

# Market Review: Volatility, Trade Wars and the Fed

The volatile ride for investors continued in the second quarter, with the markets finishing the quarter near record highs. The Federal Reserve (Fed) and trade wars have been the main storylines for a while now, creating uncertainty in the market.

**Federal Reserve**—Stocks fell late last year after the Fed raised interest rates for a fourth time in 2018 and signaled more rate hikes in 2019 despite a slowing economy. The market rallied strongly in the first quarter when the Fed reassured nervous investors that it would take a break from increasing rates. The economy remained healthy with unemployment at a near 50-year low. The potential for one or two interest rate cuts by the Fed this year to keep the economy growing helped propel the market sharply higher in June.

**Trade Wars**—Corporate earnings for 2019 have been weakening since the start of the year as the U.S.-China trade war has dragged on, causing concerns about the potential impact on profits. President Trump’s move to increase tariffs on \$200 billion of Chinese imports to 25%, as well as on all Mexican imports, caused the stock market to drop sharply in May. When the market rebounded in June, it was aided by a resolution of the migrant and trade issues with Mexico, and

“Cypress Semiconductor gained 75% in the first half of 2019, illustrating the potential benefit when smaller companies get acquired.”

—Lamar Villere, CFA

increasing optimism that an agreement would be reached on the trade war with China.

Large-cap stocks outperformed small-cap and mid-cap stocks in the second quarter. The Russell 2000 Index (which tracks small-cap stocks) was up 2.1%, the Russell Midcap Index rose 4.1%, while the S&P 500 gained 4.3%. Technology is the top performing sector this year, and the technology-dominated NASDAQ increased 4.2% in the second quarter. On the fixed income side, the Bloomberg Barclays Intermediate Government/Credit Bond Index posted a gain of 2.6% in the second quarter.

## Portfolio Review—Asset Allocation

The Fund gained 4.7% during the quarter, outperforming the Lipper Balanced Funds Index which was up 3.4%, while the S&P 500 Index rose 4.3%. The Fund is somewhat different from the typical balanced fund in that it holds primarily small- and mid-cap stocks versus its peers, which tend to hold

### VILLERE BALANCED FUND PERFORMANCE (%) VILLX

INCEPTION 9/30/1999\*

6/30/2019	Total Return				Average Annualized			Cumulative
	Quarter	YTD	1 Year	3 Year	5 Year	10 Year	*Since Inception	*Since Inception
Villere Balanced Fund	4.74	18.44	1.66	8.72	2.56	10.71	7.74	336.09
Lipper Balanced Funds Index	3.39	12.18	6.79	8.18	5.79	9.09	5.53	189.29
S&P 500 TR	4.30	18.54	10.42	14.19	10.71	14.70	6.32	235.77
Bloomberg Barclays Intermediate Government/Credit Index	2.59	4.97	6.93	1.99	2.39	3.24	4.45	136.28

Expense Ratio: 0.97%

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Current performance data to the most recent month end may be obtained by visiting [www.villere.com](http://www.villere.com).

large-cap stocks. Stock selection helped the Fund perform well during the period.

As long-term investors, it is also worth noting that the Fund's 10-year and since inception annualized returns were 10.7% and 7.7%, respectively, outpacing the 9.1% and 5.5% results of the Lipper benchmark.

At the end of June, the Fund's asset allocation was 72.7% in stocks, 18.3% in bonds, and 9.0% in cash. The asset allocation is generally a byproduct of the valuations we see on the equity side through our bottom up research efforts. If the market is rich and it is hard to find reasonably priced stocks, we increase the fixed income and cash components. We use the fixed income allocation to balance the risk in the portfolios. The fixed income component usually ranges from 20-30% of assets, depending on market conditions. We are currently slightly below that range, at 18.3%, as we find current bond yields relatively unattractive.

## Portfolio Review—Equities

Cypress Semiconductor was the top contributor to the performance in the second quarter. Other strong contributors included Euronet Worldwide, Pool, Axon Enterprise, and Steris.

