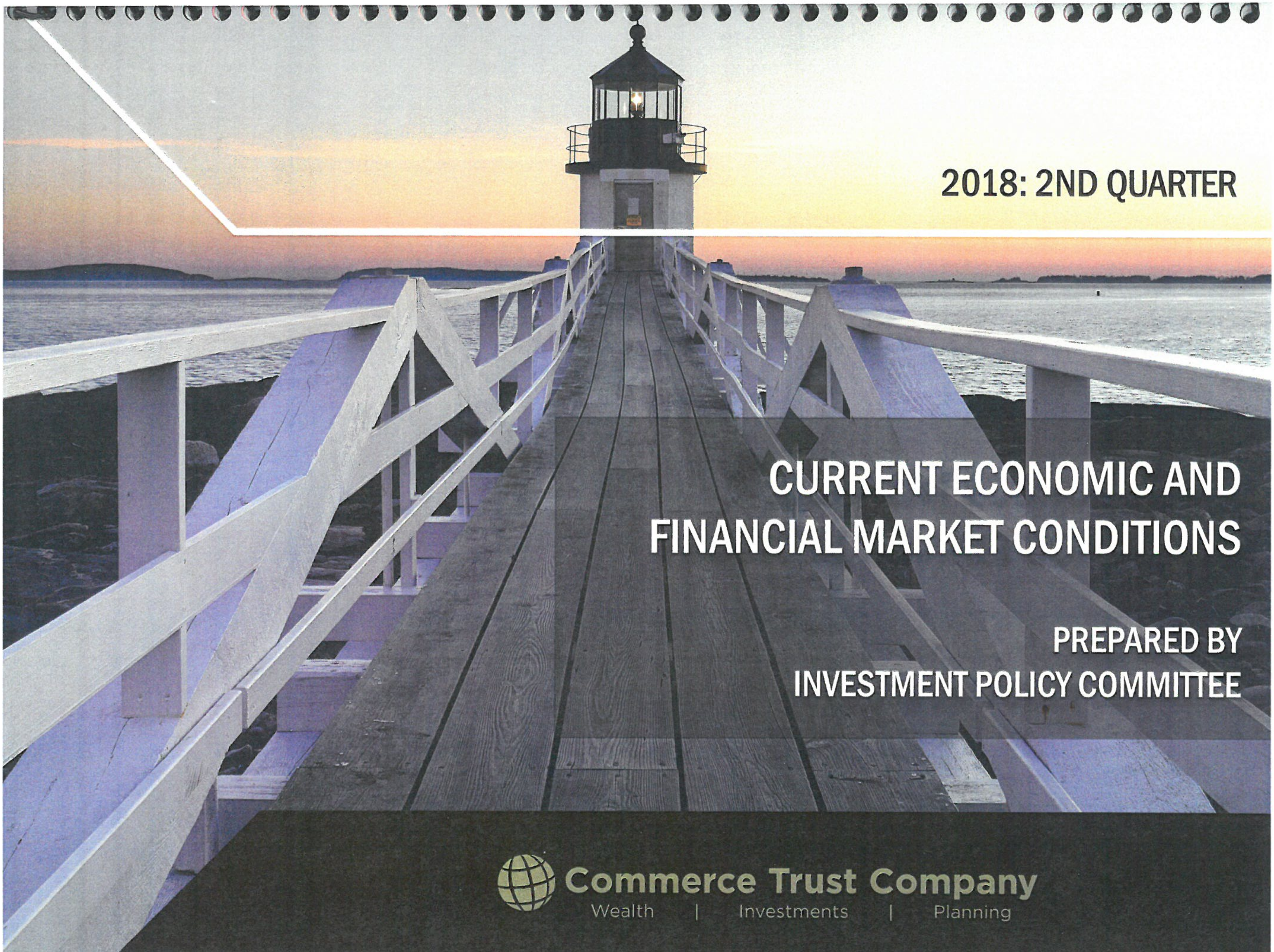

2018: 2ND QUARTER

CURRENT ECONOMIC AND FINANCIAL MARKET CONDITIONS

PREPARED BY
INVESTMENT POLICY COMMITTEE

Commerce Trust Company
Wealth | Investments | Planning

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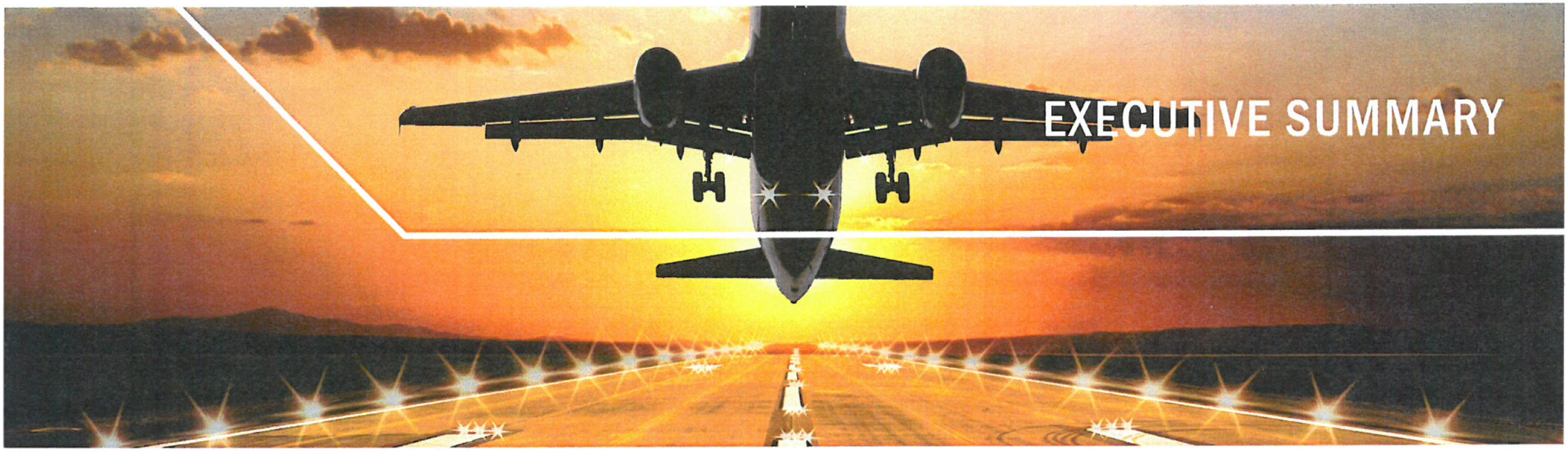


ECONOMIC GROWTH EXPECTED TO CONTINUE IN 2018

Economy

U.S. economic growth finished on a strong note last year. GDP for 2017 was initially reported at a rate of 2.6%, up from the 2.1% pace since the end of the Great Recession in June 2009.

We expect growth to accelerate even further in 2018. It would not surprise us if growth approaches or even surpasses 3% this year. The key drivers to this growth are:

- Steadily increasing levels of employment
- Growth in business and consumer confidence that is translating to robust retail sales and a deepening of the capital stock, with investment in infrastructure and business capital equipment
- A continued recovery in the housing market
- A positive tailwind from the global economy
- U.S. wealth and stock prices at high levels
- An ongoing boost from the Trump tax reform plan

EXECUTIVE SUMMARY

Growth is accelerating, and despite the recent increase in stock market volatility and the initial salvos of a U.S.-sparked trade war, we believe a recession is still a considerable way off. We believe this recovery (almost nine years old now) will easily surpass our longest expansion, which lasted 10 years from 1990 to 2000. In fact, we might expect this expansion to continue for up to three or four more years.

Still, the seeds of the end of this business cycle are starting to be planted. Volatility in risk assets has picked up, as it typically does late in an economic cycle, and stocks have afforded little more than an up-and-down ride over the first quarter. Long-dormant inflation has also begun to accelerate a bit, as it usually does late in an economic cycle, and the Fed has responded with monetary policy normalization at a faster rate than the markets would have expected a year ago. The combination of rising inflation, higher interest rates and some unforeseen future economic shock could ultimately end this expansion and start the business cycle all over again. Thus, we don't want to get too carried away with our risk appetites.

Equity Markets

The first quarter of 2018 ushered in a period of volatility that we have not witnessed for quite some time. We entered the year with expectations for considerably lower equity returns than those we enjoyed in 2017, as valuations were and continue to be relatively elevated. However, we expected the global economic recovery to continue, which it has, and the recent corporate tax rate reduction is providing a boost to earnings for many companies. For these reasons, we are recommending neutral weightings in stocks relative to bonds and alternatives in our long-term overall strategic allocation.

We do believe that, based on historical valuations, most domestic stock prices are stretched at these levels. For this reason, we continue to emphasize and overweight our international and emerging market equity exposures. Over the past five years, the S&P 500 Index has provided an annualized return of more than 13% (as of March 31), while the annualized international developed stock market returns were about half – just 6.5% – over the same period. Emerging market returns over the past five years were even lower, at an annualized rate of 5%, primarily driven by the slowdown in China that has now passed.

Today, with continued weakness in the dollar and better valuations overseas, we continue to emphasize the top-down theme of more international exposure relative to our typical domestic allocation.

Fixed Income Markets

Returns for bonds last year were better than most expectations given a rising interest rate environment. But so far this year's returns are negative, as the Fed's rate hike in March was fairly rapidly discounted by a bond market that has recently pushed interest rates up by about 0.40%. Core investment-grade municipal and taxable bond funds have posted returns in the -1% to -2% range, while higher-yielding non-investment-grade funds have posted barely positive results. These returns are worse than we originally expected, and as time progresses and the Fed continues its rate-hiking mission, we doubt bond funds will return much more than the cash markets, with cumulative municipal returns of 1% to 2% and corporate returns of 2% to 3%. We continue to maintain a 10% weighting in the riskier areas of the bond market and believe the best bond returns are likely to be provided by emerging market debt and floating rate bank loans (as they have so far this year).

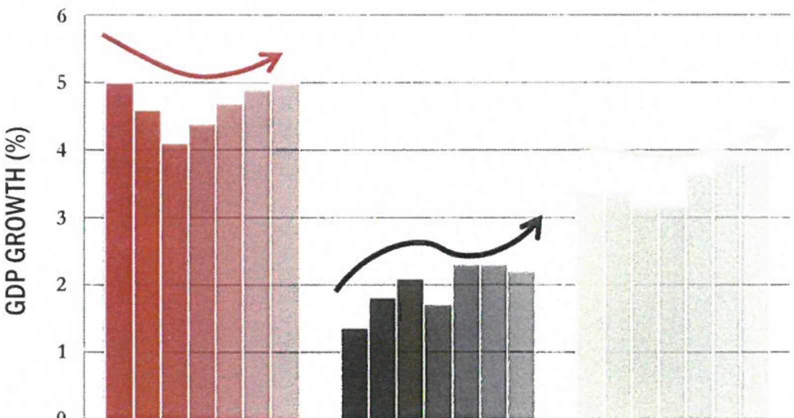
We continue to recommend a neutral (rather than underweight) allocation to bonds despite our modest return expectations. We recommend this because a longer-maturity, high-quality bond portfolio provides investors with an excellent hedge against an eventual recession and stock market decline. While we are not projecting a recession, or for that matter anything more than the typical stock market correction similar to that experienced in the first quarter, it's important to note that we are already late in this economic cycle. The easiest time to take a little risk off the table is when the financial markets are performing as well as they have this past year.

Alternative Assets

We continue to allocate approximately 10% of a balanced portfolio to the alternative sectors of the market. We recommend this in an attempt to diversify returns away from a typical stock/bond mix. This should help reduce a portfolio's overall risk over the long term. The typical balanced portfolio declined from 25% to 33% during the past two recessions. We expect our alternative allocation to dampen the potential downside of future recessions through lower correlations to stocks and bonds. Key areas of focus this year include liquid hedge funds, real estate investment trusts and energy MLPs. As the year progresses, we may consider adding a little commodity exposure.

GLOBAL ECONOMY – GROWTH WILL CONTINUE TO ACCELERATE IN 2018

Economic Growth – Where in the World Will it Come From This Year? (Figure 1)



	Emerging Market/Developing Economies	Advanced Economies	World
2013	5.0	1.4	3.4
2014	4.6	1.8	3.4
2015	4.1	2.1	3.2
2016	4.4	1.7	3.2
2017 (P)	4.7	2.3	3.7
2018 (P)	4.9	2.3	3.9
2019 (P)	5.0	2.2	3.9

(P) Preliminary Estimate from the International Monetary Fund – IMF
Source: International Monetary Fund

Global growth for the three years 2012 to 2014 was a relatively steady 3.4%. However, growth slowed to a 3.1% pace in 2015 and 2016. (Figure 1)

This slowdown was driven primarily by a rapid cooling in the emerging markets (EM) sector as yearly growth rates fell from 5.2% to 4.1%. (Figure 1)

Growth rebounded strongly in 2017 (as we had expected), and the world's economies are finally beginning to lift off in a synchronized fashion. This year, the International Monetary Fund (IMF) projects that growth will likely accelerate a bit further, creating at least a modestly positive backdrop for the financial markets. Still, the financial markets are loosely correlated with economic growth, and there is no doubt that volatility has picked up, cooling our performance expectations for risk assets in 2018.

Domestic growth in the United States is poised to modestly accelerate from its recent 2.5% pace. Europe has clearly bottomed and is showing clear signs of further recovery. And China, by far the largest emerging market, is also making continued forward progress, helping to pull all the other emerging markets' growth forward as well. Essentially, the ultra-low interest rate policies around the globe have begun to work successfully, as they typically do, with some lagged effect.

