1492 CAPITAL MANAGEMENT

DISCOVERING OPPORTUNITY

IDENTIFY THEMES | FUNDAMENTAL ANALYSIS | VALUATION TARGET | GROWTH STRATEGY | VALUE STRATEGY | CORE ALPHA STRATEGY | VALUE INCOME STRATEGY

1492 Vantage Point Quarterly Newsletter

Welcome to 1492 Capital Management's quarterly newsletter for the first quarter of 2019. In each quarterly newsletter, we provide our perspective on the most recent quarter, preview what lies ahead, and offer a bit of market trivia.

Our corporate slogan is "Discovering Opportunity" which is our daily focus for our clients. Our investment professionals possess a tremendous amount of experience navigating through multiple market cycles. This experience is demonstrated again as we are pleased to report that the 1492 Small Cap Growth strategy was recognized by Broadridge MarketPlace's Best Money Managers(1) for its performance generated over the 12 quarters ended December 31, 2018 as shown in the table below.

Period Ended 12/31/2018

MARKETPLACE 2018 BEST MONEY MANAGERS POWERED BY LIPPER

Broadridge MarketPlace Best Money Managers

Product Name	Asset Class	Ranking	Quarters
1492 Small Cap Growth	U.S. Small-cap Equity	Ranked 10 out of 392	12 Quarters
1492 Small Cap Growth	U.S. Small-cap Growth Equity	Ranked 7 out of 120	12 Quarters
1492 Small Cap Growth	U.S. Growth Equity	Ranked 13 out of 473	12 Quarters
1492 Small Cap Growth	U.S. Equity (All Styles)	Ranked 19 out of 1490	12 Quarters

As 2018's policy missteps unwind, the market pushes to its best first quarter in decades. Last quarter we highlighted a series of policy missteps around the globe that led to an ugly plunge in the stock market late in 2018. These missteps included overly aggressive monetary policy by the U.S. Federal Reserve, Chinese tariff war, U.S. government shutdown over border wall funding, and UK's Brexit stalemate to name a few. We stated that none of the issues was without a solution and if cured, the market could reverse course relatively quickly. That idea is in fact what happened. While several of these policy missteps continue to linger, all of them appear to be reversed or to be making progress to solve the issues at hand. The issue that had the biggest impact in our view was the U.S. Fed's aggressive monetary policy. Despite raising rates by another 25 basis points in December, the Fed did a 180 degree turn in January in setting their expectations for the balance of 2019. Prior expectations were for another three rate hikes of 25 basis points each in 2019, but instead they shifted into "pause" mode, lowered the path of short-term rates, and dragged down the yield curve. The stock market applauded this move (and progress with the other missteps) with a snap-back rally in the first quarter which ended with a return of +14.6% for the Russell 2000. This performance marked the best first quarter for the Russell 2000 since the first quarter of 1991 and the best overall quarter for the index since the fourth quarter of 2011. The similarities between the start of 2018 and 2019 are eerily similar….. Or are they? Please read on to see our unique views of what's on tap for the balance of 2019, what the key drivers will be, and indulge in some stock market trivia.

For detailed performance information on 1492's strategies, please click on these fact sheet links (Small Cap Growth / Small Cap Value / Small Cap Core Alpha) to find gross and net of fee performance information and disclosures. If you would like to discuss any of these strategies with us, please contact Tim Stracka at 414-238-3398.

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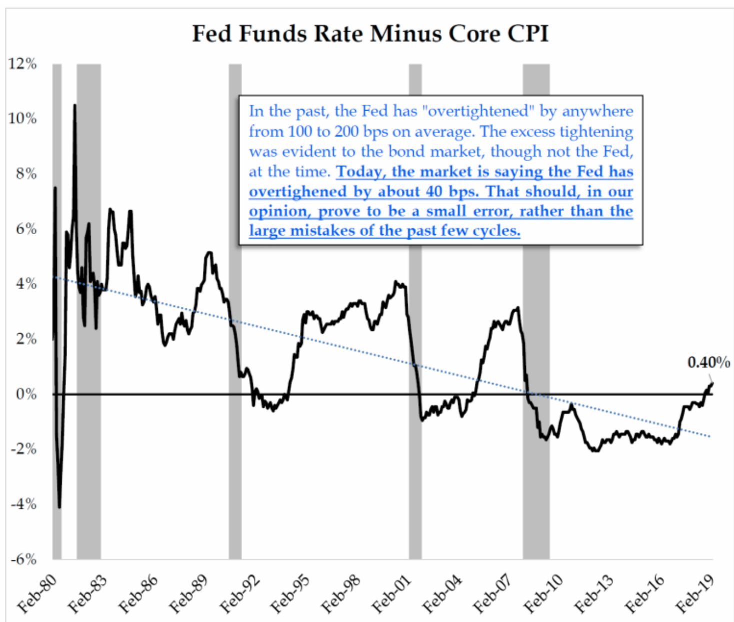
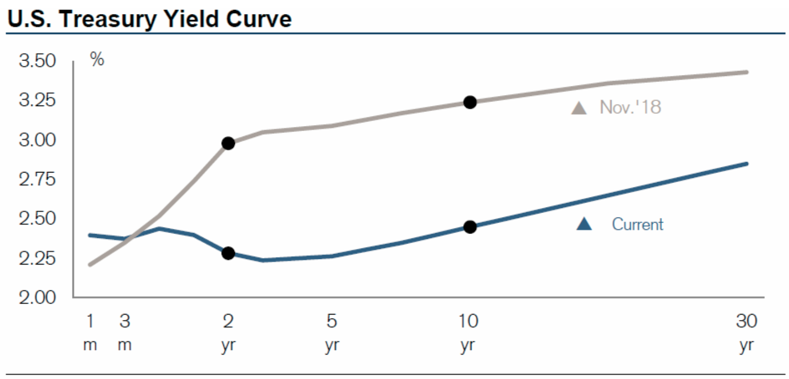
A Review of the Quarter: 2018's Policy Missteps Unwind, Pushing Market to Best First Quarter in Decades

Last quarter we highlighted a series of policy missteps around the world that led to an ugly plunge in global equity markets late in 2018. They included a cavalier and overly aggressive U.S. Federal Reserve, China tariff war, UK Brexit, U.S. Government shutdown over border wall funding, European auto emissions regulations, and the French environmental protests to name a few. These simultaneous policy missteps contributed to a risk-off environment globally in the fourth quarter. We stated that none of these missteps was without a solution, and if cured the market could reverse course relatively quickly. Roll forward ninety days, and this event is exactly what happened. While several of these policy missteps continue to linger, all of them appear to be reversed or to be making progress to be resolved. The issue that had the largest impact in our view was the U.S. Federal Reserve's aggressive monetary policy stance in 2018. Despite raising interest rates in December by another 25 basis points, shortly thereafter the Fed did a 180 degree turn in setting their expectations for the balance of 2019. Entering 2019 the expectation was for three more 25 basis point hikes over the course of the year, but instead the Fed shifted into "pause" mode, lowered the path of short term interest rates, and dragged down the yield curve. While this action was met with approval by the stock market, the bond market began to rise aggressively and sent rates into a tailspin. Many thought that the Fed knew something the rest of us didn't and that the global economy was on a one-way trip into recession. The chart below shows the market's concern. Notice that prior to every recession over the last forty years the Fed has been far too aggressive in raising rates to fend off inflation and pushed the economy into a tailspin (grey bars). Observe on the far right of the graph that the current spread between the Fed Funds rate and CPI (inflation) is 40 basis points or +.4%. The Fed may have caught themselves just in time to avoid a similar outcome this cycle.



