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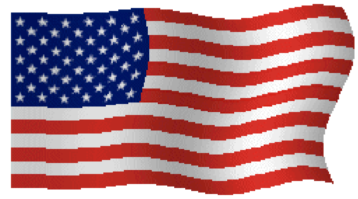

Best Start to the Year Since 2009

Stocks rebounded strongly in the first quarter thanks to a combination of improving U.S.-China trade relations, the Federal Reserve halting interest rate increases, and a better outlook for corporate earnings. The S&P 500 finished the first quarter of 2019 with the best quarterly return since 2009.

Starting with U.S.-China trade negotiations, significant progress was made towards a new deal over the past three months, highlighted by the removal of the March 1st trade deal deadline imposed by the administration back in late November. Most of that progress occurred in January and that was one of the initial catalysts for the first quarter rally in stocks.

Turning to the Fed, perhaps the most impactful event of Q1 was the Fed meeting that took place on January 29th and 30th when the Federal Open Market Committee opted to hold interest rates steady, but also stated that it would be "patient" regarding further rate increases. This shift, which according to the Fed was in response to global economic uncertainty, helped extend the markets' gains from early January. The expected "pause" in rate hikes was later confirmed by the Fed at the March meeting as official projections for interest rates (known as the "dot plot") showed no more rate hikes are expected in 2019. The Fed keeping interest rates steady should relieve pressure on the economy, and we have already seen some positive effects of that move via a decline in mortgage rates and a rebound in housing sales in the first quarter.

There was clearly more good news than bad during the first quarter, it would be a mistake to think that the economic "coast is clear." As such, we think it would be premature to expect the second quarter to produce returns similar to the first quarter (as we all know, past performance is not indicative of future results).

While there was real improvement in U.S.-China trade negotiations, Fed policy outlook and earnings expectations, economic data in the first quarter was disappointing and continued to show a loss of positive momentum not just in the United States, but globally. The current estimate for first quarter GDP is 1.7%, well below the 2.2% growth in the fourth quarter. Internationally, European and Chinese manufacturing data showed outright contraction in activity in Q1, while continued Brexit uncertainty is acting as a headwind on the British economy.

Finally, many parts of the yield curve have inverted, meaning Treasury yields are higher on short term debt compared to longer dated maturities. In the past, that dynamic has sometimes preceded slower economic growth and lower inflation, neither of which are positive for stocks.

In sum, the market's performance during the first quarter was a welcomed sight following the volatility and un-nerving declines in the fourth quarter of 2018. And, we are pleased to say there has been real improvement in the macro-economic outlook for markets, for the reasons listed above. But while the outlook for markets has improved, notable risks remain. We continue to expect, and are prepared for, more volatility within the context of a still on-going, multiyear bull market.

1st Quarter Performance Review – A Solid Rebound to Start the Year

The major U.S. stock indices registered their best quarterly performance in a decade in Q1'19, thanks in part to less restrictive Fed policy and positive progress on the U.S.-China trade conflict. As a result, investors saw broad gains across most market segments and sectors as U.S. stocks logged the best quarterly performance since 2009.

By market capitalization, small caps outperformed large caps, which is a reversal of the fourth quarter. The reduction in global trade tensions, combined with the Federal Reserve signaling no more interest rate increases in 2019, helped small caps to outperform large caps. From an investment style standpoint, growth outperformed value mostly due to strong tech sector returns in Q1, which is also a reversal from the fourth quarter.

On a sector level, all 11 S&P 500 Index sectors finished the first quarter with positive returns however tech and real estate sectors were the notable outperformers. Tech was driven higher by improvement in the trade outlook, while the real estate sector benefitted from a decline in mortgage and interest rates following the Fed's January and March meetings.

On the contrary, historically defensive sectors underperformed in the first quarter but still finished with positive returns. Consumer staples, healthcare and financials lagged the S&P 500 as investors rotated to more growth-oriented sectors during the previous three months.

US Equity Indexes	Q1 Return	2018 Return
S&P 500	13.65%	-4.38%
DJ Industrial Average	11.81%	-3.48%
NASDAQ Composite	16.89%	0.04%
S&P MidCap 400	14.49%	-11.08%
Russell 2000	14.58%	-11.01%

Source: Morningstar

Looking internationally, foreign markets also had a strong start to 2019, but as has been the case frequently over the past year, foreign markets again underperformed U.S. markets, in part because economic readings from Europe showed the EU economy was clearly losing momentum. However, despite that disconcerting European economic data, foreign developed markets outperformed emerging markets, due in part to the lack of an official trade deal between the U.S. and China by quarter's end, along with a stronger U.S. dollar, which is traditionally a headwind on emerging markets. Foreign developed markets were aided by the European Central Bank announcing in March it would re-start a stimulus program to help the EU economy.

