The U.S. Economy

European/Calif. wildfires

North/South Korean negotiations

The White House
(Tillerson, Sessions, Mattis)

THE FED

2018, A Year Of *Unanticipated* Drama

Kavanaugh/The Supreme Court

Trade "War"

Global Growth

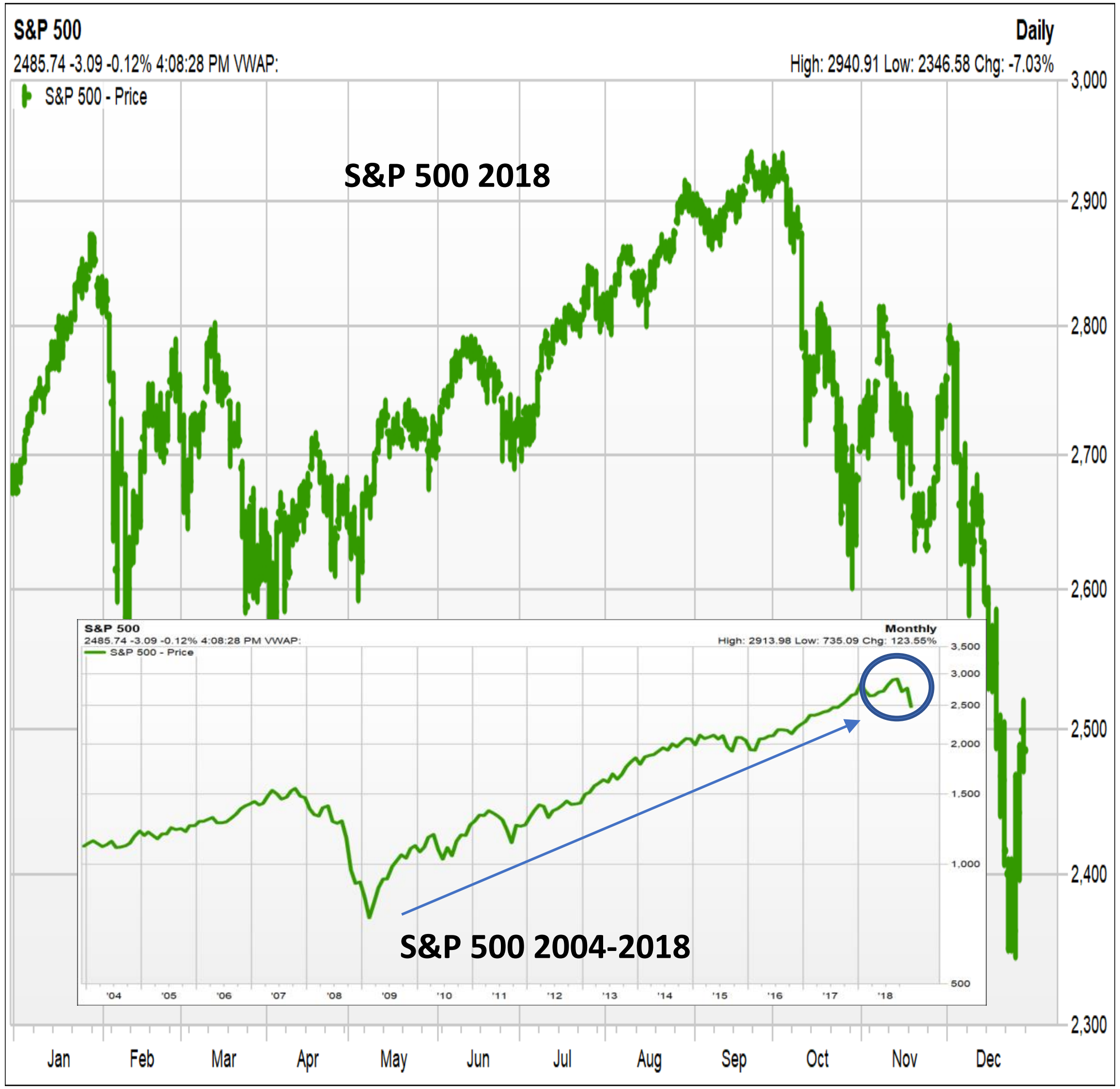
