GRANT STREET ASSET MANAGEMENT, INC.

QUARTERLY LETTER

1ST QUARTER 2019

3/31/19

What a difference a new year can make for investor sentiment and psychology. Large cap U.S. equities have now recouped nearly all of the losses incurred during the fourth quarter of 2018, when markets seemingly (over)reacted to fears of an economic recession. The S&P 500 Index (Large Companies) gained 13.7% for the quarter, which represents the strongest quarterly gain for the benchmark index since 2009. Gains were broad-based, with all underlying sectors ending the quarter in positive territory for the first time in over four years. The primary areas of concern for investors in the fourth quarter were the same factors that drove markets higher in the first quarter, including the U.S./China trade deal and a miscalculation in Federal Reserve policy. As the quarter progressed, positive signals were disseminated from the U.S./China trade discussions, including pledges to purchase additional goods and consideration for intellectual property protections. While the original tariff escalation deadline was pushed beyond late March, we remain optimistic that a positive resolution will be achieved. Equity gains were wide-spread, with nearly all the major equity indexes gaining double-digit returns.

Index	1Q 2019
S&P 500 (Large Cos.)	+13.7%
S&P 400 (Mid-sized Cos.)	+14.5%
Russell 2000 (Small-sized Cos.)	+14.6%
MSCI EAFE (Europe, Australia & Far East)	+10.0%
MSCI Emerging Markets	+ 9.9%
MSCI ACWI (All Country World Index)	+12.2%

Federal Reserve policy, a significant headwind in the fourth quarter, turned into a primary driver of both equity and fixed income performance in the first quarter. The Federal Reserve announced that it now expects zero interest rate hikes in 2019 and anticipates just one increase in 2020. It would also end its balance sheet reduction by the third quarter. This messaging came as a complete reversal from planned policy just three months earlier. Investors cheered the policy shift as concerns were mounting that the Fed would raise interest rates too much and inadvertently slow the economy. In response, amid slowing global growth and a pause by the Fed, investors sought out government bonds, pushing the 10-year U.S. Treasury yield lower by 28 basis points to 2.41%. High quality fixed income benefited from the decline in yields, while below investment grade bonds experienced a sharply higher return alongside other risk assets like equities.

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After the Federal Reserve's announcement, the likelihood of higher interest rates on the short-end of the yield curve has declined, at least for the time being, and we used the opportunity to increase the core fixed income allocation, which continues to provide ballast against equity market volatility.

Index	**1Q 2019**
Bloomberg Barclays U.S. Aggregate Bond	+2.9%
Bloomberg Barclays Municipal Bond	+2.9%
Bloomberg Barclays U.S. Corporate High Yield	+7.3%

International equity markets also experienced a rebound in equity returns despite ongoing trade negotiations and Brexit concerns. The quarter ended with as much uncertainty surrounding the United Kingdom's exit from the European Union as ever. Prime Minister Theresa May was unsuccessful in a third attempt at passing a deal through Parliament in March. With little confidence remaining in the Prime Minister's ability to successfully broker a deal that will be approved, we anticipate a delay will be granted to the UK by the European Union. A more positive development in the European region, at least for equity market returns, is that the European Central Bank announced they would begin monetary stimulus measures again to offset recent economic weakness in the region. Similar to the U.S. Federal Reserve's messaging, this is quite a reversal of policy plans compared to those communicated throughout 2018. European equity markets have historically been quite responsive to monetary stimulus, and we are hopeful that this will benefit our international holdings.

Another highlight of the first quarter was the energy sector. After a very challenging fourth quarter in which investors shunned commodities over recessionary fears, West Texas Intermediate Crude Oil price gained nearly 30% in the first quarter, and oil outpaced all other major commodities for the quarter. This rebound was also the result of OPEC members adhering to announced production cuts. While our energy theme is one of the best performing segments in portfolios for the first quarter, a disconnect remains between the dramatic increase in the price of oil and the underlying companies' stock returns. We anticipate that the stocks will "catch up" to the underlying commodity returns on the back of strengthening international manufacturing data and attractive valuations in the sector.

As we discussed in the supplement to our fourth quarter letter, the global economic data that we track regularly led us to a conclusion that while the economy appears to be decelerating, it still reflects an overall expansionary posture. The economic data thus far in 2019 has experienced a recovery from levels in late 2018. The unemployment rate remains below 4%, at a near 50-year low, and non-farm payrolls continue to grow. After leveling off in late 2018, the leading economic indicators shifted slightly higher to reflect an economy in expansion once again in 2019. Global manufacturing surveys remain above the expansionary level of 50, and improvements in the survey were registered in Asia in the first quarter, a positive signal that global manufacturing could be rebounding. While these metrics have not returned to previously achieved highs reached in third quarter 2018, the overall trend has shifted towards the positive side once again. Within portfolios, we remain growth oriented within equity allocations and have positioned the bond side with higher quality fixed income to act as a true hedge against equity volatility, which will likely ebb and flow throughout the year. Accommodative global monetary policy and a controlled inflationary environment creates a solid backdrop that should benefit and support equity markets.

Grant Street Firm Update:

Grant Street celebrated its 26-year anniversary during the first quarter in March. Our team started many years ago with just three employees and a primarily Pittsburgh-based group of clients. Through growth and referrals from our clients, we have grown our team to 12 employees in offices in Pittsburgh and Charlotte, North Carolina, and we now work with clients across 29 states. We are truly grateful for the long-term relationships with our clients, and we are honored to have the opportunity to work for you.

We wish to share with you the completion of a long-planned transition of the leadership team at Grant Street. As of this first quarter 2019, Kristen Jackson was named President and Chief Executive Officer. Kristen has been with Grant Street since 2005 and started her career with Grant Street as an analyst. Her position grew to that of Chair of the Investment Committee and senior advisor to our clients, both families and institutions. Kristen has obtained the Chartered Financial Analyst (CFA) designation, which globally represents one of the highest distinctions in the investment management profession. Michael Evans, our past President and founder of our firm, has been named Executive Chairman. With over forty years of investment management and client experience, Michael continues his work in the office daily as a senior advisor to clients and an active member of the Investment Committee. This transition of leadership has been in development for many years. With the long-term nature of our client relationships in mind, we have thoughtfully built a team of experienced and tenured advisors and operations professionals to provide the investment management and service our clients have come to expect from their Grant Street team.

Sincerely,

Michael M. Evans
Executive Chairman

Kristen E. Jackson, CFA
President & Chief Executive Officer

Michael C. Loch
Vice President/Director of Research

John S. Ferraro
Senior Vice President

Patrick T. Evans
Sr. Financial Advisor/Portfolio Manager

Brian W. Conway
Vice President/Senior Research Analyst

Terry L. Pfeffer
Senior Vice President