WINTHROP
WEALTH MANAGEMENT

FIRST QUARTER 2019

MARKET REVIEW & OUTLOOK

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OVERVIEW

Global equity markets rebounded sharply in the first quarter of 2019 as the MSCI All Country World Index (ACWI) returned +12.2%. Investors were happy to welcome the New Year after the ACWI index declined by -8.9% in 2018 - the worst annual return since 2008. Investors grappled with a few conflicting market forces, including:

- Positive: cheap valuations after the 2018 selloff, progress toward a US/China trade deal, and more stimulus from global central banks.
- Negative: decelerating global economic growth.

What a difference a few months makes. The strong start to 2019 is not because all the risks facing the market in late-2018 have quickly evaporated. Rather, we believe that last year's selloff was another example of how markets can be extremely volatile and sometimes irrational in the short-term. The randomness of markets over short time periods is why we do not engage in market timing and encourage our clients to maintain a long-term viewpoint. We believe the best approach is to combine a detailed financial plan with a structured, consistent, and repeatable investment process. At Winthrop Wealth Management, our investment process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

Our goal with this update is to provide a recap of the global markets, answer questions that have been top-of-mind for many of our clients, and provide context for our market outlook.

We'd like to highlight three key themes of the first quarter of 2019:

Economic Growth Estimates: Down ↓ Stimulus: Up ↑

Throughout the quarter global central banks began cutting their 2019 growth targets and announcing new stimulus measures to prop up their economies and fight the slowdown.

The Fed's Summary of Economic Projections (SEP) included a decrease in their 2019 GDP forecast from +2.3% to +2.1%. The Fed's SEP also displayed that the majority of Federal Open Market Committee (FOMC) members now expect zero rate hikes in 2019, down from two previously. Additionally, the Fed announced an end to their balance sheet runoff, which will start to taper in May and conclude in September. *See the Fed section for a full recap and analysis.*

The European Central Bank (ECB) cut their 2019 GDP growth estimate from +1.7% to +1.1% and telegraphed that interest rates would stay lower for longer. The ECB left their deposit rate unchanged at -0.4% and announced that interest rates will remain at present levels "at least through 2019" – this was a change from prior language of "at least through the summer of 2019." The ECB also announced a new round of Targeted Long-Term Refinancing Operations (TLTRO) designed to provide low rate loans to banks which incentivizes increased lending to businesses and consumers in the euro area.

The Bank of Japan (BOJ) announced that the country's exports and production have shown some weakness in recent months, down from their January assessment of an "increasing trend." Since the country has failed to meet its 2% inflation target for years, the BOJ has maintained short-term interest rates at -0.1% and its target for the 10-Year government bond yield around 0.0%. During the quarter, the BOJ also announced it plans to continue its own version of quantitative easing by purchasing up to 80 trillion yen (about $700 billion) worth of bonds per year.

China unveiled its 2019 GDP growth target of +6.0% to +6.5% - a deceleration from +6.6% in 2018. If GDP growth comes in at +6.0% it would be the weakest pace in nearly 30 years. China also announced further fiscal and monetary stimulus measures in order to boost the economy, including tax cuts and a decrease in the required reserve ratio for small and medium size banks. China's economic policy is expected to stay supportive throughout the year. China has also acknowledged that the trade war has had a negative impact on their economy.

Global Yields: Down

One of the biggest stories of the quarter was the decline in bond yields across the globe. As economic growth forecasts declined, investors purchased government bonds in a "flight to safety" event which pushes bond prices up and yields down. Low foreign interest rates also helped to depress rates in the United States as Treasury yields are still higher than many global rates. Please see the following long-term chart of global 10-Year interest rates and note that the Japanese (-0.08%) and German (-0.07%) 10-Year yields are in negative territory.

Global Bond Yields

Source: Bloomberg

Why would an investor buy a bond with a negative yield?

A government bond is issued by a country with a promise to pay periodic interest payments and to repay the face value on the maturity date. When a bond has a negative yield, the market price is greater than the remaining coupon and principal payments. In this case, an investor will lose money if they hold the bond until maturity. Therefore, an investor would only buy a bond with a negative yield if they do NOT plan on holding to maturity. Investors purchase negative yielding bonds as insurance against future economic weakness and further interest rate declines.

US/China Trade War Update

The trade war stayed in front-page news throughout the quarter as there were several rounds of negotiations. Both sides started implementing tariffs in mid-2018. The US placed 10-25% tariffs on $250B worth of Chinese goods and threatened tariffs on the remaining amount imported from China (about another $250B). China placed 5-25% tariffs on $110B worth of US goods. In a positive sign that negotiations are going well, President Trump agreed not to implement the previously scheduled tariff rate increase of 10% to 25% on $200 billion worth of Chinese goods.

While an official agreement has not been reached yet, the two sides appear to be moving closer to a deal. In-person negotiations took place in each country and the two sides were in constant contact through video conference. The latest round of in-person negotiations occurred in China at the end of March and the next will be held in the United States in early April. The two sides are currently working on written agreements in six areas: forced technology transfer and cyber theft, intellectual property rights, services, currency, agriculture, and non-tariff barriers to trade.