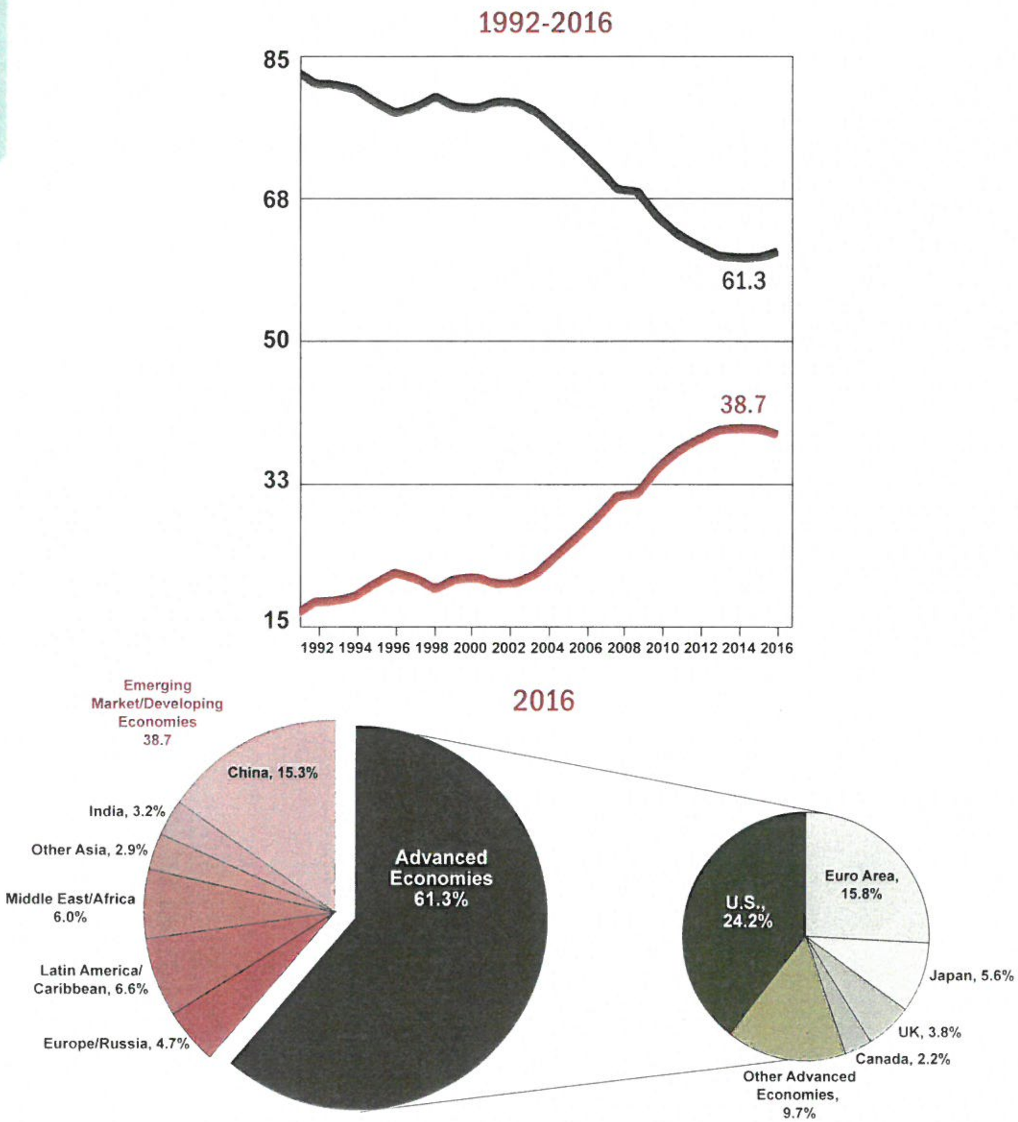
While Japan is still adding stimulus (and Europe to a slightly lesser extent) with a negative short-term interest rate policy, the Federal Reserve is now two years into raising short-term rates. Normally this would strengthen the dollar, but as European growth prospects have improved, so has the euro. Since a weaker dollar adds to U.S. investors' international returns, we moved from a tactical underweight last year to a slight overweight this year in international assets.

We continue to believe that, just as in 2017, the best values will be found overseas.

However, we are also growing increasingly cautious, as the United States is already in the late innings of its economic cycle.

GLOBAL ECONOMY – EMERGING MARKET SLOWDOWN FULLY DISCOUNTED

Economic Output – Where in the World <u>Does</u> it Come From This Year? (Figure 2)



Source: International Monetary Fund

Emerging markets (EM), driven largely by the "BRICs" (Brazil, Russia, India, China), were the primary drivers of global growth from 2000 to 2013. But as China cooled, the rest of the EM countries caught a cold. (Figure 2)

With materially higher growth rates than those of the developed world, EM economies grew their share of global GDP after the turn of the century from 20% to 39%.

The pause in EM growth allowed developed markets like Japan, Europe, and the United States to maintain their share of global GDP in recent years.

But EM growth firmed last year as energy prices moved higher, helping to end recessions in energy-sensitive economies like Russia and Mexico. In addition, China continues to embark on economic stimulative programs. We expect a further cyclical bounce for the EM. Of course, any acceleration in growth would be a net positive for the world economy in aggregate.

Despite returns in excess of 30% in 2017, EM equities over the past five years have still underperformed the S&P 500 by about 60% on a cumulative basis. EM valuations are still favorable relative to domestic valuations.

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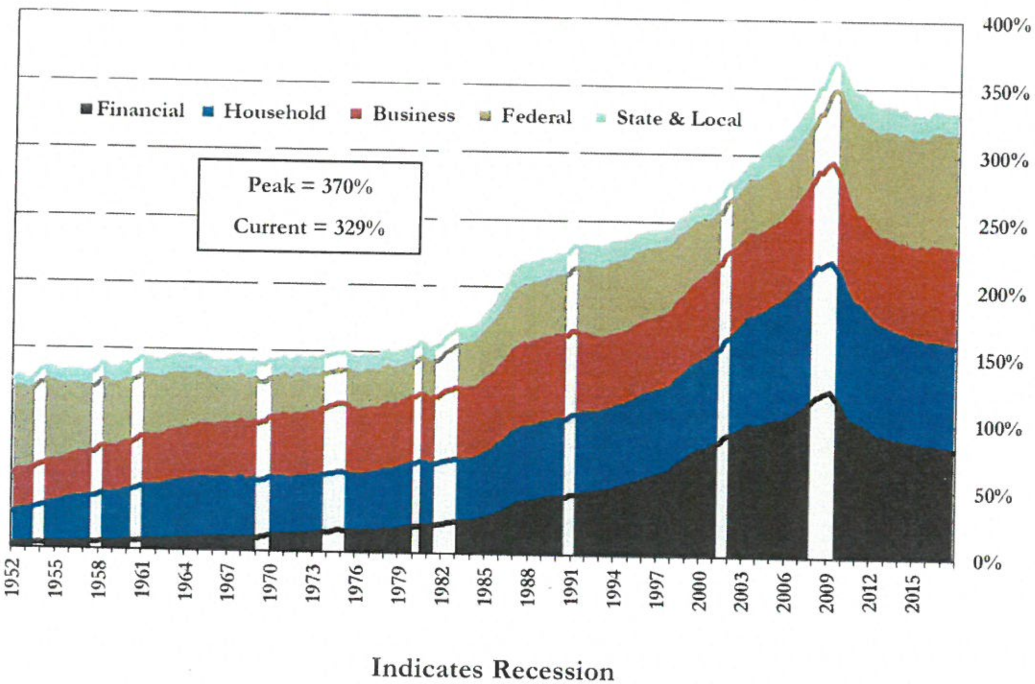
U.S. ECONOMY – THE DELEVERAGING PROCESS IS OVER...FINALLY

Total Domestic Debt - % Of GDP As Of 12/31/17 (Figure 3)



Source: Flow of Funds Accounts, Federal Reserve

Figure 3 sums all domestic debt and compares it to the size of our economy. Note that debt relative to the size of our economy had expanded rapidly from 1979 to 2009 as interest rates fell. This acceleration was driven primarily by an explosion in household mortgage debt and rapid leveraging in our financial system.

By 2007, total debt had reached more than 3.5 times the size of our economy. As we entered a recession, it became too costly for overextended households to maintain their debt loads, particularly as asset values were falling. With home prices declining for the first time since the Great Depression, an ill-prepared and overlevered financial system was blindsided, resulting in a banking crisis that led to the longest post-war recession on record.

With too much debt, we have had to "deleverage" as a society. This unwinding process has slowly come to an end. While debt reduction created a strong headwind to economic growth initially, that headwind has begun to subside. (Figure 3)

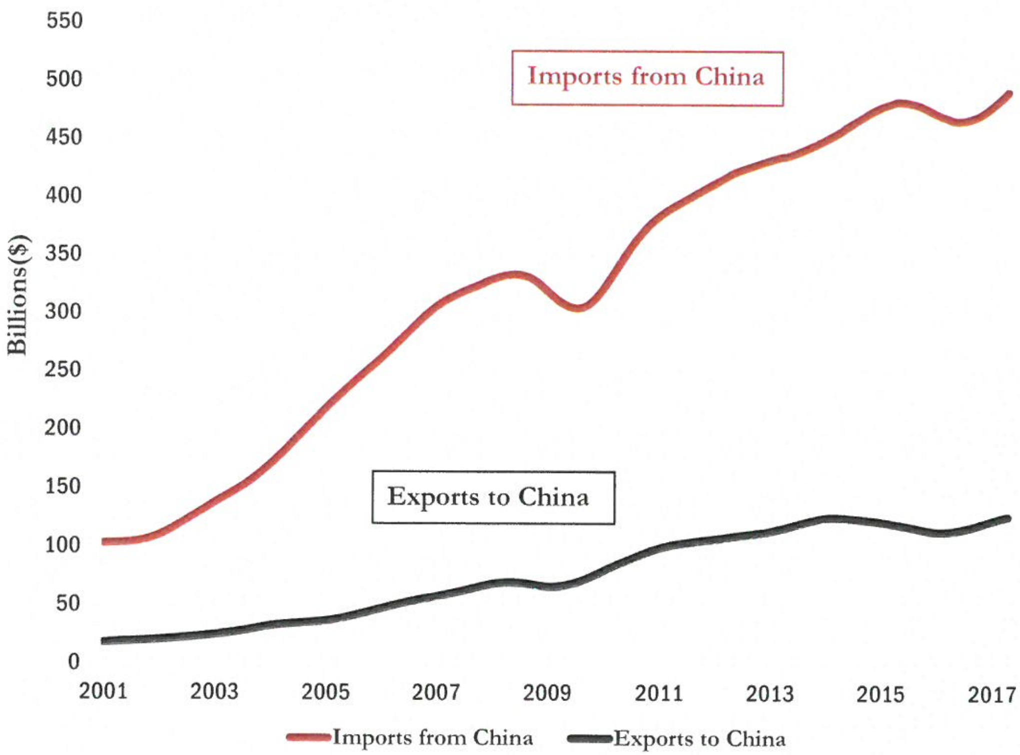
Typically, deleveraging processes from other global debt crises have taken an average of about 7 to 10 years to run their course. We are now almost 9 years into our economic recovery, and right on cue, our debt reduction cycle appears to have ended.

As the deleveraging process ended, we expected domestic growth to accelerate from below 2% to a pace above 2%. And it has. GDP growth was 2.5% in 2017 and will likely accelerate further in 2018.

Unfortunately, the ultra-low interest rates that afforded households, corporate America and even our own government to lower their debt service costs have come to an end. And with rates now rising, the still-elevated levels of debt are likely to begin to bite by the end of the year, calling again for further caution late in our economic cycle.

U.S. – CHINA TRADE DEFICIT CONTINUES TO GROW

U.S. Trade Data From 2001 To Present (Figure 4)



Source: Bloomberg, U.S. Census Bureau

The growing trade imbalance between the United States and China has sparked the initial salvos of protectionist measures by the Trump administration. (Figure 4) Last year we imported approximately $500 billion in Chinese goods and services but exported less than $150 billion, for a net deficit of $365 billion. This trade imbalance with China represents about two-thirds of our global trade deficit of $565 billion, which itself represents roughly 3% of total U.S. GDP.

Concerns about a looming trade war have challenged market sentiment. The United States initially announced plans to implement tariffs on imported steel and aluminum, as well as a 25% tariff target on $60 billion of imported Chinese goods. This has caused most of our trading partners, including China and Europe, to consider retaliatory measures on specific U.S. exports (including most agricultural products, ethanol, cars, and aircraft equipment).

So far, this trade war is more a tit-for-tat skirmish, as the projected cost of the tariffs themselves represents less than 0.1% of our GDP. But the administration is adamant about countering what it perceives as unfair Chinese trade practice, and the rhetoric has yet to calm down.

Despite the relatively inconsequential direct impact to growth, risks of a larger conflagration remain. Therefore, we are closely monitoring currency markets (particularly the yuan), global credit spreads, and overnight rate markets for signs of further escalation.

