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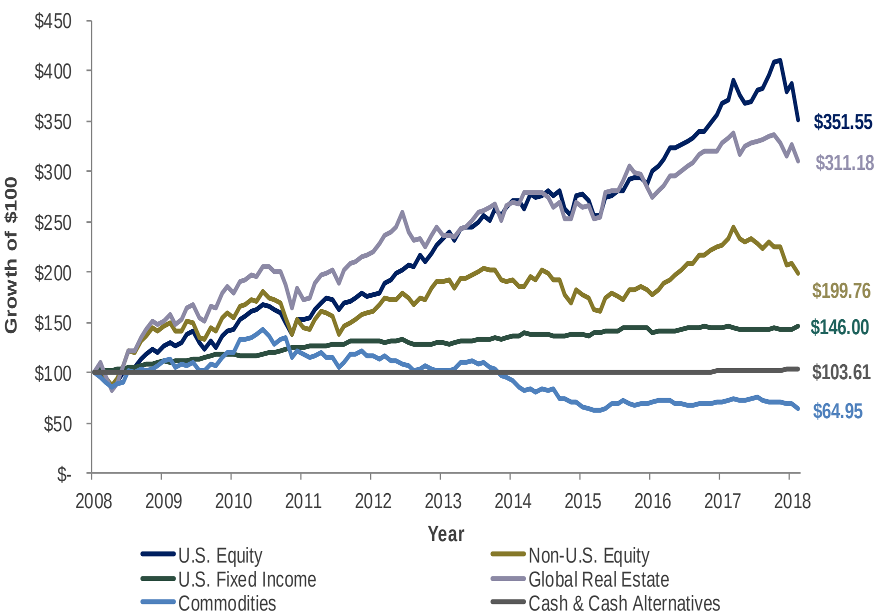
WEALTH MANAGEMENT

Quarterly Market Update

Q1 2019

2018 proved to be a trying year with most markets reporting losses for the fourth quarter and for the calendar year. This past year grounded investors, and asset prices alike, as both retreated from one of the most extraordinary expansions in market history. Mounting concerns over trade tensions with China and slowing global growth consumed the news headlines as we watched markets plummet and significant intraday movements became the norm. However, as a result valuations have become more attractive.



	QTD	YTD	1-Year	3-Year	5-Year	10-Year
U.S. Equity	-14.30%	-5.24%	-5.24%	8.97%	7.91%	13.18%
Non-U.S. Equity	-11.46%	-14.20%	-14.20%	4.48%	0.68%	6.57%
U.S. Fixed Income	1.64%	0.01%	0.01%	2.06%	2.52%	3.48%
Global Real Estate (REITs)	-5.01%	-6.37%	-6.37%	3.46%	4.50%	10.96%
Commodities	-9.41%	-11.25%	-11.25%	0.30%	-8.80%	-3.78%
Cash & Cash Alternatives	0.57%	1.86%	1.86%	0.99%	0.60%	0.35%

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
(Source: FactSet)