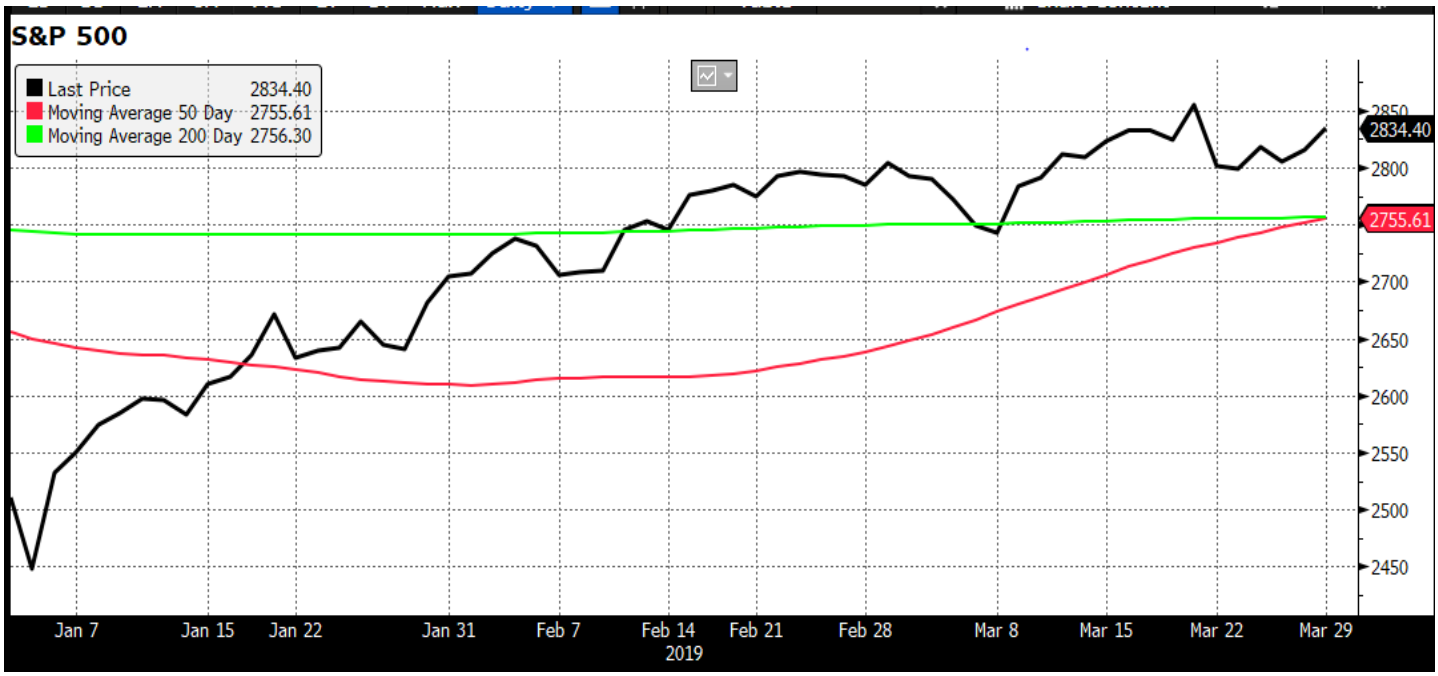
Several stories indicated that a final negotiation and deal signing ceremony could have taken place between President Trump and President Xi in Florida in late-March. However, later reports stated that China would prefer to have the deal close to 100% complete before Trump and Xi meet in person. If a deal is signed, what happens to the current tariffs remains a major question. Tariffs could remain in place for a period until there is verifiable evidence that both sides are following the terms of the agreement or they could be rescinded immediately. The trade war will remain a major stock market risk and a drag on the global economy until an agreement is signed and all tariffs are eliminated.

US MARKETS

US EQUITY MARKETS

The S&P 500 returned +13.7% in Q1 2019 – the best quarterly return since the third quarter of 2009 and the best start to the year since 1998. The S&P 500 has now recouped all of December's losses (2018 had to worst December since 1931 at-9.1%) and now sits about 4% below its all-time high. Across market caps, Mid (S&P 400: +14.5%) and Small (Russell 2000: +14.6%) outperformed Large (S&P 500: +13.7%). Across styles, Growth (Russell 1000 Growth: +16.1%) outperformed Value (Russell 1000 Value: +11.9%). All eleven sectors were positive in the quarter, including nine with double-digit gains. Technology (+19.9%) and Real Estate (+17.5%) were the best performing sectors while Financials (+8.6%) and Health Care (+6.6%) were the laggards.

The US equity markets sold off at the end of 2018 (peak-to-trough decline of-19.8% that bottomed on Christmas Eve) due to fears that a trade war with China, FOMC rate hikes, and slowing growth internationally could lead to a recession in the United States in early 2019. The market rebounded when this worst-case scenario wasn't realized as the US and China made progress toward a trade agreement and the Fed shifted to a new "patient" and "flexible" approach. Slowing growth internationally remains a market risk, but it appears for now that investors are taking a wait-and-see approach for any economic spillover. *See page 12 for our market outlook.*



Source: Bloomberg

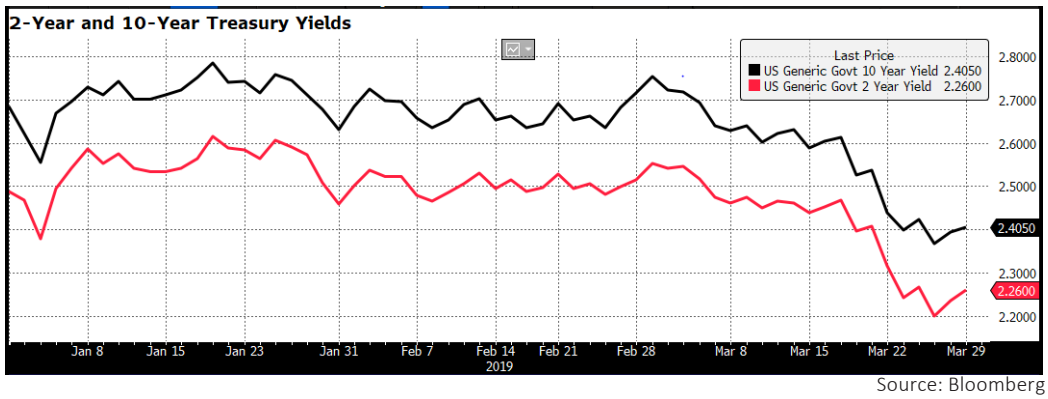
US FIXED INCOME MARKETS

Bonds produced strong results for the quarter as the decrease in interest rates was a positive for fixed income returns (interest rates move inversely to bond prices). The Barclays US Aggregate Bond index (Agg), which acts a proxy for the investment-grade bond market, increased by +2.9%- the best quarterly return since Q1 2016. Other sectors of the fixed income market, including Credit (Barclays Corporates: +5.1%), Munis (Barclays Municipal Bond: +2.9%), and High Yield (Barclays High Yield: +7.3%) also posted strong results.

