Investment Update

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2018 Second Quarter Update

Review: Global stock market performance diverged in the second quarter with underlying economic growth and U.S. Dollar exposure the key drivers. Fixed income markets came under pressure from rising rates and flattening yield curves. The Federal Reserve raised the target Federal Funds Rate at their June meeting to 1.75%-2.00%.

Period	2Q18	1Q18	2017
S&P 500	3.4%	-0.8%	21.8%
MSCI EAFE* **	-1.0%	-1.4%	25.6%
MSCI Emerging Markets**	-7.9%	1.5%	37.8%
Barclays U.S. Aggregate Bond	-0.2%	-1.5%	3.5%
Barclays Muncipal Bond	0.9%	-1.1%	5.5%

*Europe, Australia, Far East
**MSCI returns are in U.S. Dollars

Economy: U.S. job growth remains healthy. After growing 2.0% in the first quarter, domestic economic growth is expected to accelerate to 3.8% in the second quarter due to better than expected consumer spending and higher corporate fixed investment, according to the Atlanta Fed's GDPNow model. In contrast, the European Commission is forecasting only 2.2% growth over the near term and the Japan Center for Economic Research an even lower 1.7% growth. According to the World Bank, Emerging Markets growth will remain healthy at 4.5%, due primarily to China being able to maintain growth above 6%.

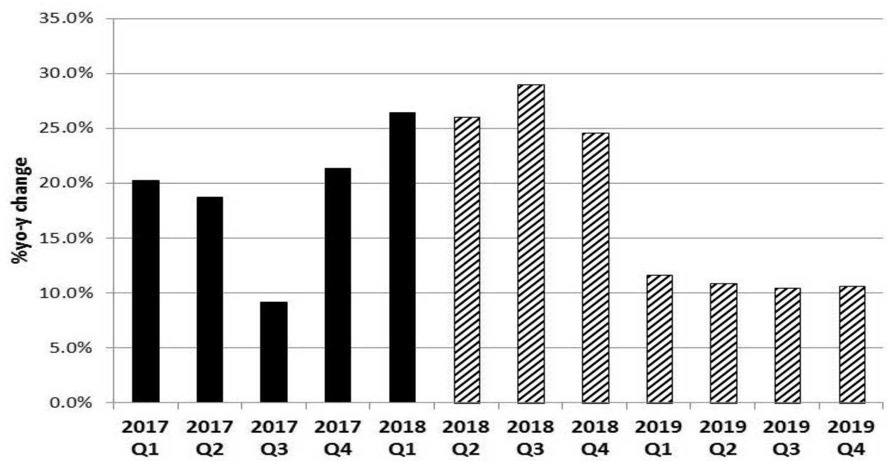
Inflation: Despite rising oil prices, globally, core inflation remains well contained. In the U.S., the Personal Consumption Expenditure Deflator is rising at an annualized rate of 2.3%. Excluding the more volatile food and energy prices, it is rising 2.0%. In Europe and Japan, inflation is running lower with core inflation of 1.0% and 0.7% respectively.

Interest rates: The Federal Reserve raised its Fed Funds rate at its June meeting with two more expected this year. In response, the U.S. Treasury yield curve continued to flatten, with shorter rates rising faster than longer ones. Short term debt instruments now offer yields matching, or exceeding, the dividend rate of the S&P 500. This has continued to pressure bond surrogate equity sectors like Consumer Staples and Telecom.

U.S. Dollar: The combination of accelerating growth, rising U.S. rates and the Federal Reserve balance sheet run off, drove a 5.5% appreciation in the U.S. dollar in the quarter, pressuring the currencies of more highly leveraged countries. Argentina was forced to reach out to the IMF for a line of credit to help stem the loss of capital. This in turn triggered large investor redemptions, producing sharply negative returns for dollar-based investors in Emerging Market stocks and bonds.

S&P 500 earnings growth, including analysts' preliminary estimates for 2019, appears to be near a peak, with 2018 benefitting from lower tax rates:

S&P 500 Quarterly Earnings Growth %y-o-y, 2017-19E



Strategy: U.S. economic growth is projected to crest this quarter and then taper in the second half back, to the average annual rate of 2.2% experienced to date for this economic expansion. A growing concern is that the short term effects of consumer tax cuts and corporate spending incentives, like accelerated depreciation, will lose their marginal impact in 2019. Escalating tariffs also represent an economic risk as they impact business executives' confidence in funding capital expenditures. Domestic discretionary spending may also soften, as wage gains are not keeping pace with the growth in non-discretionary spending, particularly shelter, oil price-sensitive transportation costs and healthcare.

Key variables for U.S. equity valuations remain the sustainability of double digit earnings growth and whether the Federal Reserve will choose to raise rates at their projected pace if growth slows more quickly than forecasted. The S&P 500 can move higher if decelerating economic growth still allows for healthy earnings and the Federal Reserve indicates a willingness to pause if needed.

We continue to find value in shorter maturity, domestic investment grade bonds. Despite the recent pullback, we remain cautious on international markets given poorer relative economic growth prospects and growing trade and political risks.