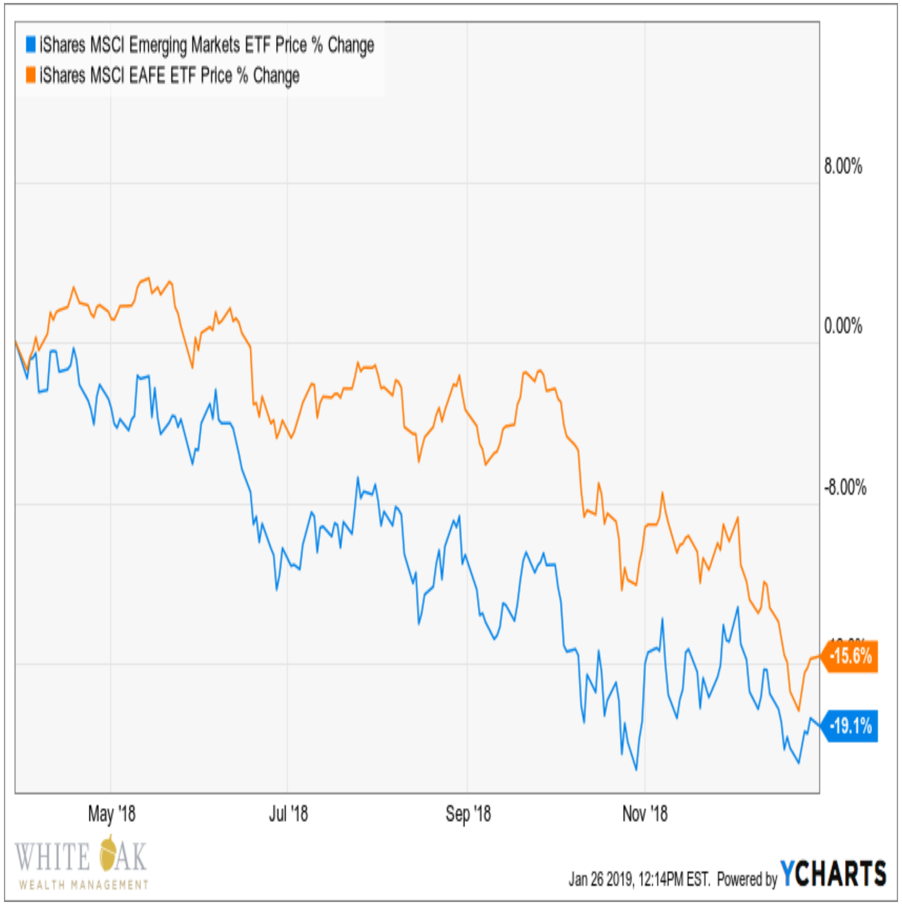
Quarterly Review-Q1 2019

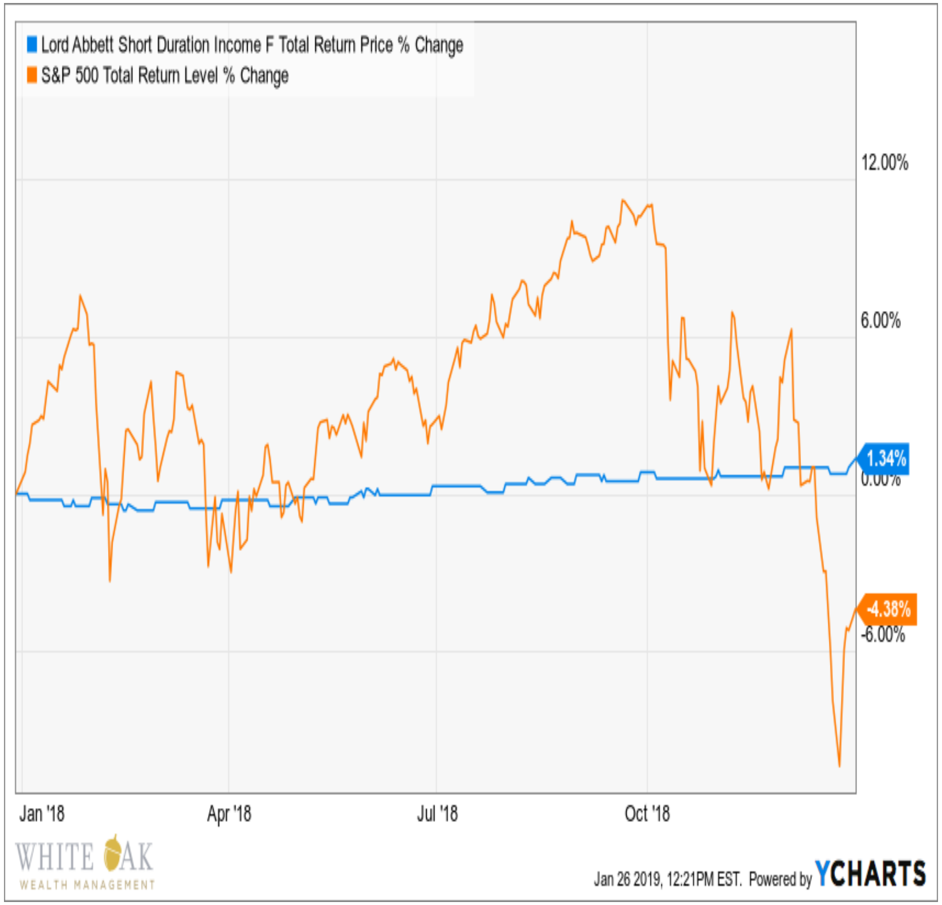
This chart illustrates the returns delivered by a variety of asset classes over a period of time. As you can see, during the period illustrated, each asset class reacted differently to economic and financial developments. By diversifying across asset classes, investors seek to hedge against the unknown since, by definition, for a group of assets to be considered an asset class, it should – among other attributes – exhibit low correlation with other asset classes. In other words, one asset class may tend to flourish during periods of high inflation, while another asset class may suffer.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Non-U.S. Equity 16.7%	Fixed Income 5.2%	Non-U.S. Equity 41.5%	Real Estate 19.3%	Fixed Income 7.8%	Real Estate 29.0%	U.S. Equity 33.6%	Real Estate 13.9%	Fixed Income 0.6%	U.S Equity 12.7%	Non-U.S. Equity 27.2%	Cash & Cash Alternatives 1.9%
Commodities 16.2%	Cash & Cash Alternatives 1.8%	Real Estate 40.2%	U.S. Equity 16.9%	Blended Portfolio 2.1%	Non-U.S. Equity 16.8%	Non-U.S. Equity 15.3%	U.S. Equity 12.6%	U.S. Equity 0.5%	Commodities 11.8%	U.S Equity 21.1%	Fixed Income 0.0%
Blended Portfolio 7.8%	Blended Portfolio -21.7%	U.S. Equity 28.3%	Commodities 16.8%	U.S. Equity 1.0%	U.S. Equity 16.4%	Blended Portfolio 13.9%	Blended Portfolio 7.1%	Cash & Cash Alternatives 0.0%	Blended Portfolio 7.1%	Real Estate 14.0%	Blended Portfolio -4.0%