US MARKETS

INTEREST RATES

US Treasury Yields (Q1 2019)



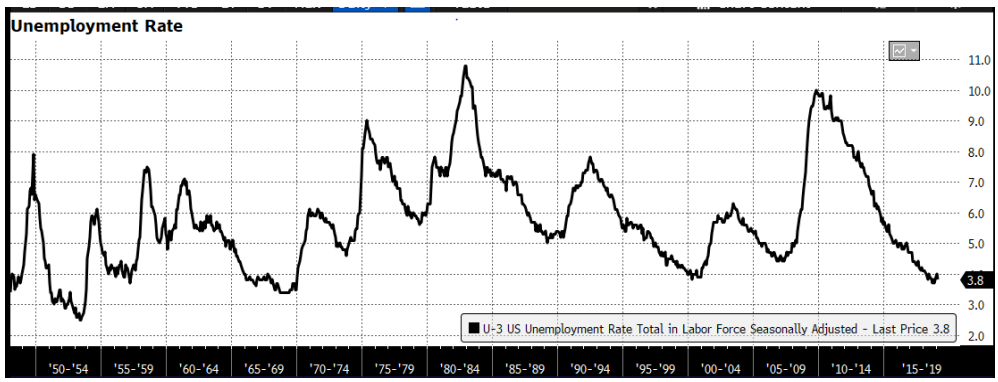
Source: Bloomberg

Interest rates declined throughout the quarter due to expectations of lower inflation and economic growth in the United States and low global interest rates. The US economy has shown signs of decelerating from last year due to the diminishing effects of fiscal stimulus and slowing growth overseas. Low global interest rates also put pressure on domestic yields as foreign investors still find the US attractive – interest rates in Japan and Germany ended the quarter at -0.08% and -0.07% respectively. Throughout the quarter, the 2-Year Treasury declined from 2.49% to 2.26% while the 10-Year Treasury decreased from 2.68% to 2.41%.

The yield curve continued to flatten and even invert at certain maturities (an inversion occurs when long-term yields are lower than short-term yields). Historically, an inverted yield curve has been a strong recession indicator. The spread between the 10YR and 2YR treasury yields declined to 15bps. A major news story toward the end of the quarter was the inversion between the 10YR and 3-Month treasury yields. The spread inverted (3-Month Yield > 10-Year Yield) on March 22nd but was back to positive territory by the end of the quarter. *See page 8 for our "Client Question of the Quarter" which address the yield curve, inversions, and recessions.*

ECONOMIC DATA

US Unemployment Rate (1948 – 2019)



Source: Bloomberg

Economic data showed signs of deceleration from 2018 levels – note that deceleration does NOT mean a decline or recession. According to the latest Bloomberg survey, GDP is expected to increase by +2.4% year-over-year (Y/Y) in 2019, down from 2018's +2.9% level. Since the end of the Financial Crisis, GDP growth in the United States has averaged about +2.25% Y/Y, so 2019 is expected to be a moderation back to the recent historical average.

Manufacturing data slowed throughout the quarter due to the impact of the US and China tariffs and slowing growth overseas. The ISM Manufacturing PMI data is still firmly in expansion territory; however, it is down from its 10-Year high in August of 2018. Inflation remains muted as the Fed's preferred measure, Core PCE, came in at +1.8% Y/Y – still below the Fed's 2.0% target. Fed Chair Powell recently stated that "downward pressure on inflation is one of the major challenges of our time." The labor market is strong as the US averaged adding 186 thousand non-farm jobs per month in the quarter. The unemployment rate ended the quarter at 3.8%, which is still at levels last seen in the 1960s. The consumer is still in good shape as Retail Sales came in at +2.8% Y/Y in January after rising by a disappointing +1.6% Y/Y in December (these were the latest readings as some economic data is still on delay from the government shutdown). The University of Michigan Consumer Sentiment index is still well above its 5 and 10-Year averages. We follow consumer data closely as consumer spending accounts for about two-thirds of GDP. Housing data also started to pick up due to the decrease in interest and mortgage rates over the past few months.

