WINTHROP
WEALTH MANAGEMENT

Q3 2018

6.30.2018-9.30.2018

MARKET REVIEW & OUTLOOK

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A LETTER ON THE MARKETS

> AT WINTHROP WEALTH MANAGEMENT, WE ARE PRIVILEGED TO WORK WITH MANY EXCEPTIONAL CLIENTS. WE LOOK FORWARD TO SPEAKING WITH YOU IN THE NEAR FUTURE.

OVERVIEW

The global markets experienced a lot of news and noise throughout the third quarter as investors grappled with conflicting market forces, including strong economic and fundamental data in the United States (positive) and seemingly continuous updates on a potential trade war with China (negative). Our goal with this update is to provide a recap of the global markets, answer a question that has 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 third quarter:

1. DIVERGENCE

Continuing the developments of the second quarter, the US diverged from the rest of the world across equity returns, economic data, corporate earnings growth, and central bank policy. The US outperformed most global indices as economic data was accelerating while the rest of the world was moderating or declining.

2. TRADE

The potential impact of trade wars between the US and the rest of the world weighed on global equity markets and added to overall volatility throughout the quarter. While the situation with Canada, Mexico, and Europe has improved, the relationship with China remains at an impasse as both sides have implemented tariffs. Trade uncertainty does not appear to be going away.

3. RATES

In the United States, interest rates increased while the yield curve flattened. The Federal Reserve (Fed) raised the federal funds rate again at their September meeting and treasury yields increased across the board. However, the yield curve flattened as the spread between the 10-year and 2-year treasury yields decreased to 24 basis points (bps)[1].

[1]Basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in a financial instrument.

US MARKETS

US EQUITY MARKETS

US equity markets performed well in the third quarter as the S&P 500 increased by +7.71%. This was the best quarter since Q4 2013, and the second consecutive positive quarterly result. Large caps (S&P 500: +7.71%) outperformed Mid (S&P 400: +3.86%) and Small (Russell 2000: +3.58%). Growth (Russell 1000 Growth: +9.17%) outperformed Value (Russell 1000 Value: +5.70%) as Technology stocks continue to perform well. All eleven sectors were positive in the quarter as Health Care (+14.53%) and Industrials (+10.00%) were the best performers and Materials (+0.36%) and Energy (+0.61%) were the worst performers.

Trade continued to dominate the market headlines as the US exchanged tariffs with China and negotiated deals with Canada, Mexico, and South Korea. Strong economic data and corporate earnings helped to push markets higher and partially offset the trade war news and noise. FactSet estimates that S&P 500 earnings growth will increase by 20% in 2018 and 10% in 2019.

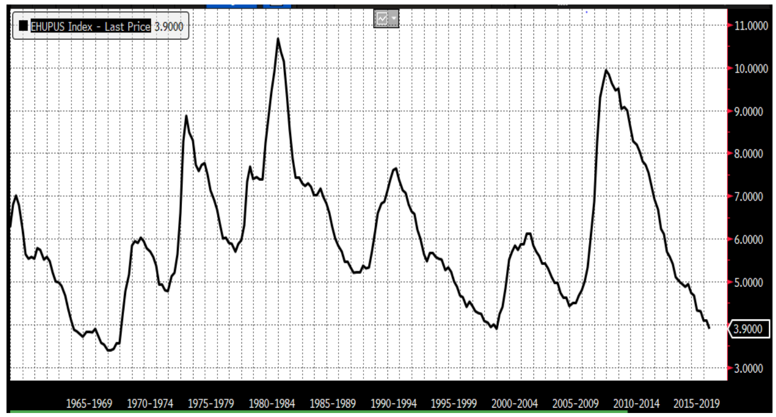
US FIXED INCOME MARKETS

Bonds were basically flat as the increase in rates generally hurt fixed income investments (interest rates move inversely to price). The Barclays US Aggregate Bond Index, which acts as a proxy for the investment-grade bond market, increased +0.02%. Other sectors of the fixed income market, including Credit (Barclays Credit: +0.86%), Munis (Barclays Municipal Bond:-0.15%), and High Yield (Barclays High Yield: +2.40%) posted mixed returns.

