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### **Outlook/Review**

The U.S. equity markets continued to rally into the second quarter as companies reported better than expected earnings. S&P 500 companies reported first quarter earnings growth of 1.6% versus expectations for negative earnings growth.<sup>i</sup> In late April, it was announced that U.S. and China trade talks had stalled and President Trump was implementing a 25% tariff on \$250 billion of imported goods.<sup>ii</sup> President Trump also banned U.S. companies from supplying communication equipment to the Chinese company, Huawei.<sup>iii</sup> As a result, U.S. equity markets declined 6% in May.<sup>iv</sup> Meanwhile, the 10 Year Treasury Bond rallied with its yield dropping by 0.50% to 2.0%.<sup>v</sup> With slowing global economic growth the Federal Reserve has indicated that it may cut interest rates by year end.<sup>vi</sup> With an expected interest rate cut, the U.S. equity markets have rallied back in June, ending the quarter about where they started.<sup>vii</sup> While forecasters are expecting slower growth in the U.S. and globally, the economic conditions remain fairly stable with employment continuing to be strong and consumer confidence remaining high.<sup>viii</sup>

### **Strategy Review & Positioning**

Anchor's Mid Cap Value strategy outperformed the Russell Mid Cap Value Index in the second quarter. The top three factors that contributed to outperformance were security selection in Health Care, Financial Services, and Consumer Staples. The largest detractors to performance included security selection in Producer Durables and Technology, as well as an overweighting in Consumer Discretionary.

Hasbro, Inc. (HAS) was the largest contributor to performance in the second quarter, followed by Broadridge Financial Services Inc. (BR), Woodward Inc. (WWD), Booz Allen Hamilton Holding Corporation (BAH), and Casey's General Stores, Inc. (CASY). The largest detractors included KAR Auction Services, Inc. (KAR), Conduent, Inc. (CNDT), CDK Global Inc. (CDK), Huntsman Corporation (HUN), and A. O. Smith Corporation (AOS).

Five names were added to the portfolio in the second quarter, Equifax Inc. (EFX), KAR Auction Services, Inc. (KAR), Henry Schein, Inc. (HSIC), Mohawk Industries Inc. (MHK), and Waters Corporation (WAT). Additionally, we exited three names during the quarter, Western Union Company (WU), Conduent Inc. (CNDT), and SunTrust Banks, Inc. (STI).

Equifax is a leading global provider of information solutions and human resources process outsourcing.<sup>ix</sup> We believe the company is getting past the data breach, will accelerate its growth with innovation, and is poised for margin expansion. KAR Auction Services operates whole car and salvage auction markets, as well as floorplan financing.<sup>x</sup> We believe, with the company splitting into two pieces, that the sum of the two parts is worth more than the valuation of the company as one entity.

Henry Schein is the largest distributor in the dental market.<sup>xi</sup> The company became undervalued due to slowing growth. With new product innovation in the dental space, growth should accelerate, leading to a re-rating of the businesses valuation. Waters Corporation is a leading manufacturer of liquid chromatography and mass spectrometry instruments.<sup>xii</sup> We like the company's history of consistent growth, and defensive nature of its earnings profile.<sup>xiii</sup> Finally, Mohawk Industries is a leading manufacturer and distributor of flooring products.<sup>xiv</sup> We believe the company's shares are out of favor due to a perfect storm of issues in 2018. In our opinion, it has the opportunity to return to growth, and has the opportunity for margin expansion.

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<sup>i</sup> [https://www.trpropresearch.com/pdf/SP500\\_Earnings\\_Scorecard.pdf/](https://www.trpropresearch.com/pdf/SP500_Earnings_Scorecard.pdf/)

<sup>ii</sup> <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>

<sup>iii</sup> Ibid.

<sup>iv</sup> FactSet Data & Analytics, Charting

<sup>v</sup> Ibid.

<sup>vi</sup> <https://www.nytimes.com/2019/06/21/business/economy/fed-trump-interest-rates.html>

<sup>vii</sup> FactSet Data & Analytics, Charting

<sup>viii</sup> <https://www.schwab.com/resource-center/insights/content/sector-views>

<sup>ix</sup> FactSet financial data and analytics; Equifax Business Description

<sup>x</sup> FactSet financial data and analytics; KAR Auction Services Business Description

<sup>xi</sup> Henry Schein Q1 n2019 Investor Presentation Slide 4

<sup>xii</sup> FactSet financial data and analytics; Waters Corporation Business Description

<sup>xiii</sup> FactSet financial data and analytics; Waters Corporations 10 Years Earnings Chart

<sup>xiv</sup> FactSet financial data and analytics; Mohawk Industries Business Description

For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800.

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