During the quarter, we trimmed our positions in Euronet Worldwide and Axon Enterprise, which both have been long-term strong performers in the Fund. As mentioned below, we sold Cypress Semiconductor, and replaced it with ON Semiconductor Corp., which manufactures and sells semiconductor components for various electronic devices worldwide. We like the company due to its valuation, historical ability to execute, and its part in what we believe will be a massive 5G cellular buildout over the next several years. We also bought Abiomed, a pioneer and global leader in healthcare technology and innovation—from the world's first total replacement heart to the world's smallest heart pump. We added to our position in 2U.

### 2ND QUARTER TOP CONTRIBUTORS

#### Cypress Semiconductor Corp.

Cypress Semiconductor Corp. is the leader in advanced embedded solutions for automotive, industrial, smart home appliances, consumer electronics and medical products. The stock gained 74.8% during the first half of 2019, including 48.5% in the second quarter due to strong earnings and the announcement that the company will be acquired by German peer Infineon. We believed that Cypress' growing leadership position in the consumer and automotive Internet of Things, and with the number of connected things continuing to increase in homes, vehicles, and consumer electronics, would bode well for the stock. In June, we sold this holding in the Fund due to limited further upside potential after the takeover announcement.

#### Euronet Worldwide, Inc.

Euronet Worldwide is an industry leader in providing secure electronic financial transaction solutions. The company operates one of the largest independent ATM networks in Europe, and is the world's largest payment network for prepaid mobile top-up and the third-largest global money transfer company. The stock continued its run this year after strong first-quarter results exceeded expectations and the guidance was raised. The stock rose 64.3% in the first half of the year, including 18.0% in the second quarter.

#### Pool Corp.

With more than 3,400 employees and over 300 locations worldwide, Pool leads the pack as the world's largest wholesale distributor of swimming pool supplies, equipment and related leisure products. Pool also distributes irrigation and landscape products in the United States. The company's acquisitions and expansion have continued to drive growth. The revenue generated by the large replacement activity related to existing pools has also been robust. The stock was up 28.5% year-to-date, including 16.1% in the second quarter.

### 2ND QUARTER TOP DETRACTORS

#### 2U, Inc.

2U works with major universities to create online graduate degree programs, providing systems and logistical support. 2U is at the forefront of this growing business, partnering with universities such as Yale, Harvard, New York University, Georgetown, and USC. 2U reported strong first-quarter results, but lowered its full-year revenue guidance. As a result, the stock fell 46.9% in the second quarter, reversing the 42.5% gain in the first quarter. We added to our holding in 2U when the stock fell during the quarter as the valuation looked more attractive, and our long-term outlook for the company remains intact.

#### 3D Systems Corp.

3D Systems is a pioneer in 3D printing and provides comprehensive 3D products and services, including 3D printers, print materials, on-demand parts services, and digital design tools. Shares of 3D's stock decreased 15.4% during the quarter as second-quarter results fell short of Wall Street expectations. The company is gaining traction in several large sectors, such as healthcare and dental providers. With valuation at this level, we believe that investors have gotten too negative on the battered stock. We are watching the company closely for continued revenue growth and new product launch details.

**Leggett & Platt, Inc.**

Leggett & Platt is a diversified manufacturer that designs and produces various engineered components and products that can be found in most homes and automobiles. While the stock was up 7.1% for the first six months of 2019, it declined 8.1% in the second quarter as Leggett reported lower than expected earnings in the first quarter. We believe that the company's acquisition of Elite Comfort Solutions will be positive for revenue growth going forward, and Leggett's dividends per share have been consistently increasing over time.

**Villere Balanced Fund—Top Contributions & Detractors**

Top Equity Performers 4/1/2019-6/30/2019	Average Portfolio Weight (%)	Return (%)
Cypress Semiconductor Corp.	3.07	48.53
Euronet Worldwide, Inc.	4.92	17.99
Pool Corp.	4.50	16.13
Axon Enterprise Inc	3.68	18.01
STERIS Plc	3.75	16.57

Bottom Equity Performers 4/1/2019-6/30/2019	Average Portfolio Weight (%)	Return (%)
2U, Inc.	2.68	-46.87
3D Systems Corp.	1.94	-15.43
Leggett & Platt, Inc.	3.45	-8.16
LKQ Corp.	3.61	-6.24
Western Digital Corporation	3.11	0.05

Fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

**Outlook and Strategy**

The S&P 500 had its best first half in more than two decades, leading us to a cautious outlook for the equity market. With the Fed making a 180-degree turn as related to their interest rate policy, we believe that we will now likely see a rate cut in September, if not in July. This will likely further boost the economy and corporate earnings.

