Hemenway Trust Company LLC

Summer 2019 Investment Report

Last Print Issue!

The *Quarterly Investment Report* will be sent via email only from this point forward, unless you request to receive a printed report.

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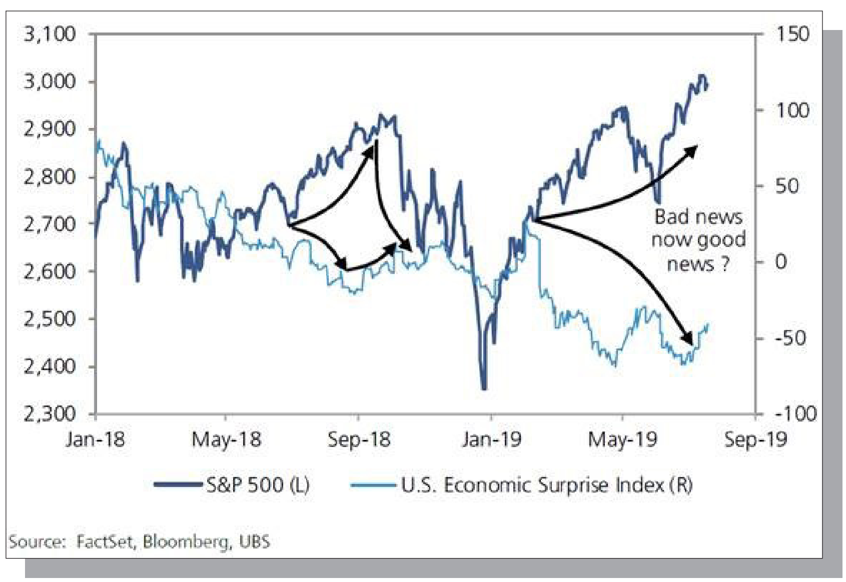
As we write this report, we continue to see a slowing of global economic activity and a sharp drop off in US manufacturing and corporate spending. This is due in part to normal business cycles, but is exacerbated by the fits and starts we are witnessing in the "on again, off again" trade negotiations among the world's largest economies. While we do not see a US recession in the near term, global economic growth has fallen to its lowest level since the 2008 financial crisis.

The Market is Sending Mixed Signals

Generally, lower global growth should have a negative effect on markets, but we've actually seen strong price appreciation in both stocks and bonds. As seen in the chart below, although the rate of growth in US corporate earnings has fallen from +20% year-over-year in 2018 to an estimated 3% in 2019, surprisingly, the S&P 500 is up over 20% year to date. In large measure this is driven by interest rates having fallen worldwide, a pattern that cannot continue indefinitely.

Central Banks to the Rescue…Again



As we noted in our Spring 2019 Investment Report, central banks have been using various means to stimulate their economies either by lowering interest rates or other forms of Quantitative Easing. In the US, the Federal Reserve has moved away from its plan to gradually raise short term interest rates and is now lowering rates from an already low 2.5% rate. In fact, the major news in markets over the last three months has been not whether the Fed should cut rates, but by how much. Outside the US, central banks in Australia, South Korea, Indonesia and South Africa have recently cut interest rates and the European Central Bank (ECB) announced it will likely cut interest rates and increase stimulus at its next meeting. In Europe, the ECB has already lowered its deposit rate to -0.4% and now holds a large percentage (up to 33%) of its sovereign bonds. It's unclear how the ECB lowering rates or buying more of its bonds will improve the economy, but we worry that it could have unintended consequences, such as reduced business confidence or a currency war, where there will be no winners.

Summer 2019 Investment Report (continued)

Portfolio Positioning

Fortunately, our investment approach is less influenced by short-term market actions than by adhering to a long-term strategy designed to meet the objectives of each client. Client accounts are built around a concentrated portfolio of individual stocks that are industry leaders. We look for companies with healthy sales and earnings growth prospects and clean balance sheets. Evaluating what is a reasonable valuation for a company's level of growth and safety is a critical part of our analysis. If we cannot find companies that meet our valuation requirements within a certain industry, we prefer to avoid the industry completely, rather than invest in a company that does not meet our standards. As we've mentioned in the past, our goal is not to beat a particular benchmark, but to generate both income and capital appreciation in a tax efficient manner, all consistent with the long-term goals of the client and the particular account. Our high quality focus allows us to hold onto stocks longer than the typical money manager with shorter-term time horizons.

As noted above, 2019 has been a strong year for equites. As this bull market ages, and investors start to worry about a turn in the economy, we have seen a narrowing of the market with more large investors (hedge funds and mutual funds) initiating or increasing holdings in many of our core positions. This has resulted in client portfolios outperforming the major indices, but for many positions, it has pushed up valuations more than the underlying growth rates would seem to warrant. Where we still have conviction in these companies' long-term outlook, we have trimmed these holdings to add a larger cash buffer to portfolios.

Please know that we value the confidence that you have shown in entrusting your assets to us. We welcome any questions you have regarding your account, portfolio changes or trends in the market.

We hope you enjoy the rest of your summer!

Hemenway Trust Company Expands Investment Team with Addition of Eileen Durey

Eileen M. Durey
603-913-8020
edurey@hemtrust.com

We are pleased to announce that Eileen Durey has joined the firm as an Investment Officer.

Eileen has more than 20 years of investment management experience, including environmental, social and governance (ESG) investing. She will be working with individuals, families, foundations and endowments to develop tailored investment strategies. Eileen will also assist with the oversight of investment portfolios, recommending new companies and monitoring existing holdings. Eileen received her MBA from Babson College's F.W. Olin Graduate School of Business, a BA in economics from the University of Vermont and is a 2019 candidate for the Certified Financial Planner certification. She is actively involved in industry and philanthropic associations in Boston.

"Adding Eileen to our investment team is part of our ongoing commitment to meet our clients' evolving needs," said Stephen W. Kidder, President and Managing Director. "Eileen's background in ESG will be a valuable resource to our clients interested in socially responsible investing."