US ECONOMY

ECONOMIC DATA

SOURCE: BLOOMBERG



Economic data was strong throughout the quarter as the US continues to benefit from fiscal stimulus. GDP rose at a 4.2% seasonally and inflation-adjusted annual rate in Q2 due to gains in consumer spending, net exports, and business investment. According to the latest Bloomberg survey, GDP growth is expected to increase 2.9% year-over-year for 2018. The employment picture looks solid as the US added 201 thousand non-farm jobs in August and the unemployment rate stayed at 3.9%. The chart to the right shows the long-term trend of US unemployment through various market cycles. Average hourly earnings increased to 2.9% Y/Y – a sign that inflation could start to tick higher. Manufacturing is also doing well as the August ISM survey increased to its highest level in 14 years.

INTEREST RATES

SOURCE:

Interest rates increased throughout the quarter. The 2YR treasury increased from 2.53% to 2.82% while the 10YR treasury increased from 2.86% to 3.06%. The yield curve flattened as the spread between the 10YR and 2YR declined to 24bps. An inverted yield curve (2YR yields > 10YR yields) has predated each recession over the last fifty years. Fed Chair Jerome Powell downplayed the risk of an inverted yield curve by stating "there is no reason to think the probability of a recession in the next year or two is at all elevated." The chart to the right shows the trend of the US 10YR Treasury (in black) and the US 2YR Treasury (in red).

THE FED

The Federal Open Market Committee (FOMC) raised the federal funds rate range by 25bps to 2.00-2.25% at their September meeting – this was the 8th rate hike since the financial crisis and the 3rd in 2018. The Fed continues to signal for one more rate hike in 2018 and three more in 2019. The Fed also updated their Summary of Economic Projections, which included an upgrade to their 2018 and 2019 GDP growth estimates.

FOREIGN MARKETS

DEVELOPED FOREIGN MARKETS

Political developments weighed on international equity markets throughout the quarter, including trade issues, ongoing Brexit negotiations, the Italian budget, and concerns on Turkey's ability repay their debts to European banks. International markets were slightly positive overall as the MSCI EAFE index increased by +1.42%. 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 0.84%, while the MSCI Japan index rose by 3.81%.

The European Central Bank (ECB) left their key policy settings unchanged at the September meeting, which includes a negative deposit rate (-0.40%). The ECB also announced that starting in October their QE program will be reduced from 30B euros per month to 15B, then the program will end in December. ECB President Mario Draghi further kept his commitment that interest rates will remain at present levels "at least through the summer of 2019" and for as long as necessary to keep inflation on a sustained path.

EMERGING MARKETS

Emerging Markets have had a rough 2018 as the MSCI Emerging Markets index entered bear market territory (a peak-to-trough decline of greater than 20%). Some countries included in the Emerging Markets index are Brazil, Russia, India, China, and South Korea. Emerging Markets have come under pressure this year partly because of high country debt levels, a stronger dollar (many countries borrow in dollars, and an appreciating dollar makes their debt service more expensive), and potential trade impacts. In Q3, the MSCI Emerging Markets Index was down-0.95%. Keep in mind that this index returned 37.79% in 2017.

The main story in Emerging Markets in the third quarter was the weakness in Turkey. Turkey's stock market and currency tumbled as the country struggled with high inflation and the US announced new economic sanctions. Investors started question Turkey's ability to repay its debts to European banks. In September, Turkey raised their main interest rate to 24.0% to try and stabilize inflation and their markets.

RETURNS OVERVIEW AS OF 9/30/2018

United States Equity Markets					
Index	**Q3**	**YTD**	**1-Year**	**3-Year**	**5-Year**
S&P 500	7.71%	10.56%	18.35%	18.00%	13.75%
Dow Jones Industrial Average	9.63%	8.83%	20.89%	14.32%	11.88%
Nasdaq Composite	7.14%	16.56%	24.68%	20.86%	16.23%
S&P 400	3.86%	7.49%	14.38%	16.05%	11.85%
Russell 2000	3.58%	11.51%	15.41%	17.39%	11.02%

International Equity Markets					
Index	**Q3**	**YTD**	**1-Year**	**3-Year**	**5-Year**
MSCI EAFE	1.42%	-0.98%	3.80%	9.86%	4.68%
MSCI Europe	0.84%	-1.89%	1.10%	8.86%	4.15%
MSCI Japan	3.81%	1.89%	10.57%	11.73%	6.67%
MSCI Emerging Markets	-0.95%	-7.39%	0.43%	13.21%	3.72%

Fixed Income					
Index	**Q3**	**YTD**	**1-Year**	**3-Year**	**5-Year**
Barclays US Aggregate Bond Index	0.02%	-1.60%	-1.22%	1.34%	2.15%
Barclays US Credit Index	0.89%	-2.12%	-1.02%	2.95%	3.37%
Barclays High Yield Index	2.40%	2.57%	3.12%	8.03%	5.49%
Barclays Municipal Bond Index	-0.15%	-0.40%	0.34%	2.27%	3.53%