Brexit negotiations

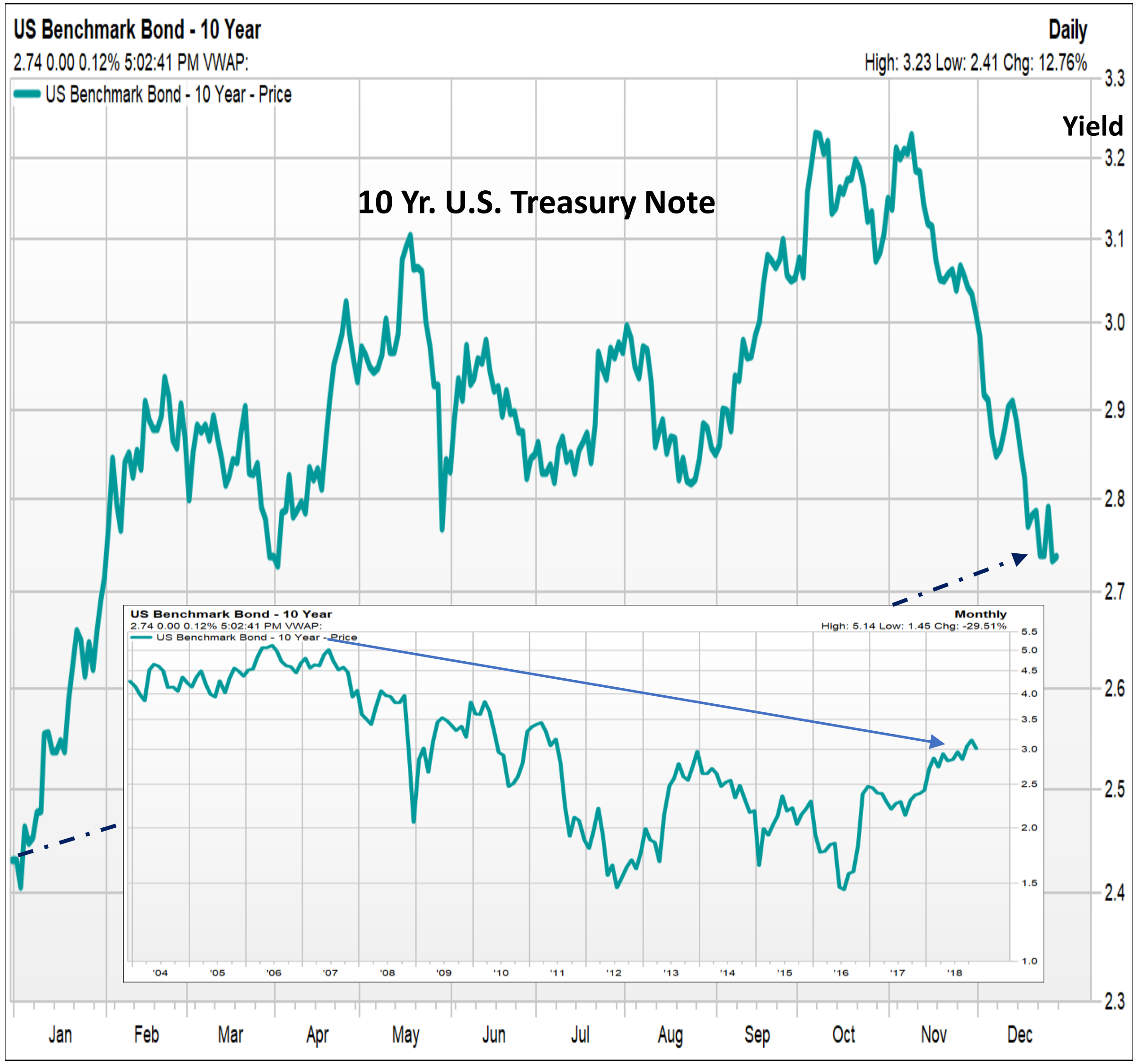
"Fake news"/Facebook

the "lost boys of Thailand"

2018 – A CHALLENGING YEAR FOR STOCKS & BONDS

But Perspective Is Important – The 1st. Negative Year In A Decade





Source: FactSet Research Systems Inc.

