



BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY

May 2019

Good morning,

The Fed blinked. Record employment accompanied by moderate growth and low inflation finally grounded the hawks. The Fed's abrupt turnaround in their hawkish monetary policy was the catalyst the equity markets needed. Commensurate with our criticism of the FOMC's overly hawkish monetary policy in our November 2018 Investment newsletter, we are pleased that the Fed' has "pumped the breaks" on further rate hikes. The combination of moderate growth and low inflation will not require the Fed's heavy hand.

As we go to print, the S&P 500 Index and the NASDAQ are both near record highs that were set last September. What a crazy set of events. The market is basically back to levels seen six months ago, when "doom and gloom" triggered a stock market selloff of 14% in the fourth quarter, the worst quarterly loss since 1931. This market sell-off was immediately followed by a 13% gain in this year's first quarter - the biggest quarterly gain in ten years and the best first quarter in 20 years. To say the pendulum swung too far in both quarters is an understatement. Stock markets have a history of "overshooting" both on the downside and the upside.

What is most captivating about the recent rally is that investors seem to have all but forgotten the trade, tariff and slowing global growth issues that gave the market pause and led to last year's sell-off. While Fed fears have certainly waned, we're mindful that these other factors remain potential pain points that could yet impact the economy, corporate earnings and thus the stock market. So where do we go from here now that equities are again within reach of all-time highs?

Our balanced portfolio strategy has provided a large measure of safety while smoothing volatility. We think stocks can continue to slowly appreciate against this backdrop while anticipating perhaps a few hiccups along the way. We're mindful that though low interest rates, in general, make equities more appealing—taken alone this is insufficient justification to purchase shares absent additional compelling metrics. We continue to see value in the stocks we own. Their outlook is supported by strong fundamentals, growth projections and dividend income.

As always, corporate earnings drive the equity markets and have been an essential catalyst for year to date market performance and vital for further upward momentum for the remainder of the year. Those that forecasted weaker Q1 earnings growth underestimated the underlying strength of the U.S. economy. Quarterly earnings reported for the majority of S&P 500 companies continue to show strength in both their top and bottom lines. Nevertheless, many analysts are still projecting an earnings decline in the second half of the year. We shall see.

Within this context, investors have generally been skeptical about stocks as evidenced by outflows from equity funds into bond funds. We note that those that moved away from equities missed an all-important market rally in the first quarter of 2019. This underscores the importance of both remaining invested *and* reinvesting during market sell-offs and Blue Granite's strategy of buying companies we like at attractive valuations during sell-offs—as an essential aspect of enhancing your long term-returns.

Wishing you the best for the coming summer months and please call us if you would like to discuss any investment matters.

Kind regards,

Scott, John & Dave