BLUE GRANITE CAPITAL, LLC

INVESTMENT COMMENTARY
July 2019

We might be so bold to suggest that the Fourth of July fireworks shows were not only a celebration of our nation's independence, but perhaps also the stock market's exceptional performance in June. The S&P 500 Index gained 6.9% for the best June since 1955. The index has also risen 18.9% this year, for the best first half since 1997. Not to be left behind, The Dow Jones gained 7.2% for its best June since 1938, while very surprising - Treasury Bonds rose 7%, Gold 7% and Oil was up 9% for the month. After a stomach-churning fourth quarter for stocks, who would have predicted equity markets would blast-off this year and hit record levels.

What explains such robust market strength? The main catalyst was the recent pivot by the Fed to a more accommodative stance on monetary policy, after roiling the markets with their fourth rate increase last year on December 19th. The Fed's recently adopted "dovish" posture, signaled a willingness to cut interest rates to sustain economic growth and possibly avert or delay a recession.

Considerable economic and political factors continue to weigh on the Fed as they contemplate lowering interest rates. The markets, as they often do, have already fully factored in the rate cut well before the Fed's decision. Should the Fed in fact announce lower rates, markets may respond in a typical "Buy the rumor, Sell the News" manner. If the Fed holds rates steady, the markets may still sell off signaling rougher economic waters ahead. Simply put, a near-term reaction to the Fed's decision could be: 'heads we win, heads we lose'.

Equity markets appear determined to push onward and upward through recent record highs, as the fixed income market plays its supporting role manifested by a tremendous rally pushing long end rates much lower. The U.S. economy continues to thrive amid—and this is key—a somewhat mixed-bag of metrics including near-historic low unemployment rates, wage growth, assorted leading indicators, choppy global economics and a certainly volatile geopolitical landscape dominated by pundits' hand wringing over international tariff 'what-if's'.

We're pleased to report that, as of June 30th, the Blue Granite Core Strategy performance has kept pace with its respective market benchmarks, while maintaining its reduced risk objectives. We continue to seek leading, dividend-paying companies at favorable prices, while reducing portfolio risk and volatility through our fixed income holdings. We have also maintained our cash holdings as dry-*powder* to allocate to compelling companies as opportunities arise or during market pullbacks. While we aren't cheering for a market reversal, we certainly don't fear a pullback. Market corrections are necessary, present opportunity, and can offer a healthy pause before resuming upwards.

Stock market valuations are extended at these levels but certainly aren't unreasonable. Second quarter corporate earnings are beginning to rollout amidst lower growth expectations than we have seen in previous quarters. The numbers will not only be under the microscope, but the narrative on forward guidance will be a key component as well.

We are more than ten years into the current economic expansion and stock market rally, and our portfolios are comfortably positioned with an appropriate blend of stocks and bonds to weather storms if and when they occur. With a reasonable cash position, we are prepared to buy on the dips and effectively bargain hunt to enhance returns.

Wishing you the best for your summer months and in appreciation of your support.

Kind regards,

Scott, John and Dave