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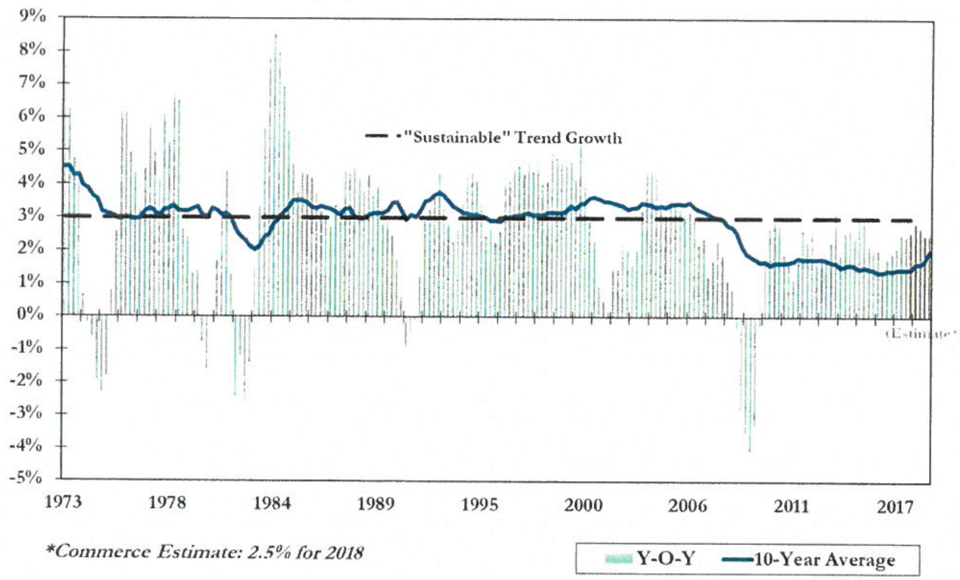
U.S. ECONOMY – BETTER THAN 2%...FINALLY

U.S. Real GDP: 2% is the new 3% (Figure 5)



**Commerce Estimate: 2.5% for 2018*

Source: Bloomberg, Bureau of Economic Analysis

The U.S. economy grew at a "real" (inflation-adjusted) rate of 3.1% from 1973 to 2007. Trend growth fell to just over 2% after the 2007-2009 financial crisis. (Figure 5)

The key reasons for this slowdown were fourfold:

- The U.S. private sector paid back some of its debt (deleveraging)
- Growth of the labor pool slowed (demographics)
- Global growth fell in concert with U.S. growth (China, Europe, and Japan)
- An aging society emphasized saving over consumption

At this point, the deleveraging process has largely run its course. Monetary policy continues on its relatively stimulative path, even with short-term rates at 1.75%. And now, tax policy has added a likely corporate earnings boost and "fiscal" stimulus, just as normalized household spending has finally begun to emerge.

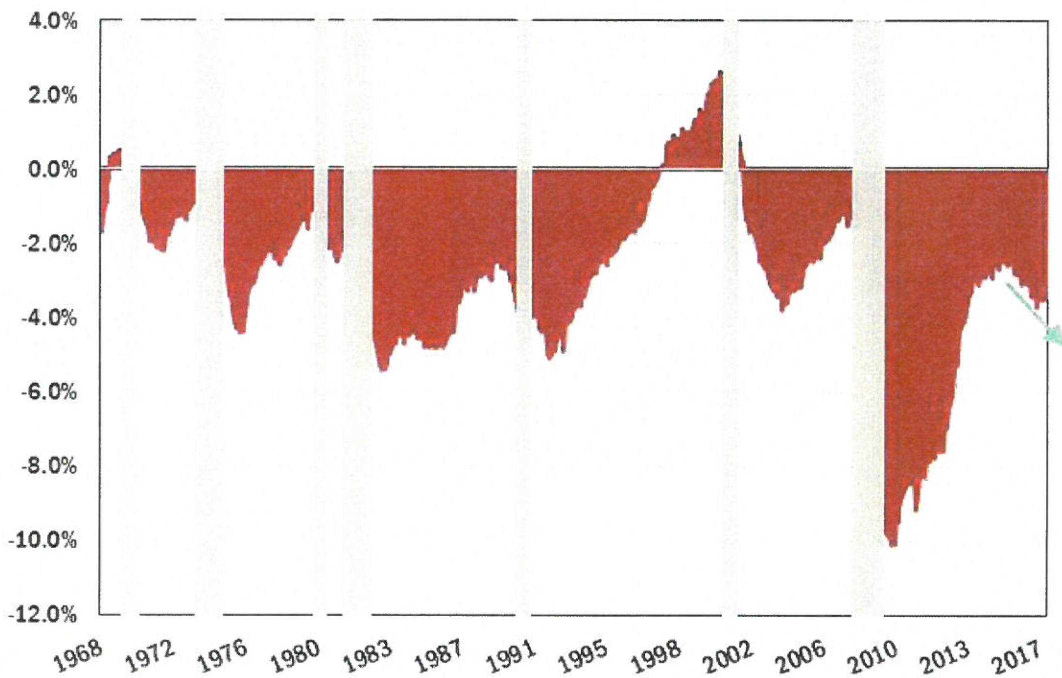
Long-term trend economic growth is a function of employment growth, investment in capital stock and productivity. With long-term productivity averaging less than 1.5%, and work force growth of 0.5%, economic growth of 2% had become the "new" normal.

But since we have come to the end of the deleveraging process, we expected our economic growth rate would increase in 2017 (it did). We expect continued improvement in 2018, driven by further gains in employment, elevated asset values and the recent bump from tax policy (we'll see). While we are forecasting a growth rate of 2.5%, we believe any surprise this year will likely be on the upside.

However, this acceleration in growth (and the stretched asset values that have come along for the ride) are being met by more restrictive monetary policy. The Federal Reserve just pushed short-term rates to 1.75% in March, and that has clearly begun to increase the downside risks to an already highly valued stock market and relatively tight credit spreads.

TAX POLICY – BOOSTING GROWTH AND THE DEFICIT

Federal Budget Deficit - % Of GDP As Of 12/31/17 (Figure 6)



Source: Bloomberg

The recent change in tax policy is highly stimulative for growth in the near term, although it will most likely add to the fiscal deficit in the long run. (Figure 6)

The drop in the corporate tax rate to 21% is likely to increase earnings of the companies in the S&P 500 Index by 5% to 8%. Of course, the stock market already digested this late last year. And this year stocks are finally correcting after an exceptional run-up in valuation.

Importantly, there are components of the tax law that encourage businesses to invest in plant and capital equipment. This comes at a critical time. Our capital stock is aging, and only very recently have firms begun to meaningfully replenish it. (Page 14, Figure 10)

While the changes in tax rates and potential deductions will have a mixed effect from the perspective of individuals, already workers have begun to benefit from the tax law windfall. Many larger corporations have offered modest bonuses and raises to their workforce. We expect that trend to continue as corporate profits expand.

Still, the markets discount the future. While growth remains positive, risk assets are beginning to tell us to get a bit more cautious in our investment outlook.

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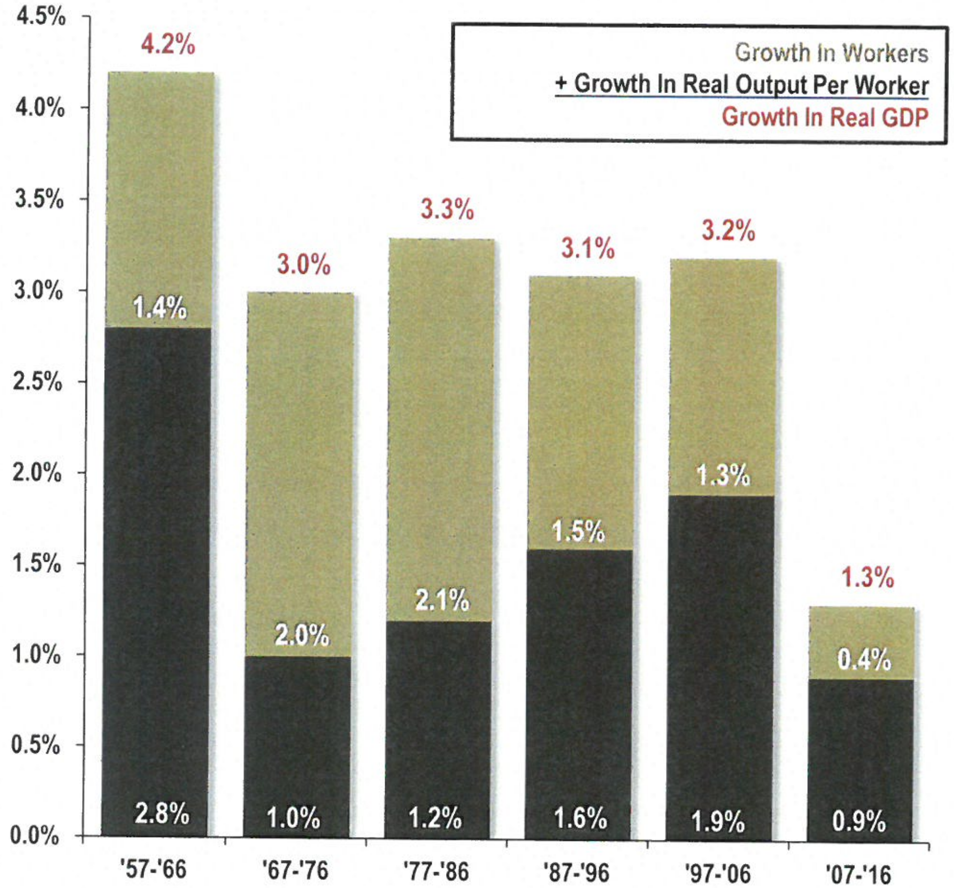
LONG-TERM DRIVERS OF U.S. ECONOMIC GROWTH STILL MODEST

Drivers of GDP Growth – U.S.
Average Year-Over-Year Percent Change (Figure 7)



Source: JP Morgan, Bureau of Labor Statistics

The Bureau of U.S. Labor Statistics projects the labor force will reach 163.8 million in 2024, growing at an annual rate of only 0.4%. The United States has about 145 million workers today.

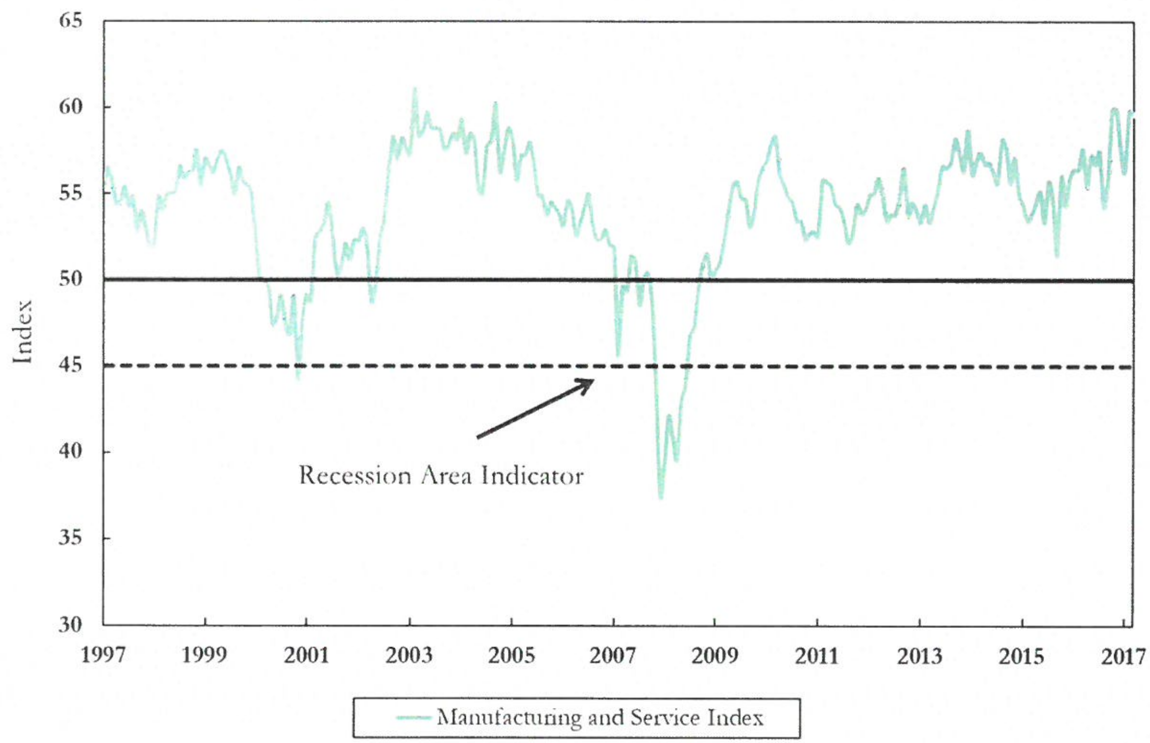
The labor force continues to age. The median age of the labor force was 37.7 in 1994, 40.3 in 2004, 41.9 in 2014, and is projected to be 42.4 in 2024. At the same time, the overall labor force participation rate is projected to decrease from 62.9% in 2014 to 60.9% in 2024. We believe the projection may be overly pessimistic, as higher wages draw workers back into the "real" rather than the "retired" economy. Said another way, people are likely willing to work a bit longer than they have historically, if for no other reason than they need to – or are enticed to.

Real GDP (2009 chained dollars) is projected to grow at an annual rate of 2.2%, from $16.1 trillion in 2014 to $19.9 trillion in 2024 as the effects of the financial recession and our deleveraging process dissipate. That rate of uninterrupted growth is likely overly optimistic, as we'll almost certainly confront a recession sometime before 2024.

With low productivity and an aging population (Figure 7), growth rates of 2+% are actually above non-inflationary, long-term potential at this point. Thus, the Federal Reserve remains willing to raise interest rates despite our modest cumulative growth so far in this recovery.

U.S. ECONOMY – SERVICE AND MANUFACTURING DATA SUGGEST A PICKUP IN GROWTH

Manufacturing and Service Index* (Figure 8)



*Below 50 indicates economic contraction

Source: Bloomberg, Bureau of Economic Analysis

The best indicators we have of current business activity are summarized by the Institute for Supply Management (ISM) indexes. These are monthly surveys of purchasing managers at both manufacturing and non-manufacturing (service) businesses. (Figure 8)

Note the recent overall acceleration. Manufacturing activity nearly fell into contractive territory as energy prices collapsed in early 2016, but the overall outlook has since rebounded significantly, squashing any recessionary fears. We have always firmly believed that lower energy prices would be an overall positive for our economy, even with all of our new "fracking" capabilities.

