CANNELL
&CO.

April 9, 2019

Dear Clients and Friends:

Well, what a difference three months makes. The market's hand-wringing and trepidation at the end of 2018 seemingly evaporated overnight and resulted in one of the largest quarterly rallies in the last decade and the best start to a year since 1998. This schizophrenic behavior begs the question "was 4th quarter or 1st quarter the correct evaluation of the stock market?" The answer may be both.

The sell-off at the end of last year left many stocks 20%-30% off their 2018 highs while they were still delivering solid earnings growth and increasing their dividends. This discounting of the market appeared to reflect the expectation of an impending recession driven by trade fears and a slowdown in global growth. So what was able to change the market psychology when solid earnings and growing dividends couldn't?

The most likely answer is the change in the Federal Reserve's positioning from hawkish to dovish. With Fed Chairman Powell acknowledging that the markets were sending a message, the January policy statement indicated that patience with respect to further tightening would be the current policy. This change appears to have had the dual effect of moderating interest rates and inflating asset prices – everything from stocks to commodities.

While the Fed's statements have fueled a rebound in asset values, they did not change the reality that many of the factors that exacerbated the 4th quarter sell-off are still present. We don't have a trade deal with China; Brexit is unresolved; and earnings growth is slowing. However, the factors that gave us, as investors, optimism during that time are also still present. We continued to see US economic growth (though slower), M&A activity is robust, dividends continue to grow and earnings remain positive.

In light of this conflicting information, we continue to maintain our focus upon the companies that we believe are able to navigate this challenging environment. We are cautious but still discover opportunities to find companies that are undervalued, growing and generating significant free cash flow.

Nevertheless, diligent and thoughtful management will not insulate our portfolios from the crosscurrents in the economy. The volatility of 2018 could return. As fiduciaries to you and your families, we want to make sure that we are managing your assets with an eye toward your goals and needs. We would be pleased to meet or speak with you on the phone if that would be helpful.

In closing, we wanted to say how excited we all are about Peter B. Cannell & Co.'s return to its roots as a partnership. It is our testament to you, our clients, that we are dedicated and committed to being your partner well into the future.

Thank you for your continued trust.

Best Regards,

The Partners of CANNELL & CO.

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