US MARKETS

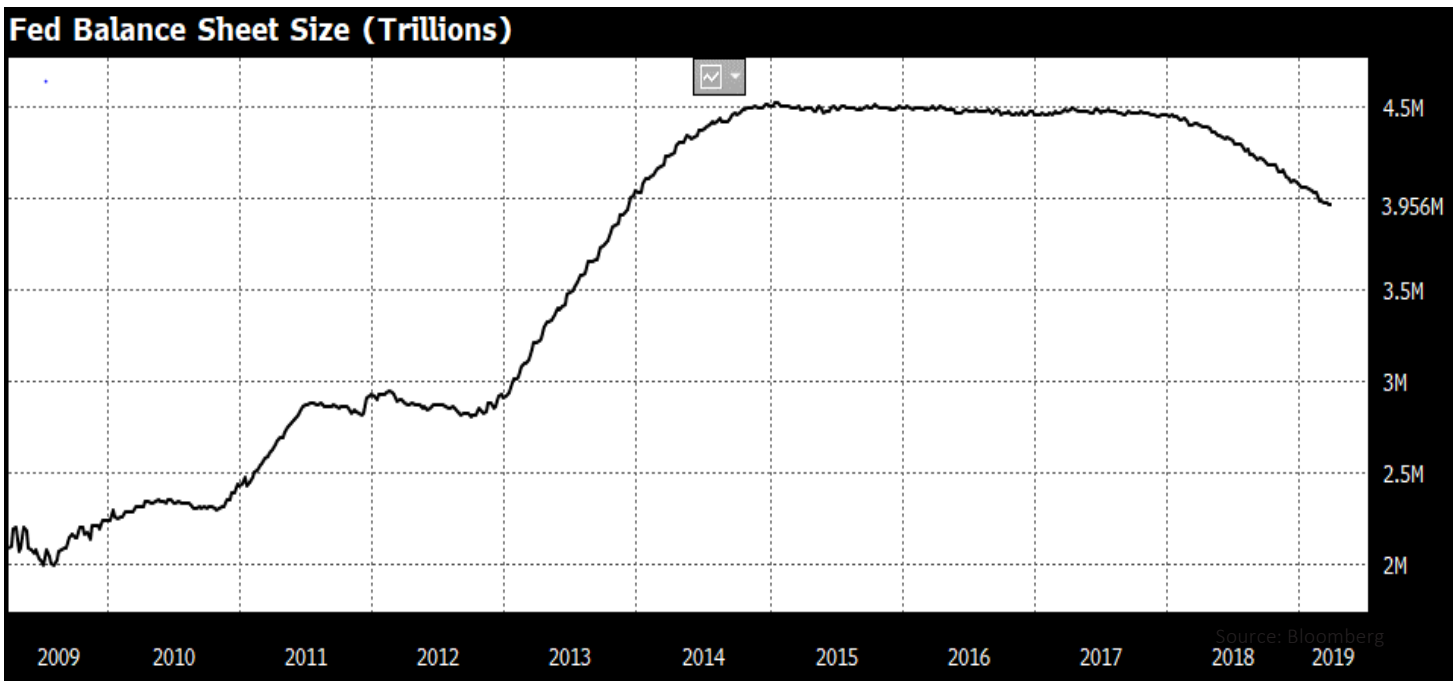
THE FED

At their March meeting, the Federal Open Market Committee (FOMC) left the federal funds rate range unchanged at 2.25% to 2.50% and reiterated their "patient" and "flexible" stance in regard to future rate increases due to global economic weakness and muted inflation projections. The Fed noted that the "labor market remains strong, but the growth of economic activity has slowed from its solid rate in the fourth quarter." The Fed also released their updated Summary of Economic Projections (SEP) and announced a change to their balance sheet runoff policy.

The FOMC releases their Summary of Economic Projections (SEP) every quarter where each of the seventeen members individually and anonymously forecast real GDP Y/Y, the unemployment rate, inflation, and the federal funds rate. The Fed releases the median economic projection for each data point. The Summary of Economic Projections are not meant to be a policy roadmap, but rather to provide insight into what individuals on the committee are thinking. The SEP included a downgrade to the 2019 GDP forecast from +2.3% from +2.1% and displayed that the majority of committee members now expect zero rate hikes in 2019, down from two previously. The move from two expected interest rate hikes to zero was considered a surprise.

The other surprise was that the Fed announced an end to their balance sheet runoff earlier than expected. The runoff will start to taper in May and conclude in September. The Fed's balance sheet expanded from $900 million in 2008 to $4.5 trillion in 2015 as the Fed purchased Treasuries and mortgage backed securities (MBS) in an attempt to keep long-term interest rates low and inject liquidity into the financial system. In 2017, the Fed announced a systematic plan to wind down the size of its balance sheet by up to $50 billion per month. The Fed also announced that the ultimate composition of the balance sheet will be mostly Treasuries and that they will soon announce a plan on how they will reinvest the proceeds from maturing securities, which could have an impact on the slope of the yield curve.

The Fed has shifted to a more accommodative monetary policy by decreasing their 2019 interest rate projections to zero and announcing an end to their balance sheet runoff. As recent as December 2018, the Fed projected two rate hikes in 2019 and did not even want to discuss the possibility of altering the balance sheet runoff of $50 billion per month. While Chairman Powell reiterated his confidence in the US economy, the Fed is clearly concerned about global economic weakness and any potential spillover.



FOREIGN MARKETS

DEVELOPED INTERNATIONAL

The MSCI EAFE index increased by +10.0%- the best quarterly return since Q3 2013. The EAFE index includes a broad range of equities located in several international countries, including Japan, United Kingdom, France, Germany, Italy, and others. Within International Markets, the MSCI Europe index increased by +9.9% while the MSCI Japan index gained +6.7% and the MSCI United Kingdom index rose by +11.9%.

The main story in developed international markets continues to be the ongoing Brexit saga. The United Kingdom voted to leave the European Union in a referendum held on June 23, 2016. The withdrawal process became known as Brexit. The UK was supposed to leave the European Union by March 29, 2019, however, Parliament could not agree on an exit plan. UK Prime Minister Theresa May's Brexit plan failed three times in Parliament. The EU granted a short extension to April 12, 2019. As of this writing, the UK is still working on details on when, how, and if to leave the Eurozone. The worst-case scenario for global markets would be a so-called "Hard Brexit" where the UK would leave the European Union and then have to renegotiate trade deals (this option would cause the greatest amount of short-term economic disruption).

EMERGING MARKETS

The MSCI Emerging Markets index increased by +9.9%- the best quarterly return since Q1 2017. Some countries included in the Emerging Markets index are Brazil, Russia, India, China, and South Korea. The MSCI China index increased by +18.6% while MSCI India gained +7.2%.

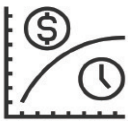
The main story in Emerging Markets was the stock market rebound and the economic data out of China. China unveiled its 2019 GDP growth target of +6.0% to +6.5%- a deceleration from +6.6% in 2018. China also announced further fiscal and monetary stimulus measures in order to boost the economy, including tax cuts and a decrease in the required reserve ratio for small and medium size banks. Stimulus measures already appear to be having a positive impact as China's manufacturing gage increased to expansion territory in March after spending the last 3-months in contraction levels. China has also acknowledged that the trade war with the US has had a negative impact on their economy. The trade war will remain a drag on both economies until an agreement is signed.

