CYPRESS
ASSET MANAGEMENT, INC.

MARKET COMMENTARY **April, 2019**

A remarkable dovish turn in Fed policy and improved prospects for a trade deal helped stocks to bounce back strongly in the 1Q2019. The S&P 500 posted its best quarterly return (+13.5%) in almost a decade and its best 1Q since 1998.

The global economic outlook brightened considerably over the course of the first quarter. Last year's correction of 19.5% in the S&P 500 from September 20 through December 24 was triggered by fears of a global recession brought on by a seemingly implacable tightening in U.S. monetary policy and the trade war between China and the U.S., the world's two largest economies. A growth scare, a Fed scare, and a trade scare all combined to send the market into a panic.

Green Shoots in the Spring & a Peace Dividend too…

Since December 24th however, the global outlook and investor confidence have improved considerably and we have seen the growth scare subside with green shoots of growth appearing not only in the U.S. economy but in China and around the world in response to policy stimulus.

In a remarkable turnaround, the Fed not only abandoned the idea of raising rates again over the foreseeable future, but indicated that it was also likely to pause, at least temporarily, its program of balance sheet reduction.

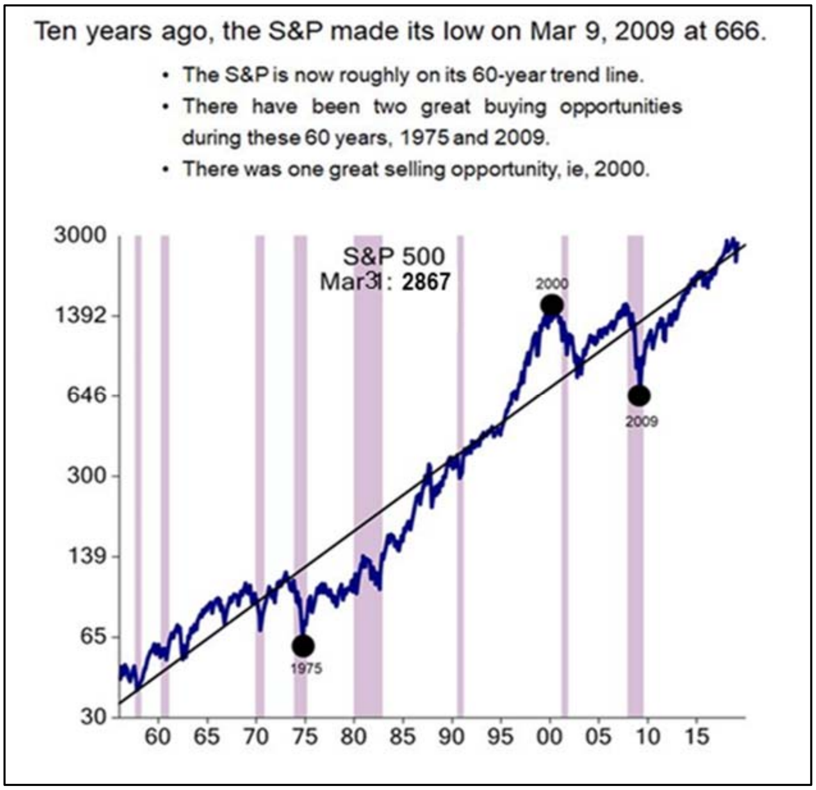
Hopes for a trade deal between the U.S. and China improved as the quarter progressed, providing an additional boost to markets. The fact that talks have gone past the original deadline of March 1 set by President Trump is viewed as a good sign. The two sides appear to be making progress on a number of different fronts and the increased attention to detail increases the chance for a meaningful deal in May or June. We expect that a deal will be concluded by mid-year. If so, we expect it to produce a "peace dividend", which will boost global economic growth and confidence which has been weighed down by trade uncertainties.

The U.S. Economic Expansion could go on for years

We would agree with Jamie Dimon that the U.S. economy is in a good place today. When JP Morgan reported its quarter last week, Dimon said the U.S. economic expansion "could go on for years":

> *The expansion that began after the financial crisis has no expiration date…if you look at the U.S. economy, the consumer is in good shape, balance sheets are in good shape, people are going back to the workforce, companies have plenty of capital…some confluence of events at some point in the future will cause a recession, I don't know what those are and nobody knows what those are…*

It would make sense for the market to pause around the current level, with the S&P 500 at 2900, and consolidate its recent gains. The market currently trades at about 17x consensus earnings for this year (assumes only 4% growth) and 16x times the consensus for 2020. In order to move through the current range and achieve new highs in the second half we probably need to see a pick-up in economic growth and corporate profits. We think both are likely given the prospects for a peace dividend from a China trade deal (as noted above), a continued dovish Fed, and improving growth in China and the rest of the world.



Evercore ISI – March 2019

Conclusion

In the past, Cypress has often sent a market summary under the caption, "Good News/ Bad News." The last quarter of 2018 and the first quarter of 2019 are bookends in that very juxtaposition. As we have addressed, the fourth quarter was an awful quarter from a performance perspective because there was the specter of so many troubling issues looming over the market, particularly issues of earnings growth prospects in light of the Fed's interest rate policy and unresolved trade discord. In addition, the political turmoil of the Mueller investigation simmered beneath the surface, threatening to boil over at a moment's notice. The first quarter of 2019 resolved, at least partially, most of those issues. The Fed's dovish pivot sparked a wave of buying as investors could suddenly see the path forward not in light of bad news but rather good news. Jobs growth looks solid, GDP and corporate earnings should continue to strengthen, inflation remains under control and the economic future looks steady if not improving off a strong base. Investors have reason to think that a deal with China can be consummated in the future and this outcome makes sense for both nations. Finally, the sticky political wicket of the Mueller probe is ending as we speak. Given the significant U-turn in events, quarter to quarter, the market responded with historically strong performance in 1Q19.

We believe it is important to point out that the market remains fairly valued by historical standards. Given what we have been through in the last two quarters, we are pleased that our Cypress portfolios have fared quite well, preserving wealth in the 4Q18 weakness and exhibiting significant growth in the 1Q19 rebound. Going forward, we remain positive on market returns for 2019 and want to, once again, convey how much we appreciate the chance to work for you.