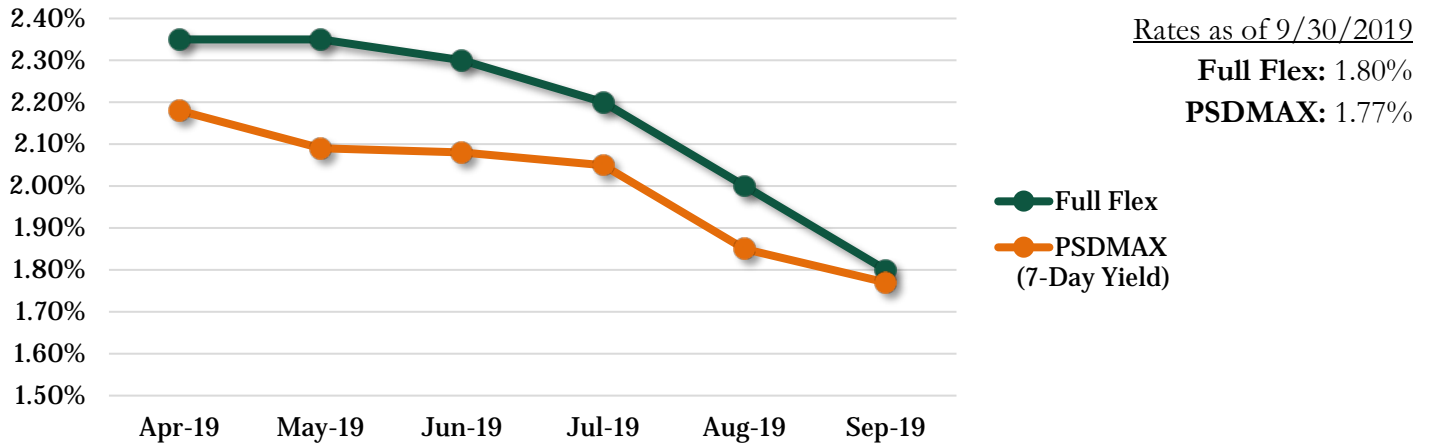


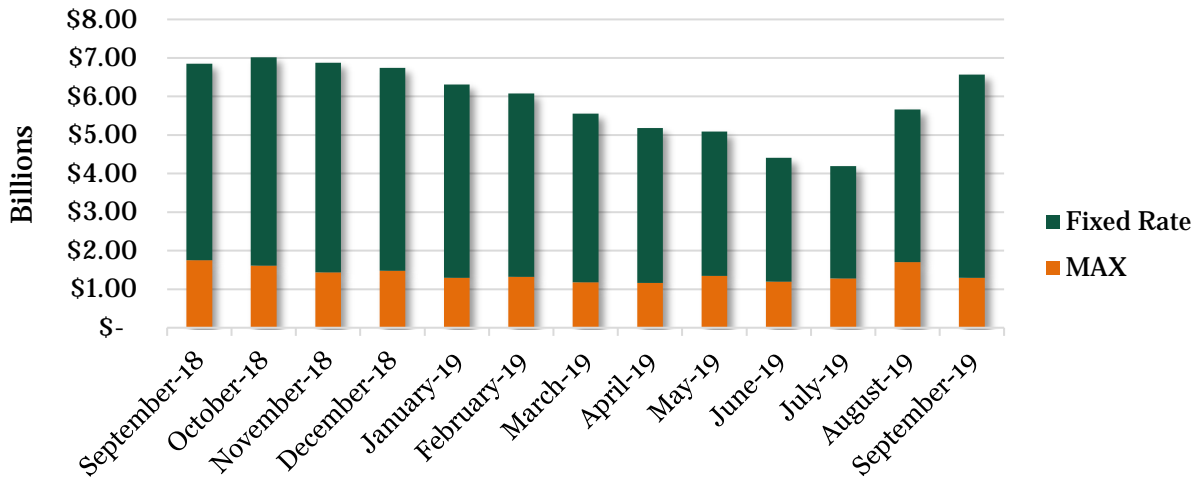


Liquid Investment Rates (Past 6 Months)



Total Fund Assets (Year over Year)

9/30/2019: \$6,569,489,237.87



*For all Full Flex CD redemption requests, PSDLAF must be notified one business day prior to the Tuesday withdrawal. The bank reserves the right to charge a fee if funds are requested on any other day.

The above prices, yields, and maturities have been obtained from sources believed to be reliable, but are not necessarily complete and cannot be guaranteed. Price, yields, and availability of specific issues are subject to change.

This does not purport to be a complete statement of all material facts relating to securities mentioned. The information contained, while not guaranteed as to accuracy or completeness, has been obtained from sources, which we believe to be reliable. Opinions expressed herein are subject to change without notice. This notice shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which said offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such state. Please refer to the PSDLAF Information Statement for any questions at www.psdlaf.org

Economic Commentary, September 30, 2019

Prominent Downside Risks

Financial markets continue to roil in response to alternating waves of bad and good news. Economic worries have mounted as tariff barriers rise, Brexit looms, and the US business cycle increasingly shows signs of transitioning into a late stage in the face of slowing global growth. Central banks have now pivoted all the way from rate hikes to rate cuts, with more monetary stimulus to come. Interest rates are accordingly plumbing the depths once more. Consequential policy decisions are forthcoming on such matters as protectionism, Brexit and Chinese stimulus, each with its capacity to jolt markets up or down, depending on the verdict.

