First Fiduciary Investment Counsel, Inc.

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Market Surges In First Quarter

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HIGHLIGHTS

- *First Fiduciary initiates a position in U.S. Bancorp, the fifth largest bank in the United States.*
- *Nine years into an economic expansion, the U.S. economy is beginning to show signs of weakness.*

After a rocky end to 2018, the U.S. stock market roared back strongly in the first quarter of 2019. The strength was broad-based, with every sector in the S&P 500 finishing in positive territory. The technology sector was the biggest winner, as investor optimism reached near-euphoric levels. During the quarter, the yield on 10-year U.S. Treasurys fell 0.28% to 2.41%, as the Federal Reserve took a more dovish stance in response to concerns about a weakening U.S. economy.

Indeed, there are early indications that growth in the U.S. and abroad is beginning to slow. For instance, the Purchasing Managers Index has weakened, which historically has foretold slower economic activity. As a consequence, some economists have lowered their estimates for 2019 gross domestic product to levels well below 2018. Additionally, corporations, currently operating at peak margins, are beginning to face meaningful wage inflation for the first time in a decade, increasing the potential for disappointing investors' high expectations. We, at First Fiduciary, take a cautious stance toward the overall market. However, we continue to find our portfolio of high quality, dividend payers to be attractively valued. Importantly, our preference for industry leading companies that have thrived, regardless of the economic backdrop, should serve our clients well.

During the quarter, First Fiduciary initiated a position in U.S. Bancorp (USB), the fifth largest bank in the United States. The stock has underperformed due to management's refusal to sacrifice lending standards to boost growth. We like USB's conservative lending practices, peer-leading return on equity, and best-in-class efficiency ratio. We believe the company's commitment to shareholders, as evidenced by the nearly 10% compound annual growth rate in the dividend over the past five years and its history of share repurchases, provides a measure of downside protection. Additionally during the quarter, Disney (DIS) completed its acquisition of the film & TV assets of 21st Century Fox (FOXA), increasing the size of our clients' Disney positions while decreasing the size of positions in what remains of Fox Corporation (primarily Fox News and FS1).

While we continue to evaluate opportunities in the market with our standard level of skepticism, we would be remiss to forget the words of famed fund manager, Peter Lynch: "Far more money has been lost by investors preparing for corrections…than has been lost in corrections themselves." Timing the market is an arduous task, as it requires being right twice: first, to sell ahead of a correction, then second, and perhaps even tougher, to have the courage and fortitude to re-enter the market at lower levels, when the economic backdrop is potentially at its scariest. Being wrong on either decision exposes an investor to significant risk. As such, we are committed to the investing strategy that has served our clients well over many years.