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Quarterly Market Update

June 30, 2018

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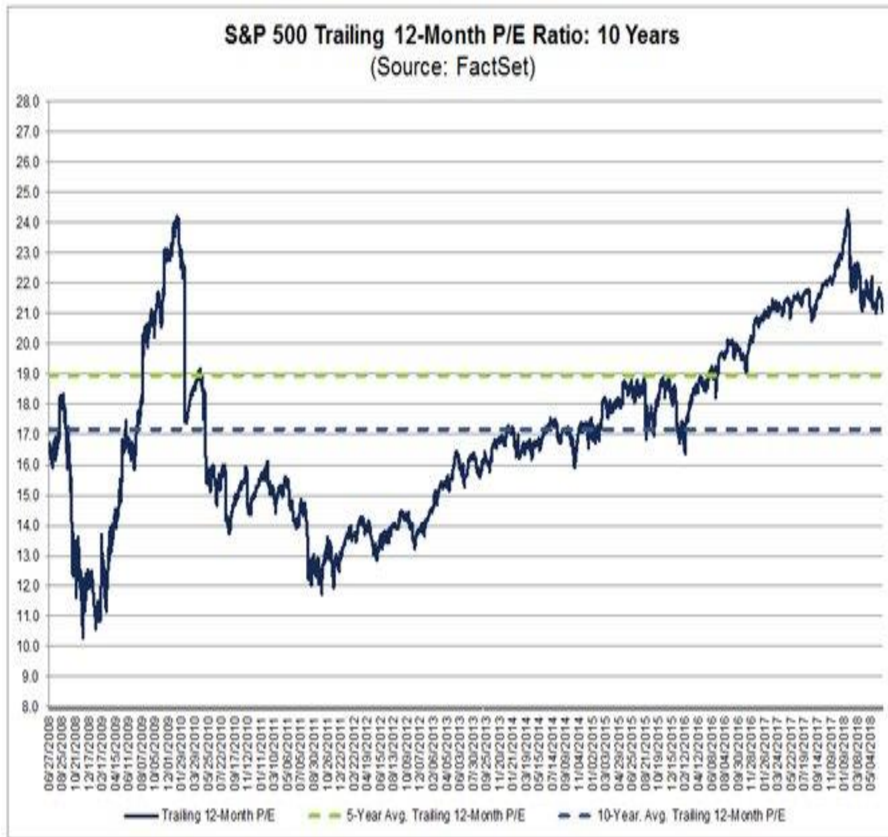
Quarterly Review-Q2 2018

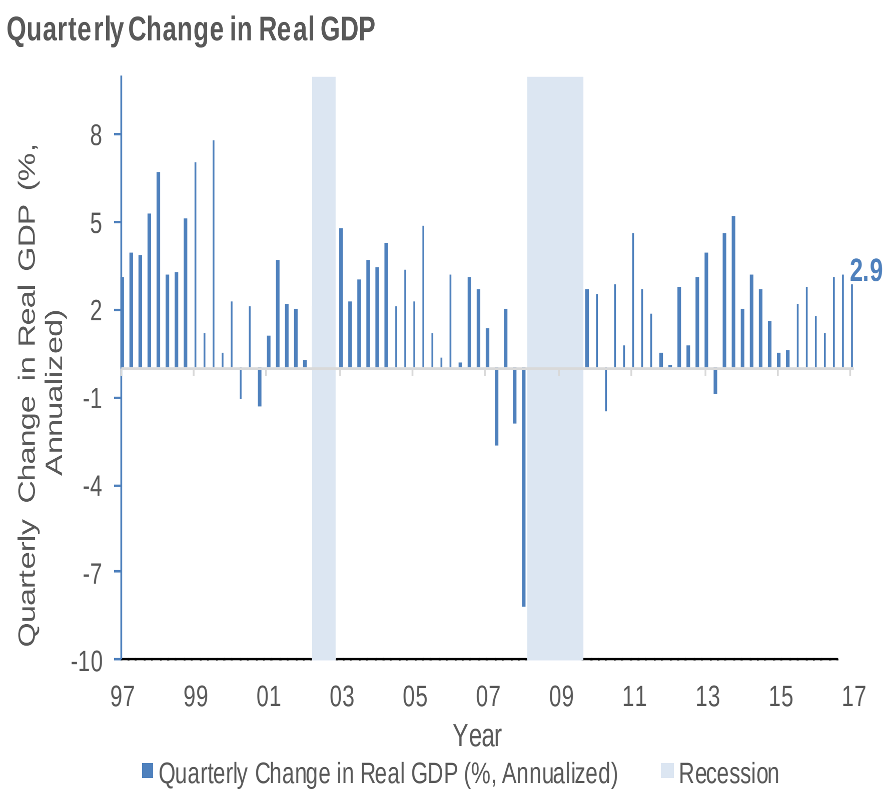
Volatility re-emerged throughout global equity markets in the second quarter. US equities performed well on a relative basis as heated trade policy rhetoric negatively impacted international markets. Within the US, small cap equities have outperformed year to date due to recent changes in regulatory and tax policies. Furthermore, small cap companies tend to sell the majority, if not all of their goods and services to US based customers and are more immune to trade issues such as tariffs. International equities in developed and emerging markets have suffered from a temporary slow down in economic growth and the effects from tariffs imposed on goods exported to the US. Bonds continue to struggle while the Federal Reserve has raised short term rates and will likely continue to do so throughout 2018 and 2019. Valuations remain manageable especially following the early 2018 equity market pullback. Most importantly within the US, corporate revenue and earnings growth are very strong and should continue to support higher equity prices.

