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First Quarter 2018

Market Update & Outlook

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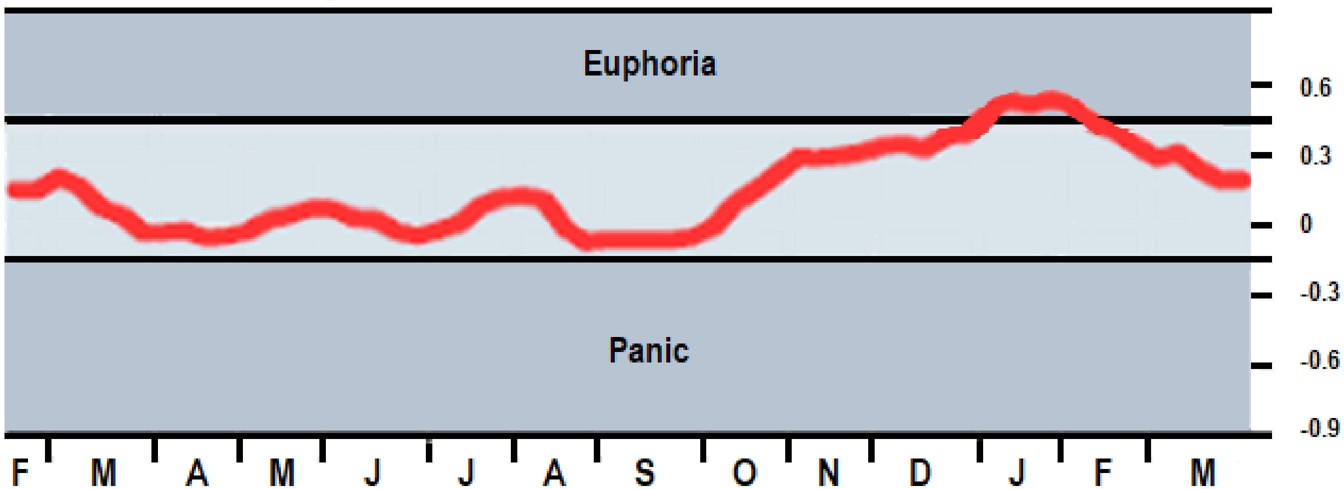
Investor Sentiment Became Euphoric In January

