MARKET ENVIRONMENT

STRATEGY ASSET MANAGERS

Benjamin Graham, the great value investor, stated that in the short run the stock market is a voting machine and in the long run it is a weighing machine. We could not agree more with that statement. In the fourth quarter, when the Federal Reserve appeared to be ready to aggressively raise interest rates, the market fell precipitously and stocks declined in anticipation of a potential looming recession. This, in combination, with continued trade tensions with China and the lack of a negotiated deal to reduce such tensions, resulted in a sharp decline in equity prices. While all of this whirlwind of market activity was taking place, the US economy remained quite strong and earnings in many places continued to be robust. In the first quarter of 2019, we saw the Federal Reserve do an "about face" and pivoted their policy to be decidedly more accommodative. They chose to take a "wait and see" approach before doing any more rate increases. The result was a welcome rebound in stock prices and sentiment.

Through all this noise, the S&P 500 index is up 13.6% Year-To-Date. The MSCI EAFE Index is up 10.2%, reflecting continued economic weakness internationally on a relative basis. Accordingly, our Global Equity Benchmark was up 12.9% in the first quarter of 2019. Europe, once again, has slowed and many interest rates in Europe are actually negative at this time. Also, the Chinese economy has been slowing for several quarters now and this slowdown in China has also negatively impacted the European economic environment. The US bond market, as measured by the Bloomberg Barclays Intermediate Government/Credit Index, returned 2.3% and the yield curve remained very flat. The flat yield curve appears to be more of a function of very low inflation levels as opposed to significant growth concerns at this stage.

With regard to sector performance within the US market, cyclical sectors such as Technology (+19.8%), Industrials (+17.2%), Energy (+16.4%) and Consumer Discretionary (+15.7%) led the way up as investors' fears of an imminent recession faded away. Financials (+8.6%) underperformed during the quarter. The flat yield curve continues to be a headwind for this sector on a relative basis regardless of market movements. It came as no surprise that in the sharp run-up in the market, the more defensive sectors such as Health Care, Utilities and Consumer Staples lagged the overall averages. However, the companies in the portfolio in these sectors , on balance, reported very solid earnings performance.

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OUTLOOK

The beginning of 2019 is clearly off to a very strong start. We think it is fair to say that as we exit the first quarter, one can expect a more muted short term expectation for stocks. Nonetheless, we are still optimistic about the outlook for the US equity market for the balance of this year. The environment for equities for the last several years has been strong and characterized by moderate economic growth, low inflation rates, low interest rates and strong corporate earnings. While we continue to see many of these aforementioned factors still in place, we are also aware that a slowdown in non-US economies such as China and Europe have negatively impacted earnings growth rates in some areas of the market. But a slowdown in growth does NOT have to result in a tough environment for equities. Instead, lower growth rates combined with a continued low inflation rate will likely keep the Federal Reserve monetary policy accommodative and can actually be the catalyst to provide us with a rewarding year for common stocks.

For many years now the market has been climbing a wall of worry driven by fears about North Korea, Washington DC investigations, peaking profit margins and concerns about China to name just a few. The concern is that we are "long in the tooth" in this economic expansion and that it will be difficult for the bull run to continue. Yet we see most of the fundamental underpinnings that have created a favorable environment for equities (i.e. corporate earnings, low interest rates etc) have continued unabated. While fears have been stoked from time to time along the way, we find through our research that many of the companies that we invest in for client portfolios are doing well. Furthermore, our investments still represent compelling long term values. The market itself trades at a reasonable valuation on a long term basis and this also creates a potentially favorable backdrop for continued gains in equities for the balance of the year. However, with the S&P 500 Index up 13.6% in the first quarter, one would expect some consolidation of the recent gains in the months ahead. We remain optimistic on the prospects for healthy returns for the year.

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The Global Equity Index composition is 80% S&P 500 index and 20% MSCI EAFE index. The Global Balanced Index composition is 48% S&P 500 index, 12% MSCI EAFE index and 40% Bloomberg Barclays Intermediate Government/Credit index. The S&P 500 index is a market cap-weighted index that consists of 500 domestic stocks chosen based on market size, liquidity and industry group representation. The MSCI (Morgan Stanley Capital International) EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada. The Barclays Intermediate Government/Credit index includes publicly issued, fixed rate government and corporate debt rated investment grade and having at least one year to maturity and a maximum maturity of 10 years. Indices are unmanaged, assume reinvestment of income, do not represent the performance of an actual account and may have volatility, credit, or other material characteristics that differ from the investment strategy (i.e. number of securities). All indices referenced in this material are provided for informational purposes only and are registered trade names or trademark/service marks of third parties. Investors cannot invest directly in an index. The returns of indices do not include any transaction costs, management fees or other costs. March 31, 2019.

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