April 2018

Dear Investors:

The older I get, the more I appreciate that some of the best places are the ones that feel the same as they did when I was a kid. Fenway Park is one of those places.

The first official opening day was April 9, 1912. It was an exhibition game between the Red Sox and Harvard University. And believe it or not, it was snowing in April back then too.

Let's take a look at the economy and the market performance that opened 2018.

U.S. Economy

The U.S. economy is continuing to grow at a slow and steady pace as we enter the ninth year of the economic expansion. Recent tax cuts and additional government spending will provide additional fiscal stimulus that has the potential to boost GDP growth as we progress through the year.

The unemployment rate is positive at 4.1%, which is the lowest level we have seen since the year 2000 when unemployment hit 3.9%. The last time we saw sustained levels of unemployment below 4% was the late 1960s.

Given a low unemployment rate, wage inflation will continue to be an important economic data point to monitor. As more jobs have been created and more workers have entered the workforce, the labor market has become very tight. Consequently, companies are aggressively competing to hire and retain good workers, which can lead to an increase in the wages companies are willing to pay their employees pressuring corporate earnings.

Given their dual mandate of stabilizing prices and maximizing employment, the Fed decided in March that inflation levels near 2% and unemployment levels near 4% warranted an increase in benchmark interest rates. This is the sixth increase since the Fed began raising rates off near-zero rates in 2015 and the Fed will continue to be data-focused as they determine whether to raise benchmark interest rates two or three more times in 2018.

Traditional Asset Class Returns Q1:2018		
Asset Class	**Benchmark**	**Q1**
US Stocks	S&P 500	-0.76%
US Gov't Bonds	BbgBarc US Govt Intermediate	-0.73%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.33%

U.S. Stocks

It has been an interesting quarter for U.S. stocks. The S&P 500 started the year strong up +5.73% in January, led by strong performance in the Consumer Discretionary (+9.34%), Technology (+7.63%) and Healthcare (+6.65%) sectors. Through January, the S&P 500 Index had gone 15 consecutive months without a loss on a total return (including dividends) basis. This reversed in February.

In February, the jobs report showed an addition of 200,000 jobs in January (modestly above expectations) and hourly earnings that had increased 2.9% over the prior year. This sparked fear that the tight labor market was increasing corporate labor costs (wage inflation), and the market sold-off in fear that the Fed would begin increasing interest rates at a faster pace.

The quick sell-off brought the S&P 500 into correction territory on February 8th, which is defined as a retreat of 10% from recent highs. While the 2nd half of February proved to be better than the first half, 10 of the 11 sectors in the S&P 500 still ended February in negative territory. The Technology sector was the only sector to squeak out a positive gain in the month (+0.10%).

In March, Technology stocks, which had led the stock rally since the Presidential election, pulled back (-3.90%) following the Facebook data breach news. Concern around President Trump's tariffs and potential retaliatory tariffs from China also weighed on the market resulting in another down month for the S&P 500 (-2.54%).

The S&P 500 finished the quarter down -0.76%, which is the first down quarter we have seen since September 2015.

U.S. Bonds

Similarly to stocks, we witnessed the return of volatility in the bond market in 2018. In the first quarter, yields rose across the curve, boosted on the short end by the Federal Reserve's rate increase.

During the month of January, rate increases in the intermediate and long end of the curve were a result of the Tax Cuts and Jobs Act passage and the higher future supply of U.S. Treasuries to pay for the plan initiatives.

The ten year treasury yield hit a four year high on February 21st, yielding 2.95%. This dramatic move in interest rates was driven by inflationary fears and the potential for a more aggressive monetary policy. Inflationary woes switched to trade and tariff concerns in March causing a flight-to-quality where investors sold higher risk assets to purchase safer U.S. Treasury securities.

After coming down from February's high, the ten year treasury yield finished the quarter at 2.74% still considerably higher than where we started the year at 2.41%. The bond market overall had mostly negative returns for the quarter (bond yields move inversely to prices).

Diversifying Asset Classes

Asset Class	Benchmark	Q1
Foreign Stocks	MSCI EAFE	-1.53%
Emerging Markets Stocks	MSCI Emerging Markets	1.42%
US Mid Cap Stocks	Russell Mid-Cap	-0.46%

US Small Cap Stocks	Russell 2000	-0.08%
REITs	MSCI US REIT	-8.09%
Commodities	Bloomberg Commodity	-0.40%
MLPs	Alerian MLP	-11.12%
Managed Futures	Morningstar US Managed Futures	-3.14%
Foreign Bonds	Citigroup WGBI Non-USD	4.42%
Emerging Market Bonds	JPM EMBI Global	-1.78%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	-0.79%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.58%
US High Yield Bonds	BbgBarc US Corp High Yield	-0.86%
Convertible Bonds	ICE BofAML Convertible Bonds	2.40%

Conclusion

Rockland Trust was founded in 1907, nearly five years before Fenway Park was built. The bank, much like Fenway, has had to innovate to keep up with the expectations of modern society, but has always stayed true to its roots- an unwavering commitment to our customers and community.

The stock market had an epic year last year, extending into the second longest bull market in history. Many investors altered their strategy to take advantage of high returns in the technology sector. When the market corrected this quarter, those portfolios were among the most vulnerable.

Although the start of 2018 did not deliver the record breaking performance we experienced in 2017, our disciplined strategy of diversification helped protect us from the major selloffs and downward adjustments that affected so many other investors.

Our portfolios, just like a great ball park, are built for the long-term.

Thank you for your continued confidence.

Sincerely,

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

NOT FDIC INSURED • NOT A DEPOSIT • MAY GO DOWN IN VALUE
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT GUARANTEED BY THE BANK