Outlook/Review

The first quarter was a strong one for equities in the US, with major indices rebounding and recouping much of the declines suffered in December. We do not believe that the severity of the declines in December were driven by fundamentals, but rather by technical factors, including quantitative trading and also tax loss selling by investors. The economy in the US remains fundamentally healthy, with low unemployment and generally robust levels of GDP growth and business activity[i]. There are areas of concern that have arisen, however, and we will be watching them for cues to increase our level of caution[ii]. These factors include a partially inverted yield curve in the US (often an early harbinger of recession), and sharp slowdowns in the economies of China and Germany[iii]. While the US economy remains relatively strong in our opinion, the Fed has taken note of slowing in other economies and has paused rate hikes for the time being. We believe that this policy is supportive of equities for the near future.

Strategy Review & Positioning

Anchor's Balanced strategy outperformed the 60/30/10 (R1000V/BCIGC/CG90TBill) Blended Benchmark in the first quarter. The top three factors that contributed to performance were security selection in Financial Services, a sector overweight in Technology, and an underweight to Fixed Income. The largest detractors from performance were security selection in Energy, security selection in Health Care, and security selection in Materials & Processing.

PayPal Holdings Inc. (PYPL) was the largest contributor to performance in the first quarter, followed by Microsoft Corporation (MSFT), Analog Devices (ADI), Baxter International Inc. (BAX), and Apple Inc. (AAPL). The largest detractors from performance were Biogen Inc. (BIIB), Pfizer Inc. (PFE), Berkshire Hathaway Inc. Class B (BRK.B) SunTrust Banks, Inc. (STI), and Amdocs Limited (DOX).

Five names were added to the portfolio during the first quarter: TE Connectivity Ltd (TEL), Amdocs (DOX), SunTrust Banks Inc. (STI), CDK Global (CDK) and A.O. Smith Corporation (AOS). We exited three names during the quarter: Welltower Inc. (WELL), Wells Fargo & Co. (WFC) and Sabra Health Care (SBRA).

We brought down our equity allocation slightly in the quarter. We used strength to sell names where we thought their ability to raise dividends was impaired and reinvested the proceeds into better valuations and outlooks. Our pool of investable name continues to grow. Notable purchases in the quarter include TE Connectivity (TEL), a global leader in connectivity and sensor solutions for the transportation, industrial and communication sectors. In our opinion, TE Connectivity continues to outpace the broader market as connector and sensor content per vehicle or device increases. We believe that Amdocs (DOX) has a niche in providing software and service solutions to the communications and media markets. In our estimation, the company has no debt, generates good amounts of cash, and is dedicated to growing the dividend. From our read, we were able to buy the stock at the cheapest valuation it has traded at in five years. Our timing in purchasing SunTrust (STI) was fortuitous, as the company received a takeover bid from BB&T Bank soon after our purchase. We own BB&T, and we believe the two banks together makes for a more solid investment. CDK Global is the market leader in providing integrated information technology to the automotive retail industry[iv]. We believe the technology edge that CDK provides is a competitive advantage to its customer base, and the opportunity for CDK to add new products and take market share is only increasing. A.O. Smith is a global manufacturer of residential and commercial water heating equipment and purification products[v]. We believe that the market is not assigning a fair value to the business considering the company's dominant share in water heaters, growth trends in China and India, water and air purification opportunity, and the management's disciplined capital allocation.

The yield curve inverted from 1 year out to 7 years in March[vi]. Most importantly, in our opinion, the Fed has finally issued guidance that the rate hiking cycle is over, at least for 2019. From our read, the forward curves are pricing in a rate cut by the end of 2019 or early 2020. We do not think the Fed will cut rates this year, but it looks like the Fed is ready to react to any weakness in the U.S. economy. As the old investing mantra goes, “don’t fight the Fed”.

Inflation readings continue to weaken, from our read, and the Fed is not hitting its stated goal of 2% inflation[vii]. This adds to our view that rates will stay lower for longer.

Including our cash position, the duration of the total bond portfolio is about 2 years.

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[i] U.S. Department of Commerce; https://www.usa.gov/federal-agencies/u-s-department-of-commerce
[ii] FactSet financial data and analytics; Business Description
[iii] U.S. Federal Reserve; https://www.federalreserve.gov/
[iv]https://www.cdkglobal.com/us
[v]https://www.aosmith.com/
[vi] Factset financial data and analytics; Tullett Prebon
[vii] www.stlouisfed.org/open-vault/2019/january/fed-inflation-target-2-percentite