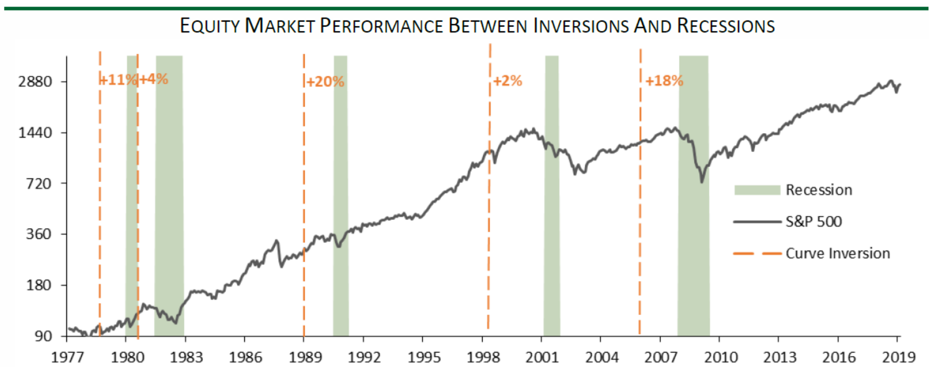
Source: Strategas Research

The Fed's action earlier this year led to a dramatic shift in the yield curve. The chart below shows the change the yield curve has undergone in just a few short months. The grey line represents the yield curve in November 2018, and the blue line shows what the curve looks like currently. Notice the yield curve is now inverted between the Fed funds rate and the seven year Treasury note. This inversion implies that the Fed may have already gone too far with their latest hiking cycle and that the market anticipates a rate cut sometime in the next two years. Historically the market would look at inversions between the two and ten year rates on the curve which has had a near flawless record of predicting an impending recession. However, the media outlets picked up on the inversion between the Fed funds rate and seven year treasuries and began running stories about the negative implications and impending doom for the U.S. economy. The yield curve is still positively sloped between the two's and ten's but precariously so at just seventeen basis points. This inversion sent a few shockwaves through the equity markets, in particular the banking sector, as investors concluded that rates were going to be lower for longer and that an inverted curve isn't a favorable environment for the sector.



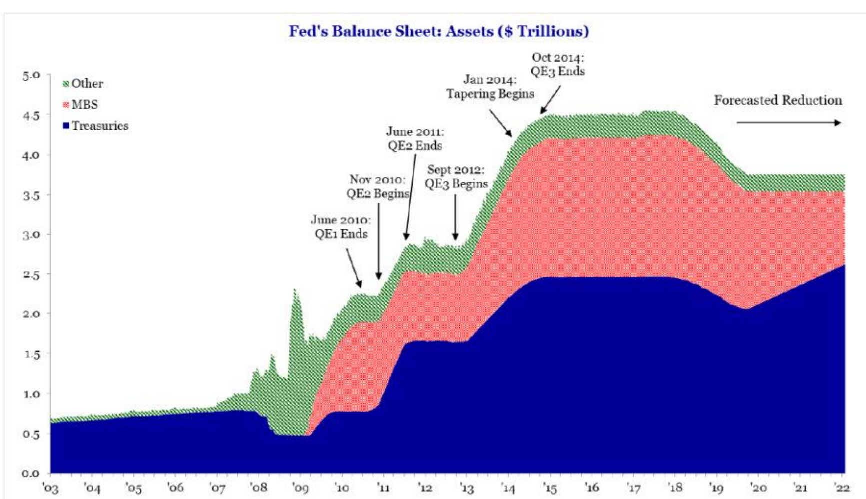
Source: Federal Reserve, the BLOOMBERG PROFESSIONAL™ service, Haver Analytics®, Credit Suisse

The press has made yield curve inversions to be the bogey man of the stock market. However, all is not lost following inversions as the chart below shows. In fact, there is usually a significant time lapse between yield curve inversions and the onset of recession as well as positive stock market returns during these periods.



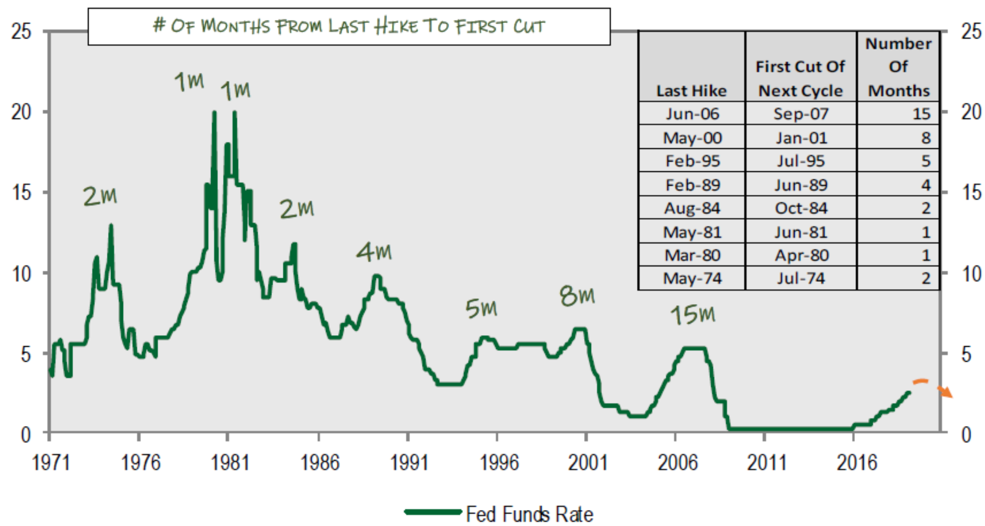
Sources: Cornerstone Macro and Bloomberg.

Another tool that the Fed uses to massage the economy is their balance sheet. The Fed's balance sheet hovers around $4 trillion in assets (primarily treasuries and mortgage backed securities) and was scheduled to shrink over time. However, just as they pulled back the reigns on interest rate hikes, they also said that they will stop shrinking the balance sheet beginning in September 2019. The equity market viewed this change as an accommodative move because shrinking the balance sheet at the pace they were on was akin to a 25 basis point hike in rates. This semi-permanent hiatus in paring the balance sheet should be interpreted positively because the Fed is signaling that they're comfortable with a balance sheet the size of which is shown in the chart below and that they're willing to be flexible.



Source: Strategas Research

Using history as our guide, it may not be too long before the Fed begins to cut interest rates. As the chart below shows, it's typically a short period between the last hike and the first rate cut. However, we think this time may be different as the U.S. economy is still showing signs of significant growth and durability.



