ROCKLAND TRUST
Investment Management Group

Happy New Year!

I hope you and your family experienced joy and relaxation during the Holiday Season, and that 2019 is off to a great start. As I reflect back on 2018, I am grateful for the trust our clients have placed in us to help guide their financial futures. As part of our ongoing commitment to providing best in class service and support to our clients, enclosed you'll find knowledge and insights from our team of experts on recent market and economic activity.

For additional in-depth analysis, you may view recordings of our team as they share their 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.

Look Back

Wall Street started the year in a market rally with investors favoring the strong economic news and putting aside fears of rising inflation leading to increased interest rates. Throughout the year however, that enthusiasm at times gave way to significant volatility and uncertainty from a number of economic and political areas, culminating with the worst start to December we've seen since the Great Depression. A number of uncertainties included trade disputes with China, Canada, Mexico and the European Union; a global economic slowdown drove stock prices down; and a full percentage increase in short-term interest rates impacted among other things, the real estate market.

Despite the sell-off in December, 2018 turned out to be a solid year for the U.S. economy specifically.

U.S. Economy

It is expected that 2018 will mark the strongest calendar year for U.S. GDP growth since the financial crisis coming in around 3% (vs ~2.2% average annual increase from 2000-2017). The 3% growth in 2018 reflects a pick-up in inventories, government spending and fiscal stimulus through tax reform. The U.S. economy added 2.3 million jobs in 2018 and unemployment continues to hover around 3.7%, which is the lowest level we have seen in nearly half a century.

Traditional Asset Class Returns Q4:2018

Asset Class	Benchmark	Q4	2018
US Stocks	S&P 500	-13.52%	-4.38%
US Gov't Bonds	BbgBarc US Govt Intermediate	2.22%	1.43%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.56%	1.82%

U.S. Stocks

Domestic equity markets were sharply negative this past quarter and lagged their international counterparts. The S&P 500 declined -13.52% in Q4, sending it into negative territory for the year (-4.38% YTD). This marks the first annual decline since 2008. The Utilities sector (+1.36% QTD) was the only sector to finish positive in the final quarter of the year. The more cyclical sectors lagged behind in Q4 with Energy and Information Technology down -23.78% and -17.34%,

respectively. For the year, only three sectors remained in positive territory: Healthcare +6.5%, Utilities +4.1%, and Consumer Discretionary +0.8%.

The FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) dominated in much of the first three quarters of the year, up 35% at their peak. However, these stocks that helped on the way up were also the leaders on the way down when the market began to sell-off in October. Increased regulatory scrutiny, higher interest rates, and concern about product demand were all contributing factors to the pullback in these specific stocks.

U.S. Bonds

The fixed income markets ended the year the same way we started with the return of volatility. During the 4th quarter, we saw yields decline significantly with the exception of the short end of the interest rate curve which was boosted by the Federal Reserve increasing rates. December's rate hike marked the 4th time this year that the committee raised the Federal Funds rate, currently at 2.25%-2.50%.

In early November, the 10-year U.S. Treasury hit a seven year high at 3.23%, but has declined steadily since and ending the year at 2.69%. Concerns of a slowing global economy, trade tensions with China, and apprehension about the Federal Reserve's monetary policy being too aggressive have investors flocking to safer U.S. Treasury securities. As a result of the higher demand of Treasuries, bond prices have risen and yields have declined. The investment grade bond universe had mostly positive returns both for the year and the 4th quarter. The non-investment grade counterparts did not fare as well as corporate high yield, which finished the year at -4.53%.

Diversifying Asset Classes

The equity market volatility we experienced this quarter highlighted the importance of maintaining a diversified portfolio. A number of diversifying equity asset classes exhibited strong relative performance in Q4. These asset classes include U.S. Real Estate Investment Trusts (-6.72% QTD), Emerging Market Equities (-7.47% QTD), Commodities (-9.41% QTD), and Managed Futures (-3.65% QTD). This compares to broader stock indices, such as the S&P 500 and MSCI EAFE Index which were down -13.52% and -12.54% in the quarter, respectively.

Asset Class	Benchmark	Q4	2018
Foreign Stocks	MSCI EAFE	-12.54%	-13.79%
Emerging Markets Stocks	MSCI Emerging Markets	-7.47%	-14.58%
US Mid Cap Stocks	Russell Mid-Cap	-15.37%	-9.06%
US Small Cap Stocks	Russell 2000	-20.20%	-11.01%
REITs	MSCI US REIT	-6.72%	-4.57%
Commodities	Bloomberg Commodity	-9.41%	-11.25%
MLPs	Alerian MLP	-17.30%	-12.42%
Foreign Bonds	FTSE WGBI Non-USD	1.31%	-1.82%
Emerging Market Bonds	JPM EMBI Global	-1.19%	-4.61%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	-0.42%	-1.26%
Floating Rate Loans	Credit Suisse Leveraged Loan	-3.08%	1.14%
US High Yield Bonds	BbgBarc US Corp High Yield	-4.53%	-2.08%
Convertible Bonds	ICE BofAML Convertible Bonds	-9.31%	0.15%

Look Ahead

As we begin 2019 investors will be closely monitoring the Federal Reserve which has slated two additional rate hikes for this year depending on its reading of inflation and the job market. The next Federal Reserve meeting is scheduled for January 30th.

While 2018 produced strong economic results which provided a great foundation for the upcoming year, a number of factors including market volatility, the path of interest rates, global growth, political uncertainty, and trade tensions with China could impact the U.S. economy's output in 2019. Without any new tax cuts or stimulus expected in 2019, the major question going forward is whether or not this pace of growth is sustainable.

Conclusion

On one hand we experienced optimistic U.S. economic data in 2018 and on the other hand, global geopolitical uncertainties negatively influenced the market activity. We have reasons to remain cautiously optimistic the positive economic trends will continue. For those market declines we will inevitably experience, it's important to remember that it is a normal part of the investment process and we are prepared for it. The IMG team has a steadfast belief that a diversified portfolio will help mitigate the effect of negative shocks. In times of uncertainty it is important to review your goals and risk tolerance, don't hesitate to reach out to your Relationship Manager with questions or for more information. From personal or business investing and retirement planning, to insurance and tax services, our Investment Management Group is committed to helping you navigate any unsettled waters and remain on course.

Sincerely,

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

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