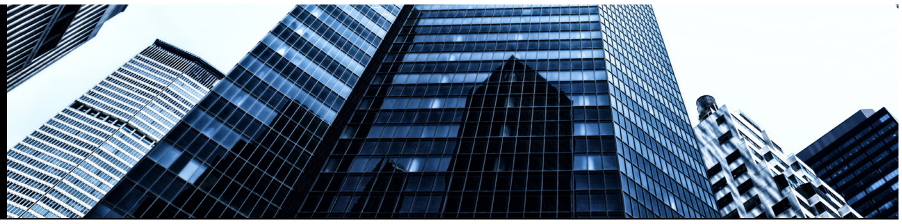
MAY 2019 RECAP

Andrew Murphy, CFA
Director of Portfolio Management
Winthrop Wealth Management



Equity markets turned sharply lower in May as the S&P 500 declined by -6.35% - the worst May return since 2010. Despite the monthly decline, the stock market is still up 10.74% in 2019. The S&P reached an all-time high on May 1st due to some better than expected economic and corporate earnings data and progress toward a US/China trade deal.

In our last monthly piece, we discussed the importance of staying the course. The market was off to such a strong start to 2019 that we believed the pace could not continue (the S&P was on track for its best calendar year ever by a wide margin). We also established that "Sell in May and Go Away" has historically been a losing market timing strategy and should not be considered as a serious investment approach (although admittedly the strategy would have worked well in 2019 for now).

US Equity Markets

Index	May	YTD	1YR	3YR	5YR
S&P 500	-6.35%	10.74%	3.78%	11.71%	9.64%
Russell 3000	-6.40%	11.02%	2.58%	11.57%	9.25%
Dow Jones Industrial Average	-6.32%	7.54%	4.05%	14.43%	10.86%
Nasdaq	-7.78%	12.86%	1.26%	15.96%	13.29%
S&P 400	-7.99%	9.58%	-5.46%	8.35%	7.28%
Russell 2000	-7.81%	9.22%	-9.10%	9.72%	6.68%

International Equity Markets

Index	May	YTD	1YR	3YR	5YR
MSCI EAFE	-4.36%	8.14%	-5.31%	5.98%	1.36%
MSCI Europe	-5.58%	8.94%	-7.31%	5.92%	0.12%
MSCI Japan	-3.96%	3.86%	-9.09%	5.75%	4.49%
MSCI China	-12.89%	5.15%	-18.45%	11.16%	5.85%
MSCI Emerging Markets	-7.56%	3.74%	-9.00%	9.75%	1.72%
MSCI ACWI ex US	-5.12%	7.42%	-6.02%	6.82%	1.36%

Fixed Income Markets

Index	May	YTD	1YR	3YR	5YR
Bloomberg Barclays US Agg	1.35%	4.36%	5.96%	2.35%	2.61%
Corporates	1.05%	6.82%	7.04%	3.75%	3.51%
High Yield	-0.85%	7.85%	5.86%	7.16%	4.47%
Munis	1.24%	4.56%	6.26%	2.92%	3.55%

SOURCE: Bloomberg (2019)

In our writings and conversations with clients we always stress the importance of maintaining a long-term viewpoint and the power of combining a comprehensive financial plan with a structured, consistent, and repeatable investment process. We continue to believe this is the best approach for helping our clients navigate through financial markets and ultimately reach their goals and objectives.

May 2019 included several important market events. Part of the yield curve inverted again as the spread between the 10-Year Treasury minus the 3-Month Treasury yield ended the quarter at -22 basis points. Please see our **Q1 2019 Market Recap and Outlook** for implications and analysis of a yield curve inversion. Interest rates declined throughout the month as the 10-Year Treasury yield dropped to 2.12%- the lowest level since September 2017. The decline in interest rates pushed bond prices up as yields move inversely to prices. On May 30th, President Trump unexpectedly announced the US intends to implement 5% tariffs on all imports from Mexico effective on June 10th (the rate will rise by 5% every month thereafter until it reaches 25%). We will have more on the US/Mexico tariffs in the future as the issue is still developing.

In our opinion, the key event in May and the primary reason for the market turmoil was the negative development in the ongoing US and China trade war. Just when it looked like the two sides were approaching the finish line of a comprehensive trade agreement the negotiations took a few major steps backward. After the latest round of discussions in Beijing at the end of April, investors hoped a trade deal could be signed within a few weeks. However, on May 5th President Trump tweeted that China had reneged and were attempting to renegotiate key aspects of the agreement. As a result, the US raised the tariff rate on $200 billion worth of Chinese goods from 10% to 25%. The US also threatened to implement 25% tariffs on the remaining ~$300 billion worth of Chinese imports. China immediately responded by increasing the tariff rate on $60B worth of US goods starting on June 1st. To update the scoreboard, the US has implemented 25% tariffs on $250B worth of Chinese goods and China has placed 5-25% tariffs on $110B worth of US goods.

The main issue in the conflict appears to be evolving from trade deficits to technology. In May, President Trump signed an order granting the Commerce Department power to ban US companies from buying foreign telecommunications equipment. The Commerce Department also banned US companies from selling to Huawei Technologies, China's largest telecom equipment manufacturer, before announcing a handful of 90-day exceptions. Huawei has subsequently filed a lawsuit in a Texas court that challenges the restrictions. The proposed ban came about six months after Huawei's CFO was arrested in Canada at the behest of the US on charges of violating economic sanctions against Iran. Further reports also suggest that the Commerce Department is considering adding several Chinese surveillance companies to their restricted list while limiting US exports of quantum computing, robotics, and artificial intelligence. As of now, it is unclear if the actions by the Commerce Department are part of a negotiating ploy for the overall trade agreement. China has also yet to respond with similar penalties on US companies.

The trade war is major issue due to the potential negative impacts on economic and corporate earnings growth. The Federal Reserve Bank of New York estimated that the current tariffs will cost the average US household $831 per year due to higher prices and reduced economic efficiency. The current consensus estimate for 2019 United States GDP growth is +2.6% year-over-year. Bloomberg estimates that the current tariffs will decrease US GDP growth by-0.2% (-0.5% if the US implements 25% tariffs on all Chinese goods.) The current consensus estimate for 2019 S&P 500 earnings growth is about +4% year-over-year. Goldman Sachs estimates that current tariffs will decrease S&P earnings growth by-2% (-6.0% if the US implements 25% tariffs on all Chinese goods). Several companies have also stated they will raise prices, accept lower margins, or shift their supply chains out of China in response to the increased tariffs.

As of month end, there is no official meeting scheduled between the US and China to continue discussions. However, reports suggest that President Trump and Chinese President Xi will likely meet face-to-face at the G20 Summit in Japan at the end of June. Trump and Xi last met in person at the G20 Summit in Argentina in December of 2018 and were able to agree to a temporary trade war cease fire. While it is impossible to say exactly how the trade negotiations will play out, as the situation is very fluid and can change on a tweet, both sides have a lot to lose from the resulting economic damage. As we've previously stated, the trade war will remain a stock market risk and a drag on the global economy until an agreement is signed and all tariffs are eliminated. We remain optimistic that cooler heads will eventually prevail as an agreement would be in the best interest of both countries.

WINTHROP
WEALTH MANAGEMENT

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.

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.

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 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures performance of those Russell 3000 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 MSCI ACWI ex USA Index captures a large and mid cap representation across 22 or 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries. With 2,211 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs. With 495 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares represented at 5% of their free float adjusted market capitalization.

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.

Investing involves risk including loss of principal. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.