KEY RISKS

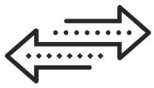
We would also like to highlight a few key risks we feel are facing the market. This list is not designed to be comprehensive, but rather a few things we are discussing internally as we balance short-term developments with our long-term viewpoint.

US Recession: Although US economic data remains at fairly solid levels, in December 2018 the stock market seemed to be pricing in a US recession early 2019. While that did not materialize, we have seen economic data point to a slowdown.

Global Growth Deceleration: Economic growth estimates for 2019 are being cut. The Fed decreased their 2019 GDP forecast from +2.3% to +2.1%. China released a growth target of +6.0% to +6.5% (down from +6.6% in 2018). The European Central Bank cut its 2019 GDP forecast from +1.7% to +1.1%. We remain concerned about economic weakness potentially spilling over into the United States.



Yield Curve Inversion: An inverted yield curve (short-term yields higher than long-term yields) has historically been a strong recession indicator. The 10YR – 3M spread ended the quarter at 2bps while the 10YR – 2YR narrowed to 15bps. Historically the average lag time between a yield curve inversion and the start of a recession has been about 19 months.



Trade: The US and China have both implemented tariffs. While negotiations appear to be moving in the right direction, trade will remain a key risk until an agreement is signed.

Brexit: The Brexit situation remains messy and fluid. The UK is still working on details on when, how, and if to leave the Eurozone. The worst-case scenario for global markets would be a so-called "Hard Brexit" where the UK would leave the European Union and then have to renegotiate trade deals (this option would cause the greatest amount of short-term economic disruption).

Fed Policy Mistake: The Fed has shifted to a more accommodative monetary policy compared to their December 2018 stance. The risk is that by raising rates four times in 2018, the Fed already went too far and may be forced to cut rates in the future.

Earnings Disappoint: Earnings expectations are for about +4% growth in 2019. Earnings growth could disappoint if economic growth slows, new tariffs get implemented, or companies lower guidance in fear of potential tariffs.

US Debt Ceiling/Budget Debate: The US debt limit came back into effect on March 1st after being suspended by Congress in 2018. After 3/1, the US Treasury will begin using "extraordinary measures" to fund the government and make payments to bondholders, social security beneficiaries, and government employees. The Treasury's "extraordinary measures" will likely last through the fall. The debt ceiling will likely be rolled into the 2020 budget negotiation. If Congress cannot come to an agreement, we could be headed for another government shutdown.

US Debt Levels: Total US national debt is currently over $22.1 trillion. The public debt to GDP ratio has risen to 82.3% and the 2019 budget deficit is projected at -4.5% of GDP. At some point high debt/deficit levels become unsustainable.

CLIENT QUESTION OF THE QUARTER

Our client question(s) of the quarter relates to the yield curve, what an inversion has historically signified, and what it could mean for the economy and markets going forward.

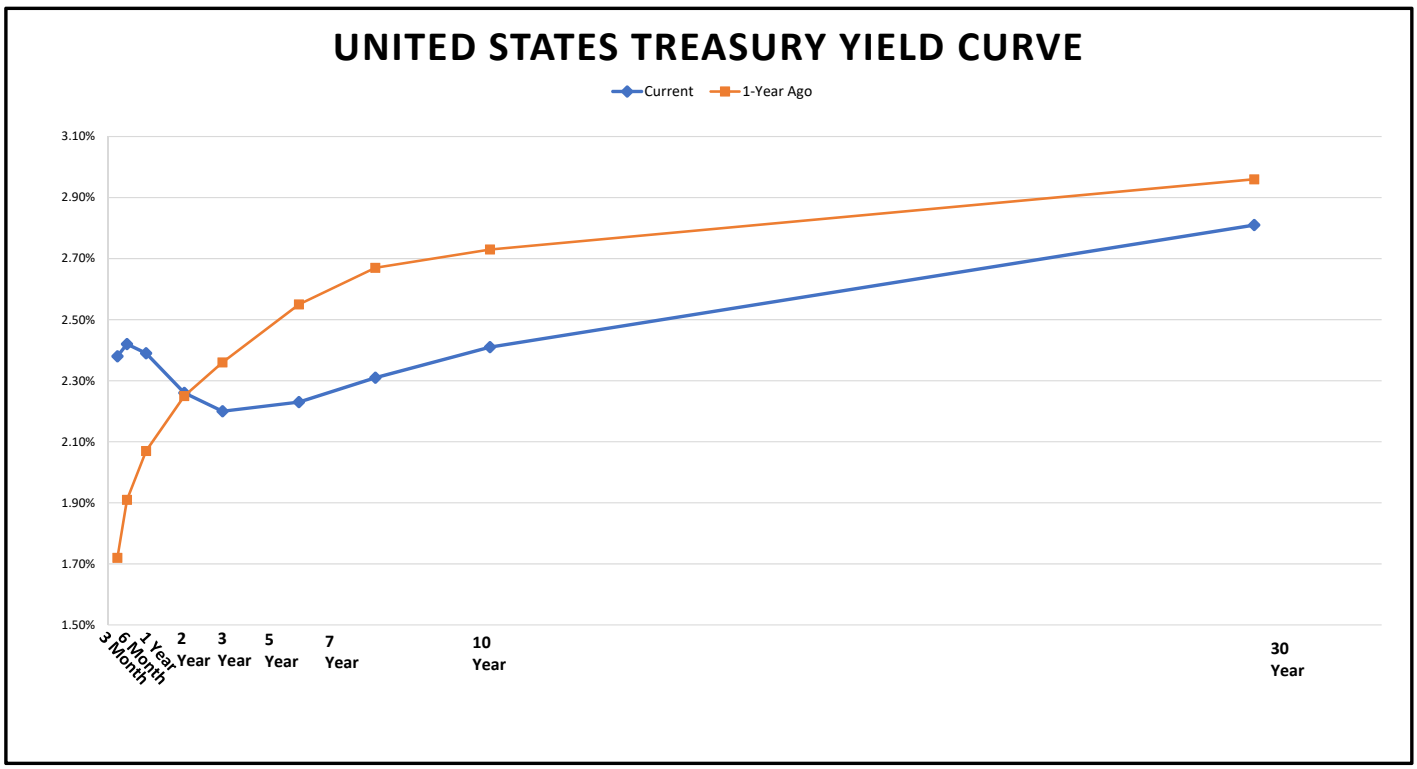
What is the Treasury Yield Curve?

