WINFIELD ASSOCIATES

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Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

Following a volatile fourth quarter of 2018, US equity markets recovered sharply in the first quarter of 2019, reacting to two positive developments. First, and perhaps most importantly, the Federal Reserve Open Market (FOMC) pivoted away from a tightening stance to a neutral position, thereby reducing the near-term risk of a recession induced by monetary policy error. Secondly, US-China trade tensions eased, raising hopes that a comprehensive deal was near. The combination of FOMC neutrality and improved US-China relations sent stocks soaring from depressed levels at the start of the year. In January alone, the S&P 500 appreciated 7.8%, an all-time record for the first month of a year. The upward trend slowed during February and March but overall, the S&P 500 posted a 13.6% gain for the first three months of 2019, the index's largest quarterly gain since the third quarter of 2009.

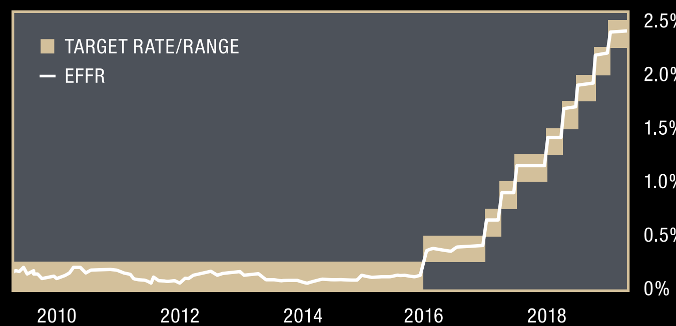
International equity markets shared in investors' renewed enthusiasm despite mixed outlooks for regional and global growth. During the first quarter, the MSCI EAFE Index rose 9.7%, and the MSCI Emerging Markets Index climbed 10.0% despite weak economic data from China and the Eurozone. In particular, China reported that economic growth in the first quarter slowed to 6.4%, its weakest pace in 27 years. Germany narrowly avoided a technical recession at the end of 2018, posting fourth quarter GDP growth of 0.0% after shrinking -0.2% in the third quarter. Global trade growth collapsed in the fourth quarter 2018 and weakness continued through most of the first quarter 2019 as the ongoing tariff war between the United States and China decimated the imports and exports of both countries. Nonetheless, optimism surrounding US-China trade negotiations and global central banks' neutral stance lifted international equity markets nearly across the board albeit unevenly. For the first quarter of 2019, Germany rose 7.0%, Japan climbed 6.8%, and China rose 17.7%.

The US Federal Reserve's policy shift became most apparent in January as the FOMC pledged to be "patient" before implementing additional rate hikes. Remarkably, in a matter of just six months, the median FOMC meeting participant went from forecasting four more rate hikes — three in 2019 and one in 2020 — to just one, in 2020. The median FOMC participant also downgraded economic expectations for 2019 for real GDP growth from 2.5% to 2.1%. Median expectations for the unemployment rate rose from 3.5% to 3.7% and fell for core PCE inflation, from 2.1% to 2.0%. It is clear that consensus at the Fed changed from controlling inflationary pressures in 2018 to concerns with a slowing US economy, particularly in the first half of 2019.

The graph below illustrates the Federal Funds Rate for the past ten years. The Federal Funds Rate is a short-term rate objective or "Target Rate" of the Federal Reserve Board. It can be expressed as a specific rate or a range of rates as demonstrated by the tan band in the graph. The Actual Rate also known as the Effective Federal Funds Rate (EFFR) is illustrated by the white line. The EFFR is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. The Actual Rate changes daily but is usually close to the Target Rate or within the range desired by the Federal Reserve. Adjustments to the Federal Funds Target Rate are made by the FOMC usually at regularly scheduled meetings. The Fed Funds Rate reported in the chart is based upon the Fed Funds Rate on the first day of each respective month.

FEDERAL FUNDS TARGET RATE

APRIL 15, 2009 - APRIL 15, 2019



Source: Federal Reserve Bank of New York

The graph is a reminder of the duration of the Federal Reserve Bank's unprecedented easy money policy. From December 2008 through December 2015, the Fed held the Target Rate between 0 and 0.25 to stimulate the economy following the Great Recession. When the Fed began to raise the Target Rate at the end of 2015, most economists expected a gradual return to normalcy to stave off inflationary pressures. However, in just three years, the Fed raised the Target Rate eight additional times to the current range of 2.25 to 2.50 with four of these increases in 2018 alone. In all likelihood, the Fed has re-evaluated the pace of the return to normalcy and will now leave rates unchanged even if US GDP growth exceeds the Fed's forecast of 2.1% and the unemployment rate continues to fall. It appears the Fed is now willing to accept the risk of inflation exceeding its 2% target to ensure the recovery from the financial crisis is complete. Moreover, if economic growth slows, some economists speculate a Target Rate decrease later this year. It seems clear the Fed is reacting to financial markets and is managing to prevent another steep market decline.

(Continued on back)

(Continued from front)

While broad economic data are flashing signs of a rapid slowdown, the US labor market continues to improve. The unemployment rate remains around its 49-year low at 3.5%, and labor force participation rates have risen for "prime age" adults (ages 25–54), returning 1.9 million Americans to the workforce since 2015. The demand for labor remains high, with a near record 7.6 million open jobs as of January 2019. Wage growth, while still below pre-crisis levels, is grinding higher and has strengthened for low wage jobs in particular. The combination of improved employment prospects and stronger income growth should continue to support consumption and economic growth.

The first quarter rally in equity markets has returned the S&P 500 to a valuation roughly in line with mid-2016 and mid-2018 levels at 16.2x forward earnings multiples. Other US equity indexes like the Dow Jones Industrial Average and the technology-heavy NASDAQ Index have also recovered to more normal valuations even as earnings expectations have declined. While US equity valuations are not as attractive as they were at the start of 2019, stocks remain below the 18.5x forward earnings peak in early 2018. We expect both slower economic and earnings growth in the US through the remainder of the year. Nonetheless, stronger fundamentals of the US market and economy, relative to global markets, warrant a premium to other markets around the world.

Perhaps one of the greatest remaining concerns to investors is the flattening bond yield curve. As of April 15, the yield of the 2-year US Treasury bond was 2.40% while the yield of the 5-year Treasury bond was 2.37%, an inversion on an otherwise flattish curve. Importantly, the yield curve has inverted prior to the last nine recessions, so some investors are concerned that the current yield curve flattening could be a harbinger of a recession. We believe this flattening does not currently foreshadow recession as the Federal Reserve is normalizing rates from extremely accommodative levels, not raising them to curb inflation, which is essentially non-existent. Moreover, the flattening yield curve appears to be the result of institutional demand for portfolio insurance against the type of systemic risk experienced in 2008. With long rates for other developed market governments near zero, only longer-dated Treasuries may offer price appreciation protection against such a systemic event. Nonetheless, we will continue to monitor bond yields for signals of weakness.

FIRM BROCHURE

In March, Winfield filed an updated Firm Brochure with the United States Securities and Exchange Commission (SEC). This brochure provides information about the qualifications and business practices of our company. Clients of Winfield received a copy of the Firm Brochure at the end of the first quarter. Information about Winfield is also available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 108969.

MARKET PERFORMANCE

	1Q 2019	2018
Dow Jones	11.8%	-3.5%
S&P 500	13.6%	-4.4%
Nasdaq	16.8%	-2.8%
Russell 2000	14.6%	-11.0%
MSCI EAFE	10.0%	-13.8%
Barclays Agg	2.9%	0.0%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS

- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS

- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS

- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS

- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES

- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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