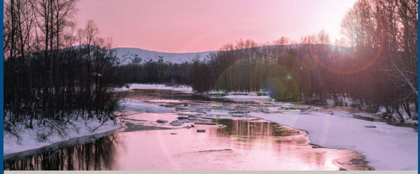

IN THIS ISSUE

OBERMEYER WOOD **NEWS**

WINTER 2019

MARKETPOINT

After enjoying nearly a decade of mostly positive returns, U.S. market indices declined roughly 4-10% in 2018, concluding a volatile year. Over the course of the past twelve months, domestic equity markets fell twice into correction territory (defined as a 10% decline from a recent peak). January's correction lasted less than two weeks, quickly reassuring investors who were feeling on edge. In contrast, the fourth quarter's correction lasted most of the quarter and was marked by numerous intraday drops of close to 2%. Driving this risk-on, risk-off mentality was a combination of political uncertainty, geopolitical tensions, protectionism, and concerns of a sudden U.S. economic slowdown. Even with the year's pullback, U.S. equity markets are up over 10% since the beginning of 2017 and 200% over the last 10 years. Furthermore, valuations remain attractive, particularly in light of anticipated future earnings growth.

During periods of difficult market conditions, it is important to maintain a balanced view and not overreact to the latest economic or political news. And while we expect uncertainty in the future, we are optimistic about many areas of the market. We remind ourselves and our clients that the benefit of owning a diverse portfolio of growing companies that earn profits from a variety of industries is that over longer periods the market tends to appreciate this growth and reward investors' patience. It isn't always comfortable to stay invested, yet history has proven that this approach delivers better results than trying to time the market.

Looking back over the market in the last quarter, bitter political rhetoric escalated both before and after the U.S. midterm elections in November. Those elections resulted in the Democrats taking control of the House and the Republicans strengthening their control of the Senate. Perhaps anticipating a split government, President Trump and congressional Republicans pushed their agenda ahead of the elections, resulting in notable activity for the administration: a huge tax cut, confirmation of a new Supreme Court justice, financial deregulation, renegotiation of NAFTA, increased border control, and a withdrawal from the Iran deal. Unable to decouple politics from market performance, investors hung on every headline and tweet, to price the flurry of legislative changes into the markets. The partial government shutdown, coupled with continued turnover in the Trump administration, also shook market confidence in the final weeks of the year.

One of the biggest drivers of market performance was the Tax Cuts and Job Act of 2017. The hastily drafted tax reform became law on January 1, 2018, reducing overall corporate tax rates while compelling companies to bring offshore cash back to the U.S. during a reduced repatriation tax window. Most corporations returned the tax savings to investors through a combination of share buybacks and dividends. Companies authorized more than $1 trillion in share buybacks for 2018, according to Goldman Sachs projections, representing a roughly 30% increase over ›

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past years. Meanwhile, dividends rose around 9%, hitting new records throughout the year.[1] Corporate earnings grew across all sectors, with the fourth quarter of 2018 marking the fifth consecutive quarter of double-digit earnings growth.[2]

Tariffs, which are generally viewed as a policy that slows growth as higher costs are passed on to the consumer or absorbed by manufacturers, offset the stimulus provided by lower corporate tax rates. At the beginning of the year, the U.S. announced tariffs on washing machines, solar panels, aluminum, and steel. The initial wave of tariffs affected around 4% of imported goods — not so meaningful that the markets couldn't shrug it off but enough to irk trading partners and cause affected nations to retaliate. The back and forth escalated, especially with the U.S.'s largest trading partner, China. The year ended with a temporary truce after $250 billion in tariffs was applied to China and $110 billion in tariffs was applied to the U.S. While there are few details, the countries agreed to a 90-day cease-fire to allow negotiations to take place.

