Dear Valued Client:

What a difference a quarter makes. Markets (including the IPO market) got a "Lyft" from a dovish Fed and hopes for a trade deal. Volatility was subdued and the markets rose in the face of signs of slowing global growth and a great deal of headline risk. Below are just a small sampling of the headlines from CBS Marketwatch during the quarter and early April.

The 'eye of the storm': SocGen says they can't warn about stock-market problem enough Jan 17, 2019

Oblivious' stock investors aren't ready for what's next, hedge-fund manager warns Feb 25, 2019

Bear market already underway, recession coming, says Crescat Capital Feb 27, 2019

U.S. stocks 'vulnerable to a correction,' warns top asset manager April 3, 2019

The markets historically have climbed a wall of worry and there are plenty of issues for the market to consider. We find it helpful to consider that of the three year rolling periods since 1926, the S&P 500 Index has produced a positive return 84% of the time (Source: BTN Research). Better odds than winning your bracket!

First Quarter Market Review

Global equity markets rebounded strongly in the first quarter of 2019, lifted by optimism on US-China trade discussions and central banks delaying moves to raise interest rates. The MSCI ACWI index (a measure of global stocks) rose 12.3% during the first quarter, while the Bloomberg Barclays Global Aggregate Bond index returned 2.2%.[i] Global stocks posted their best quarterly return since 2010, reversing much of the 12.7% decline suffered during the fourth quarter of 2018. Bonds were also in positive territory as global bond yields declined amid a mixed economic backdrop.

The S&P 500® index of US large-cap stocks advanced 13.7% during the quarter, as the Federal Reserve shifted to a more dovish policy stance. Small cap stocks also recorded strong returns, gaining 14.6%. Growth-style stocks outperformed value stocks, boosted by the technology sector +19.9%. Financial stocks rose 8.6% but lagged other sectors as lower rates hurt banks. Defensive and income sectors were mixed, with strong gains for real estate stocks +17.5%, but less favorable results for the health care sector +6.6%. Energy companies gained 16.4% on the surge in oil prices.

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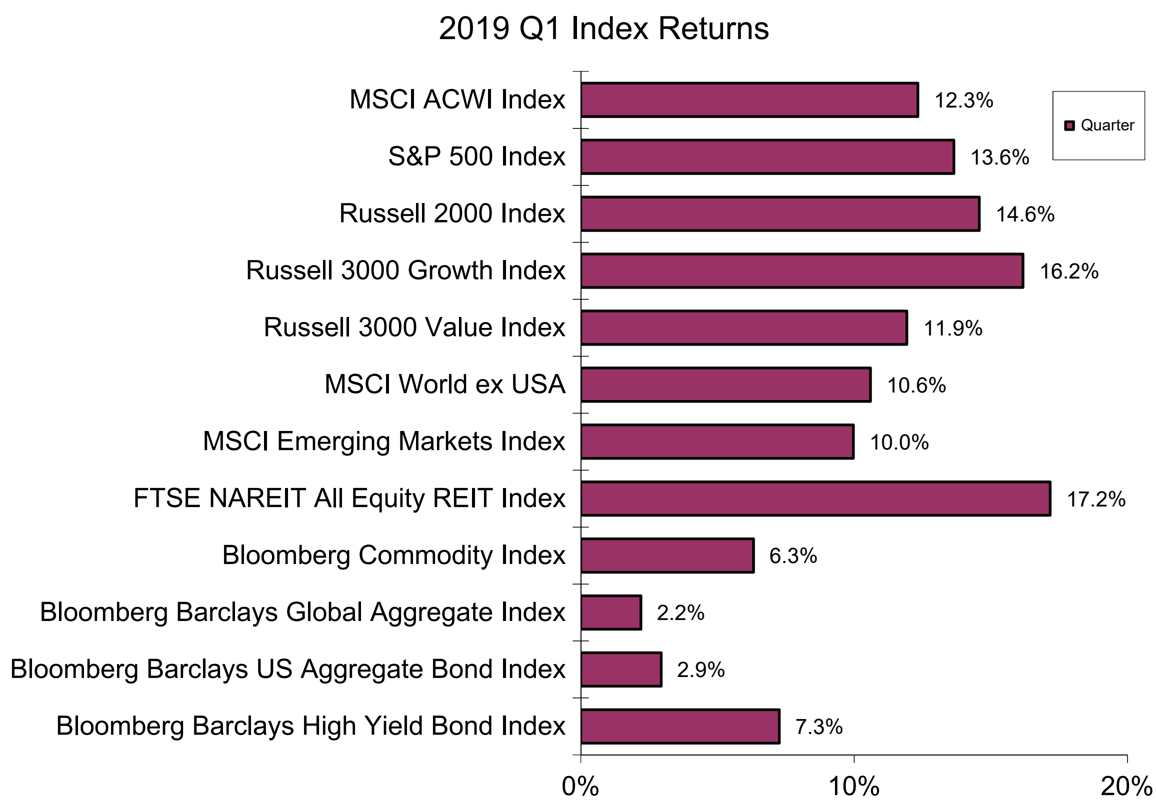
The MSCI ACWI ex-US of international stocks rose 10.4% for the quarter, as policy moves in China lifted global sentiment in view of slowing economic growth. Europe saw broader gains, but Germany +7.0% lagged on weaker manufacturing data. The UK +11.9% was supported by hopes for a more orderly withdrawal from the European Union and delay to Brexit. Asian markets were mixed as a decline in exports and industrial production contributed to a more subdued outlook in Japan +6.9%. Emerging markets gained 10.0%, led by China +17.7% on improved economic data.