And while the service side of our economy also cooled in 2016, both indexes rose significantly in 2017 to new decade highs! While the earlier signals gave the Federal Reserve (Fed) reason to "pause" most of 2016, the turnaround helped cement the Fed's rate hike in March and improve the odds of at least two more rate hikes this year.

Finally, we expect both surveys to remain relatively bullish for most of 2018 as business confidence continues to improve, a positive bounce from tax policy occurs, and the international economic outlook continues to brighten. The big swing factor is likely to come from the financial markets. A correction greater than the 10% we have experienced so far could temper the need for materially higher short-term rates.

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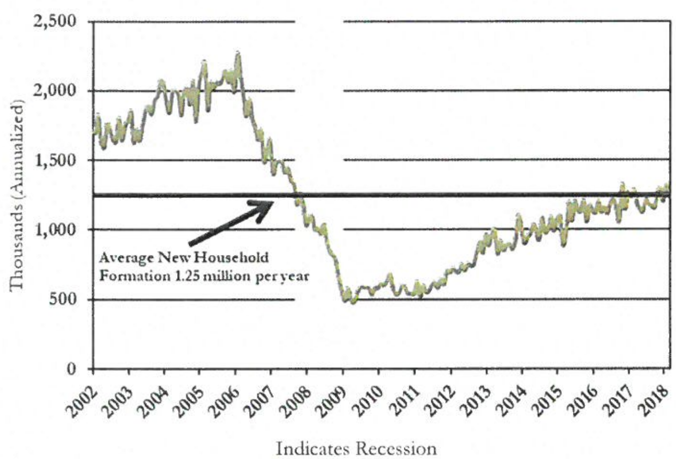
U.S. ECONOMY – THE INTEREST RATE-DRIVEN CYCLICAL BOUNCE ROTATES TO HOUSING

New Housing Starts (Figure 9)



Source: Bloomberg, JP Morgan, Bureau of Economic Analysis

Real Capital Goods Orders (Figure 10)

Non-Defense Capital Goods Orders Ex-Aircraft, USD Billions, SA

Source: Bloomberg, JP Morgan, Bureau of Economic Analysis

As short-term interest rates were cut to nearly zero, the cyclical parts of our consumer-led economy began to recover. First and fastest to move were car sales, followed slowly by housing. And now, finally, we are beginning to see signs of a final rotation toward capital equipment.

The first cyclical sector to recover was the auto industry. Prior to our Great Recession, automakers sold nearly 17 million light vehicles a year in this country. But at the bottom of the recession, the annualized sales rate was only 9.4 million, a multi-decade low.

The collapse in auto sales created pent-up demand, which helped propel car sales even higher than other recovery norms. The early recovery in auto production was one of the key reasons for our initial bullish outlook on growth.

While the auto industry recovered fairly quickly after the recession, the housing recovery has been much more subdued. From 2000 to 2008, homes were built much faster than households were forming, creating a dramatic oversupply. Since our housing market was overbuilt, it took a long time to work off this overhang. The silver lining today is that inventories have been reduced dramatically, and pent-up demand has swelled. With a recovery in home prices well underway and interest rates still very low relative to historical norms, we expect continued improvement in the housing sector. (Figure 9)

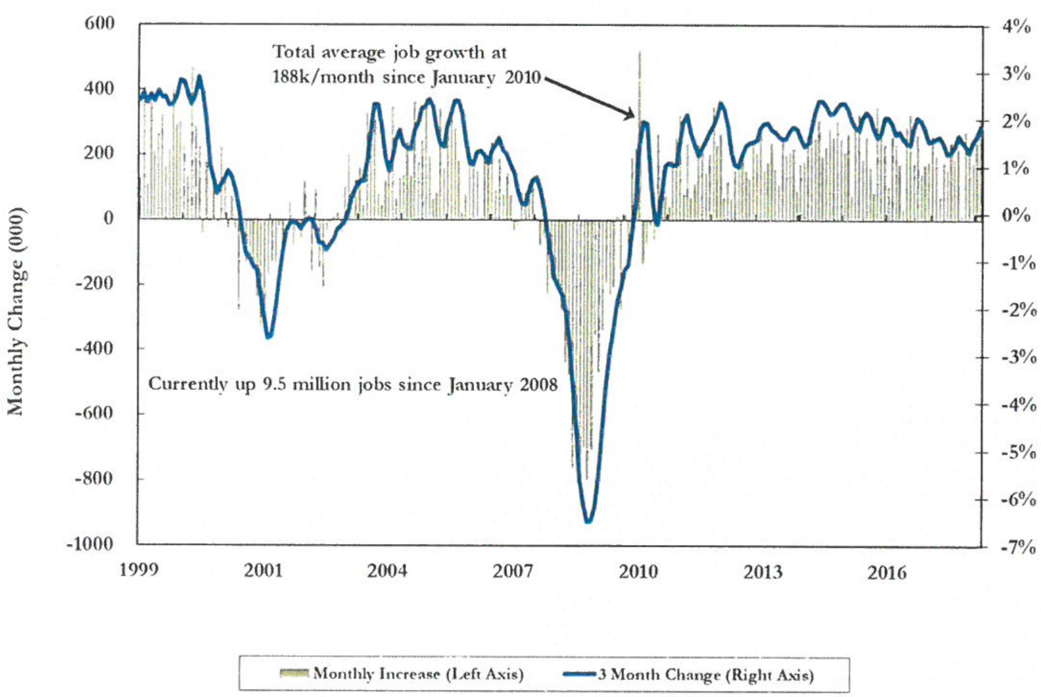
Unfortunately, the "V" shaped initial recovery in capital goods (Figure 10) stalled out well below previous cyclical highs, suggesting businesses were not overly confident in our initial recovery. But recent signs of an uptick are occurring. Business confidence levels now surpass their pre-recession highs, stock prices are at record levels, and businesses recognize they have underinvested in equipment as they underestimated the length of this recovery.

Finally, the year-end tax legislation freed up overseas cash for redeployment and enhanced the depreciation schedules for capital expenditures. Both are likely to spur much-needed business re-investment in plant and capital equipment.

ECONOMY

U.S. ECONOMY – IMPROVING EMPLOYMENT

Employment (Figure 11)



Source: Bloomberg

Figure 11 shows U.S. monthly employment growth. From January 2008 to December 2009, 9 million jobs were lost, the biggest recessionary loss since the Great Depression.

Although the recession technically ended in June 2009, employment did not turn up until January 2010.

Since then, year-over-year employment growth steadily accelerated from a modest 88,000 jobs per month in 2010 to 248,000 jobs per month in 2014. It took 4½ years to replace those 9 million jobs lost during the recession.

Fortunately, employment growth has remained exceptionally firm. Payrolls have increased for a record 90 consecutive months. In turn, unemployment has fallen dramatically. From a 10% peak in the heart of the recession, the unemployment rate has stabilized at a mere 4.1% for the last six months (a 17-year low). We believe labor growth will persist this year and wages will continue to rise. And we never have a recession when jobs are growing!

Historically, the Federal Reserve (Fed) has raised rates more assertively when the unemployment rate is this low. With six rate hikes since the end of 2015, the Fed is now signaling it is likely to pick up the pace a bit as wage gains accelerate and inflation moves toward 2%. So far, the Fed has raised rates about 40% as fast as their historical pace, and this year it will be closer to 50% as fast.

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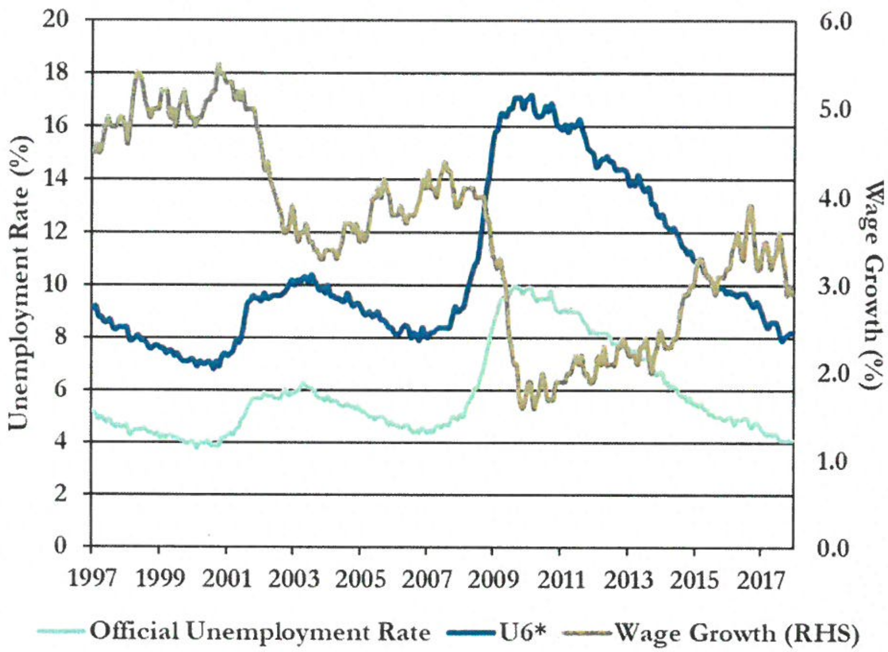
U.S. ECONOMY – IMPROVING EMPLOYMENT

Unemployment and Wage Growth (Figure 12)



*U6 rate includes workers marginally attached and/or employed part-time for economic reasons.
Source: Bloomberg

The great news is the official unemployment rate has fallen from a peak of 10% during the recession to 4.1% today. (Figure 12)

The bad news is we have created only 10 million net new jobs since the recession began in January 2008. Typically we would have created at least 12 million to 15 million jobs by now, based on historical payroll growth. So the decline in the overall unemployment rate has been driven just as much by workers leaving the labor force as it has by those newly hired and employed.

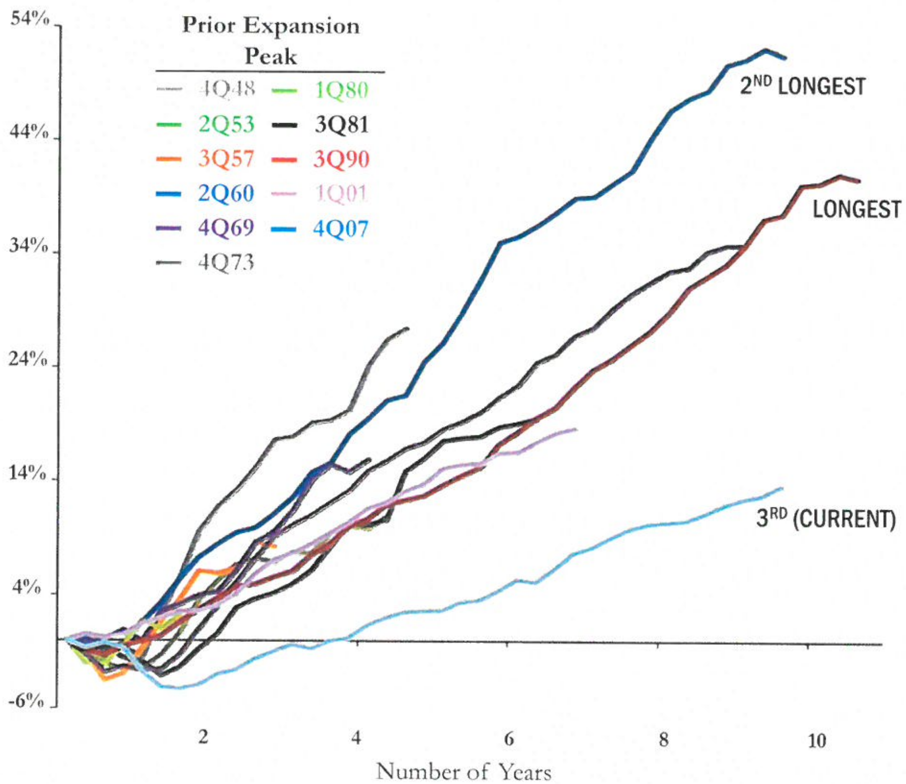
About half of the decline in the labor force participation rate (the percentage of those over 16 years old actually willing to work outside the home) is demographic, as an older workforce retires. That makes sense. But some of the decline in worker participation is related to discouraged workers whose skill set affords little hope of finding a job. The category most distressed and seemingly hardest to help re-enter the labor force is the growing group of "structurally" unemployed individuals with either a criminal "scarlet C" attached to their resumes or who are tragically drug addicted. Or in many cases…both.

As unemployment has declined, wage growth as measured by the Atlanta Fed (which attempts to track the same job on a year-over-year basis rather than just the average of all jobs) has recently bounced up to a 3.0% clip. While encouraging, this rate remains meaningfully below the previous expansion's 4.7% peak rate. Still, as the price of labor continues to grow, albeit slowly, the Federal Reserve is becoming more assertive than it had been during the initial stages of its rate-hiking campaign. We expect at least two more rate hikes in 2018 unless the financial markets overcorrect from their recent highs.

ECONOMY

U.S. ECONOMY – THE LENGTH AND STRENGTH OF EXPANSIONS

Cumulative Real GDP Growth Since Prior Peak (Figure 13)



Source: BEA, NBER, J.P. Morgan

The current economic expansion is now almost nine years old and will shortly surpass the second-longest economic expansion since 1900. Unfortunately, it is also the weakest and shallowest recovery so far. (Figure 13)

Economic expansions don't really die of old age, but economic stresses tend to grow over time as a recovery unfolds. In general, most recoveries end as some unforeseen shock occurs while the Federal Reserve is raising rates to combat late-cycle economic inflation.