Rising interest rates also captured the attention of investors, who dissected Federal Reserve Chairman Jerome Powell's remarks at every opportunity. Powell shook the markets in mid-October when he signaled that more short-term rate increases were planned, implying more headwinds for interest-rate-sensitive sectors. Yet, the economic data started softening in the fourth quarter, leaving many to think that the rate hikes planned for 2019 were too aggressive. Powell himself backed away from tightening in November, when he indicated that the Fed would rely more heavily on economic indicators, including conversations with businesses that are a leading indicator of the economy's strength. At December's meeting, the Fed increased rates again but signaled that it would slow its pace this year. The only certainty investors have based on the recent mixed messages is that Fed policy going forward will be less certain.

Amid geopolitical tensions, oil prices slumped from recent highs, declining nearly 30% from a four-year high in October and catching investors off guard. Earlier in the year, Trump scrapped the Iran deal negotiated by his predecessor, adding sanctions and isolating the country. Anticipating a decline in supply and subsequent pricing stability, Saudi Arabia, Russia, and the U.S. accelerated production. Then, in November, the President softened his stance and granted temporary waivers to countries to purchase crude from Iran. The result was a supply glut that, coupled with fears of a global slowdown, caused prices to decline. While low oil prices are good for consumers, they can also destabilize countries that rely on production income for their economies.

Looking ahead, 2019 is setting up to be another year of banner headlines, congressional logjams, and mixed news. While select data points indicate a deceleration of growth in the economy, there are an equal number of positive signals. For example, consumers are expected to receive additional stimulus when they file taxes in April, and wages are expected to grow north of 3% this year given the tight labor market. Since consumer spending underpins about two-thirds of the U.S. economy, a strong consumer helps support overall growth. Another bright spot is the contribution from the digital economy (hardware, software, e-commerce, digital media, telecommunications, and support services), which has been growing three times as fast as the overall economy. U.S. corporations are also well-capitalized and uniquely positioned to invest in growth and gain efficiency from technology innovations. While market volatility may continue, we believe that patient investors who own high-quality, attractively priced stocks will be rewarded as evidence of solid earnings and continued economic growth comes to light.

WHAT'S THE YIELD CURVE TELLING US?

Over the last quarter of 2018, the yield curve and its shape were the subject of much debate. The yield curve is a plot of interest rates that are organized on a graph from the shortest borrowing period to the longest borrowing period. Normally, the yield curve slopes up and to the right, since lenders typically demand a higher return when capital is lent for a longer period.

When the Federal Reserve tightens monetary policy, short-term interest rates increase and a yield curve inversion – commonly defined as the 2-year interest rate

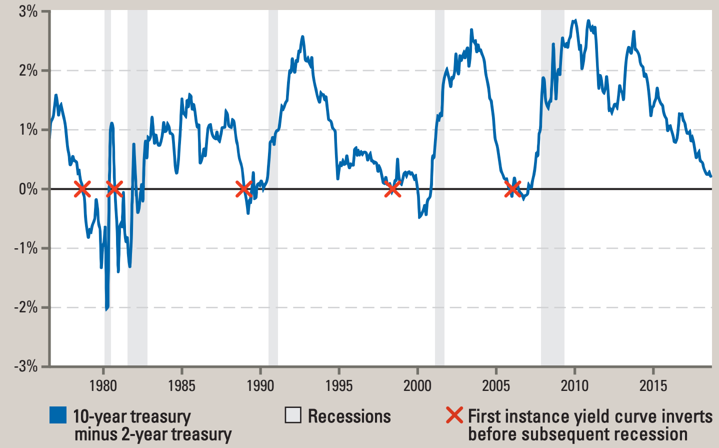
[1] Janus Henderson, [2] The FactSet Earnings Insight report, December 21, 2018

moving higher than the 10-year interest rate – becomes more likely. Investors look closely at the shape of the curve because a yield curve inversion preceded the last five recessions, as illustrated in the graph below.