Last Hike	First Cut Of Next Cycle	Number Of Months
Jun-06	Sep-07	15
May-00	Jan-01	8
Feb-95	Jul-95	5
Feb-89	Jun-89	4
Aug-84	Oct-84	2
May-81	Jun-81	1
Mar-80	Apr-80	1
May-74	Jul-74	2

Source: Cornerstone Macro

Despite all of our talk about interest rates and yield curves so far, the real action this quarter was in the stock market. T*he Russell 2000 Index posted a return of +14.6% which was the best return for a first quarter since 1991 and the best overall quarterly return since the fourth quarter of 2011*. Despite this strong quarterly performance, the Russell 2000 is still down -10% from its high on August 31, 2018. There is still a bit of catch-up to go. The S&P 500 surged a still-impressive +13.65% in the quarter while the tech-heavy NASDAQ Composite jumped +16.8%. The table below highlights the returns for the first quarter of 2019 for the popular indices.

Index Returns	
Index	First Qtr. / YTD 2019 Return
Russell 2000	14.61%
Russell 2000 Growth	17.14%
Russell 2000 Value	11.93%
S&P 500	13.65%
Dow Jones Industrials	11.15%
NASDAQ Composite	16.81%

Source: 1492 Capital Management, LLC and FactSet

From a style perspective, the Russell 2000 Growth Index (+17.1%) returned to its winning ways and recouped the ground it lost to the Russell 2000 Value Index (+11.9%) in the fourth quarter of 2018 and then some. Growth indices outperforming value indices has become a common refrain over the past ten years since the great recession. All sectors within the Russell 2000 Growth index finished with double digit returns for the quarter, except for Consumer Staples (+6.5%). The best performing sectors in the Russell 2000 were Technology (+21.9%) and Energy (+20.6%) as investors seemingly played a barbell strategy of consistent growth for tech and cyclical growth for the energy sector as oil has increased substantially year-to-date. It's hard to believe but the energy sector has underperformed the benchmark index for eight of the last nine years. The first two tables below highlight the performance of the Russell 2000 style indices by sector for the month of March and the first quarter 2019. Note that the month of March was significantly softer than the first two months of the year due to the yield curve inversion and the potential implications for the financial sector. Lastly, the third table below shows that the performance within the Russell 2000 was worse as you moved down market cap. This effect is a continuation of a trend which has existed since early 2014 with only a brief respite in the second half of 2016 and earlier in 2018.

Table 7 - Russell 2000 Growth Performance Attribution through March 31

	March			1Q2019			
Russell Sector	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
Discretionary	-1.47	-0.26	-0.11	16.68	3.07	-0.46	17.9
Staples	-1.24	-0.03	0.11	6.45	0.18	-10.69	2.5
Energy	2.59	0.04	3.94	21.82	0.39	4.68	1.8
Financials	-4.73	-0.36	-3.38	11.58	0.95	-5.56	7.4
Health Care	-0.63	-0.18	0.73	18.57	4.74	1.43	26.3
Mat. & Process	-4.42	-0.32	-3.07	15.91	1.14	-1.23	6.9
Prod. Durables	-2.69	-0.41	-1.33	13.85	2.19	-3.29	15.1
Real Estate	2.29	0.07	3.65	18.25	0.53	1.11	3.0
Technology	0.40	0.07	1.75	23.40	3.72	6.27	17.2
Utilities	1.77	0.03	3.12	12.95	0.24	-4.19	1.8

Table 9 - Russell 2000 Value Performance Attribution through March 31

	March			1Q2019			
Russell Sector	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
Discretionary	-2.83	-0.33	0.04	9.78	1.26	-2.22	2.2
Staples	-1.49	-0.03	1.38	8.97	0.22	-3.03	5.7
Energy	0.63	0.02	3.49	20.16	1.09	8.16	25.9
Financials	-6.60	-1.79	-3.74	7.78	2.20	-4.22	5.2
Health Care	-3.87	-0.17	-1.01	10.69	0.48	-1.31	11.2
Mat. & Process	-4.34	-0.23	-1.48	16.90	0.83	4.90	14.8
Prod. Durables	-4.16	-0.49	-1.30	9.98	1.19	-2.03	7.8
Real Estate	1.49	0.23	4.35	15.92	2.24	3.92	0.0
Technology	-2.60	-0.28	0.27	18.93	1.81	6.93	0.0
Utilities	2.65	0.20	5.51	9.83	0.70	-2.17	0.0
Size Quintile	**Absolute**	**Contribution**	**Relative**	**Absolute**	**Contribution**	**Relative**	**Wgt**
1 (Largest)	-1.64	-0.87	0.46	14.57	7.54	0.00	53.2
2	-1.89	-0.47	0.21	15.91	4.03	1.33	25.3
3	-3.09	-0.40	-1.00	13.35	1.79	-1.23	12.7
4	-4.31	-0.27	-2.22	12.45	0.85	-2.13	6.2
5 (Smallest)	-3.11	-0.08	-1.01	13.34	0.38	-1.24	2.6

Source: Jefferies

Apparent progress being made on the China tariff front plus the Fed's apparent desire to pause on the interest rate front created a positive environment for stock markets around the globe. The Chinese stock markets have been the biggest beneficiaries by far, which are both up more than +30% year-to-date. The tariff wars took their toll on China's stock market during 2018, but the markets are raging back on the heels of the Chinese government's nearly 70 stimulative measures deployed over the past six months to reaccelerate their economy. These measures have included interest rate cuts, reserve requirement ratio cuts, tax cuts and spending plans. Emerging markets are still a bit soft as they are highly dependent upon the outcome of the tariff negotiations between the U.S. and China. As stock markets around the world have moved higher, volatility has declined quite a bit following a major spike in the fourth quarter of 2018. Due to their high correlation with China's economy which appears to be on the mend, Germany and much of Europe continue to rebound despite their economy shrinking in the latest ISM surveys. Additionally, the ill-timed auto regulation that caused the auto market to sputter in Europe has passed. The new rules put in place last summer had a large impact on the production of cars that could meet the new emission specs. Bond investments did well as there was a clear flight to safety as the yield curve inverted and recession fears infiltrated the market. Amongst commodities, precious metals like gold were the laggards in the quarter after posting gains in last year's fourth quarter as money moved in as part of the safety trade. Oil rebounded significantly as OPEC has followed through on their plans to cut production and ease the supply/demand imbalance.

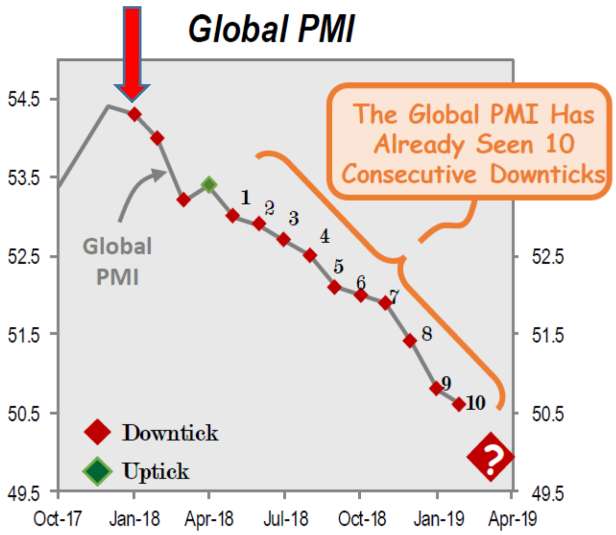
Index	First Qtr. / YTD 2019 Return
France	13.40%
Germany	8.90%
Brazil	4.80%
India	8.00%
China- A Shares	31.80%
China- Shenzhen A Shares	35.00%
Japan	6.90%
Long-Term Treasuries (TLO)	3.50%
Investment Grade Corp. Bonds	2.90%
Gold	1.10%
Volatility- VIX index	-34.20%
Oil	29.20%
Natural Gas	-5.90%
Lumber	9.50%

Source: 1492 Capital Management, LLC

Updated 2019 Outlook: 2019 is Shaping Up Just Like 2018………………Or is it?