Market Sentiment

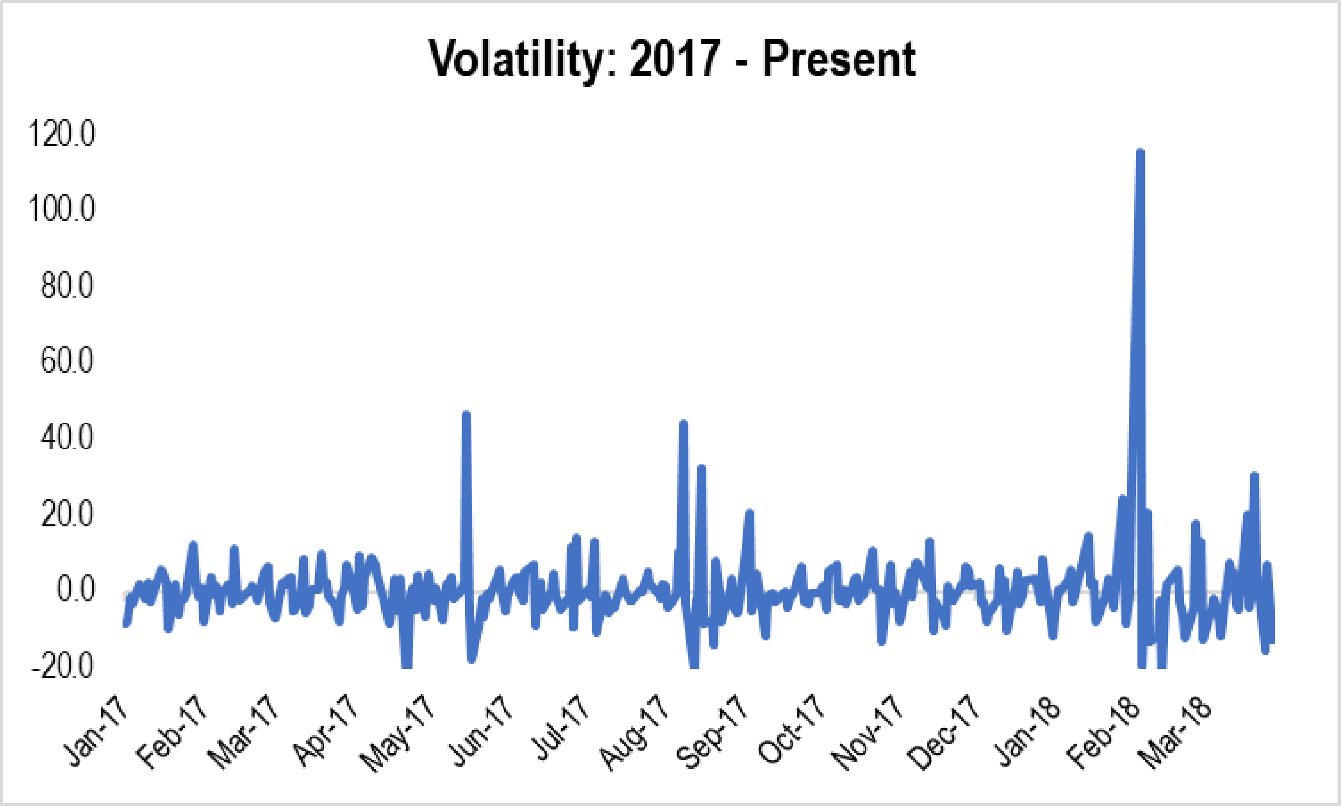
Citigroup Panic/Euphoria Model



The panic/euphoria model is a guage of investor sentiment. It identifies "panic" and "euphoria" levels which are statistically driven buy and sell signals for the broader market. Hisorically, a reading below panic supports a better than 95% likelihood that stock prices will be higher one year later, while euphoria levels generate a better than 70% probability of stock prices being lower one year later.