Commodities					
Index	**Q3**	**YTD**	**1-Year**	**3-Year**	**5-Year**
Oil	-0.27%	21.23%	42.07%	64.87%	-28.79%
Gold	-4.51%	-8.79%	-7.31%	5.26%	-10.98%
Silver	-11.20%	-15.18%	-14.95%	-2.69%	-33.80%
Copper	-5.64%	-15.02%	-5.92%	23.54%	-16.19%

SUMMARY OF KEY MARKET 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. Please see our "Client Question of the Quarter" (Page 7.) for a more detailed discussion.

Trade: We received some good news throughout the quarter as the US negotiated trade deals with Canada, Mexico, and South Korea. However, China remains as a key risk as the two sides have implemented tariffs with no new negotiations scheduled at this time. We do not expect this issue to resolve soon.

Yield Curve Inversion: An inverted yield curve has historically been a strong recession indicator. Given that the Fed has forecasted one more rate hike in 2018, they may push short-term rates above long-term rates.

Long-term Interest Rates Spike: Historically, equities and fixed income have been somewhat uncorrelated and even negatively correlated at times . However, if long-term rates increase too rapidly, both equity and fixed income markets could decline simultaneously.

Economic Growth Disappoints: US economic growth could begin to disappoint despite all the strong recent data. Thus far in 2018 a combination of factors, including fiscal stimulus, has provided a tailwind.

Earnings Disappoint: Earnings expectations are high for 2018 and 2019. Earnings growth could disappoint if economic growth slows, tariffs get implemented, or companies lower guidance in fear of potential tariffs.

US Debt Levels: Total US national debt is currently over $21.5 trillion. The public debt to GDP ratio has risen to 82.3% from 60.8% over the last 10 years and the 2018 budget deficit is-4% of GDP. At some point high debt/deficit levels become unsustainable.

CLIENT QUESTION OF THE QUARTER

"Should we be concerned about the age of the current bull market?"

If you have been watching the news lately, you have probably seen that the current bull market in the S&P 500 is now the longest ever, lasting about 3,500 days, and surpassing the run that occurred in the 1990s.

What is considered a bull market? The typical definition of a bull market is a rally that goes beyond 20% and is never interrupted by a 20% decline. The current bull market started on March 9, 2009, which was the depths of the financial crisis. We like to remind our clients that the market has certainly not gone up in a straight line over the last nine years and there have been plenty of drops along the way. The S&P 500 has experienced several corrections of greater than 10%, and even suffered a decline of 19.4% in 2011. Outside of the S&P 500, there have been bear markets in Energy, Financials, Small Caps, and several International Equity markets. While the current market cycle is unquestionably long, we do not believe that time alone is a reason to believe it will end soon.

At Winthrop Wealth Management, we believe that "bull markets do not die of old age, they die of recessions." Right now, our view is that recession risk is low in the near-term (next 12 months). Recent economic data including the low unemployment rate, high yield spreads, leading indicators, and manufacturing surveys all signal a healthy economy. Putting it all together, we acknowledge that the bull market will end eventually, but we believe it will be for a multitude of factors rather than just old age.

MARKET OUTLOOK

We remain cautiously optimistic on the US equity markets despite the volatile start to the year and the present risks (listed above). Our viewpoint is predicated on strong economic and corporate fundamentals at still reasonable valuations. Tax reform should continue to have a positive impact on the US economy and corporate earnings throughout the year. Estimates for 2019 remain at solid levels, although we do expect some deceleration from 2018 due to the fading impact of fiscal stimulus, higher interest rates, and potential impact from trade tariffs. The valuation of the S&P 500 is right around its 5YR average, making it neither expensive nor cheap. We continue to expect that volatility will remain at elevated levels compared to last year (2017). We further understand that markets can change quickly and therefore will continuously monitor new developments while we work to help our clients achieve their goals.

Our fixed income outlook emains cautious as we expect interest rates to continue to increase (bond prices move inversely to yield). The Fed has already raised the federal funds rate three times in 2018 and has signaled for one more rate hike this year and three more in 2019. 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.

The most important takeaway is to remain realistic with our expectations going forward and prevent emotional or reactionary behavior. As always, we 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 current 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.

Please contact us if you have any updates to your personal financial circumstances or have any other questions. See you next quarter! - The Winthrop Wealth Management Team

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.

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.

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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 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.

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 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.