

# Market Commentary Q1 2019: The Rebound

Looking back over the first few months of 2019, we've experienced two sizeable rebounds:

First, the Virginia Cavaliers rebounded dramatically – from last year's stunning defeat to the #16-seeded University of Maryland, Baltimore County Retrievers – to cutting down the nets as this year's NCAA Men's Basketball National Champions.



Figure 1: University of Virginia Moods: 2018 vs. 2019

Secondly, after a tumultuous closeout to the 2018 calendar year – which saw the S&P 500 Index drop 20% from its 52-week high in October to its 52-week low in December – the U.S. market has roared back to start 2019.

Ten years into a bull market where the S&P 500 is up over 250% since the lows of the Global Financial Crisis, equity investors are on edge. And with the '08-'09 market crash permanently ingrained into our minds, the persistent questions of when and to what degree this great ride might ultimately end lingers on with many investors today.

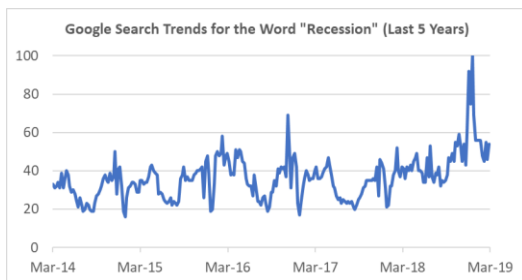


Figure 2: Relative Search Interest for "Recession" (100 Indicates Peak).

Toward the end of 2018, headlines were dominated by growing fears of an escalated trade war with China, as well as worries that continued rate hikes at the Federal Reserve could lead to a recession. Panic is contagious – and as the *Google Search Trends* graph to the left would indicate – searches for the word "recession" peaked in December of last year.

Nevertheless, the fundamentals of the U.S. market – including metrics such as revenue and earnings – have remained robust, and optimism has returned home in 2019. The Federal Reserve – likely in response to signs of weaker global growth and low inflation – has altered course and confirmed that it will cease its quantitative tightening program for the foreseeable future. Further, President Trump has eased investor worries of a trade war escalation by delaying an additional wave of tariffs on \$200 billion of Chinese imports. These combined actions have provided some fuel to the stock market: following a 14% decline in Q4 2018, the S&P 500 Index returned 14% through the first quarter of 2019.

Our historical research shows that during times of uncertainty, equity investors gravitate towards higher-quality companies that have sustainable business models and can generate excess free cash flow across most market environments. This provides a degree of ballast and mitigates the potential downside in tough times relative to the broader stock market.

With the abundance of equity market volatility over the past six months, our Hedgehog principle – which emphasizes building client portfolios comprising high-quality, dividend growing companies – has been put to the test. This strategy has been validated and performed as expected,



Figure 3: Our Guiding Investment Principles

exhibiting just two-thirds of the S&P 500's decline during Q4 2018, and keeping pace with the market in the first quarter of 2019.

The second pillar of our investment philosophy, outside of quality, is finding companies that consistently give back a portion of their annual cash flow to shareholders in the form of a rising dividend. So far in 2019, the companies in our Hedgehog strategy that have announced dividend increases this year have done so at an average rate of over 11%. That means more income for our clients that need it today, and more income to be reinvested for those that need it tomorrow.

Benjamin Graham – the father of value investing, and mentor to Warren Buffet – famously said “in the near term the market is a voting machine, in the long term it is a weighing machine.” While investor sentiment will ebb and flow based on the latest newfound fears, newborn optimism, and/or an occasional Presidential tweet, our team continues to focus on the long-term. From a stock perspective, that means focusing on companies that have demonstrated sustainable, competitive advantages over the long term, and that we believe can continue in the future. And from a client perspective, that means focusing on your long-term investment goals.

Q1 2019 Announced Dividend Raises		
Ticker	Company	% Increase
CHD	Church & Dwight Co Inc	4.6%
CINF	Cincinnati Financial Corp	5.7%
CVX	Chevron Corp	6.2%
DEO	Diageo PLC	4.8%
GILD	Gilead Sciences Inc	10.5%
MMM	3M Co	5.9%
UNP	Union Pacific Corp	10.0%
CSCO	Cisco Systems Inc	6.1%
HD	Home Depot Inc/The	32.0%
KO	Coca-Cola Co/The	2.6%
TJX	TJX Cos Inc/The	17.9%
ORCL	Oracle Corp	26.3%
<b>AVERAGE:</b>		<b>11.1%</b>

Figure 4: Hedgehog Dividend Raises

### Hedgehog Spotlight



McCormick Inc. (NYSE: MKC): McCormick is the global leader in flavor. Founded in 1889, McCormick sells its spices, seasonings, and condiments to consumers, restaurants, and food manufacturers in 150 countries across the world. We admire the company's unique pricing power within the food industry given that, while its products are a small input cost, they are a highly critical component to the taste of any meal. McCormick has generated returns on equity above 20% since 1997 and has raised its dividend for 33 consecutive years.