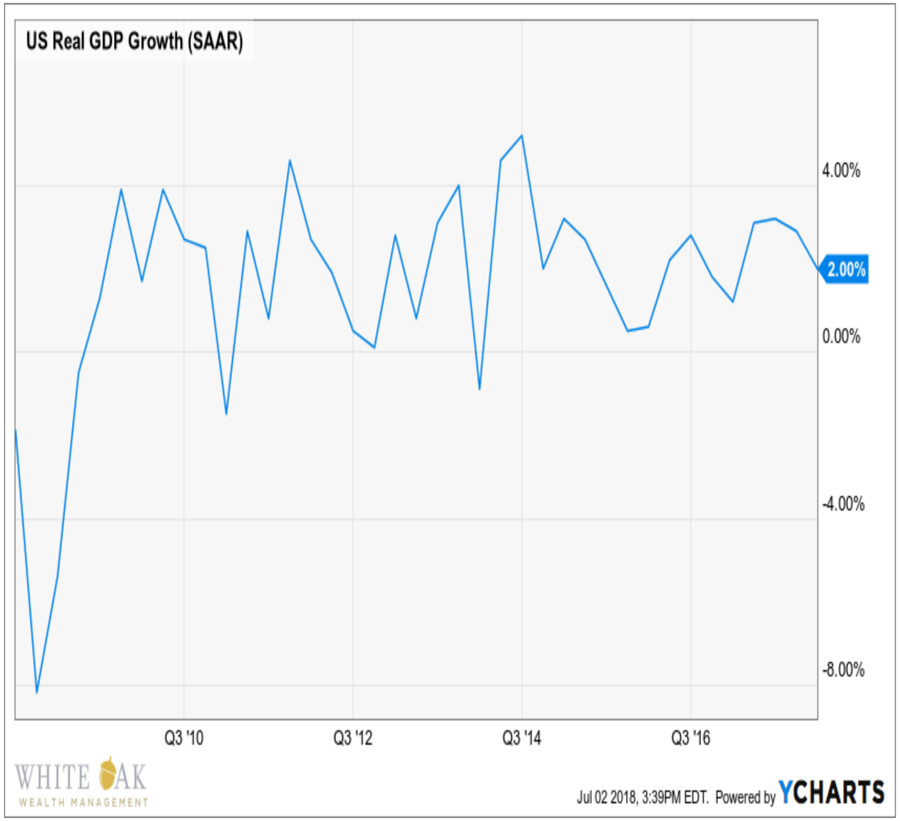
Asset Class Returns
June 30, 2018



Domestic Economic Review-GDP

The final reading for Q1 2018 GDP was 2.0% following 2.9% growth in Q4 2017. Full year 2017 GDP growth was 2.3%. Full year 2018 GDP is expected to approach 3% as economic growth benefits from recent tax policy changes, reductions to government regulations, historically low unemployment and strong corporate earnings growth.





Source: Bloomberg, as of 12/31/2017

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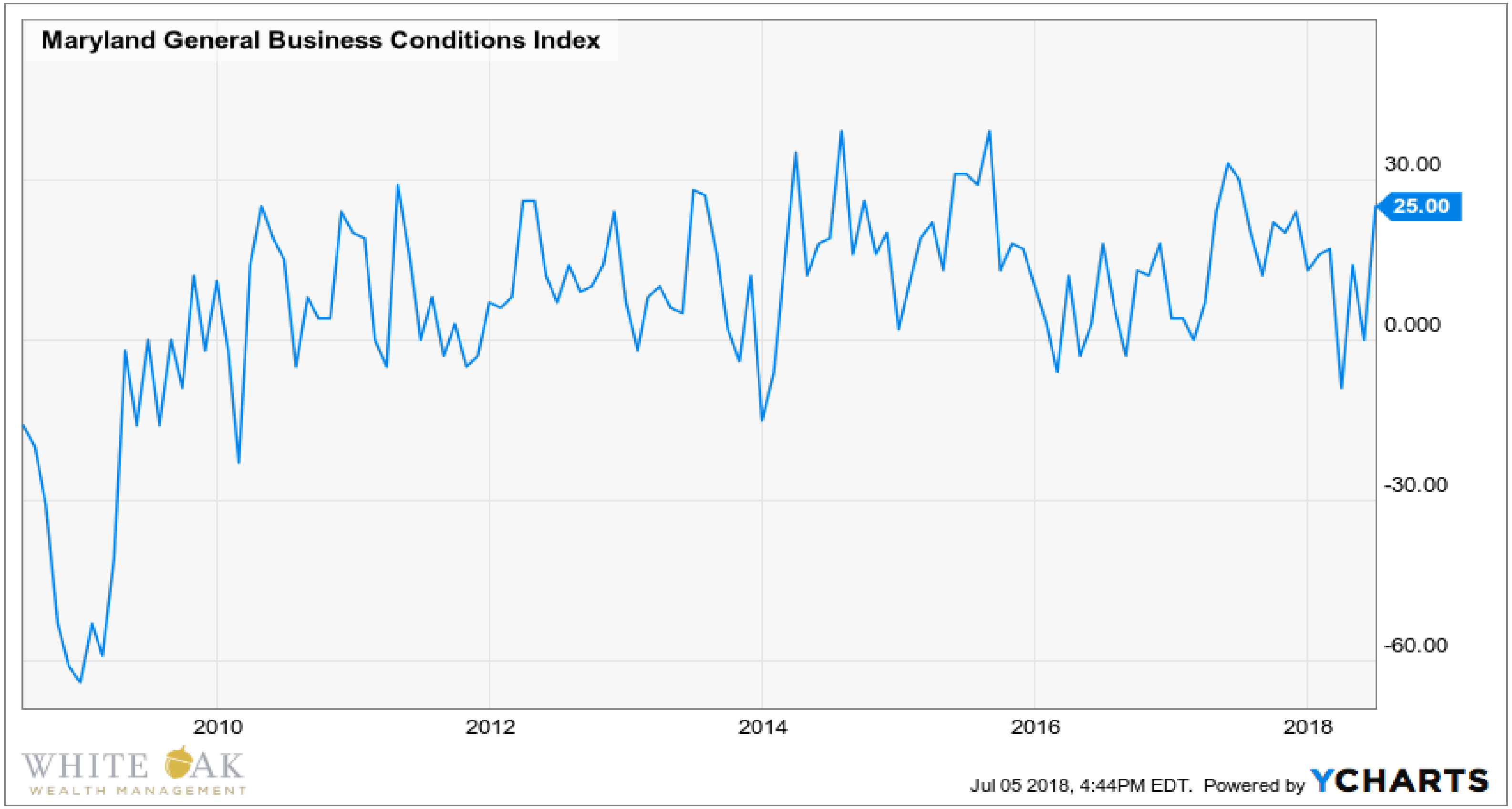
Domestic Economic Review-Maryland Survey of Business Activity

