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## TorrRayResolute Equity Income Commentary

### Market Overview

Equities managed to generate modest gains during the third quarter despite a challenging backdrop characterized by slowing economic growth and rising geopolitical risks. Consistent with the environment, investors favored defensive plays; the yield on the 10-Year Treasury declined 33 basis points to 1.68%, large cap equities generally outperformed small caps, Utilities, REITs and Consumer Staples were the best performing sectors, economically sensitive sectors such as Energy and Materials lagged the broader market. Given the persistent flow of negative headlines which occurred during the quarter, including an escalation of the trade dispute with China, an inversion of the yield curve, increasing fear of recession, monetary policy uncertainty, Brexit, the bombing of oil refineries in Saudi Arabia and the threatened impeachment of the President, the market displayed remarkable resilience.

Over the long term, it is core economic and corporate fundamentals that drive stock returns, not headlines.

### Portfolio Commentary

During the third quarter, our Equity Income composite gained 2.07% (1.93% net of fees) which outperformed the S&P 500 Index's gain of 1.70%. We did not eliminate nor add any new positions during the quarter.

At the beginning of the quarter (July) the Federal Reserve lowered interest rates for the first time since 2008. It didn't feel like eleven years – but it was. Fed Chairman Powell called the July cut “a mid-cycle adjustment” though then proceeded with a second cut in September. While the Fed and other central banks continue their attempt to counter protracted trade uncertainty and structural headwinds related to demographics and technology, we remain focused on the sheer volumes of debt being issued – sovereign, corporate and personal. At some point this over-supply of debt will cause the price of bonds to fall (thus raising interest rates). We remain defensive and seeking protection for higher interest rates.

Dividend changes during the quarter were as follows:

Company	Ticker	Dividend $\Delta$
Cummins Inc.	CMI	Increased
LyondellBasell Industries	LYB	Increased
Phillips 66	PSX	Increased
SLM Corp Pfd B	SLMBP	Decreased

## Outlook

With the Federal Reserve and other key central banks committed to accommodative monetary policies, we view the dominant swing factor in the market as trade and its impact on an extended and somewhat fragile business cycle. While economic fundamentals in the U.S. remain sound with strong consumer spending and unemployment at a 50-year low of 3.5%, it is clear the on-going trade dispute between the U.S. and China is negatively impacting business confidence and capital investment. Given the broad fundamental nature of the trade negotiations, we believe it is unreasonable to expect a quick resolution, and very likely that the dispute remains a source of market volatility for some time. However, we also note markets always face uncertainties and that negative headlines frequently have a disproportionate effect on stock prices. Over the long term, it is core economic and corporate fundamentals that drive stock returns, not headlines. Given this view, we remain disciplined, not complacent, focused on managing risk and differentiating short term concerns from long-term opportunities.

As ever, we appreciate your interest and trust.



Jeffrey Lent

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The S&P 500 measures the value of stocks of the 500 largest corporations by market capitalization listed on the New York Stock Exchange or Nasdaq Composite.

Dividend changes represent past activity and there is no guarantee dividends will continue to be paid. Total returns include the reinvestment of dividends and other earnings.

**Investing involves risk; principal loss is possible. Past performance is not indicative of future results.**

Source: Factset and Torray LLC.