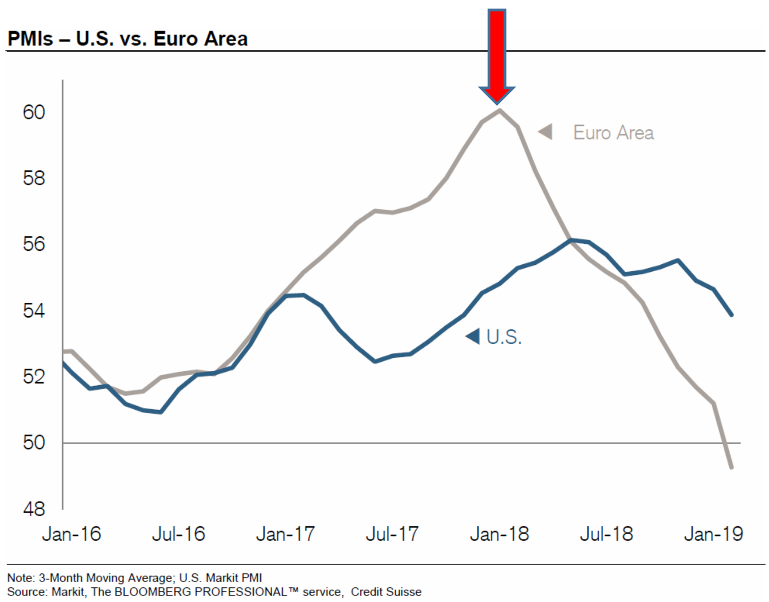
One quarter of the way through the year, the similarities between 2018 and 2019 are eerily similar. To refresh your memory, in 2018 the stock market started out with a bang and by mid-June the Russell 2000 was up 12% and ahead of the S&P 500 by over 700 basis points. Similarly, in 2019 the market bolted out of the block, and after a single quarter, the Russell 2000 is up 14.6% and is outpacing the S&P 500. We all know what happened in the back half of 2018- an ugly reversal that left the S&P 500 down -6.2% for the year and -11% for the Russell 2000. With so many prognosticators saying that a recession is imminent in the near term and the market can't advance any more from here because valuations are stretched, one must conclude that the market's fate in 2019 is doomed to be similar to 2018-- a flameout in the back half. Is it???? We think not and let us explain.

In order to do so, we have to take a step back with perfect hindsight and look at the setup going into 2018. The economy was picking up steam heading into 2018 and the tax reform act had just passed which was forecast to be a massive stimulus for the U.S. economy. It was; however, the Federal Reserve had other thoughts. They were hell bent on hiking interest rates and beginning to shed some of the $4.5 trillion of assets that they had accumulated over the prior five years. Just as the Fed was going to begin an aggressive tightening cycle, President Trump declared war on China trade. This move had a significant impact on China's economy, which the press failed to accurately report in our view. Companies from around the globe, particularly U.S. companies, that had manufacturing or assembly operations in China were running as fast as they could to exit China. They then set up facilities in places like Vietnam, Thailand, or India where they would avoid the proposed higher tariffs that were scheduled to come on in short order. Trump's first official tariff hike was executed in January 2018. Note the distinct correlation between the global economy slowing and the timing of the tariff implementation on the charts below. The chart below left shows the global purchasing managers index which began to slowdown in late 2017 when Trump began talking about implementing tariffs against Mexico, Canada and China. The chart on the right shows China's economy specifically as measured by the Caixin Manufacturing Survey. The red arrows on both charts below denote the timing of the implementation of the first tariffs. Not coincidentally, at the same time that China's economy began to rollover, Europe's did as well- see bottom chart below (grey line). Again, the red arrow denoting the implementation of tariffs. Europe's economy tends to have a much higher correlation to China's economy as Germany manufactures a tremendous amount of equipment that is exported to China's factories. Note the durability of the U.S. economy in the bottom chart below (blue line) while all others around the globe were sinking quickly. This resilience can be attributed to the tax reform act kicking in in the U.S.



Source: Cornerstone Macro

Source: Strategas Research



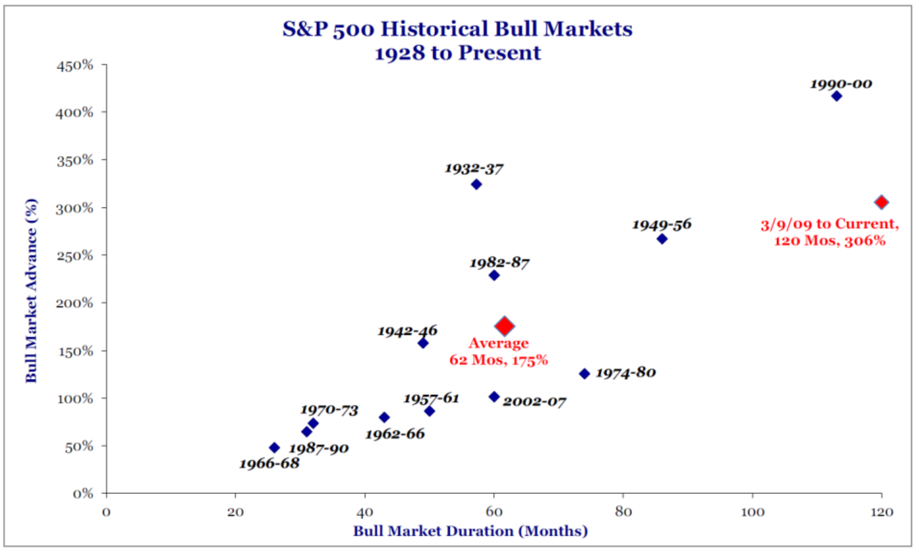
At the same time the global economy was rolling over in early 2018, the U.S. Fed began what was to be a series of seven to eight, 25 basis point rate hikes that were to linger on into 2019. The ECB also professed that they would begin paring back on their very loose monetary policy by year end 2018. As 2018 rolled on, tariff banter became much more heated and the first round of tariffs were implemented on Chinese exports, and China, Europe, and Canada implemented retaliatory tariffs. All of these actions had a cooling effect and cast a pall of uncertainly over the global economy. Combine these with the other policy missteps that we noted above like Brexit and the U.S. Government shutdown which occurred at roughly the same time in the back half of 2018, and it was a perfect recipe for a global stock market meltdown.

Now fast forward to 2019. The stock market is off to a fast start, but instead of having a number of headwinds that will hit in the back half of 2019 like they did in 2018, we have a number of tailwinds that could propel the global economy to levels not currently forecast. The U.S. government shutdown is over, and the Fed has done a 180 degree turn and has taken rate hikes off the table for 2019. China tariff discussions appear to be moving towards a favorable outcome, and China has put in place nearly 70 stimulative measures over the past six months to lift their economy. Lastly, the oil market has found its footing above $60 per barrel which is important from an industrial economy standpoint. The earliest signs of a turn in the global economy became evident just this week when China and the U.S. reported that their March PMIs and had reaccelerated to 50.8 and 55.8, respectively, which are very healthy levels. Therefore, we conclude that while on the surface 2018 and 2019 look eerily similar, we believe the ultimate outcome for 2019 will be significantly better.