The yield curve is a graph of a Treasury bond's maturity and its rate of return for various time periods. The typical maturities referenced generally range from 3-months to 30-years. The Federal Open Market Committee (FOMC) controls the short-end of the yield curve by setting the target federal funds rate range. The current federal funds rate range is 2.25% - 2.50%. The FOMC has raised rates nine times since the financial crisis, including four increases in 2018. The market sets long-term interest rates through the supply and demand of Treasury securities. When investor demand for long-term Treasuries exceeds supply due to their outlook for inflation and/or economic growth, bond prices move up and yields down (bond prices move inversely to yield). The opposite is true when investor demand is less than supply causing prices to fall and yields to rise.

What does the shape of the yield curve typically look like?

The shape of the yield curve is generally upward sloping, i.e. longer-term maturities have higher yields than short-term maturities. According to the Fed, Treasury yields have two components: expectations of the future path of short-term Treasury yields and the Treasury term premium. The term premium usually accounts for most of the upward slope of the yield curve and is defined as the difference an investor would receive for locking up their invested capital for an extended period (i.e. buying a 10-Year Treasury) versus rolling over short-term securities for the same amount of time (i.e. buying a 3-Month Treasury Bill every 3-months for 10-years). The term premium exists because investors need to be compensated for locking up their capital - the longer you lend someone money, the more time there is for something to go wrong. We will also point out that the term premium cannot be directly measured, rather it is the difference between the long-term rate and the average of expected future short-term rates.

The current shape of the Treasury yield curve is flatter than its typical upward slope and is even inverted (short-term yields higher than long-term yields) at some maturities. The blue line of the following chart is the current yield curve (notice the inversions from 3-months to close to 10-years). The orange line represents the curve from one year ago.



CLIENT QUESTION OF THE QUARTER

Why has the yield curve flattened?

The yield curve has been flattening since the FOMC started raising the federal funds rate back in 2015. Remember that the FOMC sets the short-end of the yield curve. The long-end of the Treasury yield curve has stayed low, which means the entire curve has flattened. Recall that the market sets the long-end of the yield curve. The long-end of the yield curve has stayed low for various reasons:

- Absence of the term premium – estimates of the term premium have been close to zero or even negative since around the time the Fed started their quantitative easing programs. During quantitative easing, the Fed's balance sheet expanded from $900 million in 2008 to $4.5 trillion in 2015 as the Fed purchased Treasuries and mortgage backed securities (MBS) in an attempt to keep long-term interest rates low and inject liquidity into the financial system.

- Low global interest rates – while the 10-Year Treasury yield of 2.41% is low relative to its own history, the current yield is still higher than many global rates. Due to weak inflation and economic growth forecasts, and their own versions of quantitative easing, 10-Year yields in Japan and Europe are currently negative. The Japanese and German 10-Year yields ended the quarter at -0.08% and -0.07% respectively. Due to the ongoing Brexit saga, the 10-Year yield in the UK is 1.00%. Therefore, US yields are still comparatively attractive for global investors.

- Expectations of future inflation and economic growth – Treasury securities are considered close to "risk free" because the principal and interest payments are backed by the US government. In general, when expectations for future inflation and economic growth are low investors will turn to Treasuries because they are considered safe. Core PCE inflation has averaged about +1.6% over the last 10-years, which has helped to keep rates low. When expectations for inflation and economic growth are poor (i.e. investors expect a recession) there is a "flight to safety" as investors rush to buy Treasuries, which pushes prices up and yields down.

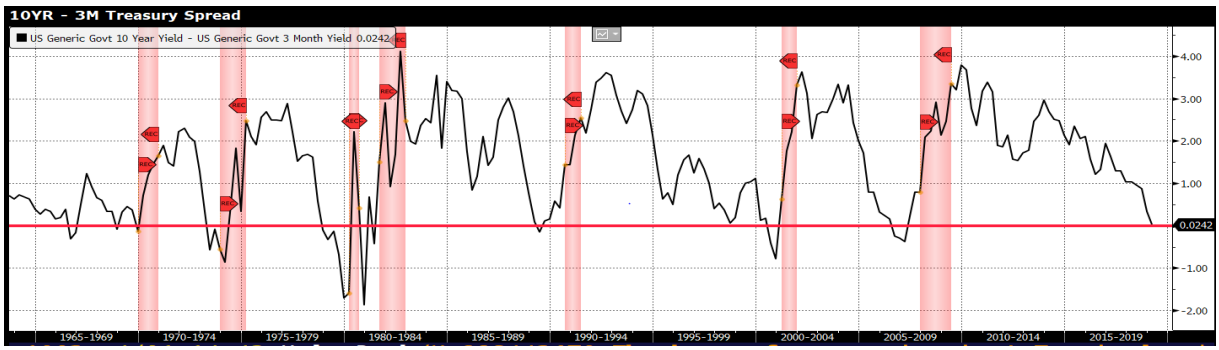
What is a yield curve inversion?