Even with this knowledge, it is important to stay calm and maintain a balanced approach. First, we remind clients to distinguish between a flattening yield curve and one that is truly inverted. Second, it takes two years on average for the economy to experience a recession after the curve inverts. Third, clients may benefit from increased short-term rates if they can earn a higher return on cash. For instance, investors are currently able to earn roughly 2%-2.5% on money market funds and short-term Treasury bills, much higher rates than recent years. Finally, in most cases, the market appreciated meaningfully after the initial inversion and before the subsequent recession.

As always, please reach out to us if you want to discuss how you are positioned in light of the shifting interest-rate environment.

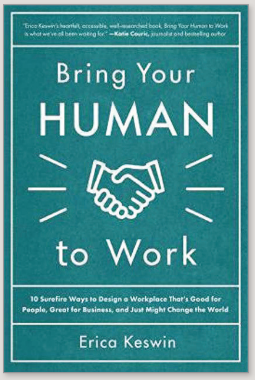
When the 10-year treasury minus 2-year treasury is negative, the yield curve has inverted.



Source: Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity [T10Y2Y], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T10Y2Y

RECOMMENDED READING:

Bring Your Human To Work: 10 Surefire Ways To Design A Workplace That Is Good For People, Great For Business, and Just Might Change The World



While numerous books, blog posts, and think-pieces have been written about how to make a workplace more tech-savvy and efficient, Erica Keswin recommends business leaders take a step back and focus on the softer aspects of their team members to develop a culture of success. In her book *Bring Your Human to Work*, Keswin argues that valuing relationships and focusing on the fundamental human qualities of openness and authenticity are critical to finding the sweet spot in business.

Based on numerous interviews and detailed research as a management consultant and business coach, Keswin illustrates her recommendations of how to create a relationship-based workplace through vignettes from companies across industries including airlines, finance, the shared economy, design, and architecture. Her book is organized into ten chapters with distinct titles such as "Mind Your Meetings," "Space Matters," and "Take Professional Development Personally," which enables the reader to focus on content more relevant to the problems they are trying to solve. Each chapter also ends with a "Human Action Plan" that provides concrete tips for how to nurture and cultivate relationships within your organization.

Even if your business or nonprofit is humming along perfectly, readers will likely enjoy this quick read as Keswin chronicles the successful dynamics that underpin many well-known, fast-growing companies. And, if you are concerned that your workplace is disconnected, this book may help inspire ideas to better foster real connections with your team, clients, or key stakeholders. Please let us know if you are interested in reading *Bring Your Human to Work*, and we will send you a copy.

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Assistant, Client Services

TOP OF MIND

TAX TIME

As we kick off 2019, many of you will be gathering documents and other information for your annual tax filings. Please be aware that realized gains and losses are included on Form 1099s, which will be mailed to you directly from the custodian of your account(s). These forms are generally issued and mailed to recipients in early February. However, you may consider delaying filing until closer to the tax deadline as amended Form 1099s can be issued at any time.

Please reach out to anyone on our team if you would like us to provide these reports to your tax preparer, or if any other related questions arise. We can also provide income estimates and capital gain and loss updates during the year to aid in calculating quarterly estimates. We believe this coordination can be helpful in keeping your financial life in order, and we are happy to provide this service.

FIRM UPDATE

NEW TEAM MEMBER: BRIAN BRADY

We are excited to welcome Brian Brady to Obermeyer Wood in the role of Director, Marketing and Communications. Working in Denver, Brian will be responsible for strengthening our client communication efforts while implementing and executing a growth strategy as part of our overall marketing program. Brian has a decade of experience working across the public, nonprofit, and private sectors in marketing and communications leadership positions. Before joining Obermeyer Wood, Brian served as the Director of Communications at Denver-based insurance technology company Vertafore, where he was responsible for leading all marketing, external, and internal communications.

OBERMEYER WOOD FEATURED IN DENVER BUSINESS JOURNAL

Team member Dana Gleason Nightingale was recently published in the Denver Business Journal, where she wrote about the importance of staying patient and working with your advisor during volatile market conditions. The timely piece provides four specific tips for navigating choppy investment waters. A link to this article is on our website under the “News and Media Appearances” section.

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