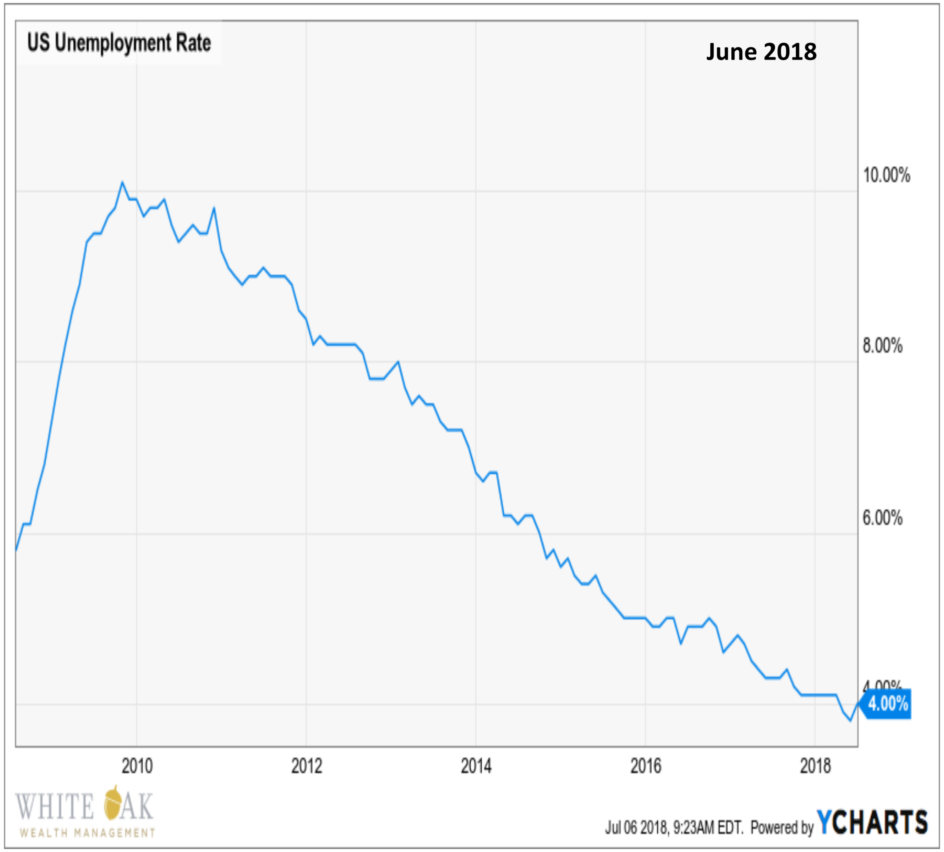
Maryland General Business Conditions Index is at a current level of 25.00, up from 0.00 last month and down from 30.00 one year ago. The Maryland economy experienced robust growth in June as businesses reported improved business conditions and higher sales, as these indexes rose from 0 to 25 and 5 to 33, respectively from May. Firms' spending also rose sharply in June and is expected to continue to grow in the coming months. While employment remains strong, employers continue to struggle filling skilled jobs despite higher wages.