Fixed Income 7.0%	Commodities -35.7%	Blended Portfolio 20.2%	Blended Portfolio 11.9%	Cash & Cash Alternatives 0.1%	Blended Portfolio 11.0%	Real Estate 1.6%	Fixed Income 6.0%	Blended Portfolio -0.2%	Non-U.S. Equity 4.5%	Blended Portfolio 13.8%	U.S Equity -5.2%
U.S. Equity 5.1%	U.S. Equity -37.3%	Commodities 18.9%	Non-U.S. Equity 11.2%	Real Estate -8.7%	Fixed Income 4.2%	Cash & Cash Alternatives 0.1%	Cash & Cash Alternatives 0.0%	Real Estate -1.2%	Real Estate 3.8%	Fixed Income 3.5%	Real Estate -6.4%
Cash & Cash Alternatives 4.7%	Non-U.S. Equity -45.5%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash & Cash Alternatives 0.1%	Fixed Income -2.0%	Non-U.S. Equity -3.9%	Non-U.S. Equity -5.7%	Fixed Income 2.7%	Commodities 1.7%	Commodities -11.2%
Real Estate -5.0%	Real Estate -50.2%	Cash & Cash Alternatives 0.2%	Cash & Cash Alternatives 0.1%	Non-U.S. Equity -13.7%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash & Cash Alternatives 0.3%	Cash & Cash Alternatives 0.8%	Non-U.S. Equity -14.2%

Tactical Changes

Throughout 2018 we reduced our allocation to international developed and emerging market equities, both of which came under severe pressure beginning in the spring. We were able to close out those positions with net gains. We correspondingly increased allocations to US large cap equity as well as to short duration fixed income. Growth expectations in the U.S. are more attractive than those abroad. The addition of short duration fixed income provided stability to portfolios in a remarkably volatile fourth quarter.





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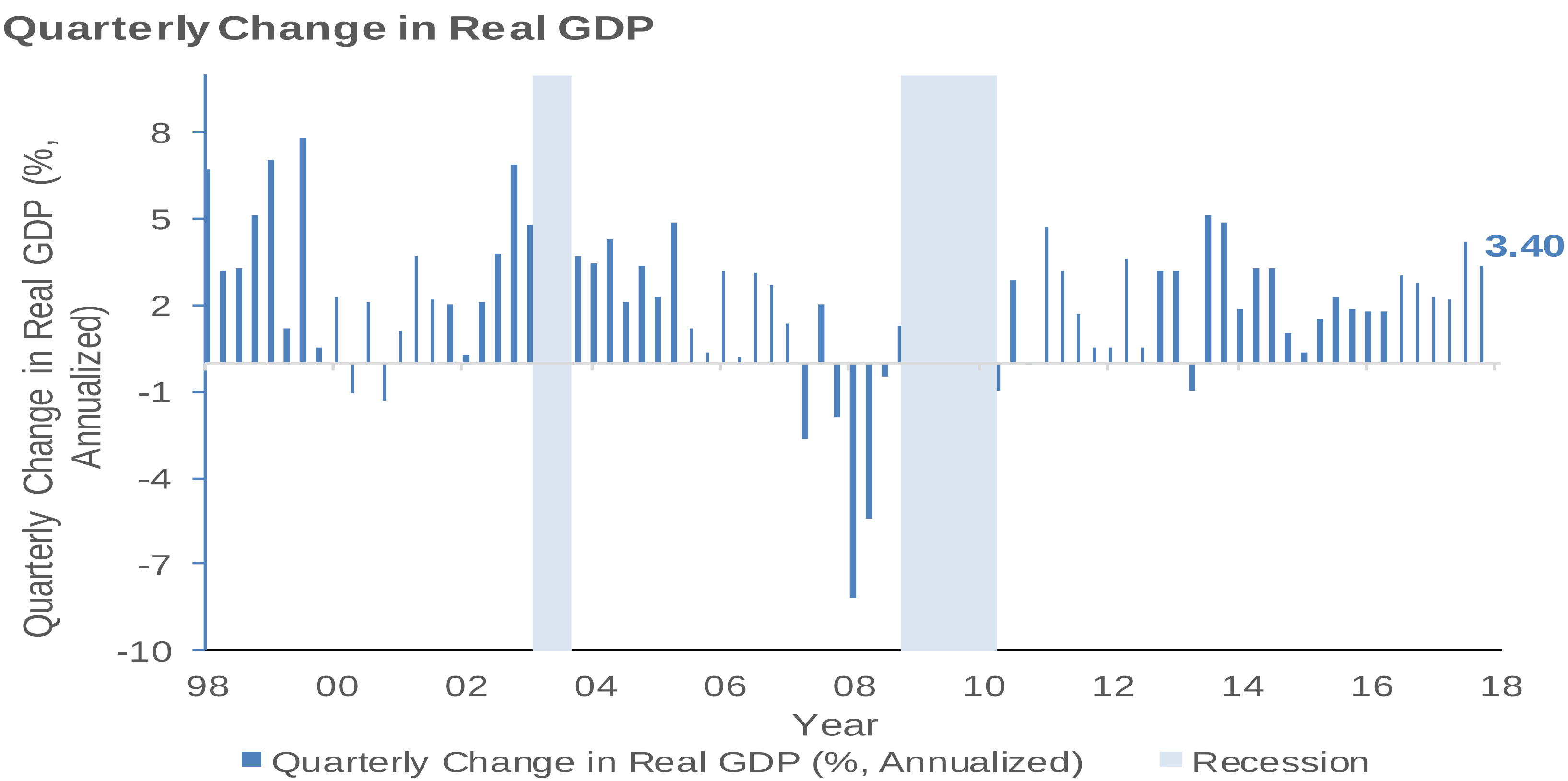
Domestic Economic Review-GDP