However, the potential threat of a continued trade war and a global economic slowdown did shake the market. The yield on the 10-year Treasury note moved lower during the second quarter, a sign that some investors were looking for a potential safe haven. While we may have a temporary reprieve in the U.S.-China trade negotiations, there is still some uncertainty until we see a more final agreement.

We have returned to more market volatility, which typically happens as we move later in the economic cycle. As markets shift from one short-term worry to another, stocks tend to rise and fall, sometimes sharply.

Given the prospects of more uncertainty and volatility, we will continue to focus on stock picking and run our selective, disciplined investment process. Investing in quality companies is especially important in this uncertain environment, particularly since we are in the late stage of a long economic cycle. As always, we will invest in growing, quality companies with strong free cash flow and strong balance sheets.

We keep a balance between being optimistic and being defensive, and approach the market cautiously. We are staying invested in our concentrated portfolio, but have a higher allocation to cash than usual. We seek to use market volatility as our friend, and we believe we may get some further attractive opportunities to put cash to work on market weakness.

Thank you for your continued support and confidence in the Villere Funds.

St. Denis J. Villere II, George V. Young,  
St. Denis J. Villere III, Lamar G. Villere, CFA

**IMPORTANT INFORMATION**

***A mutual fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company and may be obtained by calling 866.209.1129 or visiting [www.villere.com](http://www.villere.com). Read carefully before investing.***

*Mutual fund investing involves risk; loss of principal is possible. Investments in smaller and medium sized companies involve additional risks such as limited liquidity and greater volatility than large cap companies. The Balanced Fund will invest in debt securities. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower rated and nonrated securities present a great risk of loss to principal and interest than higher rated securities.*

The opinions expressed above are those of St. Denis J. Villere II, George V. Young, St. Denis J. Villere III, and Lamar G. Villere and are subject to change, are not guaranteed and should not be considered recommendations to buy or sell any security.

**The Top 10 holdings in the funds as of 06/30/2019 were:**

**VILLERE BALANCED FUND**

Progressive Corp.	(PGR)	5.3%
Pool Corp.	(POOL)	4.7%
Howard Hughes Corp.	(HHC)	4.4%
Kearny Financial Corp.	(KARNY)	4.2%
STERIS Plc	(STE)	4.1%
WABCO Holdings Inc.	(WBC)	4.1%
Roper Technologies, Inc.	(ROP)	4.0%
Teleflex, Inc.	(TFX)	3.9%
Visa, Inc.	(V)	3.8%
LKQ Corp.	(LKQ)	3.4%

All holdings in the portfolio are subject to change without notice and may or may not represent current or future portfolio composition. The mention of specific securities is not intended as a recommendation or an offer of a particular security, nor is it intended to be a solicitation for the purchase or sale of any security.

Investment-grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

Cash Flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

Earnings growth is a key indicator for measuring a company's success and a driving force behind stock price appreciation.

Earnings growth is the percentage gain in net income over time.

**INDEXES****Bloomberg Barclays US Intermediate Government/Credit Bond Index**

measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

**Lipper Balanced Index** is an equally weighted performance index of the largest qualifying funds in its Lipper Categories. The Lipper average represents a universe of Funds with similar investment objectives.

**NASDAQ Composite Index**, a market value-weighted index of all domestic and international common stocks listed on the NASDAQ stock market..

**S&P 500** is an unmanaged index which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The stock index does not incur expenses and is not available for investment.

**Russell 2000 Index** consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization and serves as a benchmark for small-cap stocks in the United States.

**Russell Midcap Index** measures the performance of the 800 smallest of the 1,000 largest publicly traded U.S. companies, based on total market capitalization.

It is not possible to invest directly in an index.

The Villere Funds are distributed by Quasar Distributors, LLC.