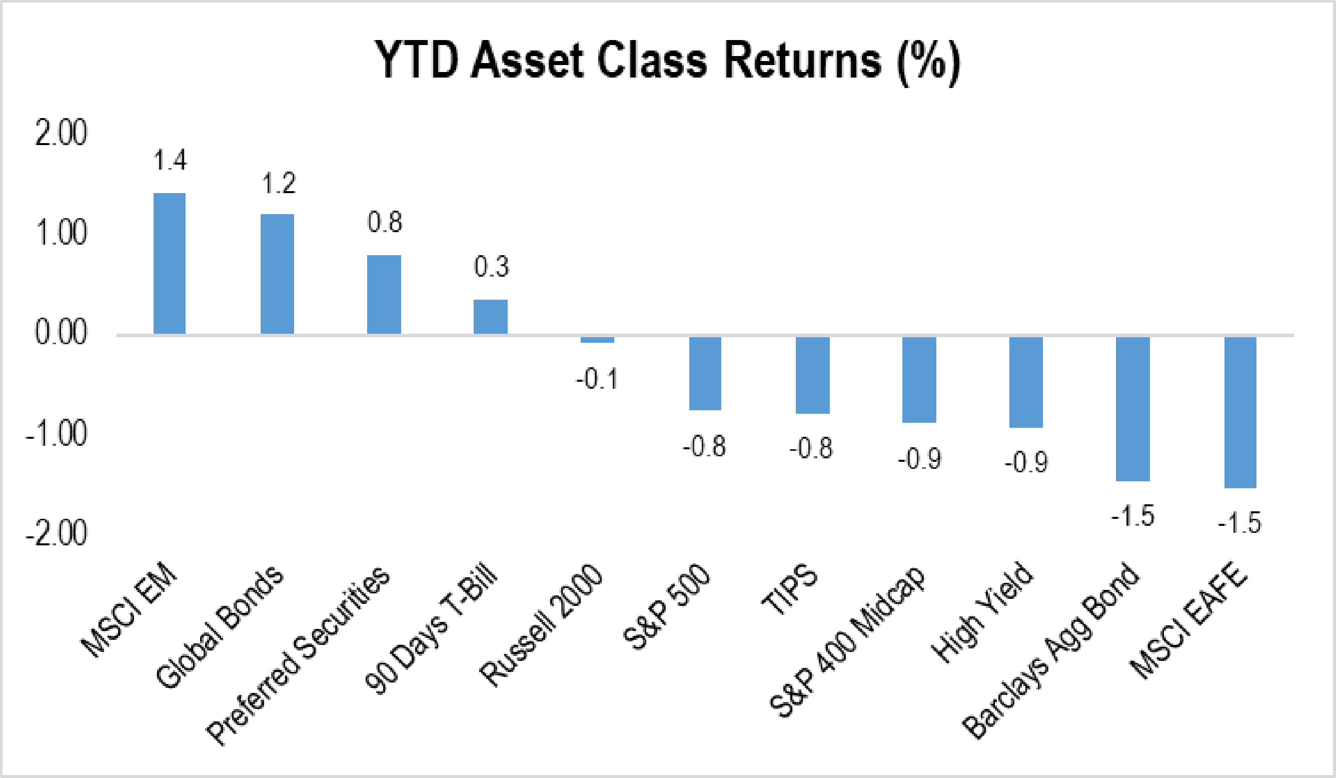
Source: Citigroup

Volatility Surged In The First Quarter



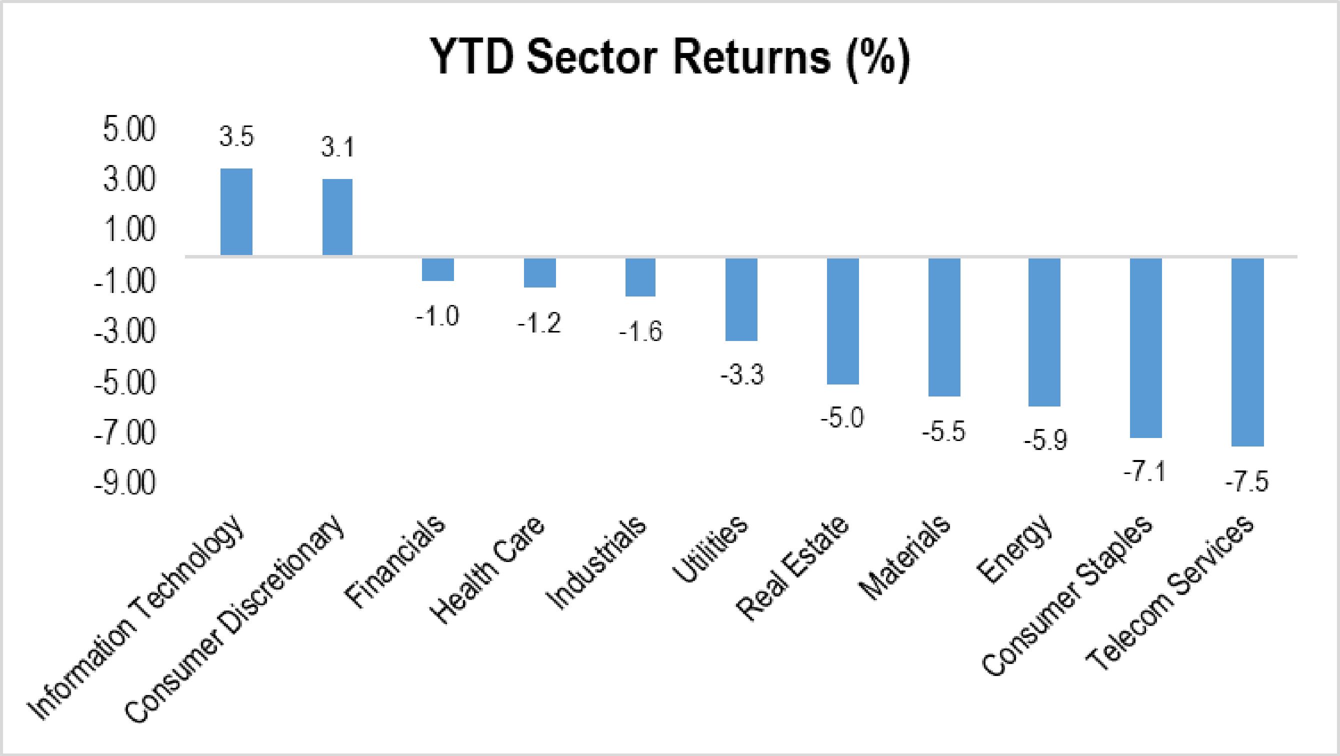
Source: Morningstar Direct

Performance Across Asset Classes Was Generally Breakeven