Real gross domestic product (GDP) increased at an annual rate of 3.4 percent in the third quarter of 2018, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.2 percent. The "third" GDP estimate is based on more complete source data than were available for the "second" estimate issued last November.

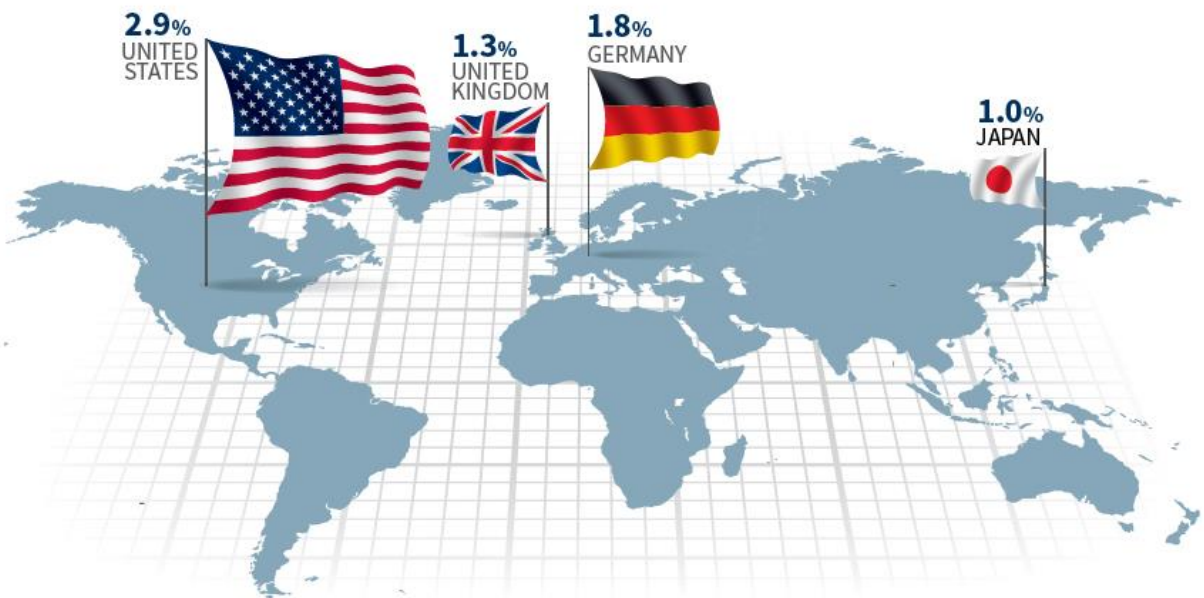


Source: Bloomberg, as of 9/30/20187

Global Growth Comparisons

Growing Gaps

While the U.S. may end up achieving final 2018 growth figures of around 2.9% (according to final GDP estimates), other large economies saw more muted growth, due in part to the fact that international companies did not have the luxury of reaping the benefits of the 2017 U.S. corporate tax cuts.



OBSERVATIONS ON NON-U.S. DEVELOPED MARKET EQUITY

ECONOMIC GROWTH CATCH UP

While the U.S. is viewed as being in the later stages of the growth cycle, the rest of the world may be in the very early innings of a growth cycle and has a much lower bar to surpass from a relative standpoint. However signs of economic growth abroad have been spotty and international economies still face significant headwinds.

FUNDAMENTAL SUPPORT

The prices of U.S. equities are near their long term averages but elevated compared to the rest of the world.

CURRENCY-THE X FACTOR

The US dollar has strengthened significantly against most major foreign currencies, eroding foreign returns as those funds flow back to US investors. The dollar has only declined in 2 of the past 8 years against major currencies. If the dollar continues to appreciate in 2019, non-US investment will have a more difficult time outperforming their domestic counterparts.