Updated 2019 Outlook: A Picture is Worth a Thousand Words

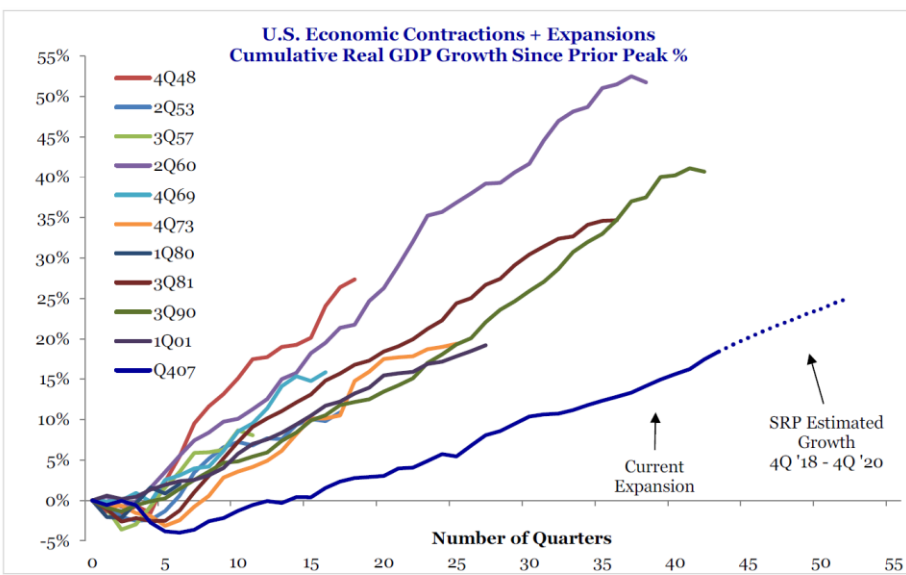
We articulated our updated 2019 outlook above and the key issues and drivers for the stock market. Yet, we believe that there are other topics that we haven't spent a great deal of time on that deserve some mention. In order to provide you with a shorter read, as everyone's time is valuable, we decided to express it in pictures. As they say, a picture is worth a thousand words, and we'll let you interpret what we view as some compelling charts. We'll provide a bullet point or two of explanation as to why we think the chart or graphic is important.

The current bull market is the longest in history but not yet the best in terms of returns.



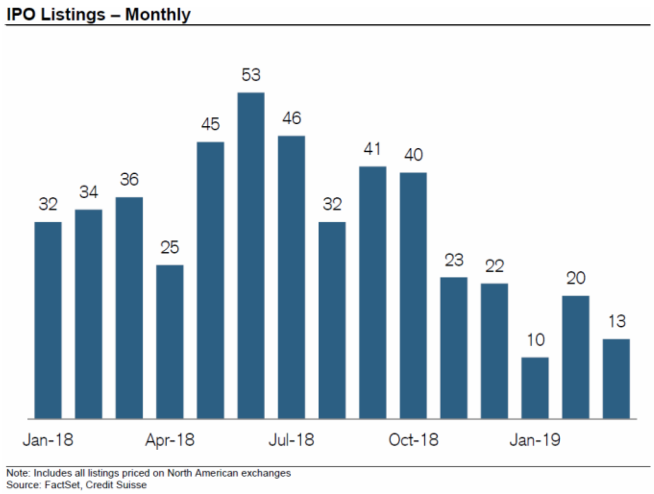
Source: Strategas Research

Similar to the chart above, the current economic expansion is the longest in history but falls short on magnitude.



Source: Strategas Research

The IPO market has been quiet of late as the stock market has been volatile since last fall as seen on the chart on the left. There are a number of high profile IPO's likely to come out this year, and the first of which was LYFT which came public just last week to a welcoming audience at a robust valuation but has since broken deal price.

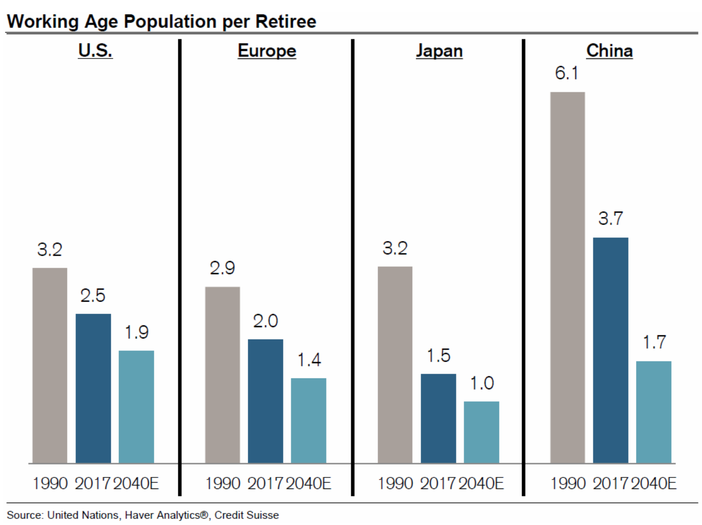


EXPECTED HIGH-PROFILE IPOs IN 2019

1. Uber
2. Lyft
3. Slack
4. Palantir
5. Pinterest
6. Airbnb
7. Postmates
8. Casper
9. CrowdStrike
10. Asana

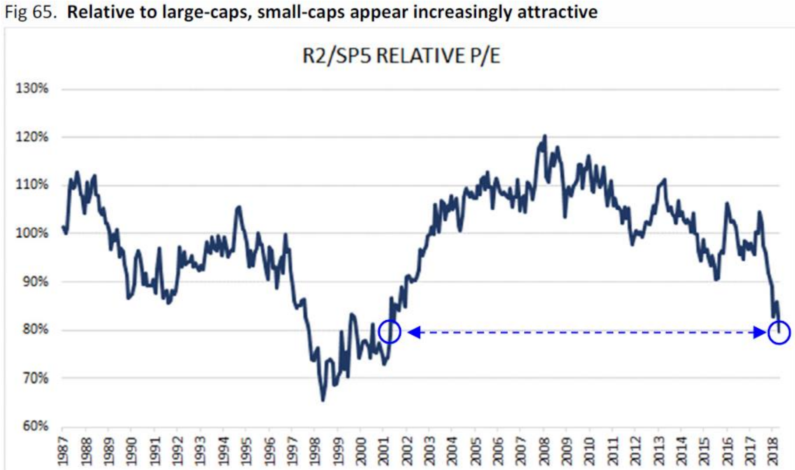
Source: InvestorPlace

The working age population per retiree continues to shrink around the globe, which makes it difficult for the global economy to continue to grow at its historical pace. This issue will be magnified over the next twenty years.



Small cap valuations relative to large caps are at the lowest level since 2002. Does your portfolio have enough small caps in it?

Fig 65. **Relative to large-caps, small-caps appear increasingly attractive**



Source: Furey Research Partners and FactSet. Data as of 3/29/19. Represents median P/E using latest available trailing 12-month earnings. Profitable companies only.

