ROCKLAND TRUST
Investment Management Group

Monday, April 15th marks the 122nd year of the Boston Marathon, attracting professional and joy runners from all over the world to compete. Runners will brave the course terrain including the famous Heart Break Hill, as well as our New England unpredictable weather to take part in the world's oldest annual marathon races.

During this time of year I am often reminded that our team's job in investment management can be aptly characterized as a marathon, not a sprint. As Vice President & Portfolio Manager, Rachael Aiken recently wrote in one of our Wealth of Insights Newsletter articles, it is important to stay the course. Altering well-thought out, long-term plans based on short-term market movements or emotional terms can be detrimental for your financial future. It is through continued communication with clients that we hope to overcome the negative emotional obstacles and refocus client energies on the long-term positive possibilities.

Enclosed our team of experts have broken down the latest market and economic activities during the first quarter of 2019. For additional in-depth analysis, you may view recordings of our team as they share insights on various local and national media outlets, as well as our monthly Market Watch all found within the Wealth & Investments section on www.RocklandTrust.com.

Key Takeaways from Q1 2019:

- US stocks just ended one of the best quarters in years
- US recession risk remains low
- Investors fear of increased borrowing costs are eased with the Fed's pause on rising interest rates
- Lowest unemployment levels in half a century

US Economy

Entering its 11th year of expansion, the US economy continues to grow at a solid pace. Year-over-year GDP growth peaked in the 2nd quarter of 2018 at 4.2%, but has slowly decelerated back towards the 2% average pace we saw between 2010 and 2016. While the official numbers have not been released, the Federal Reserve Bank of Atlanta's most recent GDPNow model is currently estimating a 2.1% annual growth rate for the first quarter of 2019. This deceleration was largely expected as the positive effects of the Tax Cuts and Jobs Act enacted in late 2017 have begun to fade.

Solid economic growth has resulted in strong job growth, therefore we have seen the unemployment rate decrease from a peak level of 10.0% in October 2009 to a trough level of 3.8% in February 2019. This is among the lowest levels we have seen in half a century. The consequence of a tight labor market is that companies find it far more difficult to attract qualified workers and retain existing workers, which can result in wage growth. In February, wages for private production and non-supervisory workers grew 3.5% year-over-year, marking one of the highest levels of growth we have seen in over a decade.

Traditional Asset Class Returns Q1 2019

Asset Class	Benchmark	Q1
US Stocks	S&P 500	13.65%
US Gov't Bonds	BbgBarc US Govt Intermediate	1.58%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.59%

US Stocks

US equity markets were positive across all market capitalizations, styles, and sectors in the quarter and outperformed their international counterparts. The S&P 500 rallied +13.65% on a total return basis in Q1, the index's best quarter since Q3 2009. All 11 S&P sectors were positive, with Information Technology (+19.86%), Real Estate (+17.53%) and Industrials (+17.20%) leading the way. Laggards for the quarter were Healthcare (+6.59%), Financials (+8.56%), and Materials (+10.30%).

From a style perspective, growth stocks (Russell 3000 Growth +16.18% YTD) continued to outperform value stocks (Russell 3000 Value +11.93% YTD). From a market capitalization perspective, small-cap stocks (Russell 2000 +14.58% YTD) outperformed large and mega-cap stocks (Russell Top 50 +13.49% YTD).

US Bonds

During the 1st quarter, the fixed income markets continued where we left off as interest rates continued to fall. The 4th quarter decline was led by overall market volatility which quickly subsided early into the year. This quarter was due to investors focusing on the US Federal Reserve. At its March meeting the Fed signaled it was unlikely to raise rates at all in 2019. The dovish announcement came as the Fed is closely watching a cooling global economy. With rising rates on pause, investor's fears eased that an overly aggressive monetary policy could potentially hinder US economic growth by increasing borrowing costs.

Investors are also closely watching the shape of the yield curve as it has historically represented economic expectations. For the first time since 2007, the yield on the US 10-year Treasury note dipped below the 3-month yield. This phenomenon is called an inverted yield curve which has, not with perfect accuracy, predicted coming recessions. With continued weak economic data coming out of Europe and significantly lower yields then the US (in some instances negative yields), the demand for long-term US Treasuries remains strong. As long as robust demand continues, investors would expect the yields on the intermediate to longer end of the curve to remain within a relatively tight range for US Treasury bonds.

The 10-year US Treasury finished the quarter at 2.41%, lower then where we started the year at 2.68%. Overall, the US Government bond market had strong absolute returns for the quarter as bond prices move inversely to bond yields. Similarly to the Stock Market, riskier bonds, such as high yield fixed income saw a dramatic rebound with the ease in market volatility.

Diversifying Asset Classes

Many of the diversifying equity and fixed income asset classes outperformed their broader benchmarks in the quarter. Investors also dumped lower risk assets in favor of riskier assets so far in 2019. The best performing diversifying equity asset classes were MLPs, REITs, Mid Cap stocks, and Small Cap stocks. Convertible, High Yield, and Emerging Market bonds were the best performing fixed income sectors in the quarter.

Asset Class	Benchmark	Q1
Foreign Stocks	MSCI EAFE	9.98%
Emerging Markets Stocks	MSCI Emerging Markets	9.91%
US Mid Cap Stocks	Russell Mid-Cap	16.54%
US Small Cap Stocks	Russell 2000	14.58%
REITs	MSCI US REIT	16.27%
Commodities	Bloomberg Commodity	6.32%
MLPs	Alerian MLP	16.82%
Managed Futures	Morningstar US Managed Futures	1.20%
Foreign Bonds	FTSE WGBI Non-USD	1.52%

Emerging Market Bonds	JPM EMBI Global	6.59%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	3.19%
Floating Rate Loans	Credit Suisse Leveraged Loan	3.78%
US High Yield Bonds	BbgBarc US Corp High Yield	7.26%
Convertible Bonds	ICE BofAML Convertible Bonds	10.26%

Conclusion

In our digitally centric world, we are always connected and inundated with information 24/7. Whether at home or on the golf course, on the news or in social channels, financial news and information is everywhere and easily accessible – and at times can illicit fear in investors. It can be challenging to look past temporary activities in the market or one way perspectives of an event and know what to do. Through continued communication and education with our clients, we reassess risk tolerance, reaffirm a long-term perspective, and alert our clients on the dangers of emotionally responding to market events. A study showed that in 2018 the average investor took their money and ran from the stock market only to be faced with twice as much in the way of losses than the S&P 500.[i] Historically, the market has recovered from temporary declines with positive returns for investors over time. While unsettling, market volatility is normal and part of the cycle – we encourage our clients even in the face of volatility to stay invested. It is our commitment to keep focused on long-term positive possibilities and find solutions to get you there.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group

April is National Financial Literacy Month.
Rockland Trust offers a comprehensive team of professionals who can help guide your financial future. From financial planners and insurance professionals, to investment advisors and estate planning professionals, Rockland Trust Investment Management Group can help meet your needs and objectives.

[i] Source: Chief Investment Officer, Market Moves April 5, 2019