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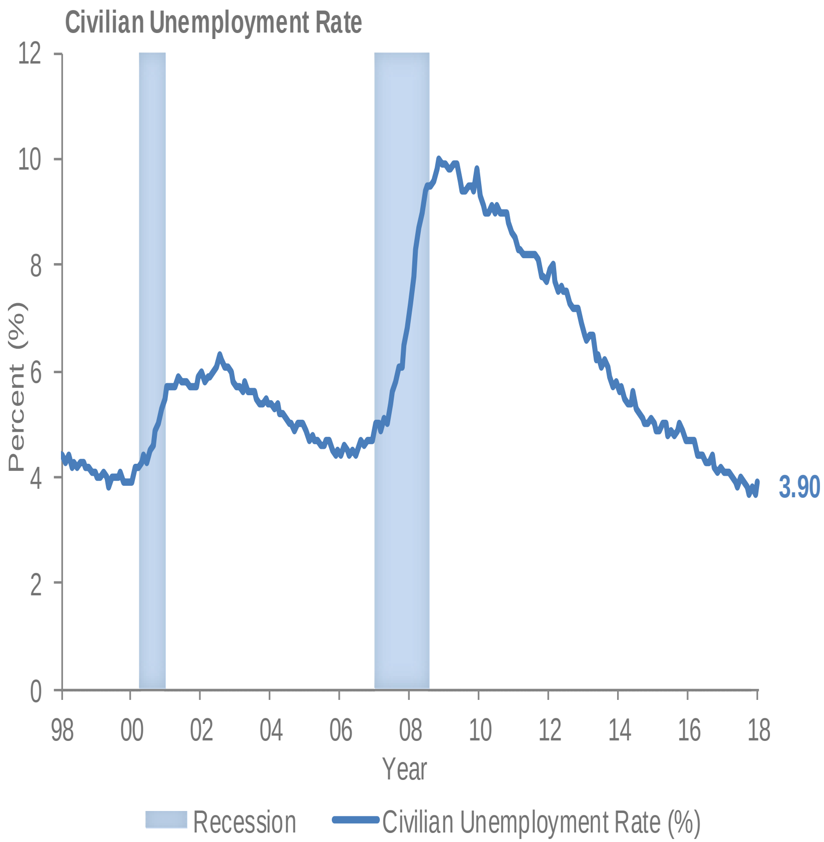
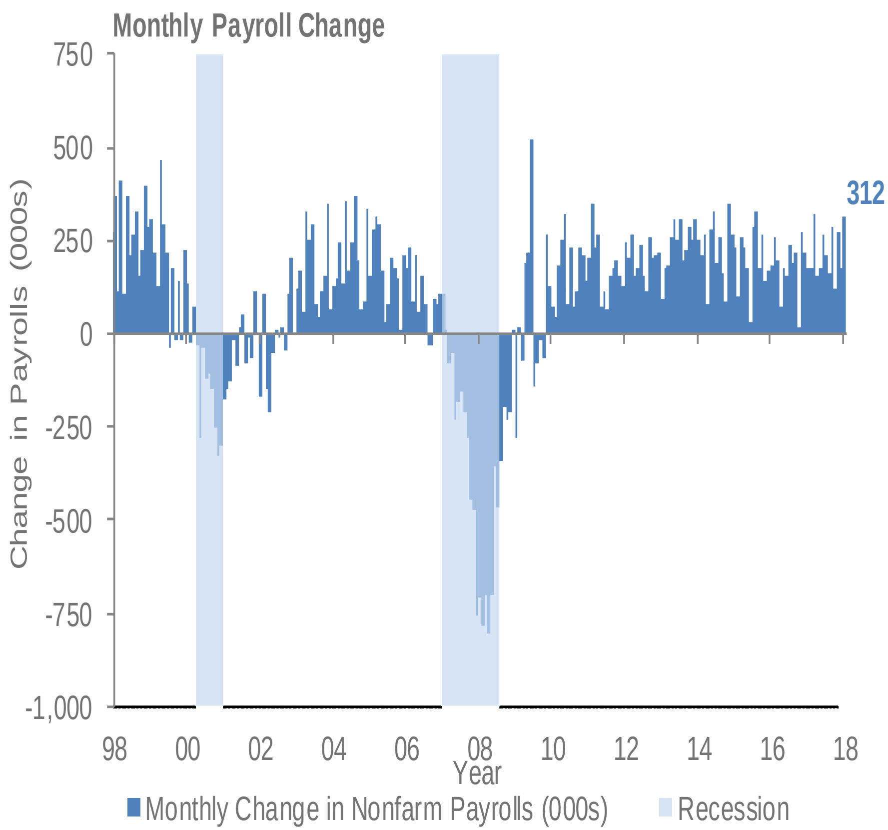
Employment & Consumer Confidence

Total nonfarm payroll employment increased by 312,000 in December, and the unemployment rate rose to 3.9 percent. Job gains occurred in health care, food services and drinking places, construction, manufacturing, and retail trade.



Source: Bloomberg, as of 12/31/2018



Source: Bloomberg, as of 12/31/2018

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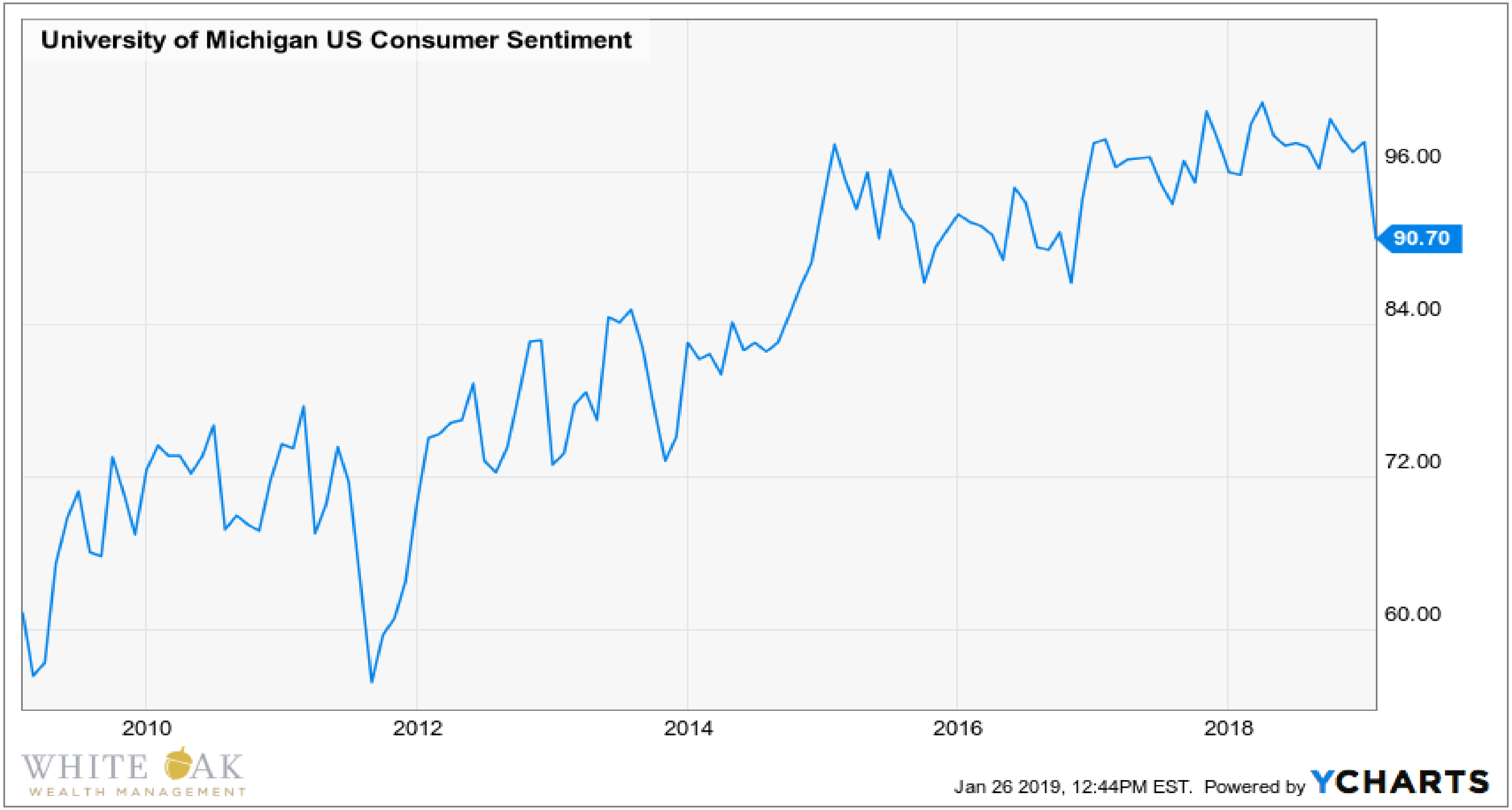
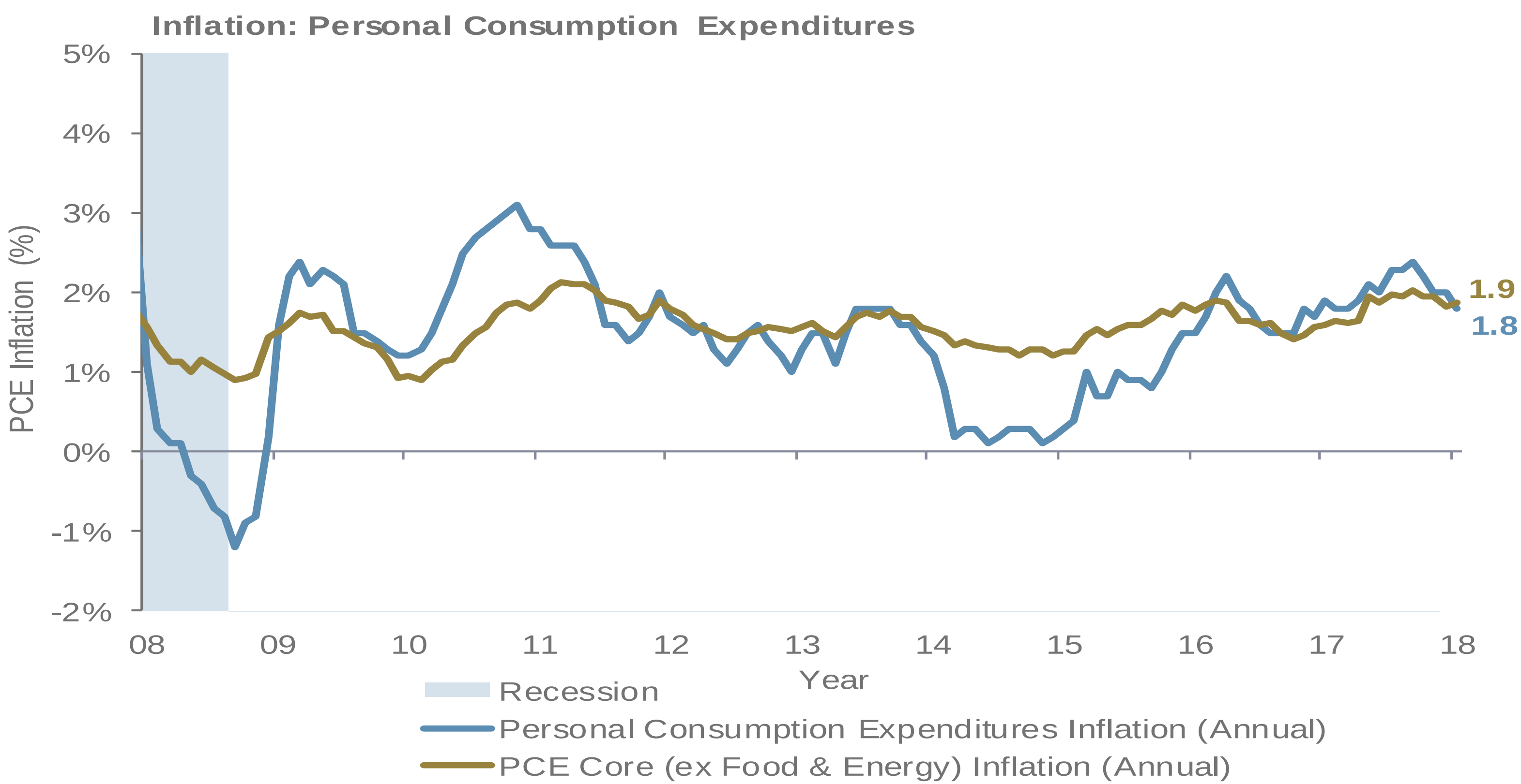
Employment & Consumer Confidence