That inflation is typically sparked by a combination of rising wage growth, higher energy prices, and an overzealous credit expansion or asset bubble.

We believe this economic expansion will likely be our longest, but that doesn't mean we aren't seeing the early warning signs of its eventual end. How so?

In general, economic expansions have been getting longer over time as our economy has grown more diverse and the Fed has become more adroit in administering monetary policy. Certainly the Fed has taken a "go slow" approach so far, increasing the likely length of our recovery.

Secondly, there are only modest inflationary signs thus far, but they are beginning to rise even though energy prices are still very well behaved.

Thirdly, we are starting to bump up against typical resource constraints. With unemployment low, stock prices elevated, and high-yield markets buoyant, signs of potential froth abound.

Finally, the Fed is certainly becoming a bit less accommodative and remains on its rate-hiking path.

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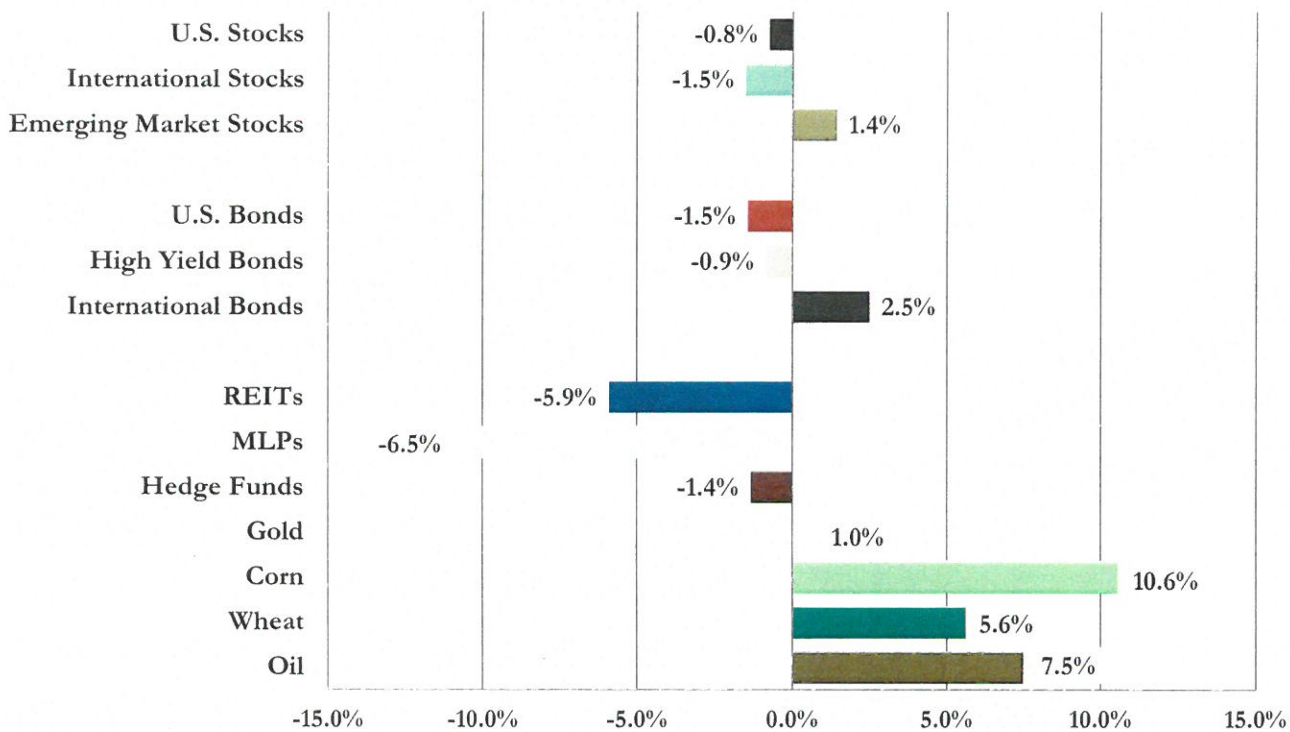
YTD RETURNS FOR 2018

YTD Returns As Of 3/31/2018 (Figure 14)

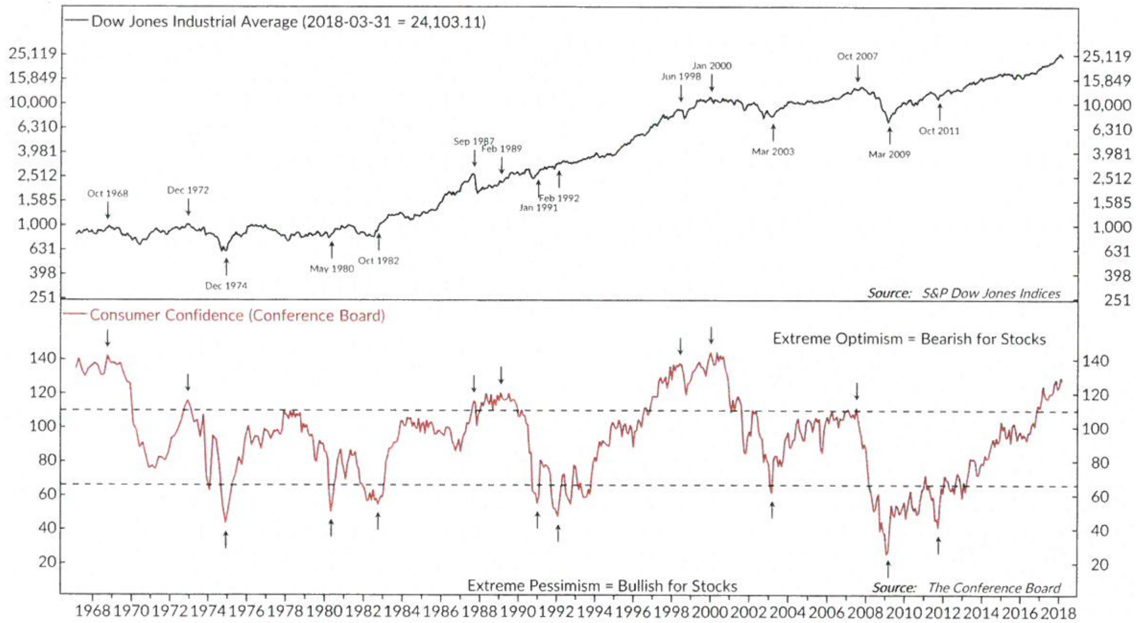


Source: Bloomberg, Bureau of Economic Analysis

Equities around the world posted strong gains in January, only to lose it all in February and March. One of the causes for the decline in stock prices was the increase in interest rates in February, which caused negative returns for U.S. bonds as well. Rising interest rates also negatively impacted MLPs and REITs in the first quarter of 2018. (Figure 14)

CONSUMER CONFIDENCE

Dow Jones Industrial Average Vs. Consumer Confidence Index As Of 3/31/2018
(Figure 15)



DJIA Performance Full History: 1967-02-28 to 2018-03-31		
Consumer Confidence Is	% Gain/ Annum	% of Time
Above 110.0	2.12	23.62
66.0 - 110.0	6.50	59.61
Below 66.0	14.82	16.77
Buy/Hold = 6.79% Gain/Annum		

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The Consumer Confidence Index is a survey of the same five questions asked on a monthly basis since 1968. Confidence has come a long way since the depths of despair in February of 2009, two weeks before the low for the stock market. Consumer confidence has surged since the presidential election and is now at levels considered too euphoric, which could spell trouble for stock prices. Confidence levels that are above 110 and peaking have typically signaled the top in the bull market. The yellow light is now flashing for this one indicator, but consumer confidence can continue to move higher, as it did in the late 1990s. (Figure 15)

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MUTUAL FUND AND ETF ASSET ALLOCATION

Mutual Fund and ETF Asset Allocation As Of 2/28/2018 (Figure 16)

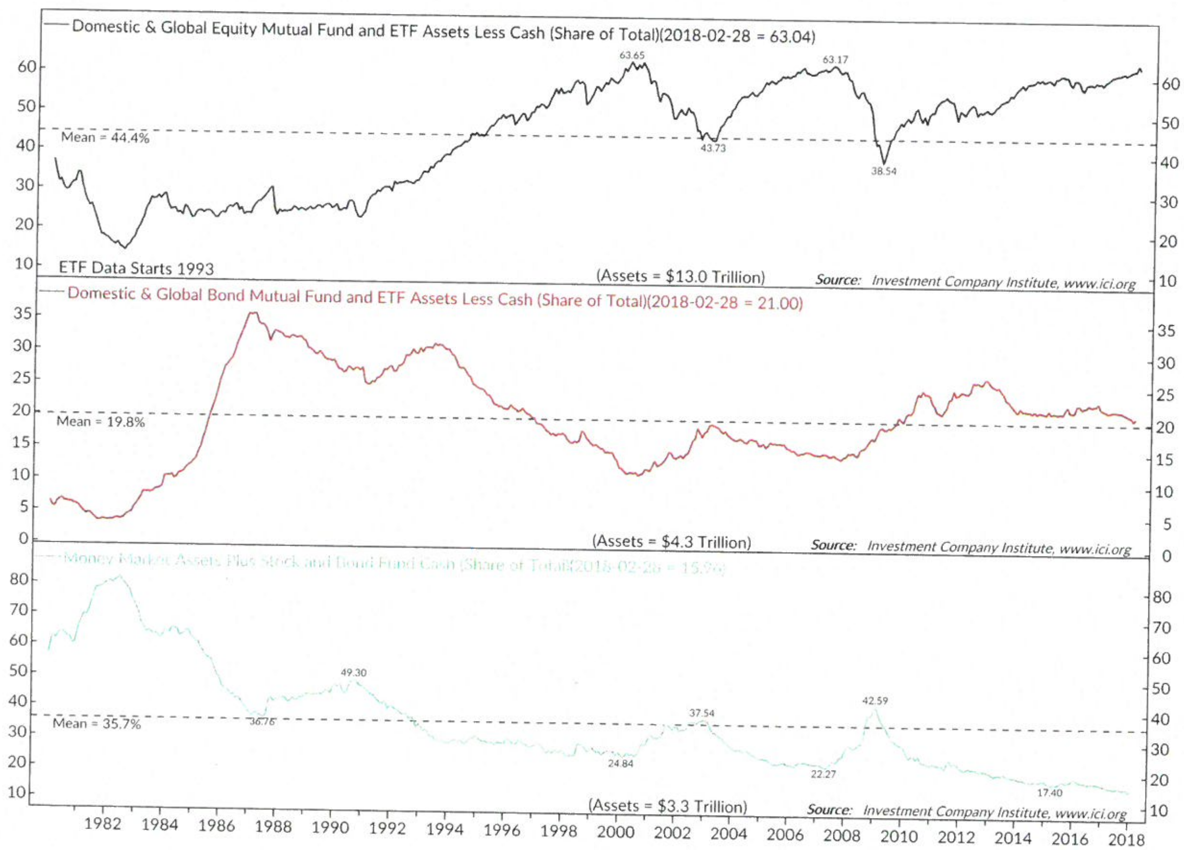

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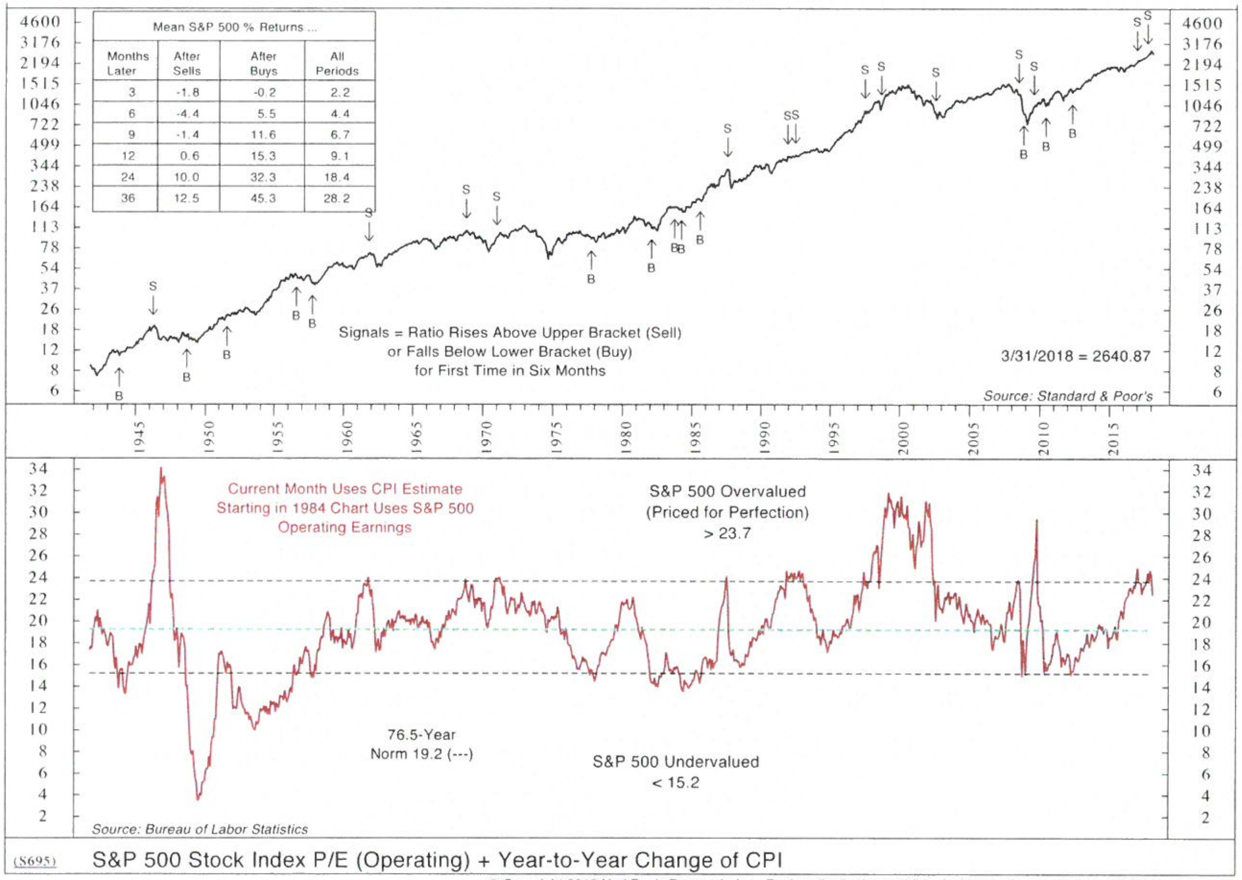
Figure 16 reflects investor percentages in domestic and global equity, bond and money market funds and index products. The assets reflected here represent over $20.6 trillion.