A yield curve inversion occurs when short-term maturities have higher yields than longer-term maturities. An inversion is the market's sign of a pessimistic economic outlook. Historically, an inversion usually means the market is forecasting an economic recession or slowdown. The inversion usually occurs when there is a "flight to safety" and investors buy longer-term Treasuries. In this scenario, investors expect the Fed will likely cut short-term rates, which explains why they would be willing to accept lower yields for longer maturities. Therefore, an inversion is usually the markets way of telling the Fed that it needs to cut rates.

Did the yield curve invert and what does it mean?

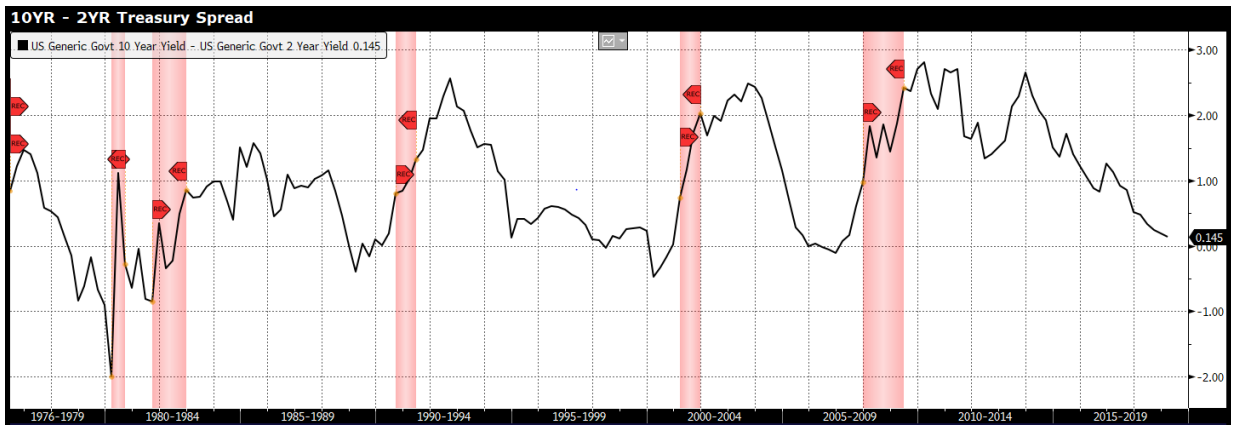
There are two common spreads associated with a yield curve inversion: the 10-Year Treasury minus the 3-Month Treasury Yield (10YR-3M) and the 10-Year Treasury minus the 2-Year Treasury Yield (10YR-2YR). The Fed typically favors the 10YR-3M measure while many investors choose to focus on the 10YR-2YR. At Winthrop Wealth Management, we watch each of them closely and both are part of our Recession Dashboard. The 10YR-3M spread first inverted on March 22nd but was back to positive territory by the end of the quarter while the 10YR-2YR measure is still positive. (Yes, that also means that the 3-Month Treasury Bill has a higher yield than the 2-Year Treasury Bond). Over the past few days, several members of the Fed have downplayed their concern about the inverted 10YR-3M spread but stated they would become increasingly worried if the inversion persists for weeks or months.

10YR – 3M Treasury Spread (1960 – 2019)



10-Year Treasury - 3-Month Treasury Yield Spread					
First Month of Inversion	**Interest Rate at Inversion**	**First Month of Recession**	**Months Between First Inversion and Recession**	**Months between First Inversion and S&P 500 Peak**	**Approximate S&P 500 Return from Inversion to Peak**
September-1966	5.02%	December-1969	40	26	51%
June-1973	6.94%	November-1973	5	4	8%
November-1978	8.86%	January-1980	14	15	33%
October-1980	12.46%	July-1981	9	1	11%
May-1989	8.60%	July-1990	14	8	14%
July-2000	6.03%	March-2001	8	2	6%
February-2006	4.55%	December-2007	22	20	26%
Median	**6.94%**		**14**	**8**	**14%**
Average	**7.49%**		**16**	**11**	**21%**

10YR – 2YR Treasury Spread (1976 – 2019)



10-Year Treasury - 2-Year Treasury Yield Spread					
First Month of Inversion	**Interest Rate at Inversion**	**First Month of Recession**	**Months Between First Inversion and Recession**	**Months between First Inversion and S&P 500 Peak**	**Approximate S&P 500 Return from Inversion to Peak**
December-1967	5.70%	December-1969	24	11	15%
March-1973	6.73%	November-1973	8	7	1%
August-1978	8.39%	January-1980	17	18	24%
September-1980	11.86%	July-1981	10	2	13%
January-1989	8.98%	July-1990	18	12	25%
June-1998	5.45%	March-2001	33	27	38%
December-2005	4.39%	December-2007	24	22	30%
Median	**6.73%**		**18**	**12**	**24%**
Average	**7.36%**		**19**	**14**	**21%**

Source: Bloomberg

CLIENT QUESTION OF THE QUARTER

Going back to the 1960s, there have been seven instances of a 10YR-3M and 10YR-2YR inversion that preceded a recession. We focused our analysis only on periods where a recession occurred. There have been several instances where a yield curve inversion did not precede a recession (1956 and 1959). There were also periods where the yield curve inverted, went back to positive, and then inverted again before a recession started (1966, 1989, 1998, and 2005). We counted inversions based on monthly Treasury yields since 1962 and recessions based on official National Bureau of Economic Research statistics.

A few observations about the data:

- A yield curve inversion before each of the last seven recessions is notable. However, seven is a small sample size.
- The previous instances of yield curve inversions occurred at much higher interest rates than present levels. Current US Treasury Yields: 3-Month: 2.38%, 2-Year: 2.26%, and 10-Year: 2.41%. As mentioned, there are several reasons why long-term interest rates have stayed low (absence of term premium, low global rates, low expectations for inflation and economic growth).
- There has been a significant lag between an inversion and a recession or market peak.
- The S&P 500 has historically performed very well in the periods between inversion and recession.

Does this mean a recession is imminent?