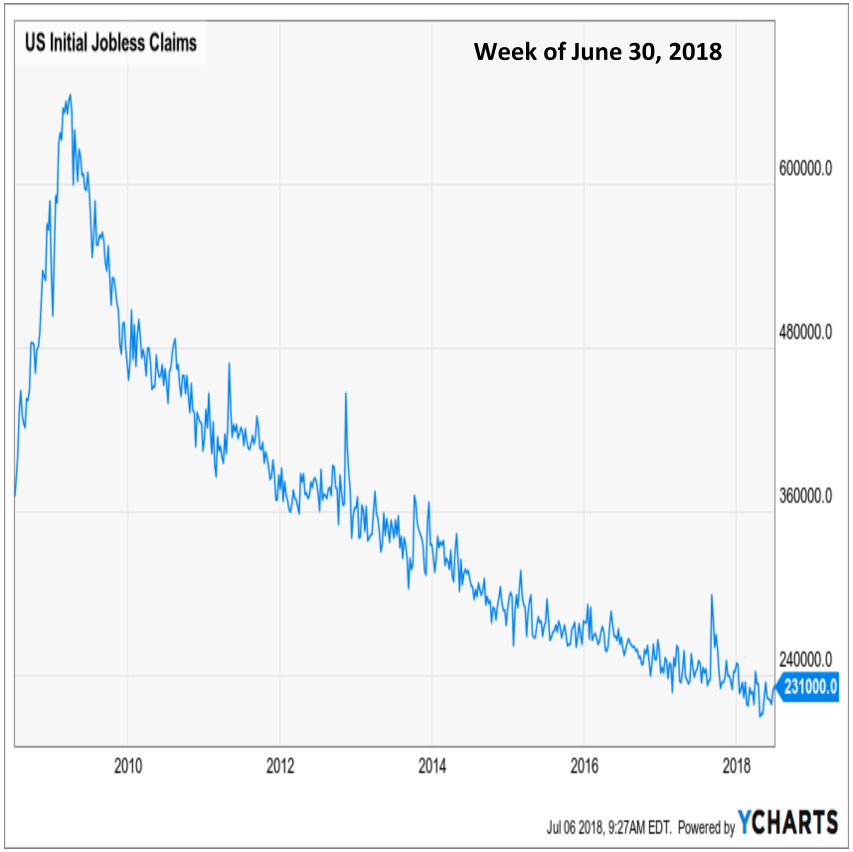


Federal Reserve Bank of Richmond

Employment & Consumer Confidence

Nonfarm payrolls rose by 213,000 in June, a stronger reading than the 190,000 consensus estimate. The BLS revised April's payroll number to 175,000 from 159,000 and May's from 223,000 to 244,000, a total of 37,000 more than initially stated. The unemployment rate rose 0.2% to 4% due to a rise in the labor force participation rate which increased 0.2% to 62.9; 601,000 people re-entered the labor force in June. Monthly and annual average hourly earnings rose 0.2% and 2.7% respectively missing estimates by 0.1%.





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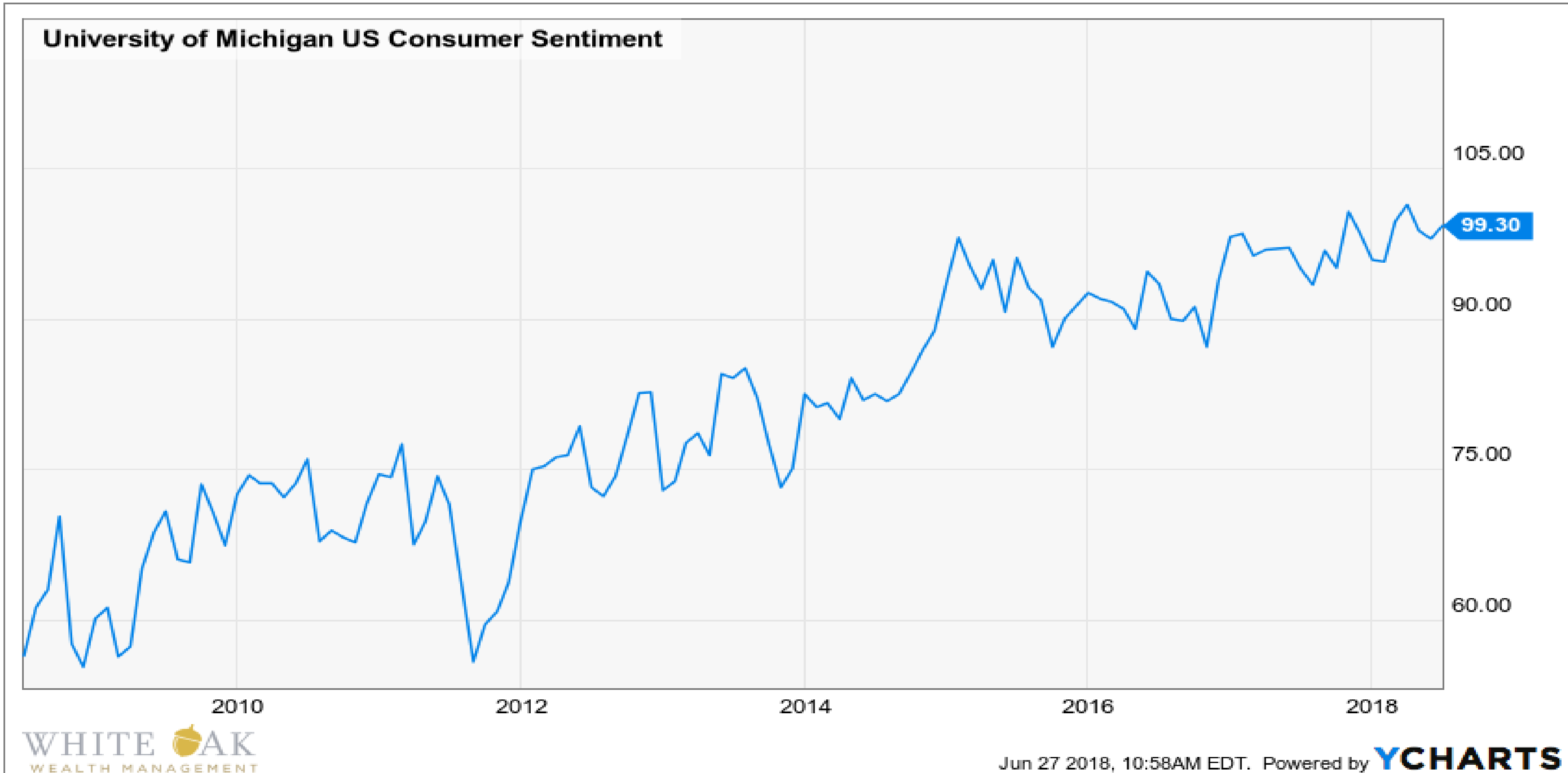
Employment & Consumer Confidence