There have been 19 prior observations in which the S&P 500 posted positive performance in each of the first three months of the year. The average performance for the next nine months of the year approached 10%. As the last column shows, there is almost always a pullback along the way that averages -9.4%.

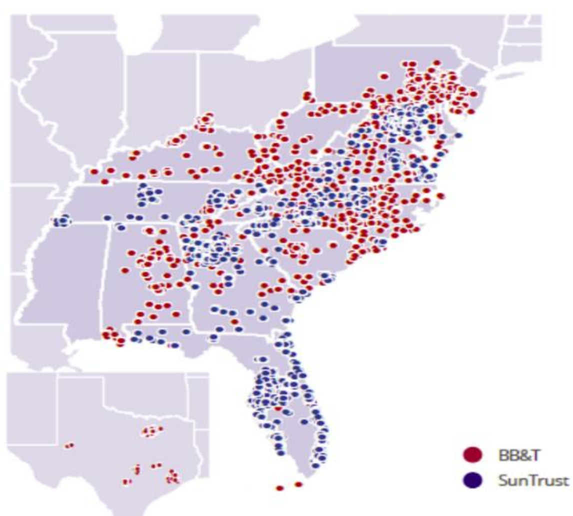
S&P Positive in January, February, & March… 19 Observations Since 1950

YEAR	JAN. PERF	FEB. PERF	MAR. PERF	3/31 - 12/31 PERF.	MAX DRAWDOWN MAR-DEC
1950	1.5%	1.0%	0.4%	18.2%	-14.0%
1954	5.1%	0.3%	3.0%	33.6%	-4.4%
1961	6.3%	2.7%	2.6%	10.0%	-4.4%
1964	2.7%	1.0%	1.5%	7.3%	-3.6%
1967	7.8%	0.2%	3.9%	7.0%	-6.6%
1971	4.0%	0.9%	3.7%	1.8%	-13.9%
1972	1.8%	2.5%	0.6%	10.1%	-5.1%
1975	12.3%	6.0%	2.2%	8.2%	-14.1%
1983	3.3%	1.9%	3.3%	7.8%	-6.9%
1986	0.2%	7.1%	5.3%	1.4%	-9.4%
1987	13.2%	3.7%	2.6%	-15.3%	-33.5%
1991	4.2%	6.7%	2.2%	11.2%	-5.6%
1993	0.7%	1.0%	1.9%	3.3%	-4.0%
1995	2.4%	3.6%	2.7%	23.0%	-2.5%
1996	3.3%	0.7%	0.8%	14.8%	-7.6%
1998	1.0%	7.0%	5.0%	11.6%	-19.3%
2006	2.5%	0.0%	1.1%	9.5%	-7.7%
2012	4.4%	4.1%	3.1%	1.3%	-9.9%
2013	5.0%	1.1%	3.6%	17.8%	-5.8%
2019	7.9%	3.0%	1.1%	?	?
		Average		9.6%	-9.4%

Source: Strategas Research

Thematic Investing: M&A Disruption a Potential Positive for Our Regional Banks-Tax Haven States Theme

As we have discussed in the past, we have deployed a regional banks-tax haven states bank theme for multiple years as we believe that loan demand and deposit growth follow people, and the population demographics are stronger in these no state income tax states like Florida, Tennessee, and Texas. In fact a December 28, 2018 Wall Street Journal article commented that with U.S. population growth hitting an 80 year low in 2017, "some states are booming while others are suffering a European-style sclerosis of population loss and slow economic growth." In 2017, two of the top eight fastest growing states in the U.S. included Texas and Florida, and that growth is off an already large population base. On February 7, 2019, BB&T Corp. announced that it was acquiring SunTrust Banks, Inc. in an all stock, merger of equals transaction that would create the sixth largest bank in the United States. With respect to our banking theme, what we find particularly interesting is what this transaction offers BB&T above and beyond cost synergies in markets with significant branch overlap. As seen in the branch map below, this deal provides BB&T with a significantly greater presence in the two tax haven states of Tennessee and particularly Florida. In Florida's major markets of Orlando, Tampa, and Miami, BB&T's post-deal deposit base will more than triple, and in Nashville, TN, it will increase nearly tenfold.



Source: BB&T Corp.

A deal like BB&T/SunTrust can benefit our theme holdings in two ways. First, there is dislocation from a merger of this size as quality bankers with healthy loan books and deposit accounts may seek employment at smaller, less bureaucratic banks. This employee migration and branch closures associated with merger synergies provide smaller banks with outsized growth opportunities in already strong markets. Based on research from regional brokerage firm Stephens Inc., two of our banking theme holdings have 49% and 59% of their branches within one mile of a BB&T or SunTrust branch and 75% and 90%, respectively, of their branches within five miles. Not only will there be new business opportunities arising from the dislocation of this mega merger but the scarcity value of our banks' franchises rises as there is now one less takeover target to serve as an entry vehicle into these attractive markets. The U.S. banking environment is about scale and branch consolidation, in our opinion, and with a miniscule amount of de novo branch expansion, it is a buy instead of build arena for market growth. Our regional bank-tax haven state theme holdings are well positioned for this M&A trend as well.

Thematic Investing: Will Hemp Farming Change the Landscape of American Farms with Farm Bill Passage?

If you visit a rural Wisconsin coffee shop at 5:00 AM, the conversations quickly move from local sports to how lousy the farm economy is. Then the topic quickly shifts to hemp farming and the huge potential profits that can be made in the legalized hemp farming industry! The 2018 Farm Bill is particularly relevant to the booming CBD (Cannabidiol) product market because Congress removed hemp and its derivatives, including CBD, from the Controlled Substances Act. This removal means that it is no longer a violation of the Controlled Substance Act to process hemp, hemp products or CBD derived from hemp as long as the THC concentration (the ingredient responsible for psychoactive effects) of the plant contains not more than 0.3%. The USDA is still authorized to regulate CBD under the Food, Drug and Cosmetic Act, and state agencies may also regulate CBD. The USDA is expected to release draft regulations within the next 12 months, but the timing of a full program described in the 2018 Farm Bill is unknown.

Many industry pundits believe that the global hemp market could skyrocket to a $25 billion dollar industry by 2022 and the U.S. hemp market could grow to $16 billion by 2025. The demand for CBD oil is exploding in the United States due to the alleged but unproven medical benefits of CBD. Studies have shown that CBD can reduce pain associated with arthritis, anxiety and depression, and acne, aid in the neuroprotective properties for symptoms related to epilepsy and Parkinson's disease, and even reduce high blood pressure. At current prices for the full spectrum oil, an average farmer can generate an unlevered return of 100%, and processors can generate 300-400% unlevered returns for every hemp acre planted. These returns are in stark contrast to the current state of affairs in which the average farmer is losing money in corn, beef, pork, soybeans and milk. In Wisconsin, approximately two family farms are going out of business every day currently.