2019 CAUTIOUS OPTIMISM

The Positives

- ✓ U.S. GDP growth moderates, but remains positive.
- ✓ Affirmative U.S. Leading Economic Indicators persist.
- ✓ Corporate profits again reach record levels.
- ✓ Unemployment rate remains historically low.
- ✓ Low crude oil/gasoline prices continue to benefit U.S. consumers (70%+ of U.S. GDP).
- ✓ Inflation is muted and likely to decline further.
- ✓ Consumer Sentiment survey declines, but remains strong.
- ✓ Yield curve ***remains positive***.
- ✓ Equity valuations ***below*** historic levels.

The Concerns

- ➢ Foreign economies slowing.
- ➢ Tariff "wars" remain unsettled.
- ➢ U.S. government shutdown & White House turnover create anxiety.
- ➢ Domestic housing market activity weak due to tax policy and higher interest rates.
- ➢ Auto sales have "stalled".
- ➢ Currently no positive resolve to Brexit.
- ➢ Heightened equity market volatility.

In the environment described above, and as a result of the volatility experienced before and since the beginning of the 4th. calendar quarter of 2018, we modestly reduced equity exposure in late summer and then selectively added to equity positions in late December. High quality and diversification remain paramount considerations.

With respect to fixed-income (bonds) we continue to limit purchases to short-to-intermediate maturities.

STOCK MARKET CORRECTIONS WITHOUT RECESSIOINS

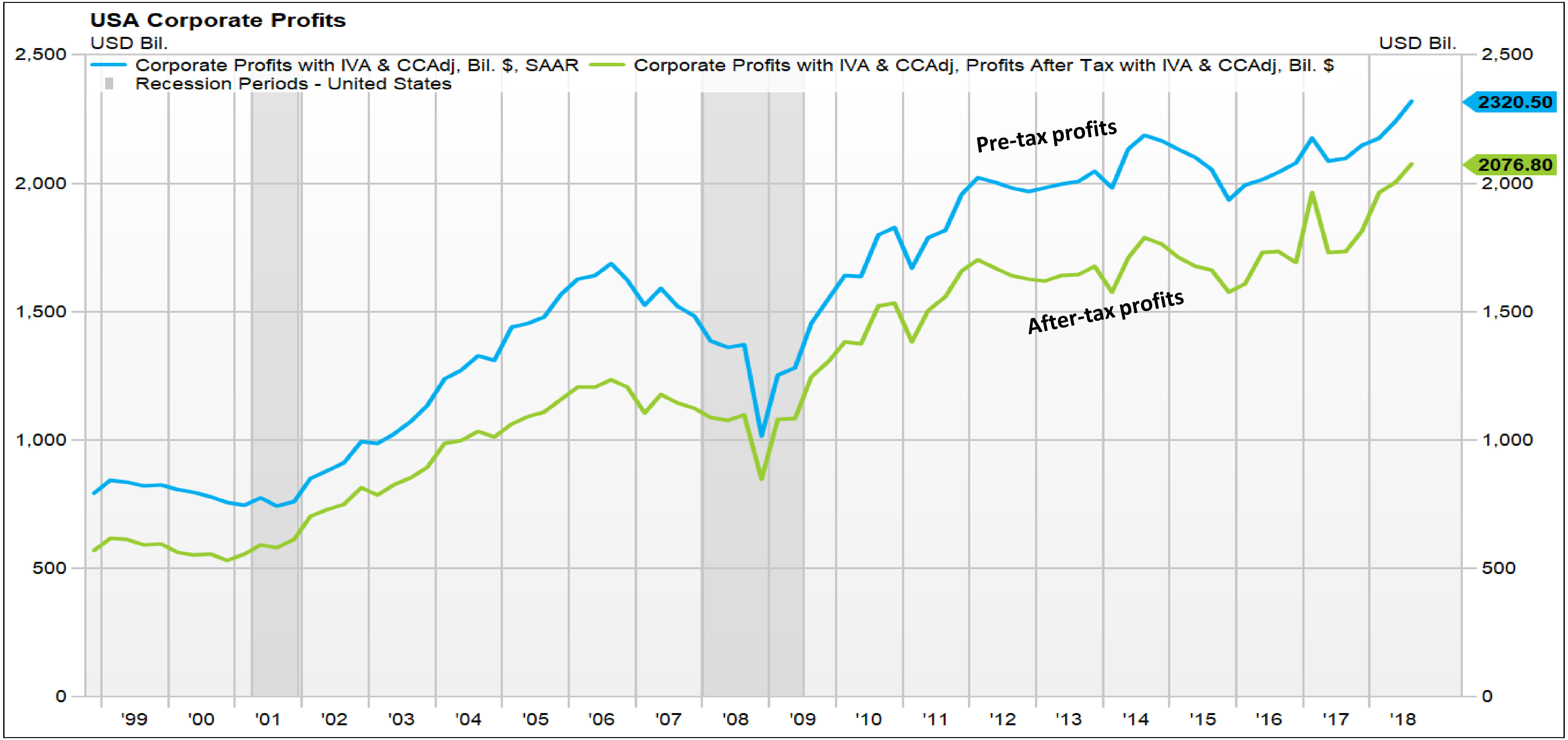
Since 1984 there have been six equity market corrections (avg. -19%) without a recession.
Each correction ended with the Fed easing or pausing.