The top segment depicts equity investments, where investors have 63.04% of their assets. At the end of January, that number reached 63.9%, the highest level since inception, surpassing the highs of 2000 and 2007 when consumer confidence was high. At 63% to 64% equity levels, we believe most investors have reached their maximum equity exposure. The question now is whether anyone remains to drive prices higher. Since January 31, the volatility of the market has increased, and we expect this volatility to continue into the second quarter.

EQUITY VALUATIONS

S&P 500 Stock Index P/E + Year-to-Year Change Of CPI As Of 3/31/2018 (Figure 17)



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When the S&P 500 Index hit record levels in January, valuation measures again signaled that equities reached overvalued territory. One of our favorite valuation measures is the combination of the S&P 500 price/operating earnings (P/E) ratio and the current 12-month inflation rate (CPI). At the beginning of the second quarter, the trailing P/E ratio for the S&P 500 was 20.1 times, and the inflation rate was 2.2%, for a total of 22.3. The bottom portion of Figure 17 shows that when this total moves above 24, the stock market is expensive and vulnerable to a decline.

We expect earnings to grow 20% to 25% in 2018, with help from strong world economic conditions and lower U.S. corporate tax rates. Strong earnings should lower the P/E for the S&P 500, all else equal, but that effect could be offset if inflation increases. The high stock valuation level leaves little room for investor disappointments.

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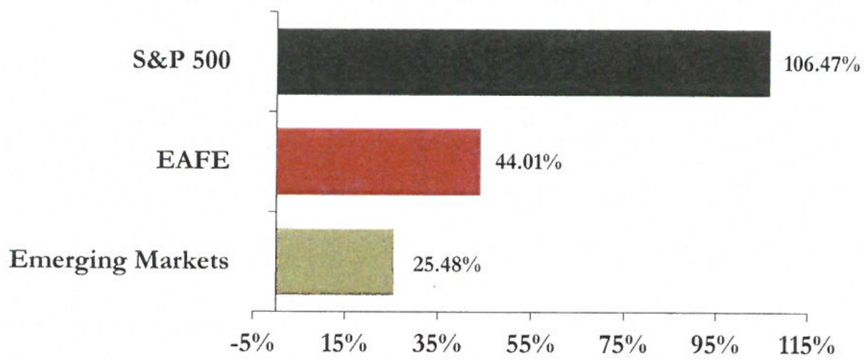
DOMESTIC VERSUS INTERNATIONAL EQUITY RETURNS

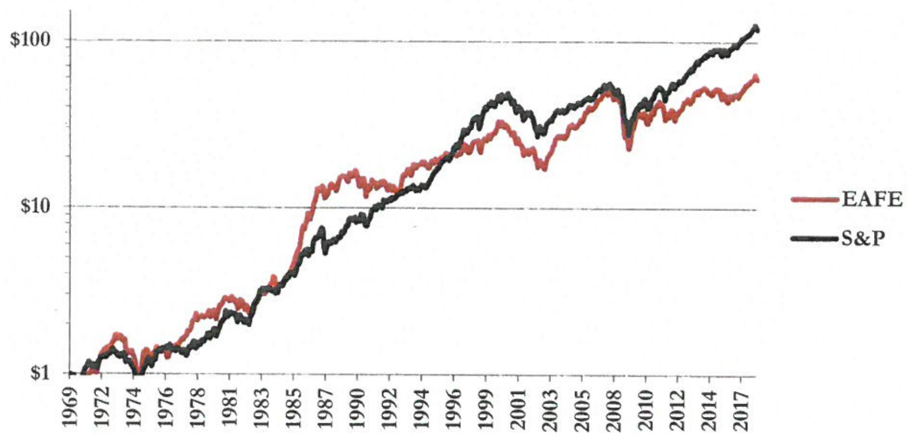
Cumulative Returns From 12/31/12 To 3/31/18 (Figure 18)



From 2013 to 2016, equity investors were rewarded by investing in domestic companies rather than international companies. International equities paid a heavy price for the economic problems plaguing Europe and Japan. Emerging market equities were hit especially hard by a rising U.S. dollar and falling commodity prices as China's economic growth slowed. (Figure 18)

Over the long-term, we believe equity portfolios should have 30% representation in international markets. We now recommend moving to 32% exposure in international equities, as all the factors causing underperformance mentioned above have reversed in favor of international stocks.

S&P 500 vs. EAFE Log Scale As Of 3/31/2018 (Figure 19)



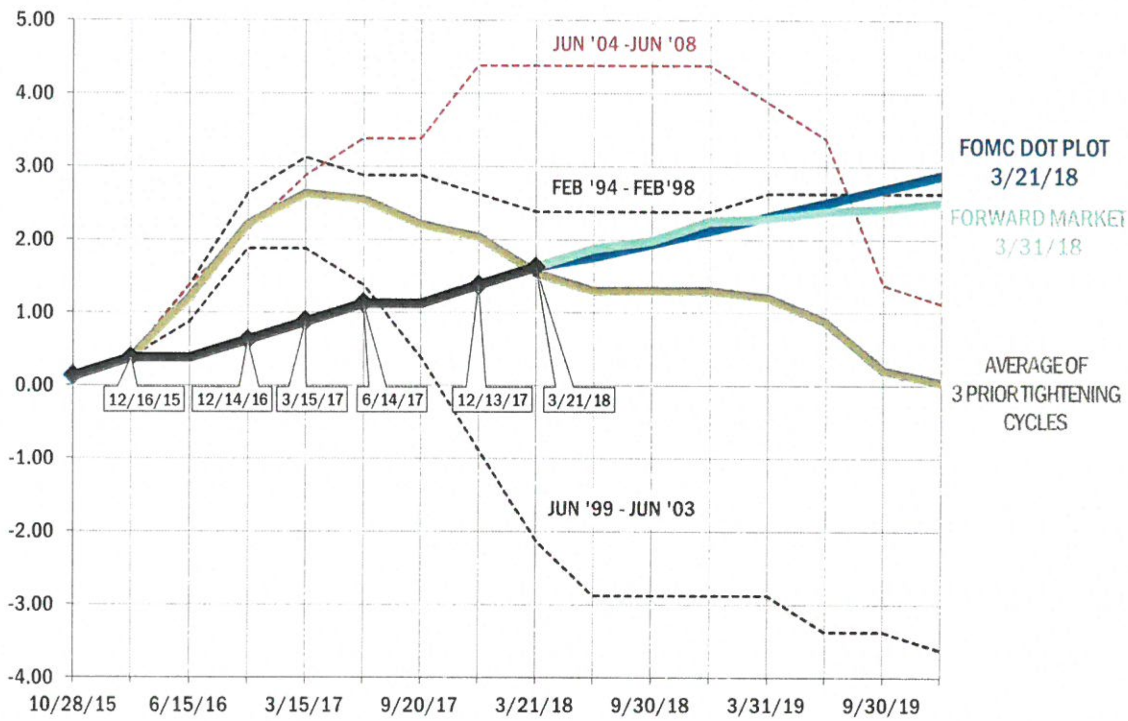
Source: Bloomberg

For the last 48 years, the MSCI EAFE Index (large-cap stocks in Europe, Australia and the Far East) has had an annual return of 8.9% versus a 10.4% return for the S&P 500. Of the total world equity market capitalization, domestic equities represent 52%, while EAFE countries and Canada comprise 37% and emerging markets represent 10%.

As reflected in Figure 19, international equities experience periods of over- and underperformance relative to domestic equities. The period before 2017 reflected some of the most pronounced underperformance from international stocks.

FUTURE POTENTIAL SHORT-TERM INTEREST RATE PATHS

3 Prior Hiking Cycles Vs. Current FOMC Vs. Current Market Expectations (Figure 20)



Source: Bloomberg, Bank of America/Merrill Lynch

Figure 20 shows that in the last three rate-hiking cycles, the Federal Reserve (Fed) has raised rates at nearly every meeting and completed its rate-hiking process over 12 meetings, or approximately 1½ years (there are eight Fed meetings a year). This historical "average" suggests the Fed could have raised interest rates to almost 3% by mid-2017.

The Federal Open Market Committee (FOMC) has consistently signaled, however, that it expects to raise rates much more gradually than in the past. Indeed, it has done just that, raising rates only six times over the first 27 months of the tightening process. Currently the Fed and the market believe it could take until mid-2019 to "normalize" interest rates.

The market's expectation for rate hikes has finally begun to coincide with the Fed's own predictions (as published in the FOMC's "dot plot" of members' forecasts). We are still a bit skeptical the Fed will be able to raise rates to historically "normal" levels as quickly as many now envision. We are bound to confront increasingly volatile financial markets and perhaps less inflationary pressure than forecast. In addition, we often seem to have bumps along the way like Brexit, the oil price collapse in 2016 and the growing trade tensions that have recently surfaced.

We expect the Fed to deliver on its own expectation of two more rate increases this year, but then slow down quite a bit from there.

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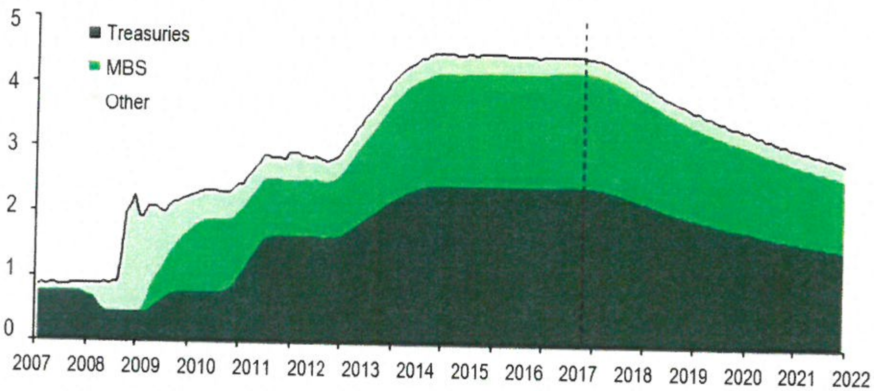
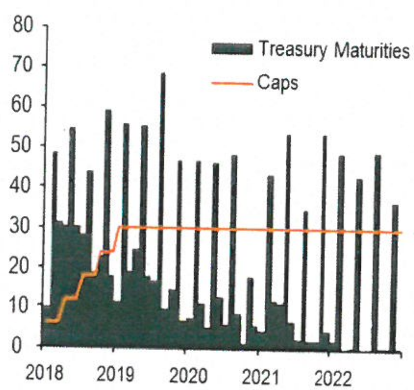
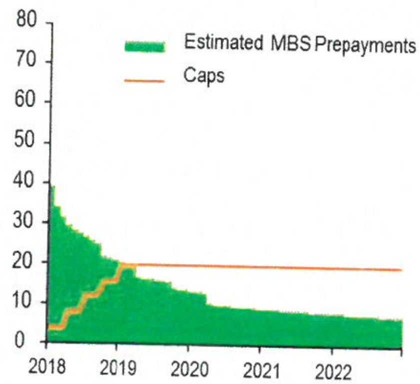
QUANTITATIVE REVERSAL – REDUCING THE FED'S BALANCE SHEET

Federal Reserve Securities Portfolio (Figure 21)







Source: Cornerstone Macro

The Federal Reserve (Fed) has begun to reverse some of the "quantitative easing" (QE) it did during the financial crisis. We like to call this reversal what it actually is…"quantitative tightening." (Figure 21)

During its QE process, the Fed essentially "printed money" it did not have and purchased bonds in an effort to lower rates, buying nearly $3.5 trillion dollars of Treasury and agency mortgage bonds to help spur the recovery along. QE seemed to work, and the Fed believes it helped lower rates about 1% below where they would have been without its help.

The Treasury has begun to issue additional new public debt to finance the federal deficit and replace the Fed bonds as they mature. Since this new debt will have to be bought with "real" investor money, the additional bond supply is likely to put upward pressure on interest rates, the exact opposite of QE.

Fortunately the Fed wants to reduce its balance sheet slowly. We project it will take about five years to reduce the Fed's holdings by a bit over $2 trillion. But make no mistake, this is a tightening of monetary policy, and it is on a rather steadfast, preset course that will be a modest headwind for quite some time.

Ultimately, this quantitative tightening will slow the Fed rate-hiking process.