The June 2018 University of Michigan US Consumer Sentiment survey came in at 99.30, an increase of 1.30 or 1.33% from May. This is an increase of 4.30 points or 4.53% from last year and is higher than the long term average of 86.35. Consumers continue to feel the positive effects of the recent tax reform legislation as well as a historically strong labor market. This bodes well for sustained economic growth in the US.

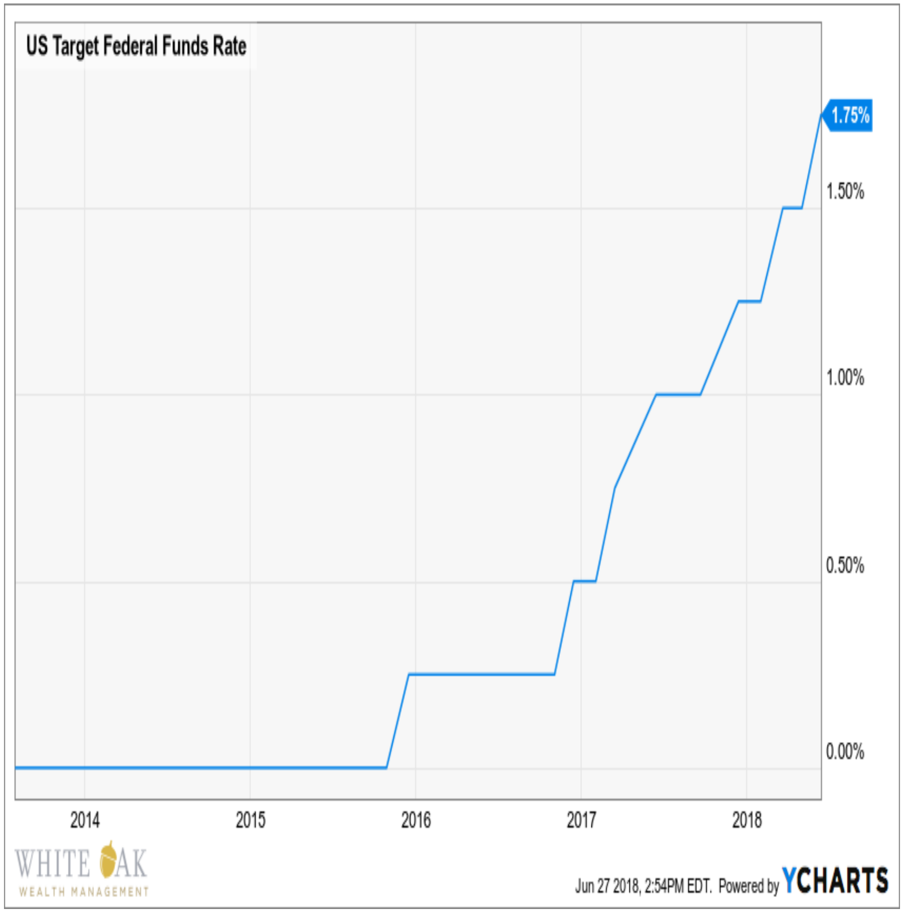


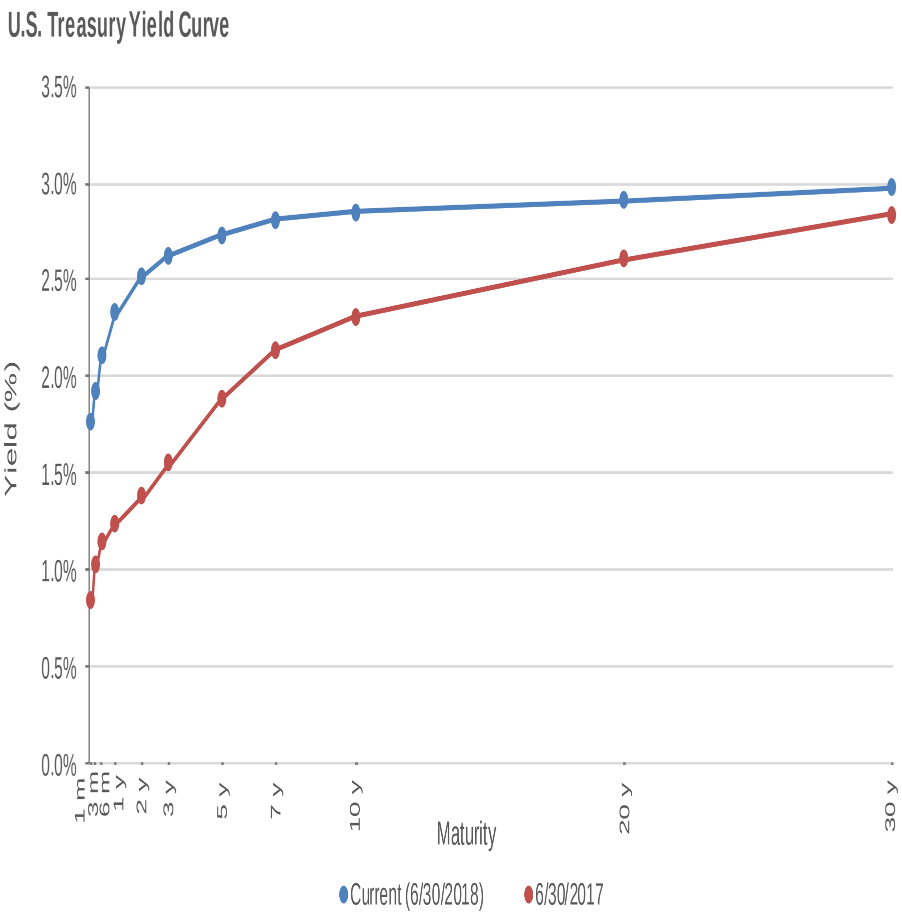
Inflation & Interest Rates

Both PCE and Core PCE price index rose 0.2% for the month of May, matching expectations. However, the core PCE price index hit 2.0 percent on a year over year basis and hits the Federal Reserve price target -- inflation is now where the Fed wants it and means less need to stimulate the economy. Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic spending, and thus it is the primary engine that drives future economic growth.

Inflation & Interest Rates