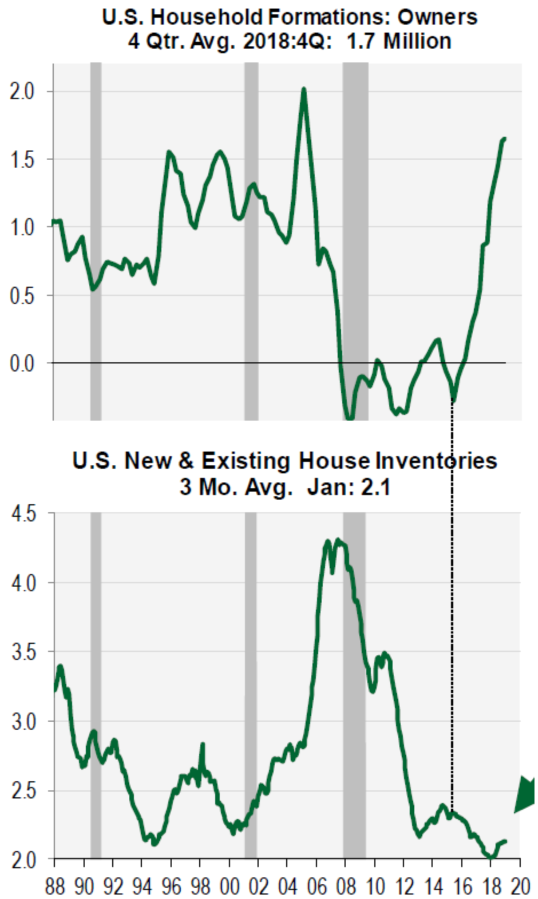
Capital markets are open and extremely active as money is being raised for companies to grow, process, and sell related CBD products. There are investment banking groups that are being created to solely focus on the emerging legalized hemp markets. Many publically traded companies have made announcements that they will be entering the CBD markets. CVS Pharmacy recently announced they will be selling CBD based products in 800 of its stores in 8 states, and Walgreens plans to sell these products in 1500 stores nationwide. Ulta Beauty is in the process of launching a skin care line called Cannuka's CBD skin care products. Other companies pursuing opportunities in this area include Pyxus International, GW Pharmaceuticals, Village Farms, and Molson Coors which is developing non-alcoholic CBD infused drinks.

Depending on how regulation plays out on a state-by-state basis post the passage of the 2018 Farm Bill, the legalized hemp market is definitely something to watch as capital quickly pours into the industry in search of the proverbially home run ball.

Thematic Investing: Housing and Construction Show No Signs of Slowing

During the first quarter of 2019 market investors consternated over the plight of the economy, interest rates, and the plethora of economic indicators that have seemed to vacillate wildly over the past few months. One important sector that we remain very sanguine on is housing and construction. There are a number of factors that have contributed to the demand, or lack thereof, for home construction during this recovery spanning the past decade. The absolute level and direction of interest rates is obviously one of the key determinants for housing and mortgage demand. The Federal Reserve did a 180 degree turn in interest rate outlook from last fall to today, which has caused the 10-year U.S. Treasury bond yield to drop to 2.5%. The lower Treasury yields has caused mortgage rates to come down roughly 65 bps since last fall and entices home buyers back to the market.

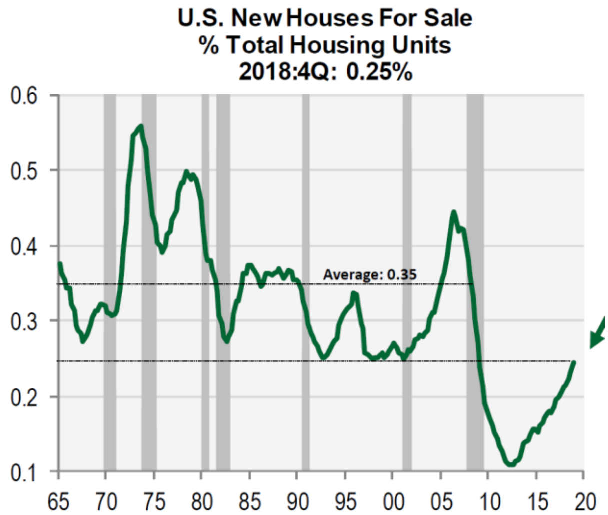
Household formations, which trended negatively for several years, have been growing for the past several quarters. This new demand for homes is soaking up limited supply in both single-family and multi-family housing.



Source: Cornerstone Macro Research

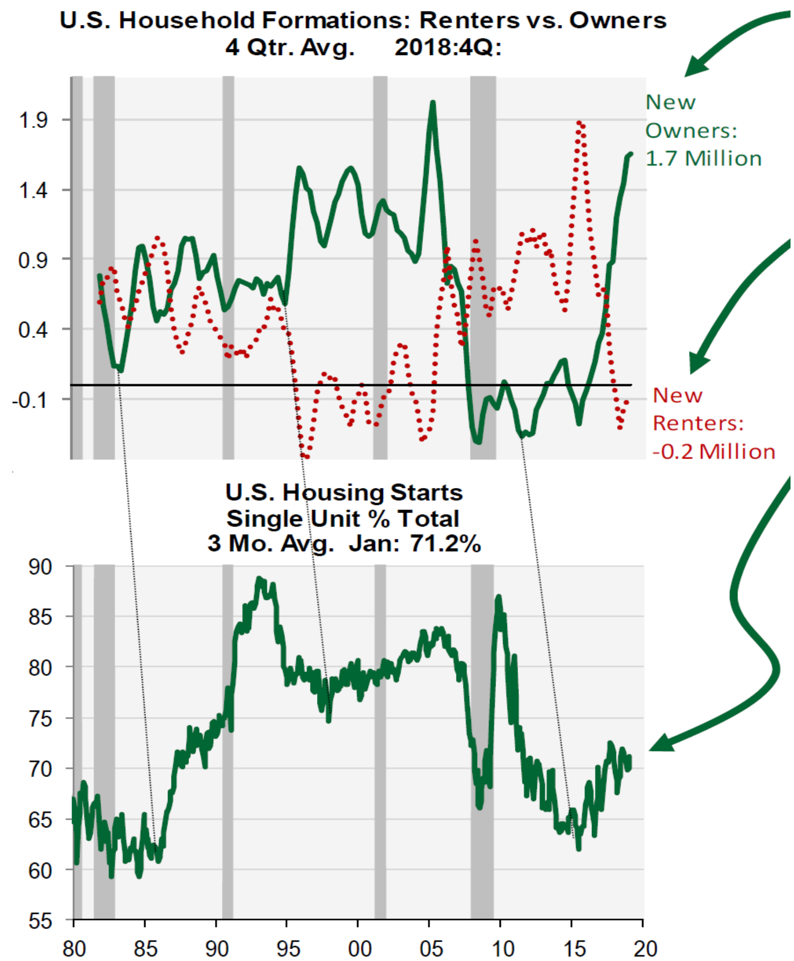
One of the reasons that new home inventory has been so low in recent years is because homebuilders have been under cost pressures, and consequently it has been only marginally profitable to build entry level homes. A few factors have emerged that are alleviating these cost pressures, and new home starts are on the rise. Shrinking floor plans, abating lumber inflation, and the cut in the corporate tax rate under President Trump's tax reform law have all given homebuilders more pricing flexibility with new home construction.

Even as supply of new homes has begun to advance, we believe that there is plenty of pent up demand from young homebuyers to buoy demand for years to come.