Source: Evercore ISI, LLC

STOCK MARKET VALUATIONS ARE BELOW THE HISTORIC AVERAGE

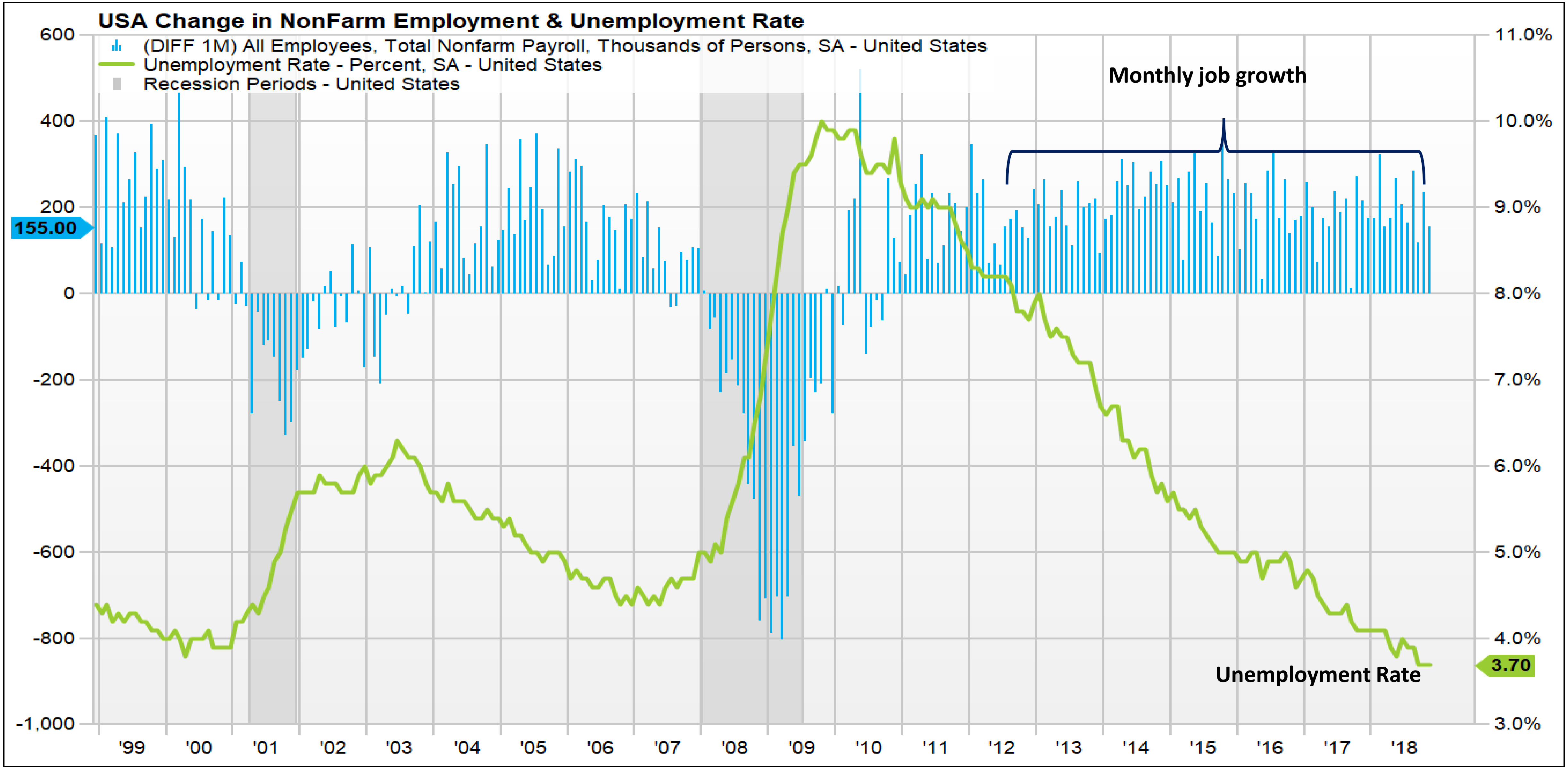
Source: Strategas Securities, LLC