The chart on the left shows the increase in the Federal Funds Rate to 1.75%, compared to 0.75% this time last year. The chart on the right shows expectations for further rate increases. Longer-term rates remain stagnant due in part to global demand for US debt. If long term rates do rise, shorter maturities will help mitigate duration risk.





Source: Federal Reserve, as of 6/30/2018

Corporate Earnings

Q1 earnings growth was stellar: 9.5% sales growth and 25% earnings growth. Late cycle, it is unlikely to expect stronger earnings growth than this, but 'peak earnings growth' should not be confused with 'peak earnings.' Fundamental momentum is attractive, and earnings growth next year is expected to be ~10% which would be better than the previous 5 years.

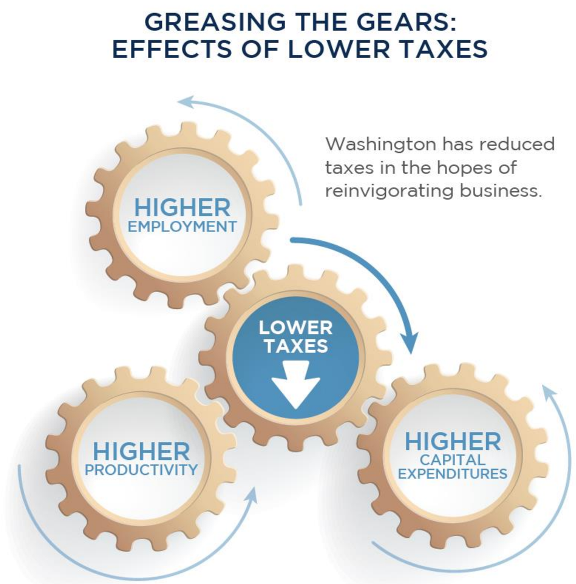
KEY TAKEAWAYS:

- The pace of earnings growth should slow down in future quarters, but we believe the market understands this and does not expect 20% earnings growth to continue indefinitely.

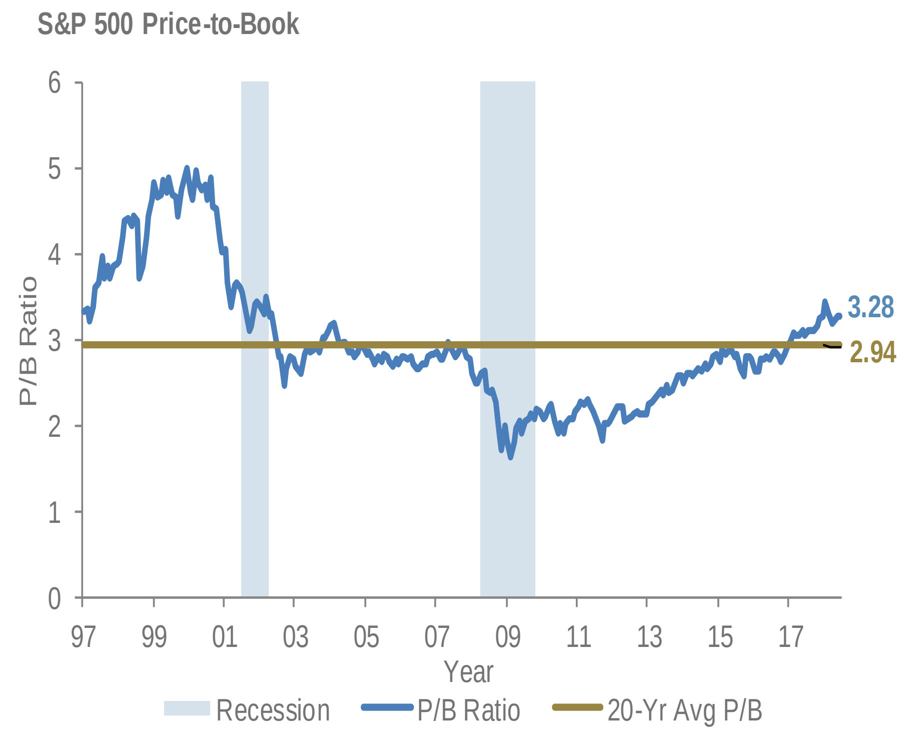
- It is unlikely that the U.S. will continue to add workers at the same pace of the past few years, which means companies will have to focus instead on productivity growth to keep the wheels turning.