Source: Cornerstone Macro Research

It is estimated that there are three million young adults still living at home with their parents. According to Cornerstone Macro Research, if they were to enter the housing market over the next 15 years, it would add 200,000 units per year of demand. It is also important to note that there has been a shift from renting to owning, which bodes well for new single-family housing starts.

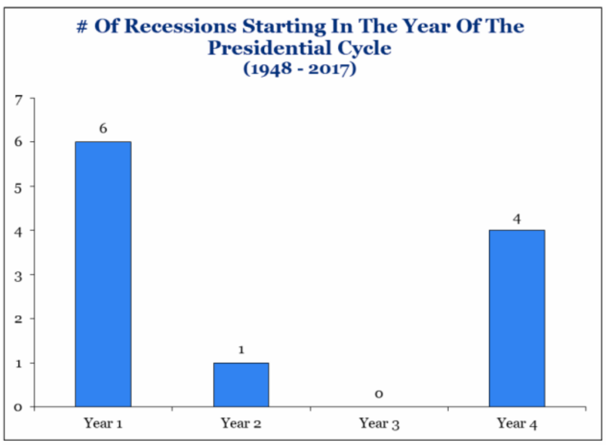


Source: Cornerstone Macro Research

With new household formations on the rise, lower mortgage rates, more affordable housing, and pent up demand, we've made the case that demand for single-family housing is on the rebound,. Single-family housing construction is so important because it has a three times multiplier effect on economic growth over multi-family construction. As investors consternate over the strength of the economy and GDP growth going forward, we believe there is a strong case to be made that housing construction will play a key role in bolstering the underlying growth over the next few years. Of the nearly 9 million jobs that were lost in The Great Recession, roughly 3 million were tied to the construction industry. Some have argued that while unemployment levels have dropped to the lowest level in over a decade, many of the jobs that have been added back are low-paying service industry jobs. If the housing construction trend plays out over the next few years like we believe is possible, a million-plus new high paying jobs will be added to the workforce which will undoubtedly have a material positive impact on economic growth.

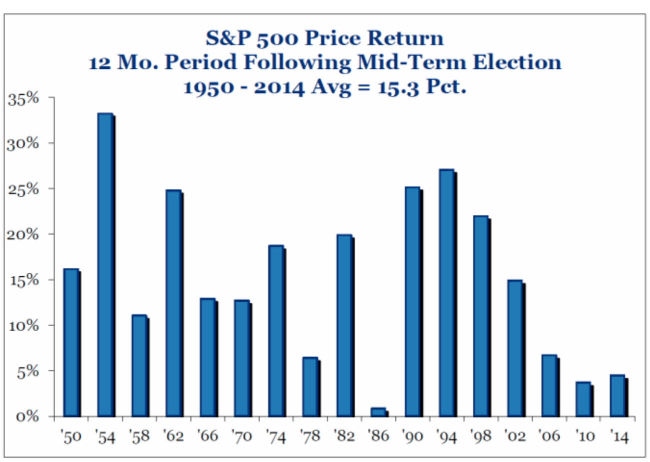
Market Trivia

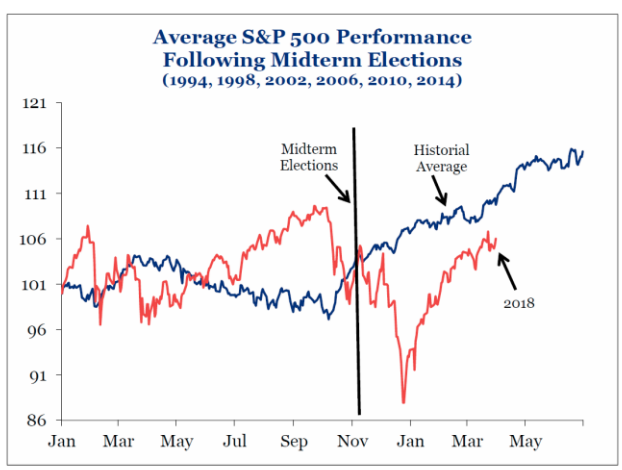
Each quarter we offer a piece of market trivia that we believe is interesting or timely, or both. Since the yield curve inverted in March, there has been a lot of discussion about recession. However, as you can see by the chart below, there has never been a recession in the third year of a Presidential cycle going all the way back to 1948.



Source: Strategas Research

As the chart on the left shows, the twelve month period following mid-term elections has never posted a negative return going back to 1950 and has averaged a positive +15.3% return. However, the rough December has put this flawless record at risk as shown on the chart on the right. The first quarter return has certainly helped close the gap but there is more work to be done.





Source: Strategas Research

We hope that you found our first quarter 2019 review and updated 2019 outlook newsletter to be insightful and interesting. Should you have any questions about anything discussed herein or would like more information about 1492 Capital Management, please call us at 414-276-1492.

Joe Frohna Rodney Hathaway Adam France Nancy Frohna Tim Stracka

Important Disclosures:

(1) The minimum criteria for inclusion in Best Money Managers: Performance must be calculated "net" of all fees and brokerage commissions. This means after all fees have been deducted. This standard is somewhat controversial, as the SEC requires that only "net" of fees numbers be presented publicly, while GIPS (Global Investment Performance Standards) prefers that "gross" numbers be presented along with a fee schedule. Since the SEC is a regulatory authority, and since complete fee schedule presentation would be impractical in this "ranking" format, we require "net" numbers. Performance must be calculated inclusive of all cash reserves. To explain, any given investment portfolio will hold some level of cash over a particular reporting period. Even equity portfolios which specifically seek to be fully invested in the market at all times will temporarily have dividend payments and other ordinary cash flows which cannot instantaneously be invested in the market. These cash holdings obviously will have an effect on the performance of the overall portfolio – negative when cash returns are low relative to returns of the asset class, and positive if the opposite is true. While presentation of "equity-only" (for example) returns may provide a valuable insight into the security selection skills of the manager, we require for comparability's sake that performance results be inclusive of cash reserves for consideration in the rankings. Performance results must be calculated in U.S. dollars, that is, from the perspective of a U.S.-based investor. Currency holdings can have a very significant impact on the performance of a portfolio with international holdings. While this will always be the case (as we do not make distinctions between hedged and unhedged portfolios), we require that performance must be translated into U.S. dollars to ensure comparability to the point where these are all returns that would be seen by a U.S.-based investor. Performance results must be calculated on an asset base which is at least $10 million in size for "traditional" U.S. asset classes (equity, fixed income, and balanced accounts) or at least $1 million in the case of international and "alternative" U.S. asset classes. This minimum ensures that the firm and product are somewhat established. The goal is to not taint the rankings with "flashes in the pan" while also not excluding promising emerging managers. The minimum asset base requirement, therefore, is set at a level which balances these objectives. The classification of the product must fall into one of the categories which we rank. We only publish rankings for categories/time period combinations for which we have at least 20 contenders.

Comments and opinions expressed in this document regarding individual securities, markets, strategies and case studies are not recommendations or predictions, and thus should not be acted upon. They are based only upon the judgments and opinions of 1492's professional staff. The use of any investment strategy does not guarantee that an investment return will be achieved, or that a loss will not occur from the advice provided. Past performance does not guarantee future results. No investment firm, including 1492 Capital Management, guarantees gains or that losses will not occur from the strategies applied to managed portfolios. You are encouraged to contact us with your questions.

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