In fixed income, the Bloomberg Barclays US Aggregate Bond index returned 2.9% in the first quarter, benefiting from lower rates and accommodative Federal Reserve policy. Long-term bonds outperformed shorter maturities as the yield curve flattened and the 10-year Treasury yield declined from 2.69% to 2.41%. Corporate bonds gained, particularly high yield issues +7.3%, as credit spreads tightened. International bonds +1.5% saw more muted results on weakness in foreign currencies, while dollar-denominated emerging market bonds +5.4% benefited with the pause to US rate increases.



Economic Highlights

The US economy expanded 2.2% during the fourth quarter of 2018, down from the 3.4% gross domestic product (GDP) reading in the third quarter. Economic growth moderated as consumers slowed their discretionary purchases, including recreational goods. Despite uncertainty related to bad weather and the partial government shutdown in January, the Federal Reserve Bank of Atlanta forecast GDP growth of 2.1% for the first quarter of 2019.[ii] Analysts expect corporate earnings to decline 3.9% (year-over-year) in the first quarter, which would mark the first decline since 2016.[iii] The energy, materials, and technology sectors are projected to report double-digit declines in earnings growth.

The Federal Reserve (Fed) maintained the 2.25% - 2.50% target range for federal funds at the March Federal Open Market Committee meeting. The Fed cited threats to economic growth and muted inflation pressures in support of its decision to keep rates at their current level, with the unemployment rate at 3.8% in March. The Consumer Price Index inflation rate rose 1.5% for the 12-month period through February, weighed down by the decline in energy prices. Core inflation (excluding food and energy) was up 2.1%, and other measures were closer in range of the Fed's 2% long-term inflation target.[iv] The Fed's economic projections indicated no rate increases for 2019.

The Yield Curve

The yield curve is the difference between the yields on longer-term and shorter-term Treasuries. A yield curve inversion happens when long-term yields fall below short-term yields. The short-term side of the curve is mainly driven by Federal Reserve policy, the long-term end is thought to indicate bond investors' long-term views of the market. If bond investors are bullish on the economy, then they would prefer to buy short-term bonds and hope to reinvest into higher yields later. If they are bearish on the economy, they would prefer to lock in higher yields now. When this occurs the demand for long-term bonds pushes the price up and the yields down.