- Investors are still gathering evidence of what companies are doing with their excess cash, but preliminary signs show some pickup in both business investment and wages.

- Investing in the future and improving productivity will increase the chances of continued economic expansion while helping the stock market combat rising input costs and higher expectations of today's investors.



2018 is expected to exhibit very strong earnings growth and provide support for equity markets going forward. Analyst's forecast a 13% increase for the S&P 500 over the next 12 months. The pace and quality of corporate earnings growth has been steadily improving since early 2013 when markets reached their pre-2008 crisis highs. Higher quality earnings and sales growth should support higher equity valuations for the foreseeable future.



Source: Bloomberg, as of 6/30/2018

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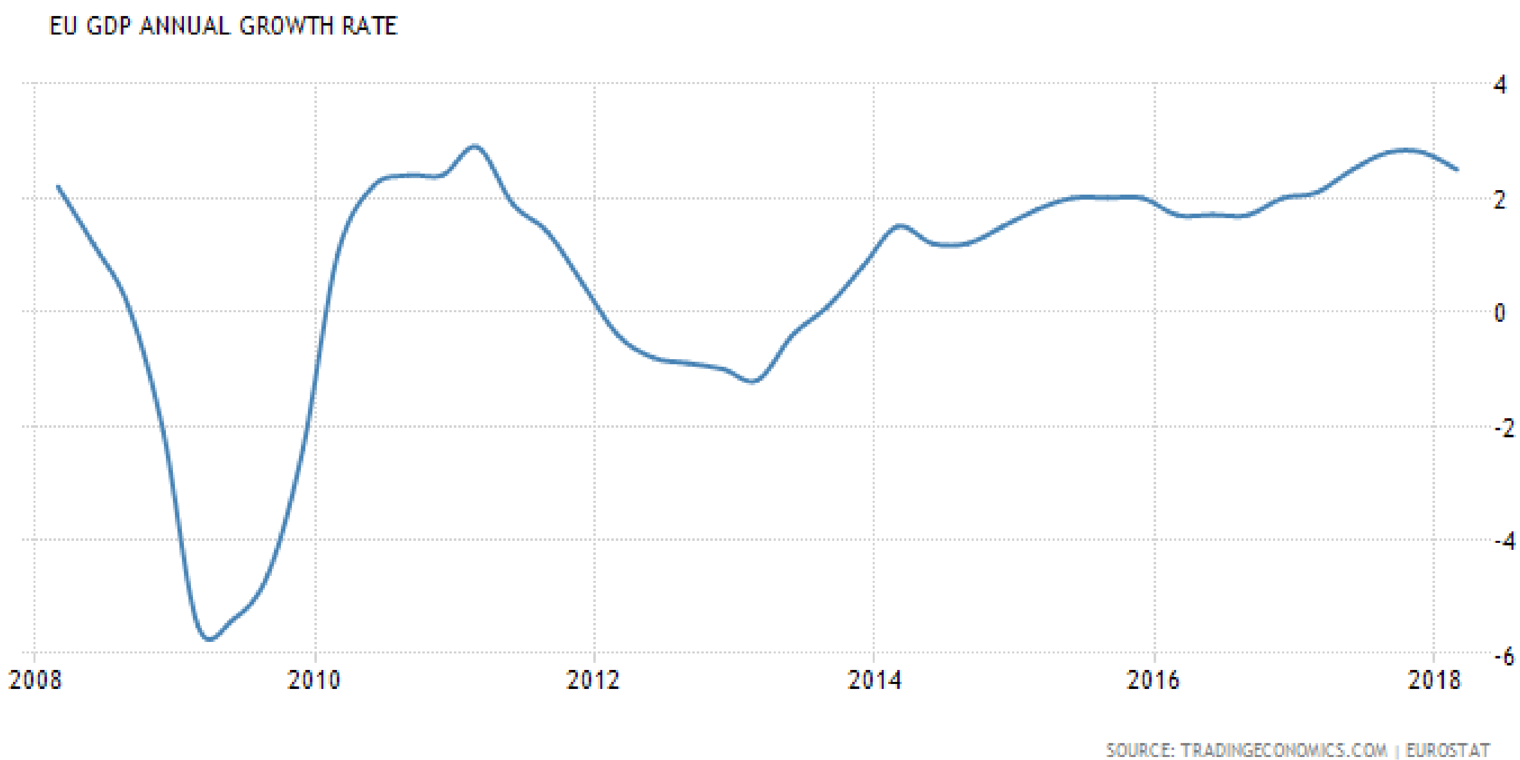
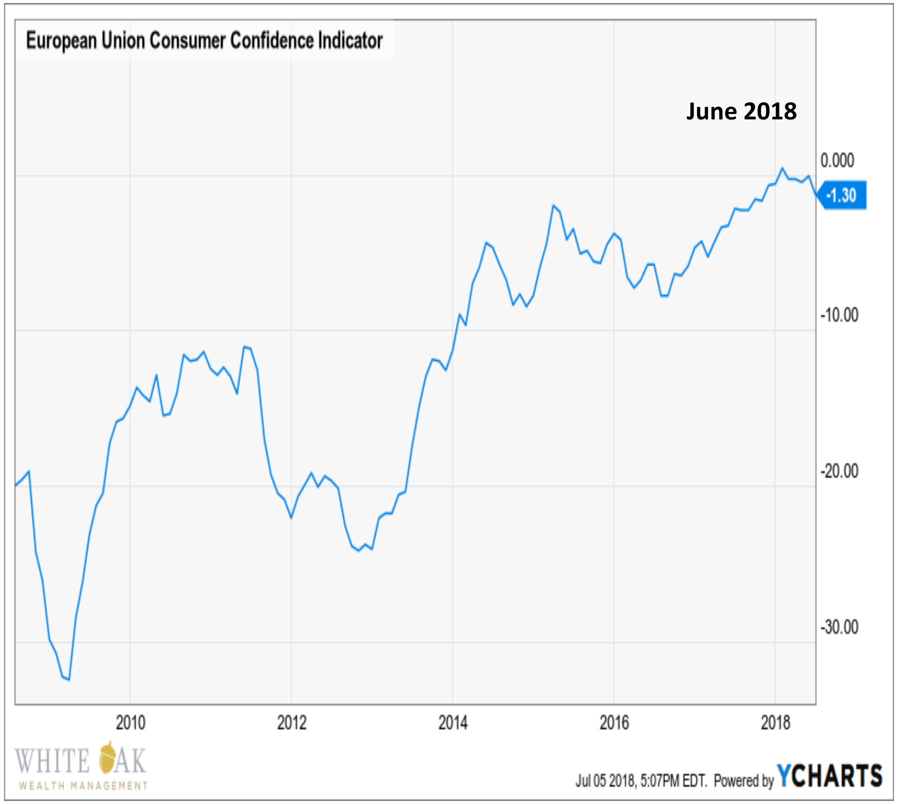
International Overview-Eurozone Data

