
| Portugal | -0.43 | -0.61 | -0.45 | -0.32 | -0.29 | -0.13 | -0.05 | 0.00 | 0.09 | 0.16 | 0.54 | 0.73 | 1.07 | | | |
| Spain | -0.51 | -0.52 | -0.47 | -0.36 | -0.30 | -0.18 | -0.08 | 0.00 | 0.07 | 0.14 | 0.57 | 0.58 | 1.04 | | | |
| Japan | -0.31 | -0.32 | -0.35 | -0.36 | -0.36 | -0.36 | -0.36 | -0.35 | -0.30 | -0.22 | 0.01 | 0.20 | 0.36 | | | |
| Slovakia | -0.61 | -0.56 | | -0.52 | -0.44 | | -0.41 | -0.27 | -0.20 | -0.29 | | | 0.55 | | | |
| Ireland | -0.55 | | -0.55 | -0.54 | -0.48 | -0.37 | -0.29 | | -0.13 | -0.04 | 0.24 | 0.42 | 0.77 | | | |
| Belgium | -0.64 | -0.69 | -0.70 | -0.64 | -0.56 | -0.52 | -0.47 | -0.40 | -0.33 | -0.26 | -0.02 | 0.20 | 0.54 | | | |
| Austria | -0.63 | -0.71 | -0.70 | -0.67 | -0.60 | -0.56 | -0.49 | -0.45 | -0.41 | -0.33 | -0.09 | -0.01 | 0.24 | | | |
| Sweden | | -0.60 | | -0.63 | -0.61 | -0.55 | | -0.46 | -0.38 | -0.27 | -0.12 | 0.14 | | | | |
| France | -0.63 | -0.70 | -0.73 | -0.71 | -0.64 | -0.57 | -0.50 | -0.43 | -0.37 | -0.28 | 0.00 | 0.11 | 0.54 | | | |
| Finland | -0.65 | -0.71 | -0.71 | -0.67 | -0.66 | -0.55 | -0.52 | -0.43 | -0.38 | -0.31 | -0.13 | | 0.15 | | | |
| Netherlands | | -0.77 | -0.81 | -0.78 | -0.70 | -0.65 | -0.61 | -0.54 | -0.49 | -0.43 | -0.33 | -0.12 | -0.09 | | | |
| Germany | -0.70 | -0.77 | -0.82 | -0.82 | -0.78 | -0.77 | -0.74 | -0.70 | -0.63 | -0.57 | -0.45 | -0.31 | -0.07 | | | |
| Switzerland | -0.89 | -0.91 | -0.92 | -0.91 | -0.91 | -0.87 | -0.85 | -0.81 | -0.82 | -0.79 | -0.59 | -0.51 | -0.39 | | | |

Source: Northern Trust

Commodities Recap

Trade tensions with China continue to weigh on agricultural commodities with corn, wheat, and cotton all experiencing falling prices. Only soybeans managed a tiny gain, the result of a resumption of Chinese buying at quarter end. Copper prices, often used

as a proxy for the world industrial economy, dropped another -4.09% during the quarter. It is noteworthy that China accounts for some 50% of worldwide copper demand. Gold continues to be strong, driven by global economic and political uncertainty. Also low and even

negative worldwide interest rates have decreased the opportunity cost associated with holding all commodities. World oil prices also declined during the quarter, in spite of the price spike realized following the Iranian attacks on Saudi Arabia.

BENCHMARK RETURNS (3 TO 10 YEAR ANNUALIZED)

