INVESTMENT COUNSEL
INSPIRE TRUST. INVEST WELL.

April 2, 2019

Quarterly Commentary

After encouraging our clients at year-end to remain confident in prospects for US businesses, we are pleased with the strong rise in US equity markets during Q1. Despite moderating fundamentals, investors regained a sense of confidence and bid the S&P 500 index up by more than 13% for the quarter. This is the strongest first quarter in more than two decades.

We believe it's appropriate to view these robust returns within the context of the past six months; during that time equity returns were basically flat while earnings continued to increase. Because of this earnings growth, valuations actually look ***more*** reasonable than six months ago. Going forward, we'll keep our focus on cash flows and earnings; and continue to invest in solid businesses that exhibit strengthening fundamentals.

It's not just market sentiment that was quick to reverse course. New York won the bid to be Amazon's 2nd headquarters; only to turn around and push Amazon out of town. Previously, the Fed was guiding to raise interest rates in 2019 with a quantitative tightening program on auto-pilot; yet, changed their minds abruptly deciding against more rate increases and announcing a new plan to end the quantitative tightening program. The US bond market inverted for the first time in more than a decade; and, market strategists came out quickly in droves to declare the end of the ten-year bull market. These reversals exemplify the underlying uncertainties affecting markets helping keep equity valuations in check.

The Fed's policy change and the newly inverted yield curve seem counter-intuitive to our view of a stable and positive economy. However, there are many peculiarities driving markets and policy. Our ongoing trade dispute with China has held global growth back some; yet, we seem to be moving closer to a negotiated framework that will be positive for global trade moving forward. Government bond rates in Europe have again turned decidedly negative as the UK fumbles its Brexit negotiations and German trade data weakens. Many bond market experts are suggesting that European bond investors who pay up for US bonds (dragging yields down) are the cause of the US yield curve inversion, rather than it being the result of US bond investors suspecting an imminent recession.

Our sense is that this long recovery has always been moderate and has lacked the boom-bust attributes of previous cycles. Most measures of labor, manufacturing, sales, earnings and inflation reflect a continuing stable, moderate growth economy. In this environment, we believe that the solid businesses underlying the equities across our client portfolios are poised to appreciate over time in line with their underlying earnings growth rate. During the upcoming earnings season, we will be particularly interested in hearing how these businesses perceive their prospects for the balance of 2019.

801 South Figueroa Street | Suite 2100 | Los Angeles CA 90017 | 213.612.0220 *t* | 213.612.-0329 *f* | sfeic.com
SEC Registered Investment Advisor