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The U.S. equity market settled down in the second quarter after several months of wild swings, with the S&P 500 gaining more than 4%. We ended the strongest first half since 1997, ending June up more than 18% from the beginning of the year on a total return basis. Meanwhile, trade tensions with China and weakening manufacturing surveys worldwide pushed long-term interest rates down another quarter of a point. Risk assets such as equities and credit rallied along with traditional safe haven assets such as developed market government bonds and gold. While it may seem counter-intuitive for these assets to rally at the same time, markets have been pricing in Fed and European Central Bank rate cuts and the potential for further quantitative easing to be supportive to risk assets if they successfully prevent an economic downturn. The market now anticipates more than 0.5% worth of interest rate cuts by the end of this year, in sharp contrast to the 0.5% increase it was expecting for 2019 back in September.

Our Kirwan Capital Strategy portfolios gained 3.67% for the quarter**, versus the market as measured by the S&P 500 ETF*, which finished with a gain of 4.23%. For the year, we still maintain a slight edge at 18.93% versus 18.32%. Our average compound annual return after fees since Jan 1, 2013 is 13.65%, which would have turned a $10,000 investment into $22,958 in 6 1/2 years.

Again, we made few material transactions during the quarter, slightly trimming positions by taking a portion of profits in Starbucks and General Mills and purchasing additional amounts of Goldman Sachs, Wells Fargo, and Berkshire Hathaway in some accounts. With equities settling into a more relaxed gait, they drifted toward a state of equilibrium with regard to valuations across asset classes like I have not seen in many years. As such, none of our holdings traded at excessive, sale inducing levels, nor did equities in my purview offer any standout buying opportunities. The upside, as noted in the past, is the transaction costs we are saving as we continue to enjoy the fruits of increasing dividends and share buybacks.

We are now into the longest economic expansion in history, and at a point where the market is anticipating monetary stimulus to continue to extend the expansion, which leaves us with the risk of surprise being to the downside for equity markets. I guess in this situation we just hope for no surprises while we continue to hold solid, profitable companies.

Thanks again for your trust, and I wish you the best as you try to stay cool during these hot days.

Patrick J. Kirwan
President and Portfolio Manager
Kirwan Capital LLC

* The benchmark I use against which to gauge our performance is the SPDR S&P 500 ETF (ticker symbol SPY). It's purpose is to closely track the stocks in the S&P 500 Index. Often cited as a proxy for the U.S. equity market, it is the most heavily traded security in the world. It can thus easily be purchased by any investor, as opposed to the oft quoted S&P 500 Index, which is simply a calculation, and does not include costs of ownership.
** Kirwan Capital Strategy quoted returns are calculated using the quarterly composite average of all accounts using the strategy in aggregate. Due to the individually managed nature of our accounts, not all accounts have similar performance. Factors such as available cash, tax considerations, and timing of previous purchases or sales can effect returns. Transactions noted may or may not have been made for all accounts. Past performance is not indicative of future results and investing entails a degree of risk and potential loss of principal. The Kirwan Capital Strategy uses fundamental analysis in an attempt to measure the intrinsic value of securities with the objective of buying undervalued securities and realizing dividends and capital gains over a long-term (at least one year) holding period.