CORPORATE PROFITS CONTINUE TO REFLECT "HEALTH" OF U.S. ECONOMY



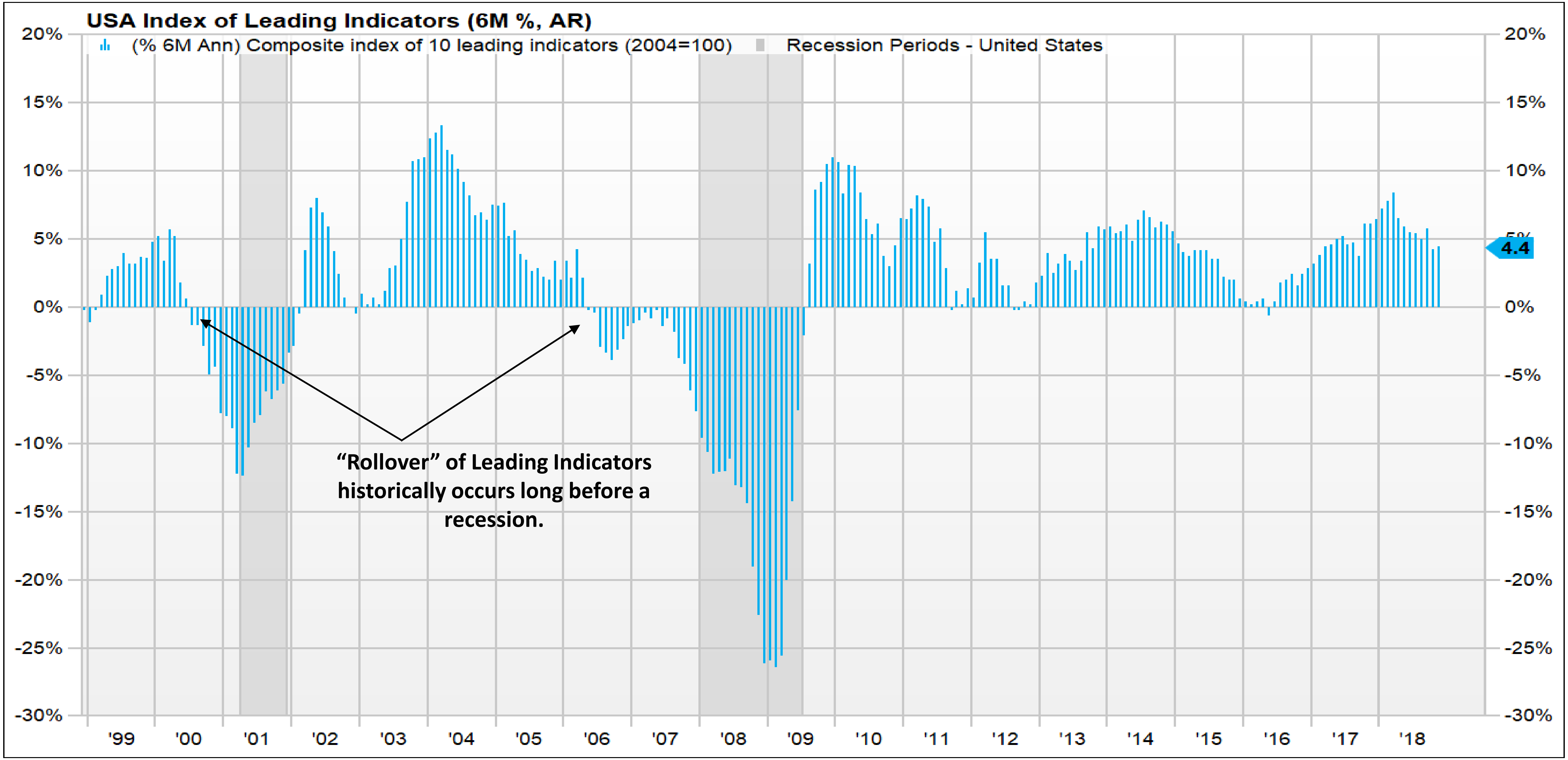
Source: FactSet Research Systems, Inc.