The topic of "yield curve inversion" drove headlines this quarter as the yield on the 3-month Treasury bill briefly rose above that of the 10-year Treasury bond near the end of March. The last time this occurred was in 2007, and historically this has been a reliable predictor of recessions.[v] In fact, since World War II, every recession has been preceded by an inverted yield curve. However, not every inversion has been followed by a recession. It would be cliché to say this time is different but there are other factors we should consider. While U.S. interest rates are below historical levels, they are now well above most other developed countries. For example, the yield on the 10-year UK Gilt is just over one percent and the 10-year German Bund is just under zero. Global low yields have led to an inflow of capital to the U.S. Treasury Bond market, suppressing the long-term yields.

The relative level of interest rates is not the only factor that matters, but whether the Federal Reserve's Policy is accommodative or contractionary. One reason we have experienced recessions after inversions is that Fed policy was contractionary as they tried to fight inflation. By raising real interest rates to levels sufficient to slow demand and fight inflation, the Fed can help cause a recession. Given the Fed's accommodative stance, the likelihood of a mistake at this time appears muted.

In an August 2018 article, "What Does a Yield Curve Inversion Mean for Investors?", Dimensional Fund Advisors examined the returns to stocks following inversions for five major developed nations, including the U.S., since1985. The article states: "Equity returns (as measured by MSCI local currency indices) were a mixed bag in the three years following an inversion, with US index returns higher 66% of the time at the 12-month mark and only 33% of the time 36 months later. When all countries are included, returns of the indices were higher 86% of the time 12 months later and 71% of the time 36 months later." Dimensional concluded: "It is difficult to predict the timing and direction of equity market moves following a yield curve inversion."

Outlook

The start of 2019 saw a sharp reversal in market performance from the fourth quarter of 2018. While most asset classes finished 2018 in negative territory, returns were generally positive for the first three months of 2019. Notably, the S&P 500's 13.7% first quarter return was its best start to a year since 1998. Based on history back to

1926, a strong start for US stocks often bodes well for the rest of the year.[vi] In the previous 13 instances that stocks returned more than 10% in the first quarter, the subsequent three- quarter return was positive eleven times. The median Q2-Q4 return for the 13 cases was 7.0%, better than the 6.2% median return over all periods.

While historical performance provides for interesting comparisons, it is also important to view this in context of the mixed market environment. Looking back to the fourth quarter of 2018, there were uncertainties heading into 2019. Among the concerns were slowing economic growth, trade tensions, and interest rate increases from the Federal Reserve. While these fears have eased, valuations have also risen off depressed levels, with many measures now more in-line with historical averages. Despite this, recent positive readings on consumer sentiment and home sales suggest potential for continued economic growth (albeit muted), providing a supportive backdrop for stocks.

Additional signs of economic health appear in both the IPO and corporate bond markets. Activity in Q4 2018 came to a standstill in both the IPO and high yield credit markets. The lack of new issuance was a big concern heading into the New Year as the lack of credit availability has historically been a precursor to recession. Fast forward to today and we see that Renaissance Capital, an IPO consulting firm, is now watching over 200 companies that are looking to go public in 2019 including WeWork (estimated valuation of $47 billion) and Airbnb ($31 billion estimate). Similarly, high yield deals are getting done and corporate bond issuance has returned to more normal levels. The renewed borrowing is supportive of continued growth in the economy.

The economy appears to be a reasonably solid ground with employment at high levels, auto sales on the rise, and the ISM Manufacturing gauge rising in March. The ISM Non-Manufacturing index did decline in March but is above the average levels seen since 2009. As noted above, earnings are expected to decline vs the same period in 2018- a very strong period for earnings. We'll be watching to see if this earnings season plays out as expected but more importantly looking for signs of future expectations. It is quite possible that as expectations of earnings fall, the opportunity for positive surprises rises.

As noted, there were significant concerns coming into 2019. We entered the year cautiously driven by mixed market signals but also with the knowledge that market valuations had potentially made the markets fairly attractive. We added to equity positions early in the year and continue to maintain a positive outlook. Portfolios hold some hedged positions that should help dampen inevitable volatility.

