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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.ⁱ 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.ⁱⁱ President Trump also banned U.S. companies from supplying communication equipment to the Chinese company, Huawei.ⁱⁱⁱ As a result, U.S. equity markets declined 6% in May.^{iv} Meanwhile, the 10 Year Treasury Bond rallied with its yield dropping by 0.50% to 2.0%.^v With slowing global economic growth the Federal Reserve has indicated that it may cut interest rates by year end.^{vi} With an expected interest rate cut, the U.S. equity markets have rallied back in June, ending the quarter about where they started.^{vii} 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.^{viii}

Strategy Review & Positioning

Anchor's Balanced strategy underperformed the 60/30/10 (R1000V/BCIGC/CG90TBIII) Blended Benchmark in the second quarter. The top three factors that detracted from outperformance were security selection in Consumer Discretionary, Producer Durables and Materials and Processing. The largest contributors to performance included security selection in Consumer Staples, and Technology, and an underweighting in Financial Services.

Microsoft Corporation (MSFT), was the largest contributor to performance in the second quarter, followed by PayPal Holdings Inc (PYPL), TE Connectivity Ltd. (TEL), Booze Allen Hamilton Holding Corp (BAH), and Walmart Inc. (WMT). The largest detractors included, KAR Auction Services, Inc. (KAR), Occidental Petroleum Corporation (OXY), DuPont de Nemours, Inc. (DD), Conduent, Inc. (CNDT), and CDK Global Inc (CDK).

Five names were added to the portfolio during the second quarter, Parker-Hannifin Corporation (PH), KAR Auction Services, Inc. (KAR), Huntsman Corporation (HUN), Waters Corporation (WAT), and M&T Bank Corporation (MTB). Additionally, we exited four names during the quarter, Federated Investors, Inc. (FIL), Biogen Inc. (BIIB), Baxter International Inc. (BAX), and Conduent Inc. (CNDT).

KAR Auction Services operates both whole car and salvage auctions.^{ix} We purchased KAR on the thesis that significant value could be realized if the company were split into two operating companies. The management of the company diligently worked towards this goal and the split was completed in the second quarter. We now own shares of KAR (whole car auctions) and IAA (salvage auctions).

Dow DuPont de Nemours (DWDP) completed a double spin in the quarter and we now own three unique companies, Dow, Inc. (DOW), DuPont de Nemours, Inc. (DD), and Corteva Inc. (CTVA).^x Dow is now a focused chemical, coating and adhesive company serving product manufacturing globally. Their products are used in technology manufacturing processes, consumer goods, building materials and health products. Dow is focused on efficiency and cash flow and, from our read, is dedicated to paying a significant and growing dividend.^{xi} The "new" DuPont is focused on specialty chemicals. Their competitive advantage is a dominant market share in non-commodity, branded products. Examples include Kevlar (body armor and industrial uses), Tyvek (building products), Corian (specialty surfaces), and Sorona (eco-efficient performance fibers).^{xii} Corteva is the global leader in seed and fertilizer technology.^{xiii}

We have followed Parker Hannifin for many years and used weakness early in the quarter to add the stock to our portfolio. PH is a globally diversified industrial company. We think Parker has a conservative balance sheet management style and that the company will be able to drive returns on capital and increase the dividend over time. Huntsman is a global chemical company focused on polyurethanes and advanced materials for the aerospace and power markets.^{xiv} We believe the current valuation does not discount the job Huntsman has done cleaning up their balance sheet and increasing free cash flow. The company is now focused on shareholder returns and is dedicated to increasing the current 3.5% dividend. M&T Bank is a super-regional bank focused on the New York and Mid-Atlantic markets.^{xv} We believe M&T is the best managed bank in the country. From our read, it is focused on ROE and shareholder return metrics. The company has shown over time that they will not grow just for growths sake, and have made it very clear that they will return capital to shareholders if banking returns are not adequate.

Most of the yield curve remains inverted. As of 5/31 the 10-year Treasury bond yields approximately 2% while the Fed Funds rate is 2.5%.^{xvi} The forward future curve looks to be forecasting three 25 basis point cuts in the Fed Fund rate in 2019. We believe this is very much in the cards. From our read, the spread between U.S. yields and global developed market yields is too wide, and global forward indicators of economic growth continue to weaken. Global central banks have shown a willingness to add stimulus, and in our opinion, it will be dangerous for the Fed to hesitate. Additionally, inflation is not at the Fed's 2% goal. Early in the first quarter, we added duration to the Balanced portfolio, starting the second quarter at approximately 2.7 vs. 2.0 years at the beginning of the first quarter.

ⁱ https://www.trpropresearch.com/pdf/SP500_Earnings_Scorecard.pdf/

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

ⁱⁱⁱ Ibid.

^{iv} FactSet Data & Analytics, Charting

^v Ibid.

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

^{vii} FactSet Data & Analytics, Charting

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

^{ix} <https://karauctionservices.com/>

^x FactSet financial data and analytics; Attribution

^{xi} <https://www.dow.com/en-us>

^{xii} https://www.dupont.com/now.html?src=us_now-sem-goo-br-core-ex&gclid=EAlalQobChMI5o7U6_-Y4wIVhP_jBxiXg5REAYASAAEgLLmPD_BwE

^{xiii} https://www.corteva.us/?gclid=EAlalQobChMIhYTQgYCYZ4wIVClnICh2yLw9vEAYASAAEgluo_D_BwE

^{xiv} <https://ir.huntsman.com/>

^{xv} <https://www.mtb.com/home-page>

^{xvi} FactSet financial data and analytics; Summary

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

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