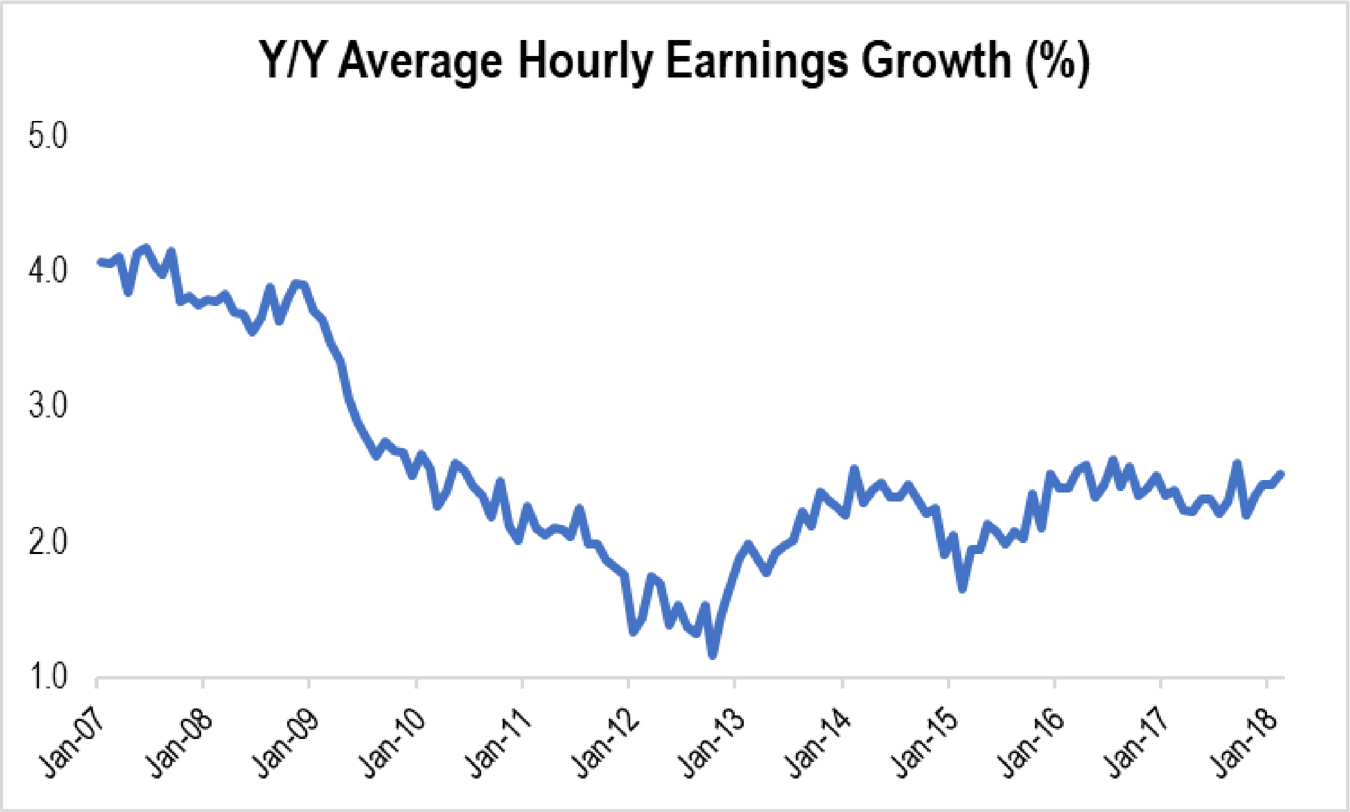
Source: Morningstar Direct

Just Two Of The Eleven Sectors In The S&P 500 Were Positive



Source: Morningstar Direct

Accelerating Wage Growth Sparked Concern About Inflation