| COMMODITIES (%) | | | | | | | |
|-----------------------|-------|-------|--------|--------|-------|--------|-------|
| Period Ending 9.30.19 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
| Copper | 0.88 | -4.09 | -3.97 | -7.31 | 5.83 | -3.19 | -0.69 |
| Aluminum | -0.53 | 3.95 | -8.88 | -15.31 | 1.01 | -2.52 | -0.83 |
| Hot Rolled Steel | -6.61 | -2.43 | -27.46 | -37.81 | 1.78 | -3.93 | -0.50 |
| Nickel | -1.62 | 38.73 | 65.83 | 40.79 | 18.87 | 1.26 | 0.13 |
| Silver | -6.15 | 13.37 | 11.57 | 20.62 | -3.75 | 0.17 | 0.48 |
| Gold | -3.52 | 3.97 | 14.66 | 23.01 | 3.73 | 3.90 | 3.81 |
| Platinum | -4.97 | 5.73 | 10.99 | 7.90 | -4.95 | -7.41 | -3.76 |
| Palladium | 7.17 | 7.60 | 31.50 | 51.16 | 31.78 | 16.30 | 18.64 |
| ENERGY | | | | | | | |
| West Texas Oil Crude | -1.78 | -7.06 | 19.80 | -26.07 | 4.27 | -9.91 | -2.63 |
| Brent Oil Crude | 0.58 | -8.67 | 12.97 | -26.52 | 7.40 | -8.48 | -1.27 |
| Natural Gas | 1.97 | 0.95 | -20.75 | -22.54 | -7.10 | -10.78 | -7.05 |
| Retail Gasoline | 3.01 | 0.00 | 13.59 | -6.23 | 5.50 | -4.40 | 0.50 |
| AGRICULTURE | | | | | | | |
| Soybean | 5.72 | 0.69 | 2.66 | 7.16 | -1.71 | -0.16 | -0.23 |
| Corn | 8.38 | -7.67 | 3.47 | 8.91 | 4.84 | 3.88 | 1.21 |
| Wheat | 9.86 | -6.11 | -1.49 | -2.60 | 7.24 | 0.74 | 0.81 |
| Cotton | 1.19 | -5.38 | -17.24 | -22.16 | 4.36 | -0.72 | -0.26 |

Source: FactSet

Currency Corner

by Michael O'Hare - SVP Foreign Exchange

Global investors and currency markets continue to monitor headline announcements related to US/China trade discussions, central bank policy decisions and the Brexit discussions. These were the prime drivers of the currency markets last month and will continue to lead the headlines over the next two months. US/China trade negotiators continue to make positive statements regarding the direction of their discussions and tariff hikes have been delayed a few

times. We anticipate a positive result in this area would be positive for the US dollar. The US Federal Reserve cut the benchmark Fed Funds rate in September in a bid to head off concerns over lagging US consumer activity and business activity.

Typically, a cut in rates should weaken a currency but the US dollar has rebounded on expectations of the positive economic impact of the lower rates. The divisive Brexit discussions in the UK

continue to linger. It is likely the UK will request another delay in the Brexit deadline. The US dollar has seen some volatility against the British pound but was relatively flat as compared to three months ago. The Canadian dollar, as is typically, has seen its fortunes closely connected with commodity prices, particularly with oil. A recent rebound in oil prices has pushed the Canadian dollar higher against a wide range of currencies.

BENCHMARK RETURNS (3 TO 10 YEAR ANNUALIZED)

| CURRENCY (%) Period Ending 9.30.19 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 10Y |
|---------------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Euro | -0.86 | -4.19 | -4.96 | -6.10 | -1.03 | -2.90 | -2.90 |
| British Pound | 1.06 | -3.23 | -3.69 | -5.72 | -1.81 | -5.40 | -2.61 |
| Japanese Yen | -1.66 | -0.20 | 1.45 | 5.19 | -2.13 | 0.28 | -1.84 |
| Chinese Yuan | 0.28 | -3.84 | -3.76 | -3.73 | -2.23 | -2.85 | NA |
| Mexican Peso | 1.70 | -2.54 | -0.41 | -5.13 | -0.59 | -7.41 | -3.71 |
| Canadian Dollar | 0.60 | -1.09 | 3.01 | -2.50 | -0.29 | -3.30 | -2.12 |

Source: FactSet



2019 Outlook

The risks confronting world markets have not changed much from the beginning of the year. They include Brexit, China trade, Middle East tensions and now impeachment proceedings against a sitting President. The outcome of Brexit is impossible to guess at this juncture. Parliament has legislated that Prime Minister Boris Johnson ask the European Union for an extension to January 31, 2020 if no agreement is reached by October 31, 2019. So it would seem like the probable near term outcome of Brexit negotiations is another deadline delay. Similarly, the results of China trade discussions are difficult to predict.

Domestically, the industrial economy is now contracting according to the ISM Index, but the consumer economy is still exhibiting growth as employment remains strong. Markets currently anticipate the Federal Reserve to cut rates an additional one to two times before year end. Corporate earnings will be at the forefront over the next several weeks. Estimates are for S&P 500 earnings to fall -3.9% in the third quarter before rebounding +3.1% in the fourth quarter. Time will tell whether these expectations are overly optimistic. With such cross currents in mind, we continue to favor broadly diversified portfolios

containing a blend of large and mid capitalization domestic strategies with smaller exposure to international and emerging markets. We continue to favor laddering our fixed income portfolios, buying high quality investment-grade bonds. Given the flat yield curve, our bond portfolios are generally structured with short-to-neutral durations.

Sincerely,

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Wealth Management Team**

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10/19