JOB GROWTH & LOW UNEMPLOYMENT SUGGEST A HEALTHY U.S. ECONOMY



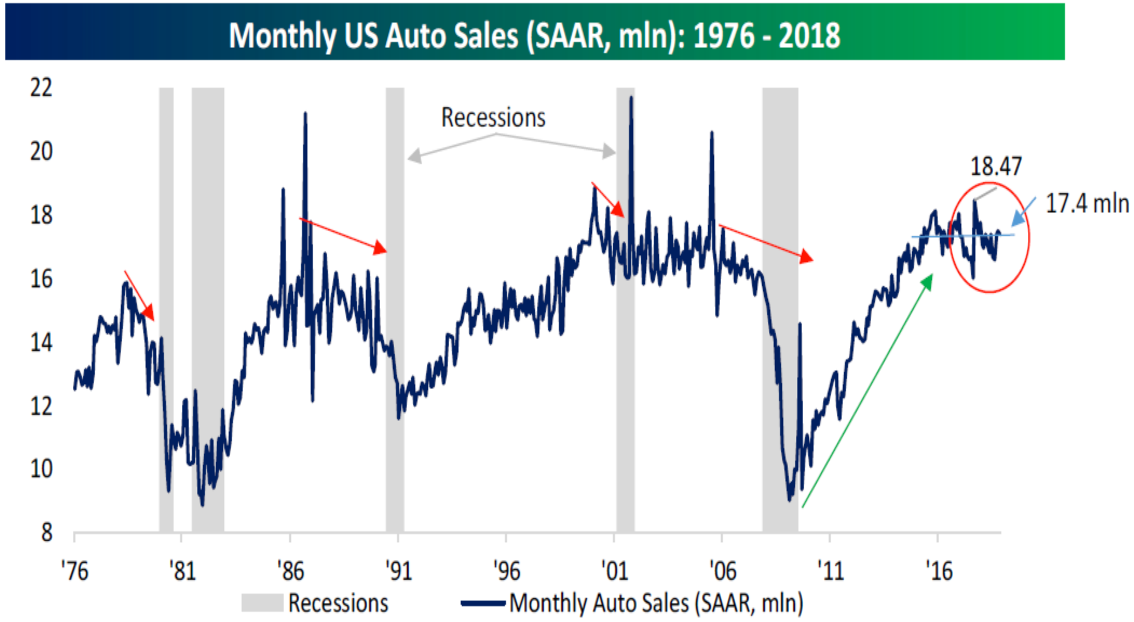
Source: FactSet Research Systems, Inc.