While the Fed's accommodative stance has been a source of comfort for investors in Q1, we are watching for signs of inflation that might have the Fed changing their expectations and actions. The Brexit dilemma has been pushed down the road for now but the state of affairs in the EU bears watching as Germany shows signs of weakening. Finally, a positive resolution to the trade renegotiation would seemingly be beneficial to the markets albeit it is unclear how much of this is being built in to current pricing. A big hiccup in the process or a deal that underwhelms could change market sentiment for the worse.

PRW Wealth Management News

Principal Bill Payne was joined by PRW's Director of Advanced Planning Ted Dziuba this past February at Lion Street's 2019 Institute summit. The annual three-day event in Austin, TX showcased technical deep-dives into some of the industry's most innovative investment and insurance strategies. Some highlights from Institute included an update on the markets by Dr. Quincy Krosby, Chief Market Strategist for Prudential; a discussion on tax reform and what can be expected in the next two years of the Trump presidency by Ken Kies, Managing Director of The Federal Policy Group, LLC; and a well-received presentation by Family Governance expert Tom

Rogerson on “Preparing the Family, the Structures, and the Assets for a Generational Legacy”.

Partner & Chief Investment Officer Elliot Herman moderated a panel entitled “Family Governance: Maintaining and Growing Wealth” at the Private Wealth New England conference in Boston on March 27th. The panel focused on ways families can develop and implement a family governance structure to help protect wealth and prepare the next generation of the family for that wealth.

Janice Forgays, PRW’s Estate and Wealth Management Counsel, attended an exclusive talk for Vermont Law School Trustees featuring Robert Fiske, former Special Prosecutor in the Whitewater investigation during the Clinton administration. Attorney Fiske’s talk focused on the role of the Independent Counsel and Special Prosecutor from Archibald Cox (Watergate) to Robert Mueller (Russian election interference) and provided tremendous insight into these high-profile investigations. Janice also participated in forums on Estate Planning for Art and Collectibles; Using Tech to Improve Your Estate Planning Practice; and The New Code Section 199A Tax Deductions for Pass-Through Businesses.

We hope that your year is off to a good start. As always, please contact us if there have been any changes to your financial situation, your investment objectives, or your instructions concerning your account(s).

Thank you.

Sincerely,

Bill | Rich |

William A. Payne | Richard A. Renwick | Elliot B. Herman

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<u>Index Definitions</u>

Bloomberg Commodity: A broadly diversified index that allows investors to track futures contracts of physical commodities traded on US exchanges. The component weightings are determined by several rules designed to ensure diversified commodity exposure.

Bloomberg Barclays Global Aggregate: An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A Index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays High Yield Bond: An index measuring the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclays US Aggregate Bond: An index covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through), ABS, and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to this index on April 1, 2007.

FTSE NAREIT All Equity REIT: A broad measure of the performance of publicly traded real estate securities, such as real estate investment trusts (REITs) and real estate operating companies.

MSCI ACWI (All Country World Index): A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI Emerging Markets: A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

MSCI World ex USA: An index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries – excluding the United States. With 1,020 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Russell 2000: An unmanaged index that measures the performance of the small cap segment of the US equity universe. It is a subset of the Russell 3000 Index based on market capitalization.

Russell 3000 Growth: An index that measures the performance of the growth segment of the US equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 3000 Value: An index that measures the performance of the value segment of the US equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower expected growth rates.

S&P 500®: An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large cap companies) representing approximately 75% of the investable US equity market.

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[i] Unless otherwise indicated, all index returns are from FactSet
[ii] Source: Bureau of Economic Analysis (Federal Reserve Bank of Atlanta GDP forecast as of April 2, 2019)
[iii] Source: FactSet
[iv] Source: Bureau of Labor Statistics
[v] Source: Ned Davis Research. "Yield Curve Armageddon, Depending on How You Define It (March 26, 2019)"
[vi] Source: Ned Davis Research. "Benchmark Review: Best Start in 21 Years Sign of Strength or April Fools' Joke? (April 1, 2019)"