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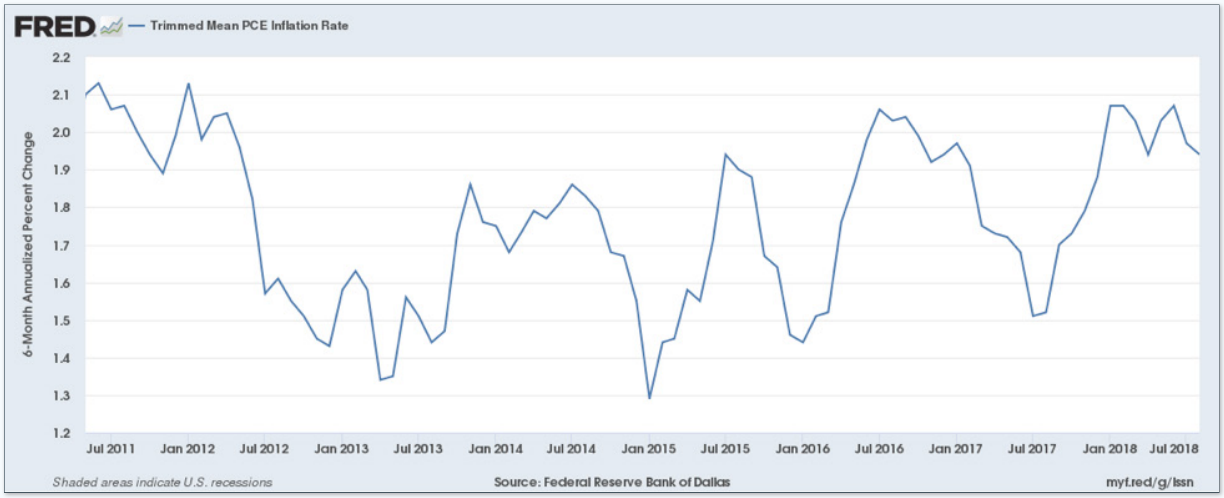
OCTOBER 2018 INVESTMENT COMMENTARY
LET'S TALK ABOUT INTEREST RATES

Today, October 3, 2018, the Benchmark 10-Year U.S. Treasury Note yield closed at 3.18% exceeding the highest yield for this benchmark long-term U.S. interest rate in over seven years.

The move over the past month from the 2.80% level to 3.18% is a significant upward shift and such a move is both a positive sign of economic strength and a negative sign of mounting inflation pressures.



The above graph illustrates the Federal Reserve's preferred measure of inflation in the economy, the PCE Inflation Rate. It can be observed from these preceding two graphs covering the same period of time, a strong correlation between the rate on the 10-Year Treasury Note and the PCE Inflation Rate.

I mentioned in the December 2017 Investment Commentary that the risks that I identified that investors have to be concerned about for 2018 included, higher inflation and higher interest rates, trade issues, and threatened or actual regulatory actions centered on technology companies. Now that we have nine months behind us for 2018, we know that the U.S. equity markets have demonstrated jitteriness each time that trade/tariff concerns flare up. Higher inflation expectations have recently begun to push interest rates higher and monetary policy is expected to continue to be more restrictive. Lastly, concern over potential anti-trust action being pursued against our largest internet-centric companies, such as Facebook, Google, and Amazon.

Seven Summits Capital continues to remain increasingly cautious. In the face of this caution, we remain convicted to most of our individual equity positions that were purchased for reasons that we expect to manifest themselves over the course of years, not months. Our caution means that we will continue to ratchet down equity allocations in balanced accounts as price actions and tax considerations permit.

Equity markets do not correct, and bear markets do not begin based on obvious risks. Instead, what typically happens is that risks quietly mount while the market rises. As those risks build up, volatility begins to pick-up and investors who have benefited from being greedy begin to think about when they should jump off the train to avoid a high-speed crash when it happens. Greed impulses do not easily recede during the late stages of bull markets. Investors' instinctually attempt to extract as much positive performance for as long as possible, but anxiety related to giving up historical profits gains prominence as risks mount. Usually, a correction or bear market is sparked by a seemingly minor triggering event that by itself would not be seen as an overly negative factor. I wrote at the end of the year commentary last December that:

> "History teaches me that it is unlikely that any of these known risks will, on their own, trigger a market correction or worse. However, as known risks mount, the likelihood increases that a seemingly benign unknown risk will act as the "straw that breaks the camel's back" and trigger investors to reverse course and become driven by their fears instead of their greed."

We do not hope for a big correction or bear market, neither do we fear such a period. However, we do attempt to calibrate portfolios for mounting risks during the late years of an economic cycle in order to manage risk. We do not know how to time corrections and bear markets. However, we do believe that we know when conditions warrant caution.

I am going to keep this month's commentary brief and look forward to addressing the results of the early November mid-term elections and possible implications for the market and interest rates as we look forward to 2019 and beyond.

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