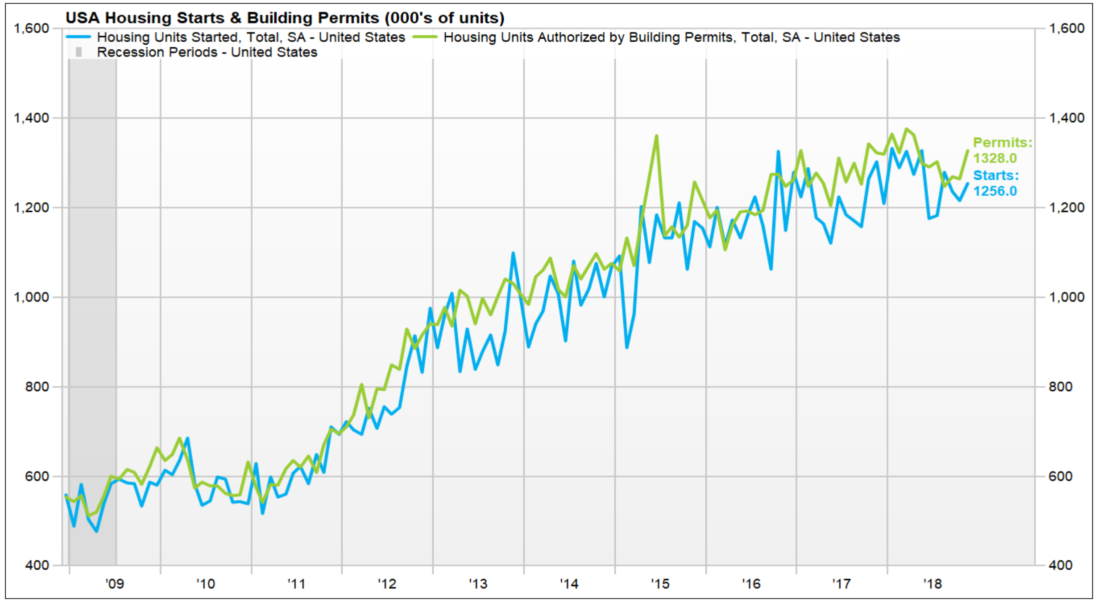
INDEX OF LEADING INDICATORS POSITIVE – No Sign Of Impending Recession

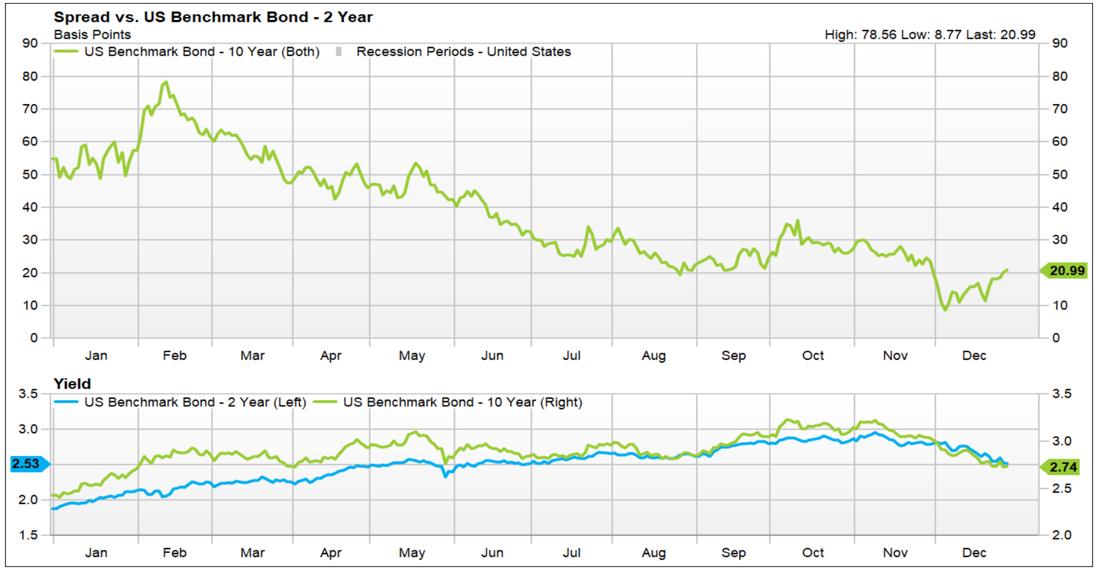


FactSet Research Systems, Inc.

INDICATORS THAT HELP TO CONFIRM INCREASING/DECREASING OPTIMISM







Sources: Bespoke Investment Group, Evercore ISI, LLC, FactSet Research Systems Inc.

