WELLESLEY INVESTMENT PARTNERS
WEALTH MANAGEMENT
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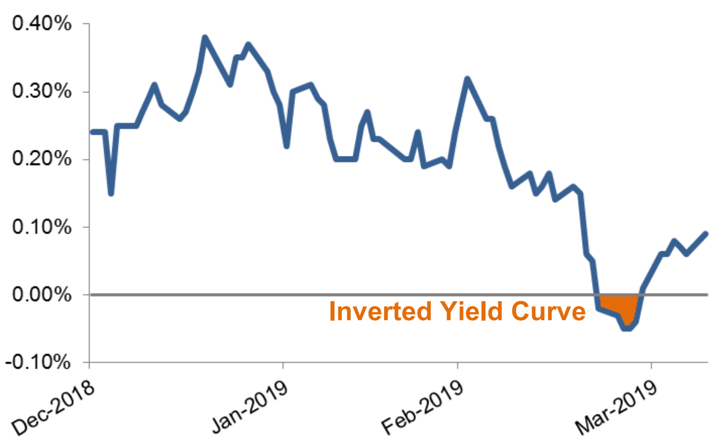
First Quarter 2019

Asset class performance deviated from the global economic picture during the first quarter of 2019. U.S. equities ended the quarter with strong gains of more than 13.5%, and non-U.S. developed and emerging market equities were not far behind. Despite this strong equity growth, the global economic picture became increasingly cloudy. Corporate earnings in the U.S. were weak and the yield curve inverted during the quarter, often a sign of impending recession (within 6 to 18 months). It seems that, for now at least, the inversion was only temporary.

10 Year Treasury Bonds Minus 3 Month Treasury Bills
(Constant Maturity, 1/1/2019-4/8/2019)



Data Source: Federal Reserve Bank of St. Louis

After raising the Federal Funds Rate four times in 2018, it now appears that the Federal Reserve (Fed) is on hold, citing concerns about the weakness of the global economy. In its March 2019 statement, the Federal Reserve noted: “Economic activity has slowed from its solid rate in the fourth quarter.” Other global central banks also turned dovish.

The International Monetary Fund (IMF) recently reduced its 2019 U.S. growth forecast to 2.3%, down from 2.5% it had forecasted in early January[a]. In addition, an increasingly tight labor market, in which hourly earnings were up 3.4% year-over-year in February 2019, the highest rate of increase in the current cycle[b], may be contributing to the erosion in corporate profit rates. Inflation currently seems well contained at 1.9%[c], just below the Federal Reserve’s 2% objective.

The divergence of asset prices from underlying economic conditions may reflect excessive complacency among investors, perhaps given the fear of missing out (FOMO). This could result in higher volatility as expectations adjust.

Performance of Notable Indices	Q1 2019	1-Year (4/1/18 – 3/31/19)
S&P 500 Index	13.7%	9.5%
U.S. Midcap Equities	14.5%	2.6%
U.S. Small Cap Equities	14.6%	2.1%
International Developed Market Equities	10.0%	-3.7%
Emerging Market Equities	9.9%	-7.4%
U.S. Core Bonds	2.9%	4.5%
Global Bonds	2.3%	0.3%
Gold, $/troy oz	0.8%	-2.5%

Data Source: Bloomberg. Total return indices unless otherwise stated.

Outside the U.S., Italy is already in recession, and Germany and the rest of the Eurozone are in a vulnerable state. The Global Purchasing Managers Index (PMI), a commonly utilized indicator of economic growth, has been trending downward since early 2018[d].

Our investment approach incorporates research into where we are in the economic cycle. Each cycle differs in some ways from the others, though they generally follow a distinct rhythm. As Mark Twain stated, “History does not repeat itself, but it often rhymes.” The economic cycle is generally viewed to be comprised of four stages: (1) Early-Cycle, (2) Mid-Cycle, (3) Late-Cycle and (4) Recession. Asset class performance tends to vary according to the particular location within the cycle.

We believe right now we are in the late stages of the cycle, during which economic growth rates slow and corporate profits deteriorate, both conditions that are unfolding as we write. At WIP, we currently favor high quality assets within both equity and fixed income. Large capitalization companies with strong financial health (low leverage) are relatively attractive when compared with weaker companies, and we believe investors should limit their exposure to high risk (high yield debt and emerging market debt) securities. We expect this approach to investing to add incremental value over time while reducing the risk of significant losses.

It is important, in our view, that investment strategies be agile and adaptable in a constantly shifting economic and financial landscape. We employ a disciplined, structured investment process that pays close attention to portfolio risk.

We hope that you are enjoying the start of spring. We are always available to answer any questions you may have, and welcome the opportunity to meet with you.

Michael Fung, CFA
Chief Investment Officer

John Balder
Global Strategist

a. IMF World Economic Outlook, April 2019, https://bit.ly/2PacEvK
b. Average Hourly Earnings of All Employees: Total Private, Federal Reserve Bank of St. Louis.
c. Consumer Price Index, March 2019. Bureau of Labor Statistics.
d. JP Morgan Global Composite PMI, tradingeconomics.com