As always, we will remind our clients not to overreact to a single data-point and highlight that a yield curve inversion is only an indicator – it does not in and of itself cause a recession. The Fed has also had internal debates over whether an inversion is a reliable recession indicator. From the September 2018 FOMC minutes: "on the one hand, an inverted yield curve could indicate an increased risk of recession; on the other hand, the low level of term premiums in recent years – reflecting, in part, central bank asset purchases – could temper the reliability of the slope of the yield curve as an indicator of future economic activity." (Note that this kind of non-committal answer is exactly why President Harry Truman once famously asked for a "one-handed economist".)

Over the past few weeks, I've heard just about every economic and market prediction possible based on the inverted yield curve. Opinions have ranged from "it doesn't matter, ignore it" to "it matters a lot, a recession is looming". Rather than focus on the yield curve inversion in isolation, we believe it is important to consider it in the context of other economic data. Going forward, we believe the inversion is another statistic that indicates the US economy is slowing from last year. We expected the economy to slow year-over-year due the diminishing effects of fiscal stimulus and declining global growth. Throughout the quarter, several pieces of economic data were below peak-2018 levels, including, Manufacturing and Services PMIs, Retail Sales, and the Conference Board Leading Economic Indicators Index. While the data confirms a slowdown in 2019, we feel it is too early to sound the alarm on an imminent recession. On a more positive note, the labor market is still strong, the consumer is in good shape, and housing data has started to rebound as interest rates have declined. *Please see page 12 for our full market outlook.*

MARKET OUTLOOK

We continue with a balanced outlook for the US equity markets as we do not believe this is the time for excessive risk taking or extreme caution. Fundamentals remain at decent levels despite a notable deceleration from 2018's figures due to the diminishing effects of fiscal stimulus, lower growth overseas, and impacts from trade tariffs. For 2019, Bloomberg estimates that GDP growth will increase by +2.4%, while Factset projects that S&P 500 corporate earnings will rise by about +4%. The S&P 500's valuation increased throughout the quarter after plummeting during last year's selloff. The Forward P/E now stands at 16.5x, right around the 25-Year average of 16.1x. We would move to a more optimistic stance if the US and China agree to a trade deal where all tariffs are rescinded, the Fed remains accommodative, and/or global economic growth starts to accelerate. We would turn more cautious if trade talks breakdown, the Fed pivots again and returns to restrictive monetary policy, and/or economic data begins to deteriorate. We acknowledge that markets and risks can change quickly, and we will continue to monitor new developments.

Our fixed income outlook remains cautious as we maintain diversified portfolios across duration (interest rate sensitivity) and credit quality. Bond yields declined late last year and throughout the quarter on muted inflation and economic growth expectations and low/negative global interest rates. Unless the US economy falters, we would expect interest rates to eventually tick back up (bond prices move inversely to yields). We remind our clients that fixed income is designed to provide stability and income to investment portfolios. Bonds often act as a portfolio ballast during periods of equity market weakness.

We consistently encourage our clients to maintain a long-term viewpoint while remaining focused on their overall goals and objectives. At Winthrop Wealth Management, financial planning works in concert with investment management. The Financial Plan, which helps clients define cash flow needs and future objectives, drives the investment management strategy. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

MARKET RETURNS

US Equity Markets									
Index	**YTD**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**	**2014**
S&P 500	13.65%	9.48%	13.26%	10.73%	-4.40%	21.82%	11.95%	1.37%	13.68%
Russell 3000	14.04%	8.75%	13.25%	10.16%	-5.25%	21.12%	12.72%	0.47%	12.55%
Dow Jones Industrial Average	11.81%	10.03%	16.12%	12.09%	-3.53%	28.11%	16.50%	0.21%	10.04%
Nasdaq	16.81%	10.66%	17.67%	13.99%	-2.81%	29.73%	8.97%	7.11%	14.83%
S&P 400	14.49%	2.58%	11.07%	8.08%	-11.10%	16.23%	20.73%	-2.18%	9.74%
Russell 2000	14.57%	2.01%	12.78%	6.75%	-11.03%	14.63%	21.28%	-4.41%	4.90%
International Equity Markets									
Index	**YTD**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**	**2014**
MSCI EAFE	9.98%	-3.71%	8.05%	2.24%	-13.79%	25.03%	1.00%	-0.81%	-4.90%
MSCI Europe	9.94%	-8.22%	7.26%	0.64%	-16.90%	28.06%	1.34%	-1.42%	-8.39%
MSCI Japan	6.66%	-7.84%	9.33%	5.72%	-12.88%	23.99%	2.38%	9.57%	-4.02%
MSCI China	18.64%	-7.64%	15.63%	8.68%	-19.77%	54.68%	-0.32%	-8.99%	6.81%
MSCI Emerging Markets	9.91%	-7.41%	11.15%	3.55%	-14.57%	37.28%	11.19%	-14.92%	-2.19%
MSCI ACWI ex US	10.31%	-4.22%	8.79%	2.47%	-14.20%	27.19%	4.50%	-5.66%	-3.87%
Fixed Income Markets									
Index	**YTD**	**1YR**	**3YR**	**5YR**	**2018**	**2017**	**2016**	**2015**	**2014**
Bloomberg Barclays US Agg	2.94%	4.48%	2.04%	2.76%	0.01%	3.54%	2.65%	0.55%	5.97%
Corporates	5.14%	4.94%	3.66%	3.74%	-2.51%	6.42%	6.11%	-0.68%	7.46%
High Yield	7.26%	5.93%	8.57%	4.66%	-2.08%	7.50%	17.13%	-4.47%	2.45%
Munis	2.90%	5.38%	2.69%	3.74%	1.28%	5.45%	0.25%	3.30%	9.05%

DISCLOSURES

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Investing involves risk including loss pf principal.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

DISCLOSURES

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI India Index is designed to measure the performance of the large and mid cap segments of the Indian market. With 78 constituents, the index covers approximately 85% of the Indian equity universe.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.