FINANCIAL MARKET STRATEGISTS & ECONOMISTS' 2019 OUTLOOKS

SUMMARY OF ECONOMIC / FINANCIAL MARKET OUTLOOKS - 2019

	Federated Investors	Goldman Sachs	JP Morgan Chase	Citigroup Inc.	Nuveen	Prudential Invest. Mgt.	T Rowe Price	Bank Of America	Morgan Stanley	Yardini Research	Actual As Of 12/21/18
S&P Target	3100	3000	3100	3100	2840	3000	2850	2900	2750	3100	2606
S&P 500 EPS	$ 170.00	$ 173.00	$ 178.00	$ 173.00	$ 172.00	$ 166.00	$ 170.00	$ 170.00	$ 171.00	$ 170.00	$ 162.00
GDP Growth	2.50%	2.50%	2.40%	2.80%	2.40%	2.50%	2.40%	2.70%	1.70%	3.00%	
10Yr. Tres.	3.00%	3.50%	3.60%	2.90%	3.30%	3.20%	2.80%	3.30%	2.80%	3.00%	2.80%
+ Sectors*	T, E,I	T,CS,U	T,I,CD,E	F,HC,E	HC,M,CS	I,T,HC	U,T	HC,F,T,I,U	CS,E,F,U	CD,HC,ComS	
-Sectors*	F,CD	CD,M,I,RE	CS,RE,U,HC	U,T,CD,ComS	CD,RE	F,U,CS	CS	RE,CD,ComS	CD,T	E,M	
Tr. P/E											
Fwd. P/E	**18.2X**	**17.3X**	**14.4X**	**17.9X**	**16.5X**	**18.0X**	**16.7X**	**17.0X**	**16.0X**	**18.2X**	**16.0X**
Mkt. RTN (?)	**19.0%**	**15.1%**	**19.0%**	**19.0%**	**9.0%**	**15.1%**	**9.4%**	**11.3%**	**5.5%**	**19.0%**	

A ***Worst case*** scenario: S&P 500 EPS of $ 166, Yield on 10 Yr. increases to 3.0%; GDP grows +1.7%

At 16.5X (avg. P/E) S&P 500 will be 2739 or + 5.1%

Maintain equity allocations; stay short to intermediate in maturity; emphasize Financial, Technology, & Health Care companies

B ***Best case*** scenario: S&P 500 EPS of $ 178, Yield on 10 Yr. remains constant @ 2.80%, GDP grows 3.0%

At 16.5X (avg. P/E) S&P should be 2937 or + 12.7%

Maintain equity allocations; extend maturities modestly; emphasize Financial, Tech, Health Care, Industrial, and Consumer Discretion companies.

Worst case scenario based upon factors displayed in **RED** above.
Best case scenario based upon factors displayed in **GREEN** above

* Sector Abbreviations: T (Technology), E (Energy), I (Industrials), CS (Consumer Staples), U (Utilities), Com.S. (Communication Ser.) CS (Consumer Staples), CD (Consumer Discretionary), F (Financials), HC (Health Care),

Source: Barron's 12/14/18

2019 - OUR VIEW

Based upon a good deal of input from sources and research “partners” we respect, and also as a result of our own experience and analysis, our 2019 outlook can be briefly described as follows:

- Moderate U.S. GDP growth (+2.25% - 2.75%) and ***no*** 2019 U.S. recession.
- A modest increase in interest rates (not necessarily Fed initiated) in intermediate and longer maturity fixed-income issues – from current levels.
- Quite low inflation e.g. < 2.25% - 2.50%.
- Record S&P 500 earnings, though slowing from previous above average growth rates.
- A moderating of tariff hyperbole; and at least a partial agreement on trade with China and others.
- A modest slowing of global growth.
- Continued political bickering in DC.
- A good deal of Brexit uncertainty.

- From current equity market levels and based upon our expectation of positive earnings growth, a return to more normal P/E levels from those presently calculated and, less volatility in both the stock and bond markets, we anticipate 2019 portfolio returns will be positive within a range of +2.25% - +2.75% from fixed-income (bonds) and +6.00% to +8.50% from stocks.