Source: Federal Reserve Bank – St. Louis

An Uptick In Labor Force Participation Implies More Slack

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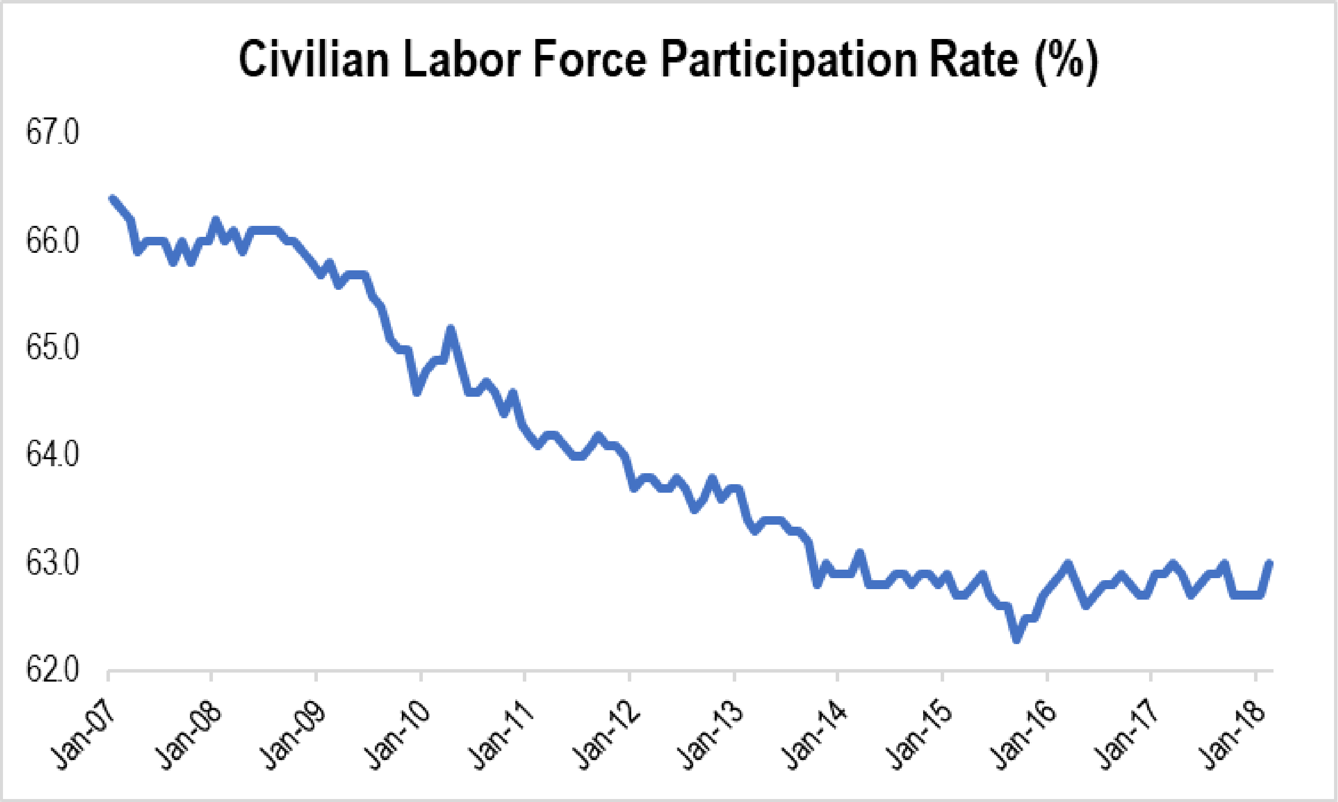