University of Michigan US Consumer Sentiment is at a current level of 90.70 as of January 2019, a decrease of 7.60 or 7.73% from last month. This is a decrease of 5.00 or 5.22% from January 2018 and is higher than the long term average of 86.48. Although confidence is moderating slightly, consumer spending continues to show strength as a result of low unemployment and steady wage increases, lower gas prices and recent tax law changes..

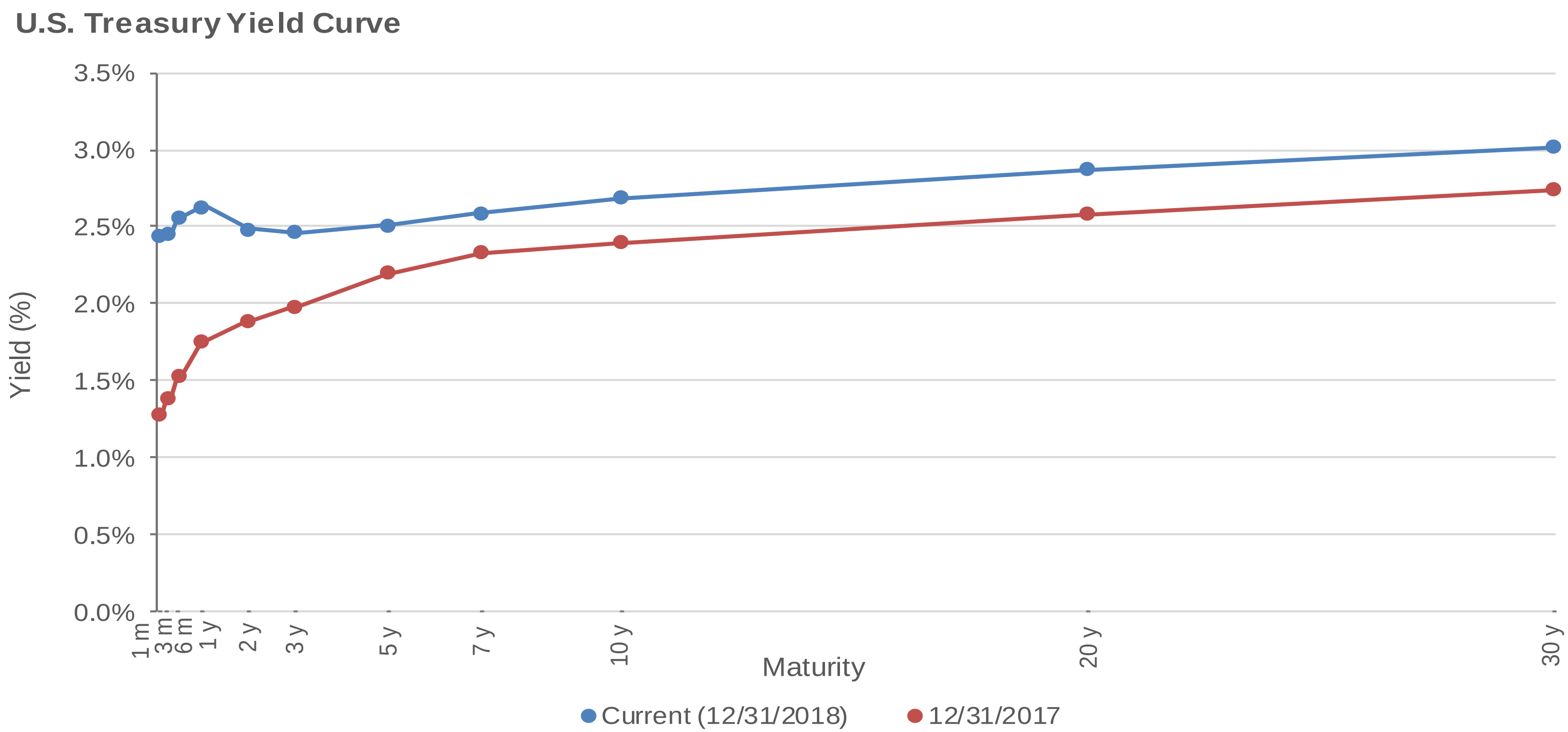


The year-over-year PCE price index fell to 1.8 percent from 2.0 percent in November while the core PCE price index (excluding food and energy) increased to 1.9 percent from 1.8 percent. Inflation moderated in the second half of 2018, but should pick up somewhat in early 2019, reflecting higher labor costs and tariffs.



Inflation & Interest Rates

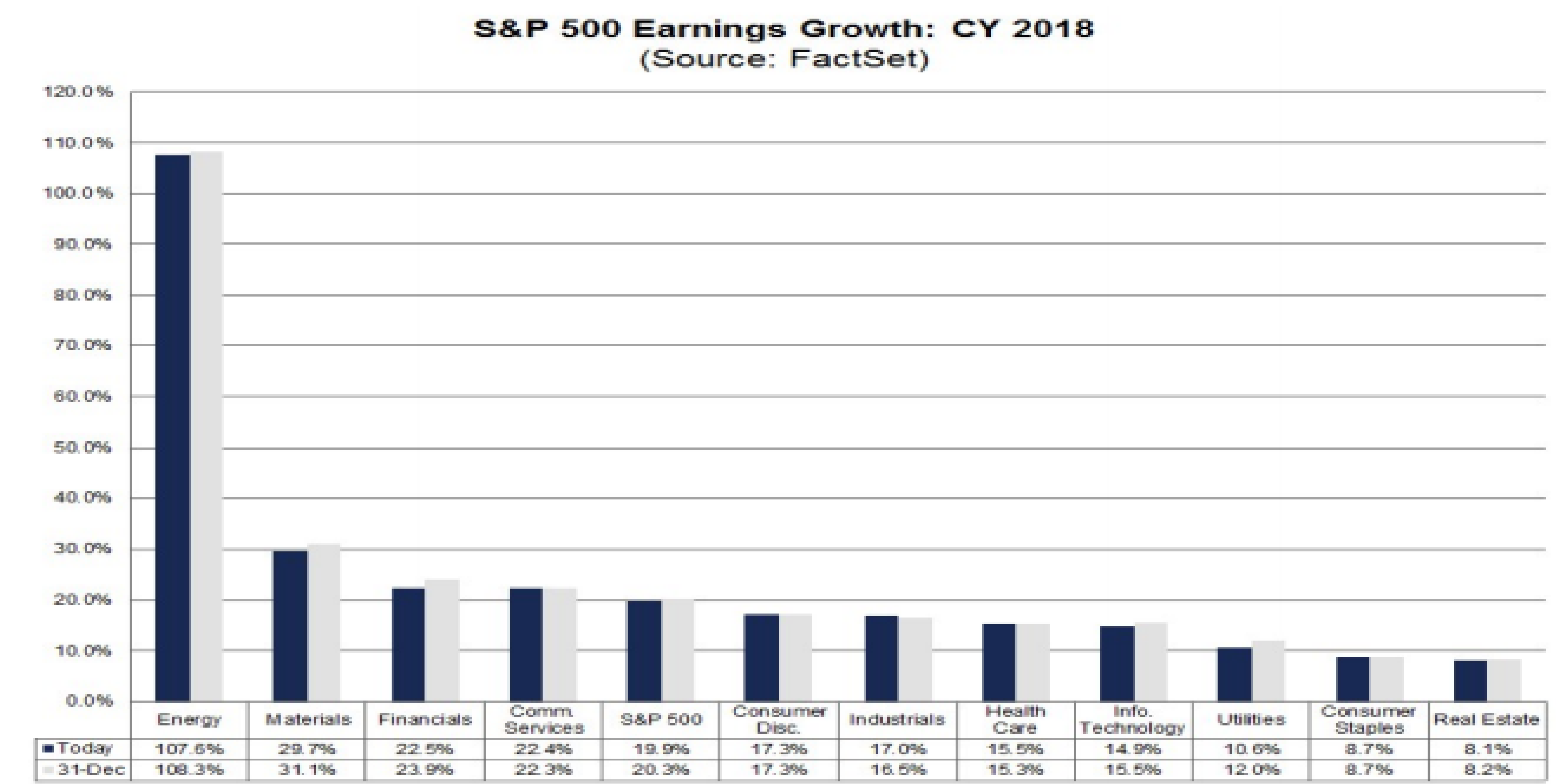
The Treasury curve remained in a tight, albeit slightly higher, trading range as yields moved up across the curve, driven in part by four Federal Reserve rate hikes. Short-term Treasury rates (less than one year) followed suit, rising approximately 1.00%, while intermediate- and long-term Treasury rates lagged. As a result, the Treasury yield curve continued to flatten over the year.



Source: Federal Reserve, as of 12/31/2018

Corporate Earnings

Prior to the start of Q4 earnings announcements, companies in the S&P 500 are reporting earning growth of 19.9% and revenue growth of 8.7%. Going forward, analysts expect single digit earnings growth for the first three quarters of 2019. For full year 2019, analysts are projecting earnings growth of 6.3% and revenue growth of 5.2%.



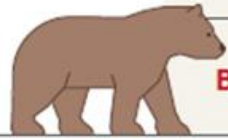
	Energy	Materials	Financials	Comm. Services	S&P 500	Consumer Disc.	Industrials	Health Care	Info. Technology	Utilities	Consumer Staples	Real Estate
Today	107.6%	29.7%	22.5%	22.4%	19.9%	17.3%	17.0%	15.5%	14.9%	10.6%	8.7%	8.1%
31-Dec	108.3%	31.1%	23.9%	22.3%	20.3%	17.3%	16.5%	15.3%	15.5%	12.0%	8.7%	8.2%

Corporate Earnings-US Equity Outlook

As mentioned previously, 2019 earnings are expected to slow from 20%+ growth in 2018, an event some of labeled "peak earnings growth." However, peak earnings ***growth*** is not the same as peak earnings. If earnings grow 5% in 2019 to $169 per share it would support higher equity prices. Negative headlines may force equities to test recent market lows. However a healthy U.S. economy, growing earnings and attractive valuations should serve as downside support. The recent pullback is overdone by any objective measure. Success or failure of ongoing trade negotiations will likely influence how equity markets perform in 2019.

