ROCKLAND TRUST
Investment Management Group

Summer has arrived! We at IMG hope this finds you well and coming off of an enjoyable July 4th Holiday filled with backyard barbecues and fireworks. Did you know fun facts: Massachusetts was the first state to recognize the July 4th Holiday and the oldest annual celebration is held in Bristol, Rhode Island!

Even during the leisure of summer, our focus remains on the latest market activities and how they affect your portfolio. The old adage for stock market investors used to be "sell in May and go away" due to historical underperformance during the summer months. Statistics suggest, however, that this seasonal pattern is not always the case and those who follow it may miss out on significant gains. At IMG, we do not operate or advise a "go away" strategy. We fundamentally believe the best course is to stay invested year-round, and avoid the temptation to time the markets or you run the risk of missing out on some potentially lucrative returns.

Enclosed you will find a breakdown of the latest market and economic activities over the second quarter of 2019 from our team of experts. 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 latest monthly Market Watch at www.RocklandTrust.com/Wealth&Investments.

Key Takeaways from Q2 2019:

- Strong GDP and low unemployment creates positive growth in the US economy but with expectations of slowing
- US-China trade discussions continue offering little new developments since the deal fell apart
- US 10-year Treasury note dipped into inverted territory but does not signal a looming recession

US Economy

The US economy has reached a record 11th year in an expansionary phase, with real GDP growing at 3.2% year-over-year in the 1st quarter of 2019. This is above the 2.3% average annual growth rate we have experienced during this current expansion and the 2.7% average annual growth rate over the past 50 years. The Federal Reserve of Atlanta's GDPNow model is currently projecting a 1.3% increase in year-over-year real GDP growth in Q2. This implies an expected slowdown in GDP growth in the first half of 2019 relative to the first half of 2018, reflecting fading benefits from the Tax Cuts and Jobs Act of 2017 and slower growth around the globe.

Growth in the US economy has translated to strong job gains and we continue to see a very tight US labor market. The US economy added 225,000 nonfarm payrolls in June, far surpassing consensus estimates of 160,000. The unemployment rate is now at 3.7% and continues to remain at the lowest levels we have seen in half of a century (the 50-year average is 6.2%). Labor market tightness can make it difficult for companies to attract and retain qualified workers. However, employers have managed to keep wage growth at bay as the 3.1% year-over-year growth rate remains well below the 50-year average of 4.1%.

Traditional Asset Class Returns Q2 2019

Asset Class	Benchmark	Q2
US Stocks	S&P 500	4.30%
US Gov't Bonds	BbgBarc US Govt Intermediate	2.34%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.62%

US Stocks

US equity markets were positive across all market capitalizations and styles in the quarter and outperformed their international counterparts. The S&P 500 finished up 4.30% higher on a total return basis in Q2. 10 out of the 11 S&P 500 sectors were positive, with Financials (+8.00% QTD), Materials (+6.31% QTD) and Info. Tech. (+6.06% QTD) leading the way. The laggard for the quarter was the Energy sector, which finished down -2.83% due to a decline in oil and gas prices.

From a style perspective, growth stocks (Russell 3000 Growth +4.50% QTD, +21.41% YTD) continued to outperform value stocks (Russell 3000 Value +3.68% QTD, +16.05% YTD). From a market capitalization perspective, large company stocks (Russell 1000 +4.25% QTD, +18.84% YTD) continued to outperform small company stocks (Russell 2000 +2.10% QTD, +16.98% YTD).

US Bonds

We continued to see a decline in interest rates across the yield curve both domestically and internationally throughout the 2nd quarter. The 10 year US Treasury fell 40 bps this quarter, from 2.41% to 2.01%. Across European markets, yields remained significantly lower and several new record lows were set. Fixed Income investors closely watched the US Federal Reserve who at the June meeting seemed to open the door to the possibility of cutting interest rates in 2019. With the Fed weighing signs of a slowing global economy, continued soft inflation, and intensified global trade concerns, the 10 year dipped below 2.00% for the first time since 2016.

The phenomena of negative yields across Europe continue to result in robust demand for the safe, higher-yielding US Treasuries. The yield on the 10-year German Bund (foreign equivalent of a US Treasury) finished the quarter at -0.33%. Japan, France and Switzerland are also among the countries that currently have negative interest rates. The European Central Bank President had a similar dovish stance as the US Fed indicating that monetary stimulus may be necessary. As long as this strong demand continues, we would expect yields to remain range bound in the near term.

Due to this decline in interest rates, both the US Government and Credit markets had strong absolute returns for the quarter and remain positive year-to-date (interest rates and bond prices move inversely). As we enter the 2nd half of the year, investors will closely watch the Federal Reserve meetings to see if a rate cut will come to fruition.

Diversifying Asset Classes

Many of the diversifying equity asset classes failed to add value in Q2 of 2019. US Large Cap stocks (as measured by the S&P 500) outperformed nearly every other equity asset class in the quarter. In fixed income, diversifying outside of the US was beneficial in the quarter as Emerging Market and Foreign Bonds outperformed US Intermediate Bonds.

Asset Class	Benchmark	Q2
Foreign Stocks	MSCI EAFE	3.68%
Emerging Markets Stocks	MSCI Emerging Markets	0.61%
US Mid Cap Stocks	Russell Mid-Cap	4.13%
US Small Cap Stocks	Russell 2000	2.10%
REITs	MSCI US REIT	1.29%
Commodities	Bloomberg Commodity	-1.19%
MLPs	Alerian MLP	0.12%
Managed Futures	Morningstar US Managed Futures	2.35%
Foreign Bonds	FTSE WGBI Non-USD	3.93%
Emerging Market Bonds	JPM EMBI Global	3.76%

US Inflation Protected Bonds	BbgBarc US Treasury TIPS	2.86%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.58%
US High Yield Bonds	BbgBarc US Corp High Yield	2.50%
Convertible Bonds	ICE BofAML Convertible Bonds	3.85%

Conclusion

Constructing investment portfolios with a focus on long-term goals is only one important piece of your financial plan puzzle. At Rockland Trust Investment Management Group (IMG), we believe it is also crucial to keep a steady understanding of current market conditions and concerns to ensure our clients' portfolios are appropriately allocated. While changing your portfolio's allocation should largely be dictated by changes in your personal circumstances, it can be easier to maintain discipline through an understanding of current market activity. Our IMG research team closely monitors market developments to ensure clients remain prepared for both the ups and the downs. It is our commitment to keep focused on your short and long-term goals and often staying the course is the best way to get you there.

Sincerely,

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