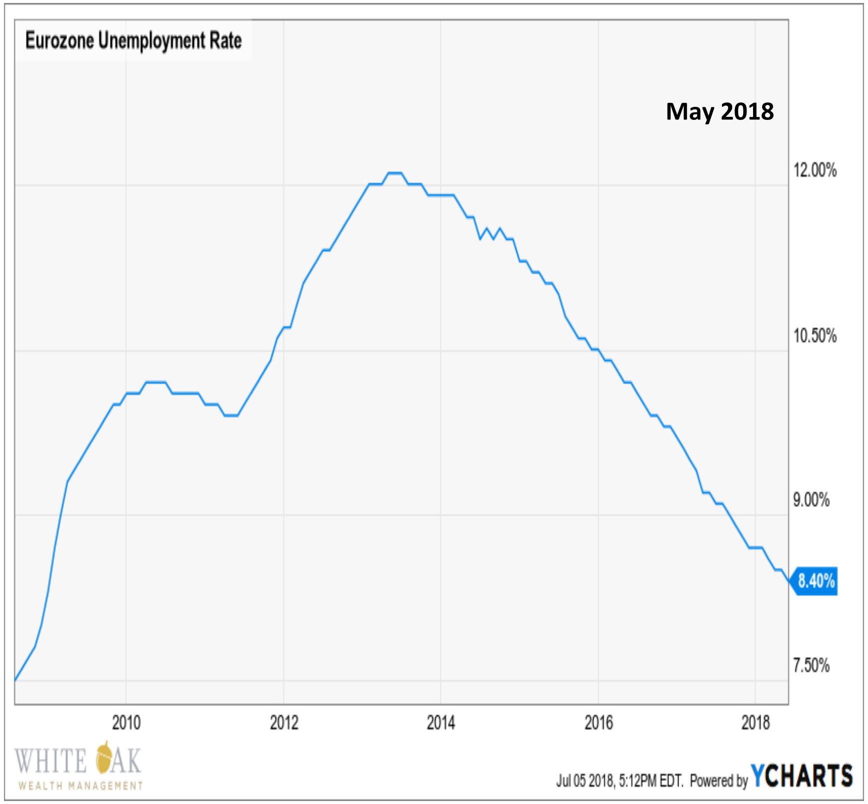
The EU economy expanded 2.5% year-on-year in Q1 2018, below the 2.8% growth seen in Q4 2017. Annual EU GDP growth has averaged 1.70% from 1995 through Q12018. Developed non-US markets should benefit from favorable market fundamentals including accommodative central bank policies, improving labor markets and economic growth. However recent geopolitical events, potential trade disruptions and shifting political views have created increased uncertainty in the short run. On balance, these markets are poised to benefit on a longer-term basis and should remain a part of a well diversified portfolio.



International Overview-Eurozone Data

June provided further mixed data about the health of the EU economy. The IHS Markit Eurozone Composite PMI registered 54.9 in June 2018, up from 54.1 in May. The Eurozone Services business activity Index was 55.2, up from 53.8 in May. However, recent reports have shown increased signs of slowing conditions compared to earlier in the year. This has been due to concerns about trade, political uncertainty and the impact of ongoing capacity constraints on the pace of economic expansion. Business optimism dipped to a 19-month low in June. Job growth and employment continue to improve across the EU.





China's GDP is expected to grow 6.6% in 2018 and 6.4% in 2019. This exceeds the average GDP growth rate for all world economies as well as the average growth rate for advanced economies. However, it is expected that over the next several years, China's rate of GDP growth will grow at a rate more in-line with the global average. The Chinese economy is evolving from a manufacturing/exports based economy to a services/consumption based economy.

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