Raymond James Equity Portfolio & Technical Strategy
2019 Year-End Outlook

S&P 500	EPS ESTIMATE	P/E	PRICE	% CHANGE FROM 2,351	SCENARIO ODDS
Bull Case	$174	19x	3,306	40%	5%
Base Case	$169	17.5x	2,957	25%	65%
Bear Case	$161	15x	2,415	2%	30%



Source: Raymond James Equity Portfolio & Technical Strategy

Dollar-Denominated Currency Conundrum

Given its dominance in currency markets, the U.S. dollar drives both the exchange rate and relative value of foreign currencies. Due in part to the robust growth of the U.S. economy and tightening monetary policy, the dollar has appreciated, precipitating a fall in the relative value of other foreign currencies. Separately, Brexit and Italy's budget negotiations with the EU have influenced the value of the Pound and euro, respectively.

KEY TAKEAWAYS:

- In order for international markets to gain momentum over the U.S. in 2019, concerns over economic growth, the strength of the U.S. dollar, and trade talks need to be quelled.
- The Chinese economy should continue to experience decent economic growth rates in 2019, especially if they bend with the wind on the trade front.
- Expect lots of political noise, including talk about a second referendum or a general election and ultimately a thick slice of common sense to permeate the Brexit debate.
- Corporate earnings growth in Europe, as a region, looks relatively strong versus the United States using current estimates for 2019, and this has not been the case for some time.
- Emerging markets appear to be in the strongest position to spring a positive surprise in 2019 relative to other non-U.S. assets.
- As long as global trade talks stay on track, the outlook for markets outside the United States for 2019 looks a lot better than it currently feels.

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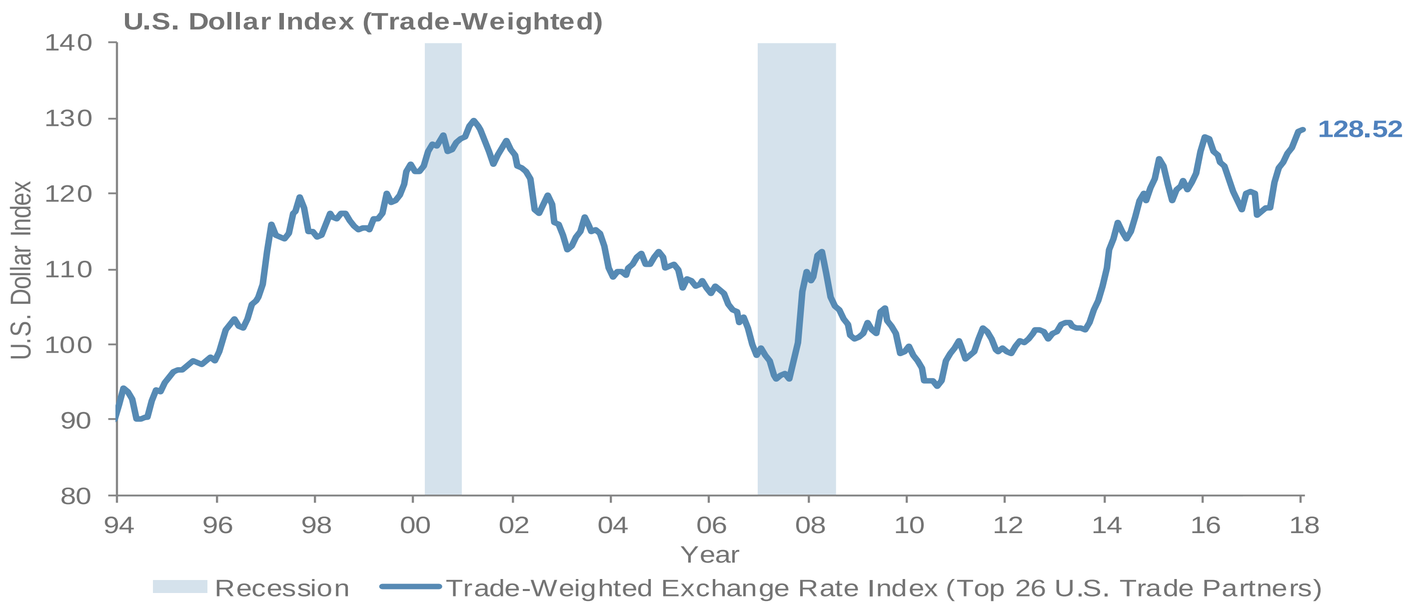
International Overview-U.S. Dollar

"The U.S. dollar has strengthened against most major foreign currencies over the last five to six years, eroding foreign returns as those funds flow back to the U.S. investors. In fact, the dollar has only declined in two of the last eight years against major currencies, contrarily boosting returns for domestic investors. If the dollar appreciates in 2019, non-U.S. investments will have a more difficult time outperforming their domestic counterparts."

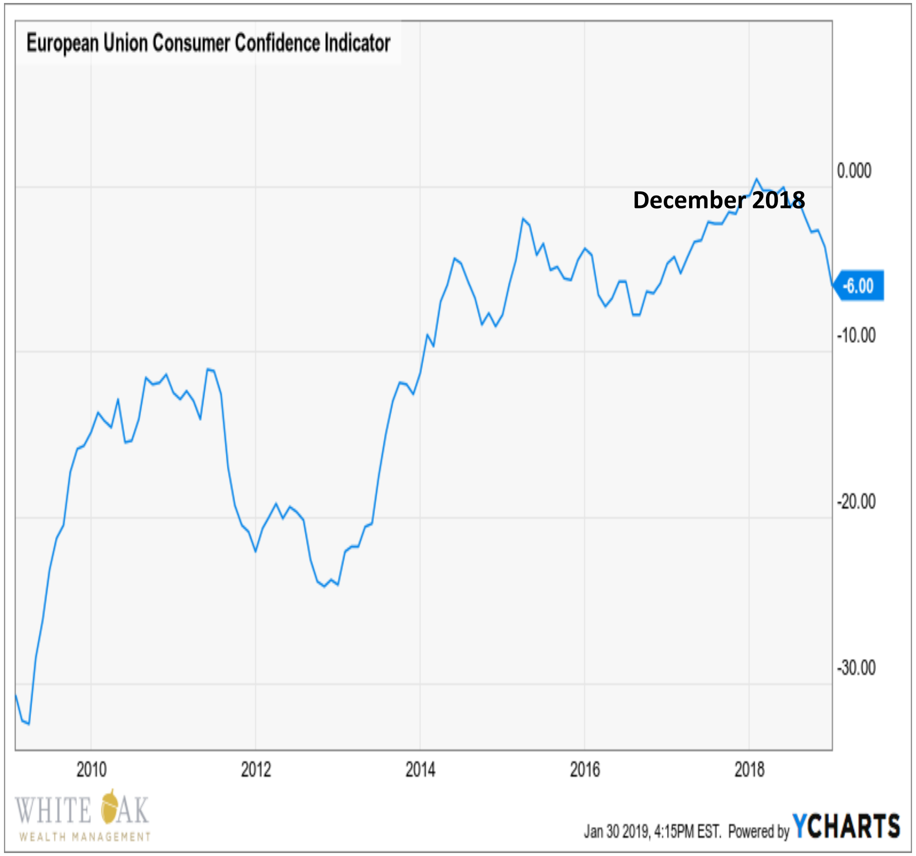
– Nick Lacy, CFA, Chief Portfolio Strategist, Asset Management Services