Source: Federal Reserve Bank – St. Louis

Inflation Has Been Rising But Remains Benign

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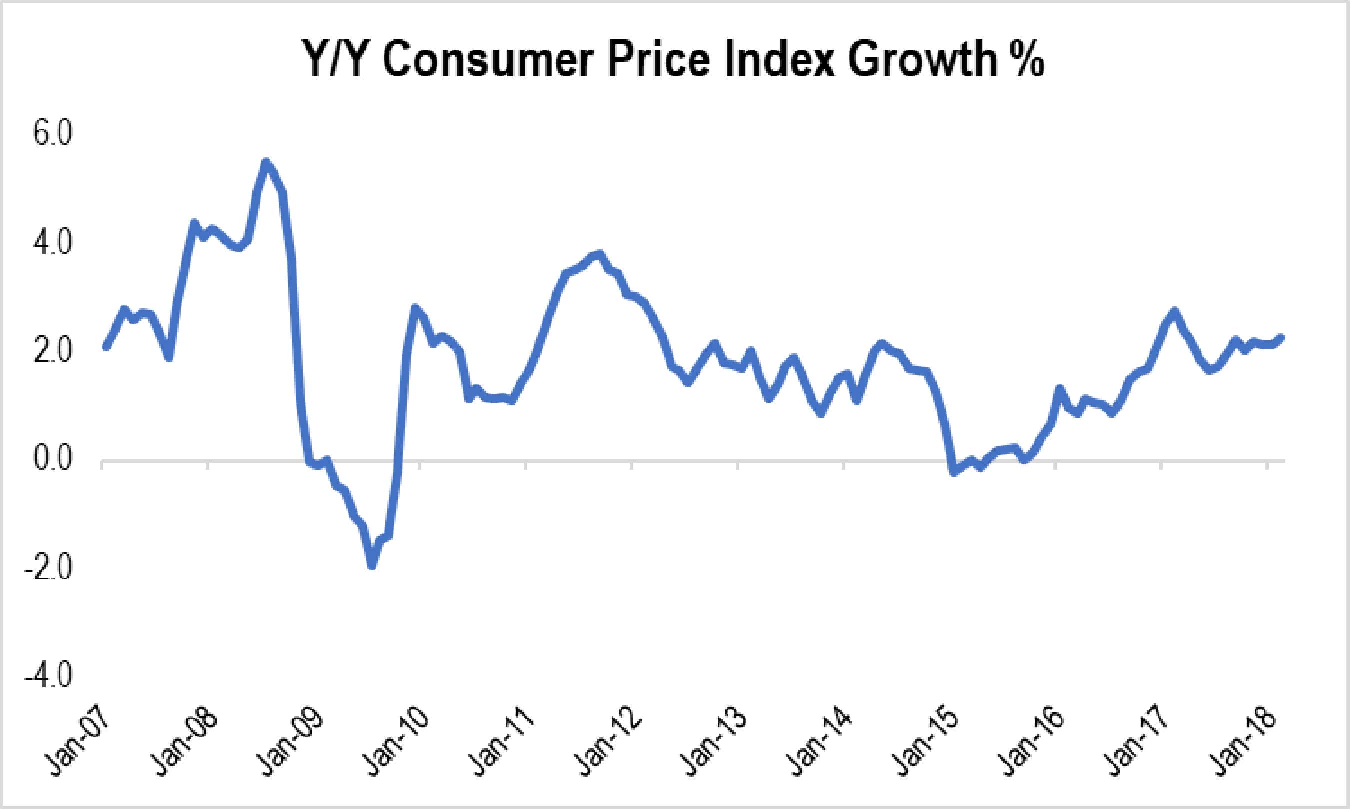
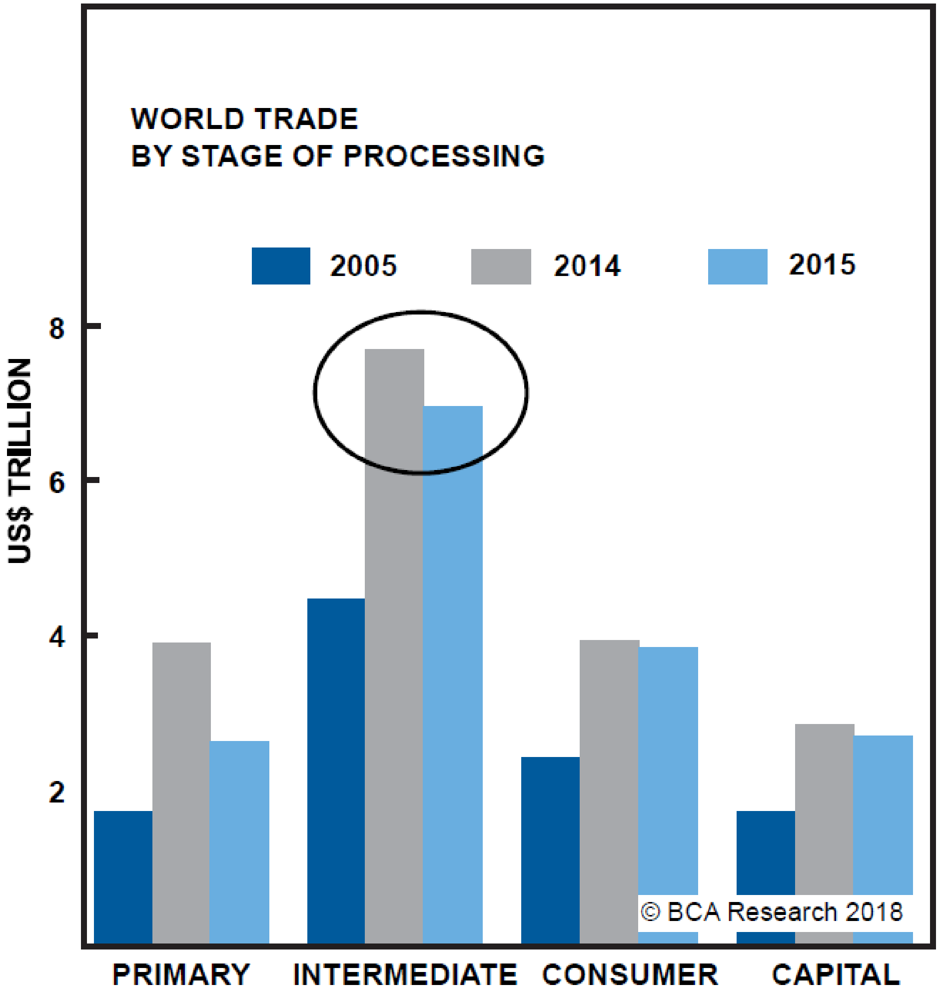
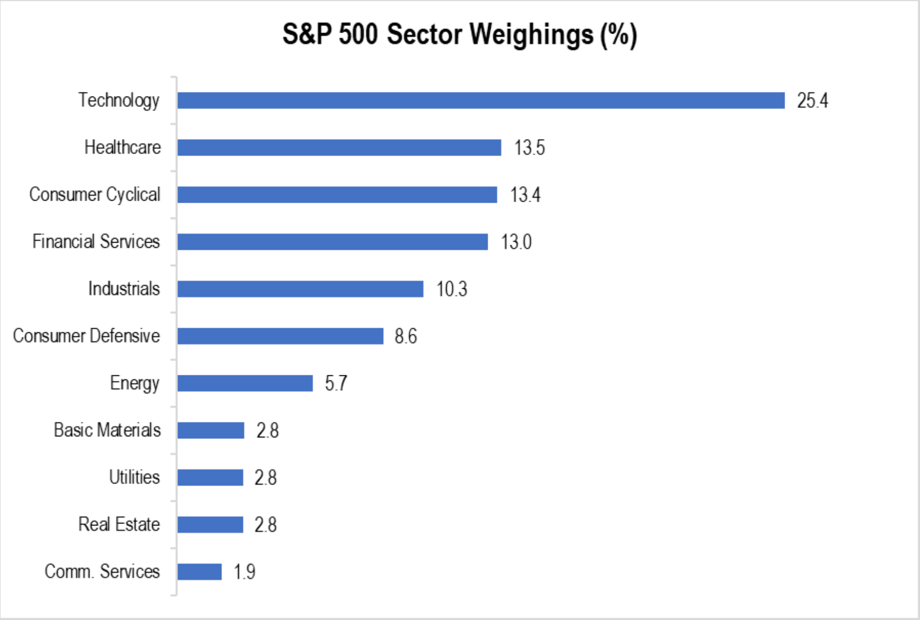


