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Coming off its worst quarterly performance since 2011, the S&P 500 rebounded over 13% in the first quarter, booking its best performance in 10 years. The bounce is being largely attributed to an oversold market to start the period, improving expectations for a trade deal with China, and most importantly, a "dovish pivot" by global central banks. While the first 2 months of the year were nearly a straight line higher, a dose of caution surfaced in March as the yield inversion extended further out on the curve.

The fed now expects to end their balance sheet reduction program by September, and expectations for two rate hikes this year have been erased. While earnings estimates have been falling since the start of the year, fortunately interest rate expectations have fallen sharply as well, supporting equities. Commodities had their best quarter in 3 years as well, as oil prices rebounded 32% after losing 38% in the prior quarter. This "seesaw" market action reinforces my penchant for patience, as it reminds me of an old saying of my father's regarding weather in the Midwest: "If you don't like the weather here, just wait, it will change."

Our Kirwan Capital Strategy portfolios gained 14.72% for the quarter**, besting the market as measured by the S&P 500 ETF*, which finished with a gain of 13.52% (which coincidentally happens to be the exact percentage loss it had for the previous quarter). Our average compound annual return after fees since Jan 1, 2013 is 13.57%, which would have turned a $10,000 investment into $22,146 in 6 1/4 years.

I can happily report that we made no material transactions during the quarter. While some may look at this lack of activity with a sense that we need to be doing something, this genetic human trait to not want to stand still served our cave dwelling ancestors far better than it serves us as investors. Why would you want to speculate on movements in the market and risk being wrong while increasing transaction costs and taxes (in taxable accounts), when owning great companies has been so successful in the past?

Looking forward, bull markets don't last forever, but the washout late last year was healthy for the market long term. In addition, lowered earnings expectations are always a good thing, and the lower tax regime we now have on corporations in America means that more dollars are going into your pocket vs. Uncle Sam's, which is positive for valuations.

Thanks again for your trust, and I wish you the best as summer approaches.

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.