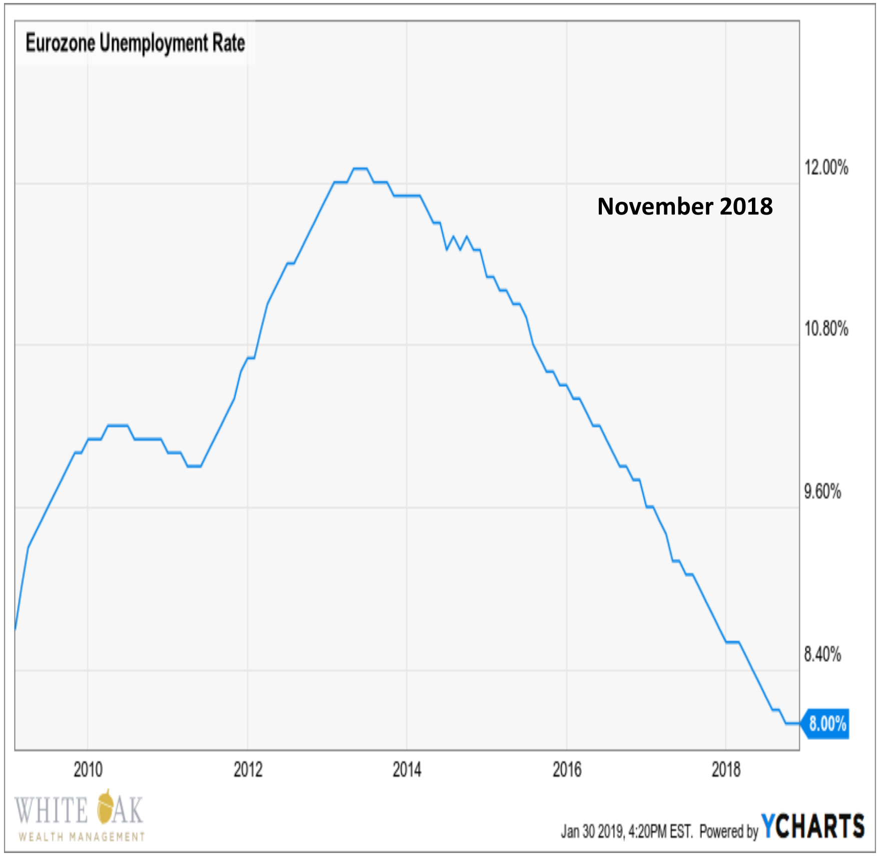


	12/31/2018	12/31/2017
Source: Bloomberg, as of 12/31/2018		
U.S. Dollar ($) / Japanese Yen (¥)	109.6900	112.6900
Euro (€) / U.S. Dollar ($)	1.1467	1.2005
British Pound (£) / U.S. Dollar ($)	1.2754	1.3513

International Overview-Eurozone Data

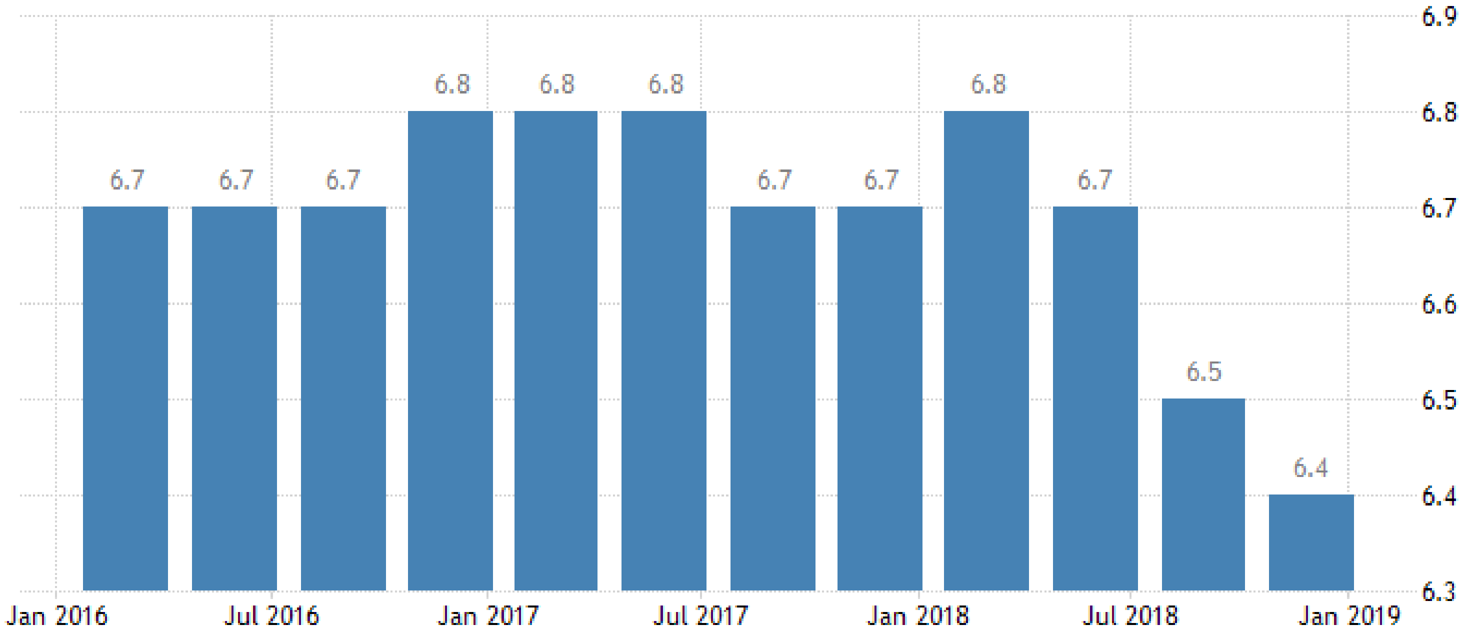
The January 2019 IHS Markit Flash Eurozone PMI Output index registered a 50.7 down from 51.1 in December 2018 and at a 66 month low. The euro area economy moved closer to stagnation in January with businesses reporting the weakest rise in output for five and a half years and the first decline in demand in over four years. These and other recent growth measurements have fallen into territory associated with ECB loosening instead of tightening; as the ECB indicated it was prepared to do. This raises pressure on the central bank to recognize that downside risks to the Eurozone economy outweigh growth tailwinds.





International Overview-China Data

The Chinese economy advanced 6.4 percent year-on-year in the December quarter of 2018, after a 6.5 percent growth in the previous quarter. It was the lowest growth rate since the global financial crisis, amid intense trade dispute with the US, weakening domestic demand and alarming off-balance-sheet borrowings by local governments. The Chinese economy expanded 6.6 percent for 2018, the weakest pace since 1990. Previously, China's statistic bureau revised down the country's GDP growth for 2017 to 6.8 percent from 6.9 percent. This slowing rate of growth has also been a drag on economic growth across other emerging market economies as well.



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

We welcome your thoughts and questions.

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