International Equity Indexes	Q1 Return	2018 Return
MSCI EAFE NR USD (Foreign Developed)	9.98%	-13.79%
MSCI EM NR USD (Emerging Markets)	9.91%	-14.58%
MSCI ACWI Ex USA NR USD (Foreign Dev & EM)	10.31%	-14.20%

Source: Morningstar

Commodities saw strong returns in the first quarter, thanks mostly to a surge in oil prices. Oil rose sharply over the past three months primarily because of supply issues, including the uncertain nature of Iranian sanction waivers, new Venezuelan sanctions that reduced U.S. imports, and a pledge by OPEC to extend previously announced production cuts for all of 2019. Those supply risks offset demand concerns related to disappointing global economic growth. Gold, meanwhile, logged only modest gains for the first quarter thanks to headwinds from a stronger U.S. dollar and lack of acceleration in inflation.

Commodity Indexes	Q1 Return	2018 Return
S&P GSCI (Broad-Based Commodities)	14.97%	-13.82%
S&P GSCI Crude Oil	30.68%	-20.49%
LBMA Gold Price	1.26%	-0.93%

Source: Morningstar

Switching to the fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) saw positive returns during the first quarter, but bond indices lagged stocks, which is a reversal from the fourth quarter of 2018.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter-durations during Q1, which is a continuation of what we observed in the fourth quarter of 2018. And, given the Fed's pledge not to raise rates any more in 2019, the outperformance of long duration bonds was expected.

Corporate bonds, both investment grade and high yield, handily outperformed government bonds in the first quarter thanks to a better than expected earnings season, a reduction in macro risks via the apparent U.S.-China trade progress, and the Fed "pause" on interest rate hikes. Both investment grade and high yield bond funds had their best quarterly returns in years.

US Bond Indexes	Q1 Return	2018 Return
BBgBarc US Agg Bond	2.94%	0.01%
BBgBarc US T-Bill 1-3 Mon	0.59%	1.82%
ICE US T-Bond 7-10 Year	3.06%	0.90%
BBgBarc US MBS (Mortgage-backed)	2.17%	0.99%
BBgBarc Municipal	2.79%	1.28%
BBgBarc US Corporate Invest Grade	6.22%	-3.69%
BBgBarc US Corporate High Yield	8.08%	-2.57%

Source: Morningstar

2nd Quarter Market Outlook

The outlook for markets has improved since the depths of the correction in the fourth quarter. The Fed has backed off additional interest rate increases, corporate earnings have exceeded conservative expectations, and U.S.-China trade relations appear to be moving in the right direction.

And, those positives have rightly resulted in a strong start to the year. Yet, despite the strong gains this past quarter we think it would be a mistake to become complacent in this market.

The problems that contributed to the volatility in the fourth quarter of 2018 were three-fold: Disappointing economic growth, underwhelming earnings results and confusion regarding the outlook for future Fed policy. While there has been improvement on two of those three fronts, none have been fully resolved. And, there are still legitimate concerns about the pace of economic growth globally following the disappointing economic readings of the last three months.

Additionally, while it is largely expected that the U.S. and China will sign a new trade deal that will result in tariff reduction, as of this writing, that has not occurred. And as the past two years have taught us, this administration's approach is an unorthodox one and anything can happen.

Looking forward to the second quarter, we will be searching for signs that global economic growth has stabilized and inflected higher. Additionally, we'll seek out further clarity on the Fed's plans for interest rates. Meanwhile, this upcoming earnings season, which begins in two weeks, will also be important as corporate earnings results and commentary need to reinforce and confirm the optimistic economic and corporate views currently reflected in the stock market. Finally, regarding trade, we'll review and analyze any trade deal to see if it is the economic positive investors believe it will be.

So, we start this second quarter of 2019 thankful for the strong start to the year, but also mindful that now is not a time to become complacent – because risks to investors' portfolios remain.

Past performance is not indicative of future results, but history has shown that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of heightened volatility, market corrections, and even bear markets.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even the ups and downs in the markets we have all experienced in the last six months are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's important for you to stay invested, remain patient, and stick to the plan. We've worked with you to establish a personal allocation target based on your financial position, risk tolerance, and investment timeline. Therefore, we aim to take a diversified and disciplined approach with a clear focus on longer-term goals.

We understand that volatility can be both unnerving and stressful, and we thank you for your ongoing confidence and trust.

We hope you find the information in this newsletter useful, and always welcome your feedback.

Best regards,

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