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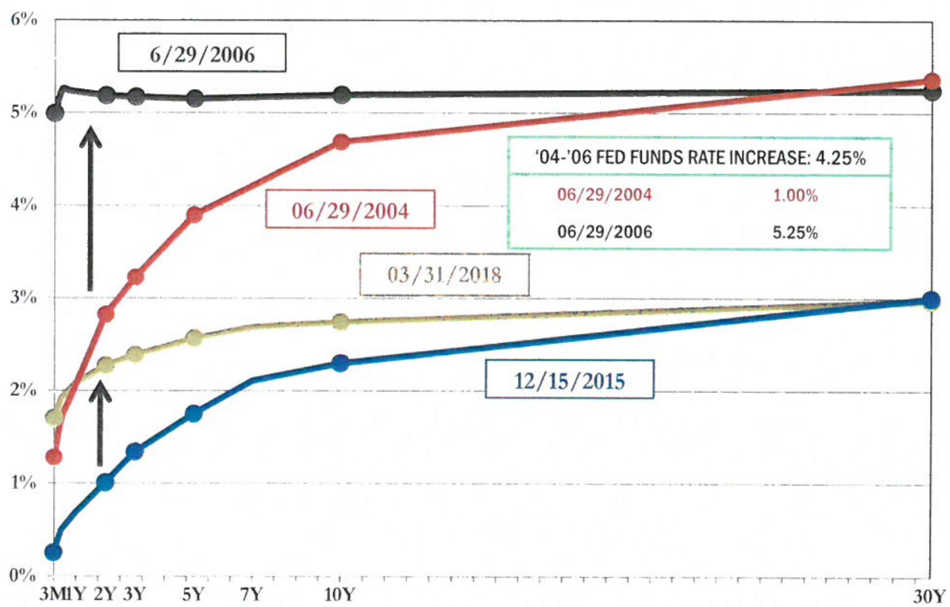
THE SHAPE OF THE YIELD CURVE

Treasury Yield Curve – Last Fed Tightening Cycle Relative To Today's Curve (Figure 22)



Source: Bloomberg

Just because short-term rates are likely to rise doesn't mean long-term rates will be impacted. Figure 22 shows how the yield curve behaved the last time the Federal Reserve (Fed) raised interest rates from 2004 to 2006. Note that only short and intermediate rates rose, while the long end (30-year Treasuries) remained firmly anchored.

Our current rate-hiking cycle seems to be shaping up pretty much the same so far. After six rate hikes, we have seen a modest rise in short-term yields across the curve, only to have long-term rates remain largely unchanged. A "flatter" yield curve has long been a harbinger of a potential recession. The yield curve continues to flatten, sending an ominous warning to the Fed.

The Fed knows it will have difficulty raising short-term rates unless the intermediate part of the Treasury curve backs up a bit as well. Thus, the Fed's recent rhetoric has included a focus on unwinding its balance sheet rather than simply raising short-term rates. To the extent the economy continues to make forward progress, the added supply of longer-maturity government bonds from this QE reversal might eventually push long-term rates higher.

Since we expect a continued economic recovery, we are still positioned modestly short on maturity, but we will likely add to duration as the year progresses and the yield curve continues to flatten.

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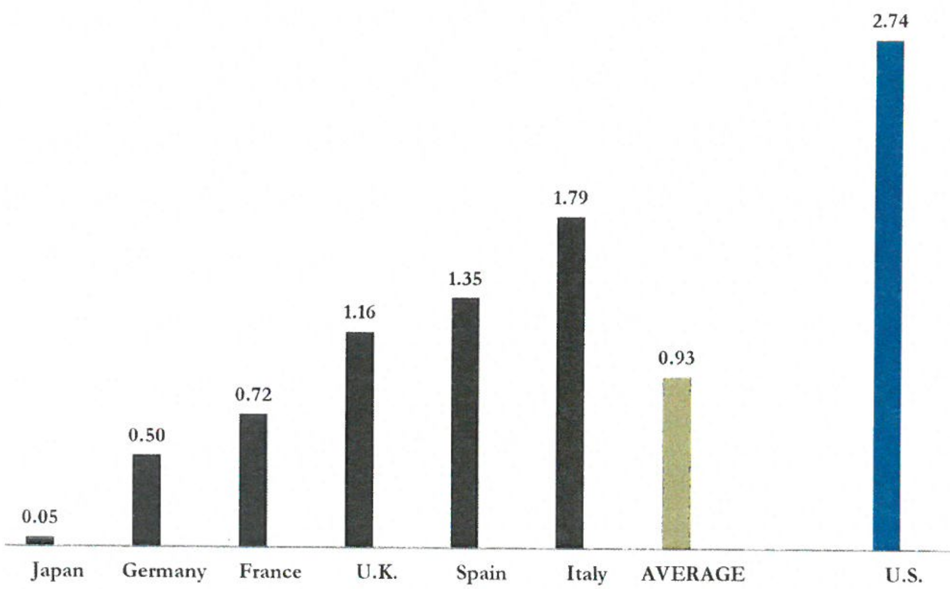
U.S. VERSUS INTERNATIONAL INTEREST RATES

Global 10-Year Government Bond Interest Rates (%) – 3/31/18 (Figure 23)



Source: Bloomberg

Figure 23 shows the 10-year government bond yields for the six largest public debt issuers after the United States. These foreign countries' average 10-year interest rate is currently still an amazingly low 0.93% versus the U.S. rate of 2.74%.

Both domestic and foreign longer-term rates fell for most of last year, but they have recently rebounded a bit, with U.S. rates rising faster than overseas rates.

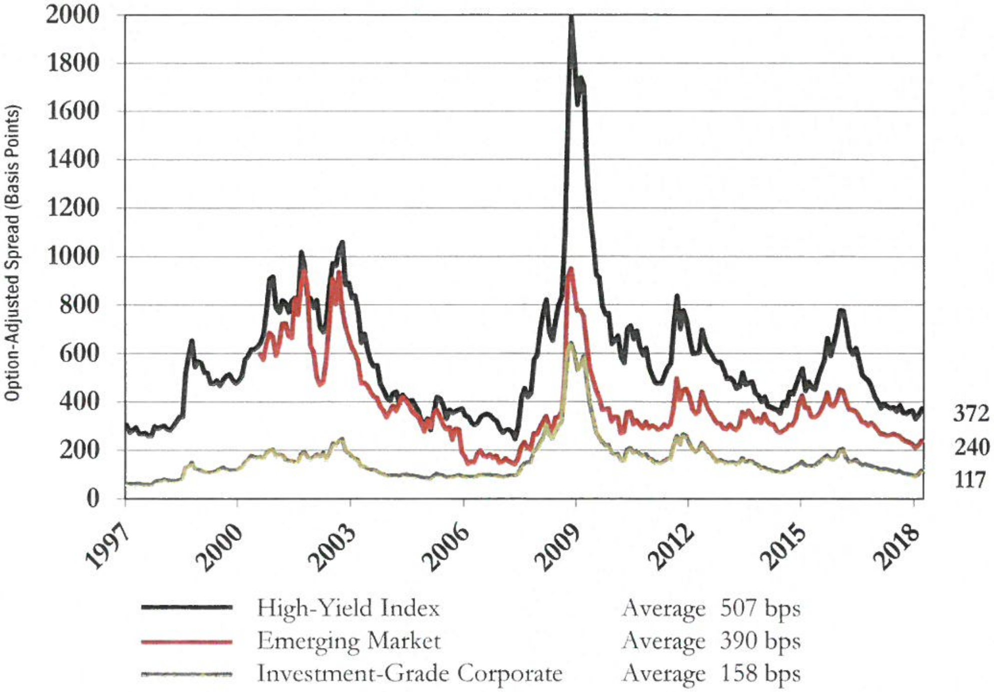
Low foreign interest rates do act as an anchor on U.S. interest rates. For those anxious to know when our rates are likely to rise, the answer lies partially with these overseas markets.

As we expected, the "quantitative easing" in Europe and Japan took hold, and ultra-low rates helped pull those regions out of their sluggish growth patterns. And as global growth resurfaced this past year, foreign interest rates have begun to rise just a bit. This has already afforded U.S. bond yields some room to move up and should continue to do so.

As a clear sign that the global backdrop is improving, less than a sixth of foreign government yields remain stuck in negative territory now, down from nearly a third of all foreign sovereign bonds several years ago.

CREDIT SPREADS AND THE "PLUS SECTOR"

Corporate Credit Spreads – 1/1/1997 Through 3/31/2018 (Figure 24)



Source: Bloomberg

As credit defaults declined materially during this financial recovery, credit spreads in general for both investment-grade and high-yield (junk) bonds improved and compressed toward Treasury rates. (Figure 24)

Today, almost all credit spreads have contracted back below their long-term averages. In 2017, emerging market debt and high-yield funds led the pack in the fixed income markets, with returns ranging from 7% to 12%. This suggests that most of the large incremental return is behind us.

While we remain optimistic about economic growth this year and are still "overweight" in the credit sectors in general, we do not expect a repeat performance this year and are trimming our credit exposure. We do expect the higher-yielding bonds in the "plus" sector to return the additional "carry," but the risks are growing for potential underperformance.

This year we also expect to see some additional upward pressure on the interest rate curve, just like last year, but eventually interest rates will "bite" the credit space, and high-quality bonds will outperform lower-rated securities. That rotation is likely to occur late this year or early next.

In aggregate, we are already positioned below our neutral position in the riskiest part of the "plus sectors," and we are likely to reduce our bet even further this year, having captured so much of the upside already.

PERSONAL FIXED INCOME INVESTORS – TRY LONGER TAX-EXEMPT MUNICIPALS

Yields of Corporates Vs. Tax-Exempt Munis (Figure 25)

	Tax-Exempt Munis*	Corporates
5 Yr AA	3.33%	2.52%
10 Yr AA	4.04%	3.43%
5 Yr A	3.83%	2.66%
10 Yr A	4.50%	3.51%

*Assumes a combined personal tax rate of 35%

10-Year Cumulative Default Rates 1970-2016		
Rating	Municipals	Corporates
Aaa	0.00%	0.38%
Aa	0.02%	0.78%
A	0.07%	2.22%
Baa	0.40%	3.93%
Ba	4.23%	16.28%
B	17.77%	36.17%
Caa	26.41%	50.31%

Source: Moody's

The last peak in municipal yields occurred in February 2011, with the now infamous forecast for widespread defaults of state and local governments. Looking back, this represented a tremendous buying opportunity, particularly for those investors willing to invest in longer-dated, lower-quality issues. We took full advantage of this opportunity. But that was more than six years ago!

In 2016, muni bond yields hit their historical lows, suggesting most of the municipal party was over. But then, along came "Trump."

After the 2016 election, municipal bonds underperformed their taxable counterparts as spreads relative to Treasuries widened, creating a reasonable buying opportunity for municipals last year.

But by mid-2017, most muni bonds rebounded strongly from an oversold position as the probability of meaningful tax cuts (both personal and corporate) began to fade. As the curtain fell on 2017, muni bond funds boasted nominal tax-free returns of around 3.5% for the full year, which was in line with returns for taxable bond funds.

We still like muni bonds for tax-paying investors, particularly in the longer end of the market. With corporate tax rates reduced, personal investors have less competition to buy a limited supply of muni bonds this year. Not only are the yields much better for those in the higher tax brackets, but the credits are better, too. (Figure 25)

Ten-year default rates of investment-grade municipals across all rating categories are better than those of even AAA-rated corporate bonds. It's a win-win for the tax-paying investor.

IMPACT OF INTEREST RATE CHANGES ON A PORTFOLIO

Intermediate Bond Portfolio 1- to 10-Year Ladder of Maturities Interest Rate Shocks
Total Return Scenarios - 3/31/2018 (Figure 26)

	NO CHANGE		GRADUAL: +0.25% per year		INSTANTANEOUS: +2.50% in 1st year	
YEAR	Annualized	Cumulative	Annualized	Cumulative	Annualized	Cumulative
1	2.8%	2.8%	1.9%	1.9%	-5.9%	-5.9%
2	2.8%	5.7%	2.1%	4.2%	-0.5%	-0.9%
3	2.8%	8.7%	2.2%	6.7%	1.4%	4.4%
4	2.8%	11.8%	2.3%	9.6%	2.4%	9.9%
5	2.8%	14.9%	2.4%	12.8%	3.0%	15.8%
6	2.8%	18.2%	2.6%	16.5%	3.4%	21.9%
7	2.8%	21.5%	2.7%	20.5%	3.6%	28.4%
8	2.8%	24.9%	2.8%	24.9%	3.8%	35.3%
9	2.8%	28.4%	2.9%	29.9%	4.0%	42.4%
10	2.8%	32.1%	3.1%	35.3%	4.1%	50.0%

Bloomberg Barclays Gov/Credit Intermediate Index 3/31/18. Yield: 2.82%, Maturity: 4.37 yrs.

With interest rates as low as they are today, bond fund investors are rightfully worried about what could happen if (or when) interest rates begin to rise. As most investors know by now, when interest rates rise, bond prices decline immediately. Less understood, however, is that as interest rates rise, the reinvestment of all maturities and coupons compounds at those higher rates, over time offsetting the decline in bond prices. (Figure 26)

For an investor in an intermediate bond portfolio, projected cumulative returns are 32.1% over the next 10 years if interest rates remain at today's levels. But if rates begin to rise gradually, the cumulative return picks up to 35.3% with no negative annual return. And amazingly, if rates spike up immediately, your return increases to 50.0% as higher coupons offset the initial negative return by year 3. Ironically, bond investors should be "rooting and cheering" for higher rates rather than fearing them. This is why we do not encourage investors to abandon the bond market or to move materially short in maturity with their investment allocation.