Source: Federal Reserve Bank – St. Louis

Protectionism Is A Concern, But A Trade War Does Not Make Sense



Technology Stocks Have Been Big Winners But Recently Corrected



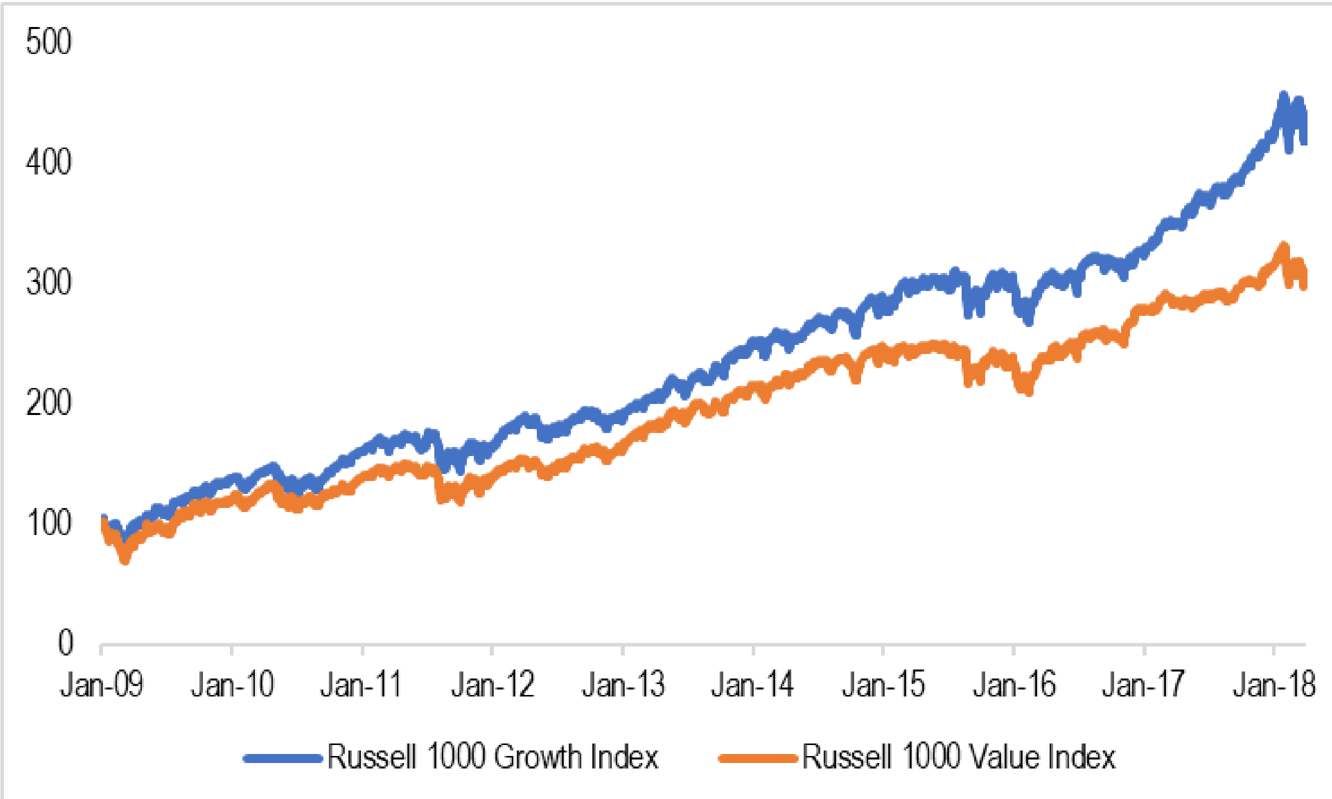
Source: Intrinsic Research

- Privacy concerns arose over user data at Facebook. The stock is down over 20% from its high of nearly $200 and has fallen 9.5% on a year-to-date basis.

- Production problems with the Tesla Model 3 has that stock down about 17% YTD.

- An unfortunate fatality of a pedestrian being hit by a driverless vehicle has sent high flyers like Nvidia well off their highs.