The three most prominent downside risks are the lateness of the business cycle, the advance of protectionism and the state of the Chinese economy. Other downside risks worthy of mention include the deteriorating geopolitical environment, Brexit and ongoing populist inclinations. On the geopolitical front – aside from US-China relations and UK-EU relations – the most pressing concern is US-Iran tensions. The two countries have been at odds for four decades, but the relationship has recently deteriorated.

Global populism is motivated by a mix of inequality, slower-than-normal economic growth over the past decade and possibly even the fragmenting effects of the internet. The US presidency and Brexit are the most consequential examples of this, though Italian politics are also concerning and chaotic. Suffice it to say that populism has not yet peaked, and it classically acts as a drag on growth and an accelerant for inflation.

A Weaker Global Growth Trend

Global growth has continued to slow, extending a trend that began at the start of 2018. This move has been led in particular by a marked deceleration in the manufacturing sector. Of course, while manufacturing remains an important area of the economy and is a strong signal of broader economic conditions, there are other sectors that also add context to the overall economic picture. The services sectors have also slowed, though not by as much as manufacturing. Services are less exposed to the capriciousness of US trade policy.

But the real silver lining comes from consumers, who have been holding up fairly well. This is a familiar theme, as a sharp manufacturing swoon in 2016 was also parried by resilient consumers. So long as consumers remain engaged, recession can likely be fended off. In the US context, hiring growth is still solid, wage growth has improved, and an elevated personal savings rate affords room for continued spending even if economic conditions weaken. However, there is some tentative evidence that previously elevated consumer confidence is starting to slump. For the moment, the broader economic trend remains in the direction of softening conditions, though the rate of decline has at least stabilized.

The Business Cycle Advances

Our US business-cycle scorecard continues to read “late cycle,” as it has for a few years, however “end of cycle” claims have strengthened. Quite a number of developments support this conclusion. Prominently, the current expansion is now the longest on record. The vulnerability to recession does increase with time, and so a degree of fragility now exists.

Many measures of the economy point to an unusual amount of economic tightness – a signal that it may be hard for the economy to continue progressing at this pace. Such signals originate in the labor market, including a rock-bottom unemployment rate. One fascinating recent development is that the number of Americans receiving disability benefits is now shrinking – a rare occurrence that signals employers are turning to previously untapped corners of the population to meet their workforce needs.

The classic recession indicator is the slope of the yield curve. At the time of writing, the three most closely watched curves have all inverted – the 3-month to 10-year spread, the 2-year to 10-year spread, and a short-term metric constructed by the US Federal Reserve (Fed). With respect to the curve inversion, it is fair to say that the bond market highlights a substantial risk of recession over the next six months to two years.

Further Rate Cuts on the Horizon

The Fed is working hard to counter the effects of a slowing economic trajectory, but it is not clear that it has the necessary horsepower. In contrast to 2.9% growth in 2018, our base-case forecast calls for growth of 2.5% in 2019, followed by a modest 1.75% gain in 2020. This is a below-consensus forecast.

The current environment of slowing economic growth and elevated uncertainty has pushed the Fed to start easing their monetary policy, and our model suggests that more interest rate cuts may be coming. The tightening that occurred from 2015 to 2018 pushed the fed funds rate to a high level relative to underlying growth and inflation trends in the US economy. The Fed has already delivered one 25 basis point cut, but further rate reductions would be needed to bring the fed funds rate in line with the model’s equilibrium level.

Investors broadly expect more easing, as evidenced by the futures market where four more cuts are factored in over the year ahead. While the Fed's latest projections show less of an easing bias, we expect that their view will gradually move towards the market's perspective. Our own forecast fits somewhere in between the Fed and the market with an expectation of two or three more rate cuts over the next 12 months.

The US Dollar

Most policymakers today prefer weaker currencies to stimulate their domestic economies and President Trump has been quite vocal in expressing this view for the US dollar. However, tariffs have been relatively more damaging for non-US markets, weakening global currencies and pushing the US dollar higher against the President's wishes. While trade tensions act to temporarily extend the US dollar's topping process, we do think the greenback will eventually be weighed down by longer-term factors such as deficits and narrowing yield differentials. Over the next 12 months, we expect an environment of higher volatility, where the euro and yen outperform the Canadian dollar and British pound.

PSDLAF Welcomes Back Kenny Shuler!

It is with great pleasure that we announce the return of Kenny Shuler!

Prior to taking a little over a year away from the financial industry, Kenny played a large part on our team for seven years. He was instrumental in many, many success stories.

Including his years with RBC, Kenny brings with him more than 12 years of industry experience to our growing team!

Feel free to reach out to him when you have a moment to welcome him back!



Upcoming Economic Data Release Dates

Change in Non-Farm Payrolls	10/4/19
Consumer Price Index (YoY)	10/10/19
Consumer Confidence	10/29/19
FOMC Meeting	10/29 - 10/30
Gross Domestic Product (GDP)	10/31/19

If you'd like to receive these Market Updates via email, please let us know by [clicking here](#).

[Click Here](#) for RBC Global Asset Management's Chief Economist Eric Lascelles' #MacroMemo, which covers what's on the economic radar (updated weekly). First time visitors should select Institutional.

Come Visit the Team at the Following Upcoming Conference:



PASA-PSBA School Leadership Conference – October 16th-18th, 2019 at the Hershey Lodge in Hershey, PA. PSDLAF Team members will be available to answer any questions you may have.