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ALTERNATIVE INVESTMENTS

The Case For Alternatives (Figure 27)

	Winner			Loser
1996	27.18%	22.96%	14.97%	3.61%
1997	33.37%	23.63%	20.89%	9.68%
1998	28.58%	20.98%	8.67%	-8.15%
1999	21.05%	12.00%	4.54%	-0.83%
2000	27.26%	11.63%	-0.99%	-9.10%
2001	17.78%	8.42%	-3.71%	-11.88%
2002	10.27%	4.35%	-9.81%	-22.10%
2003	31.31%	28.69%	18.48%	4.11%
2004	19.29%	10.88%	8.30%	4.34%
2005	10.37%	4.91%	4.00%	2.43%
2006	23.55%	15.80%	11.11%	4.33%
2007	6.96%	6.22%	5.49%	2.51%
2008	5.24%	-22.06%	-30.85%	-37.00%
2009	39.08%	26.46%	18.40%	5.93%
2010	21.98%	15.06%	12.13%	6.54%
2011	7.84%	5.19%	4.69%	2.11%
2012	16.00%	11.31%	7.93%	4.21%
2013	32.39%	17.56%	10.62%	-2.02%
2014	13.69%	10.62%	10.11%	5.97%
2015	1.38%	1.28%	0.55%	-11.48%
2016	11.96%	10.35%	8.31%	2.65%
2017	21.83%	14.21%	3.54%	0.31%
2/28/2018	1.86%	1.83%	-2.09%	-5.16%

KEY	S&P 500	Aggregate	Alts Blend	60/40

Stocks are represented by the S&P 500 Index.
Bonds are represented by the Bloomberg Barclays Aggregate Index.

Source: Bloomberg

Alternatives include hedge fund strategies, real estate, master limited partnerships (MLPs), private equity, etc. Alternatives as an asset class have outperformed either fixed income (as represented by the Bloomberg Barclays Aggregate Index) or equity (S&P 500 Index) more than 80% of years (18 out of 22 years) since 1996. (Figure 27)

The alternative blend represented in Figure 27 consists of 30% NAREIT Equity REITs, 10% Bloomberg Commodity Index, 30% Alerian Infrastructure MLPs, and 30% HFRI FOF–Conservative Hedge Funds.

THE ROLE OF VARIOUS ALTERNATIVES IN A PORTFOLIO

Risk Reducers vs. Diversifiers – The Different Roles of Various Alternatives

ASSET CLASS/ INDEX/PORTFOLIO	EXPECTED RETURN	EXPECTED RISK	CORRELATION TO S&P 500 INDEX	COMMENTS/ROLE IN A PORTFOLIO
REITs	8.5%	17.6%	0.56	▪ Serve as a moderate **diversifier** through modest correlation with stocks ▪ Stock-like expected returns imply no reduction in portfolio expected return
Commodities	4.3%	15.5%	0.32	▪ Low correlation to stocks combined with high volatility imply a good **diversifier** ▪ Not expected to provide returns as high as overall portfolio returns
MLPs	6.8%	15.0%	0.37	▪ Expected return similar to that of 60/40 portfolio ▪ Low correlation to stocks with high volatility make for a good **diversifier** without a reduction in portfolio expected return
Conservative Hedge Funds	5.0%	6.5%	0.57	▪ Serve to **reduce risk** through low standard deviation of returns ▪ Returns not expected to keep up with portfolio return
S&P 500 Index	8.8%	15.4%	1.00	▪ Stocks serve as the biggest source of returns in a portfolio but with high risk
Bloomberg Barclays Aggregate Index	4.1%	5.7%	-0.03	▪ Bonds serve to **reduce risk** through low standard deviations of returns and to **diversify** through low correlation with stocks ▪ Returns not expected to keep up with portfolio return
60% S&P 500 / 40% Bloomberg Barclays Aggregate Portfolio	**6.5%**	10.0%	0.99	▪ Returns can be increased through high-risk asset classes (e.g., small-cap and emerging market equities, high-yield bonds) ▪ Risk can be dialed back through a combination of alternatives

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THE POWER OF ASSET ALLOCATION – IT'S WHY WE DIVERSIFY

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
56.3% EM	31.6% REIT	34.5% EM	35.1% REIT	39.4% EM	5.2% AGG	78.5% EM	29.1% SCG	8.3% REIT	18.5% MCV	43.3% SCG	30.1% REIT	5.7% LCG	31.7% SCV	37.3% EM
48.5% SCG	26.0% EM	21.4% COM	32.6% COM	16.2% COM	5.1% INT	58.8% HY	27.9% REIT	7.8% AGG	18.2% EM	35.7% MCG	14.8% MCV	3.2% REIT	20.0% MCV	30.2% LCG
46.0% SCV	23.7% MCV	14.0% EAFE	26.9% EAFE	11.8% LCG	2.1% TB	46.3% MCG	26.4% MCG	5.8% INT	18.1% REIT	34.5% SCV	13.5% LCV	1.1% INT	17.3% LCV	25.3% MCG
42.7% MCG	22.3% SCV	12.7% MCV	23.5% SCV	11.4% MCG	-19.9% HF	37.2% LCG	24.8% MCV	5.0% HY	18.1% SCV	33.5% LCG	13.1% LCG	0.6% AGG	17.1% HY	25.0% EAFE
39.2% EAFE	20.7% EAFE	12.2% REIT	22.3% LCV	11.2% EAFE	-23.2% CTC	34.5% SCG	24.5% SCV	2.6% LCG	17.5% LCV	33.5% MCV	11.9% MCG	0.4% HF	11.8% COM	22.2% SCG
38.1% MCV	16.5% LCV	12.1% MCG	20.2% MCV	7.7% HF	-25.9% HY	34.2% MCV	18.9% EM	0.7% CTC	17.3% EAFE	32.5% LCV	7.3% CTC	0.0% TB	11.30% SCG	13.7% LCV
37.1% REIT	15.5% MCG	7.1% LCV	13.4% SCG	7.4% INT	-28.9% SCV	31.8% EAFE	18.9% COM	0.4% LCV	15.8% MCG	22.8% EAFE	6.0% AGG	-0.2% MCG	11.2% EM	13.4% CTC
30.0% LCV	14.3% SCG	5.5% CTC	12.0% CTC	7.0% SCG	-35.70% COM	28.0% REIT	16.7% LCG	0.1% TB	15.8% HY	13.6% CTC	5.6% SCG	-0.8% EAFE	8.5% REIT	13.3% MCV
29.8% LCG	11.1% HY	5.3% LCG	10.8% HY	7.0% AGG	-36.9% LCV	20.6% SCV	15.5% LCV	-1.4% MCV	15.3% LCG	7.7% HF	4.2% SCV	-1.4% CTC	7.7% CTC	7.8% SCV
28.8% HY	9.5% CTC	5.2% HF	10.7% MCG	6.9% CTC	-37.0% REIT	19.9% CTC	14.9% HY	-1.7% MCG	14.6% SCG	7.4% HY	3.1 INT	-1.4% SCG	7.3% MCG	7.5% HY
23.9% COM	9.2% COM	4.7% SCV	9.2% HF	5.0% TB	-38.4% LCG	19.7% LCV	12.8% CTC	-2.9% SCG	10.9% CTC	2.5% REIT	3.1% HF	-3.8% LCV	7.1% LCG	5.20% REIT
20.0% CTC	6.3% LCG	4.2% SCG	9.1% LCG	2.3% HY	-38.4% MCV	18.9% COM	7.8% EAFE	-3.6% HF	4.2% AGG	0.1% TB	2.5% HY	-4.4% HY	2.6% AGG	3.8% HF
9.0% HF	5.8% HF	3.1% TB	4.9% TB	-0.2% LCV	-38.5% SCG	9.7% HF	6.6% AGG	-5.5% SCV	4.2% HF	-0.9% INT	0.0% TB	-4.8% MCV	2.1% INT	3.5% AGG
4.3% INT	4.3% AGG	2.8% HY	4.3% AGG	-1.4% MCV	-43.4% EAFE	5.9% AGG	5.9% INT	-12.1% EAFE	3.9% INT	-2.0% AGG	-2.2% EM	-7.5% SCV	1.9% HF	2.1% INT
4.1% AGG	3.0% INT	2.4% AGG	4.1% INT	-9.8% SCV	-44.3% MCG	5.2% INT	5.10% HF	-13.3% COM	0.1% TB	-2.6% EM	-4.9% EAFE	-14.9% EM	1.0% EAFE	1.7% COM
1.1% TB	1.3% TB	1.6% INT	2.1% COM	-15.7% REIT	-53.3% EM	0.2% TB	0.1% TB	-18.4% EM	-1.1% COM	-9.5% COM	-17.0% COM	-24.7% COM	0.3% TB	0.9% TB

- Large Cap Growth (LCG)
- Large Cap Value (LCV)
- Aggregate Bonds (AGG)
- High Yield (HY)
- Hedge Funds (HF)
- **CTC Policy Benchmark (CTC)**
- Mid Cap Growth (MCG)
- Mid Cap Value (MCV)
- Intermediate Bonds (INT)
- Emerging Markets (EM)
- Commodities (COM)
- Small Cap Growth (SCG)
- Small Cap Value (SCV)
- T-Bills (TB)
- EAFE (EAFE)
- REITs (REIT)

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FINANCIAL GLOSSARY OF TERMS

Compound Annual Growth Rate (CAGR) - The year-over-year growth rate of an investment over a specified period of time. It's an imaginary number that describes the rate at which an investment would have grown if it grew at a steady rate.

Commodities - A physical substance, such as food, grains, and metals, that is interchangeable with another product of the same type, and which investors buy or sell usually through futures contracts. The price of the commodity is subject to supply and demand.

Consumer Confidence Index - A survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future. The idea is that if consumers are optimistic, they will tend to purchase more goods and services. This increase in spending will inevitably stimulate the whole economy.

Consumer Price Index (CPI) - A measure that examines the weighted average of prices a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Sometimes referred to as "headline inflation."

Discount Rate - The rate at which member banks may borrow short-term funds directly from a Federal Reserve Bank. The discount rate is one of the two interest rates set by the Fed, the other being the Federal Funds rate. The Fed actually controls this rate directly, but this fact does not really help in policy implementation, since banks can also find such funds elsewhere.

Federal Open Market Committee (FOMC) - The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the board of governors, which has seven members, and five reserve bank presidents. The FOMC meets eight times per year to set key interest rates, such as the discount rate, and to decide whether to increase or decrease the money supply, which the Fed does by buying and selling government securities.

Gross Domestic Product (GDP) - The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Group of Seven (G7) - Seven of the world's leading countries that meet periodically to achieve a cooperative effort on international economic and monetary issues.

ISM Manufacturing Index - A monthly index released by the Institute of Supply Management that tracks the amount of manufacturing activity that occurred in the previous month. These data are considered a very important and trusted economic measure. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth.

Leading Economic Indicator (LEI) - An economic indicator that changes before the economy has changed. Examples of leading indicators include production work week, building permits, unemployment insurance claims, money supply, inventory changes, and stock prices. The Fed watches many of these indicators as it decides what to do about interest rates. There are also coincident indicators, which change about the same time as the overall economy, and lagging indicators, which change after the overall economy, but these are of minimal use as predictive tools.

Lipper Index - A mutual fund performance tracking and rating system. The Lipper Index allows an investor to compare a particular fund to other funds in its industry, or that utilize a similar investment style, in a variety of different categories.

Monetary Policy - The regulation of the money supply and interest rates by a central bank, such as the Federal Reserve Bank in the U.S., in order to control inflation and stabilize currency. Monetary policy is one of the two ways the government can impact the economy. By changing the effective cost of money, the Federal Reserve can affect the amount of money that is spent by consumers and businesses.

Non-Farm Payrolls - A statistic gathered by the U.S. Bureau of Labor Statistics that represents the payroll data for the majority of the United States, with the exception of a few categories of employees. The employees that are not included in this calculation include government employees, nonprofit employees, individuals who work within a private household, and farm employees. Once these categories are removed, the data represent about 80% of United States employees and provides monthly information about salary, which is used as an indicator of the health of the economy.

Personal Consumption Expenditures (PCE) - A measure of price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services. It is essentially a measure of goods and services targeted toward individuals and consumed by individuals.

Price/Earnings Ratio (P/E) - The most common measure of how expensive a stock is. The P/E ratio is equal to a stock's market capitalization divided by its after-tax earnings over a 12-month period, usually the trailing period but occasionally the current or forward period. The higher the P/E ratio, the more the market is willing to pay for each dollar of annual earnings.

Producer Price Index (PPI) - An inflationary indicator published by the U.S. Bureau of Labor Statistics to evaluate wholesale price levels in the economy.

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BUILT ON A TIME-TESTED PROCESS

With a focus on proprietary research, risk management and a time-tested investment process, we are well positioned to navigate through changing economic and market conditions to help our clients meet their investment objectives. We create and manage customized investment portfolios according to your guidelines and restrictions, liquidity needs and sensitivity to risk. Your portfolio can also be modified as your needs or objectives change. We are always mindful of portfolio expenses and focus on building efficient solutions that maximize your after-tax return.

- Our investment and research professionals have an average of 21 years of industry experience, applying their knowledge in a structure that ensures the right balance of independent thinking and teamwork.
- Our process focuses on repeatable steps and aims to provide consistent returns while avoiding volatile or overly complex strategies.
- Our size enables us to offer clients unique benefits, including the flexibility to efficiently capitalize on relative value opportunities in the market and customize investment portfolios.
- Our investment advisors have access to the quantitative and qualitative research of our internal research consultants as well as other providers.

OUR INVESTMENT PHILOSOPHY INCLUDES:

- Long-term asset allocation
- Diversification
- Short-term tactical asset allocation
- Both active and passive management
- Alternative investments
- Rebalancing

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