Growth Stocks Have Outperformed Value Stocks In Recent Years



Source: Federal Reserve Bank – St. Louis

Global Earnings and Valuations

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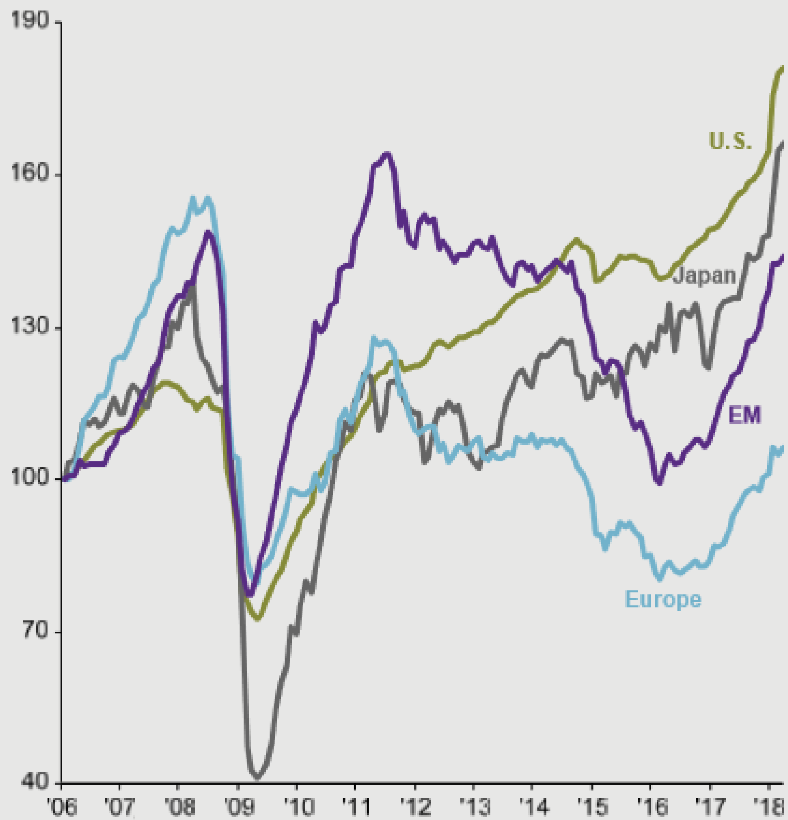
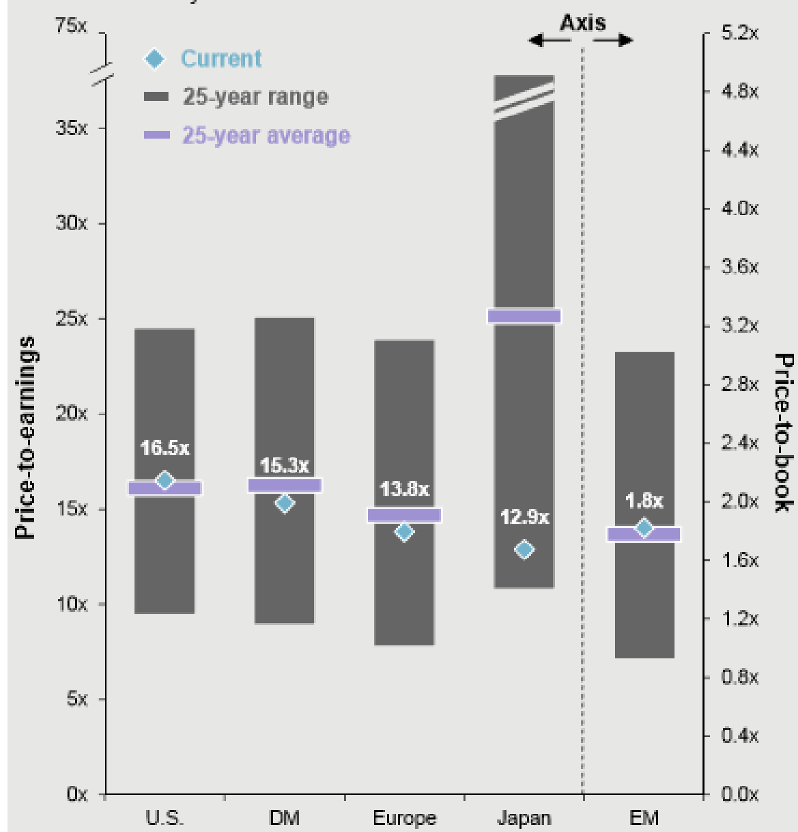
Global earnings

EPS, U.S. dollar, next 12 months, Jan. 2006 = 100



Global valuations

Current and 25-year historical valuations*



Source: JPMorgan

Interest Rates Continue To Normalize

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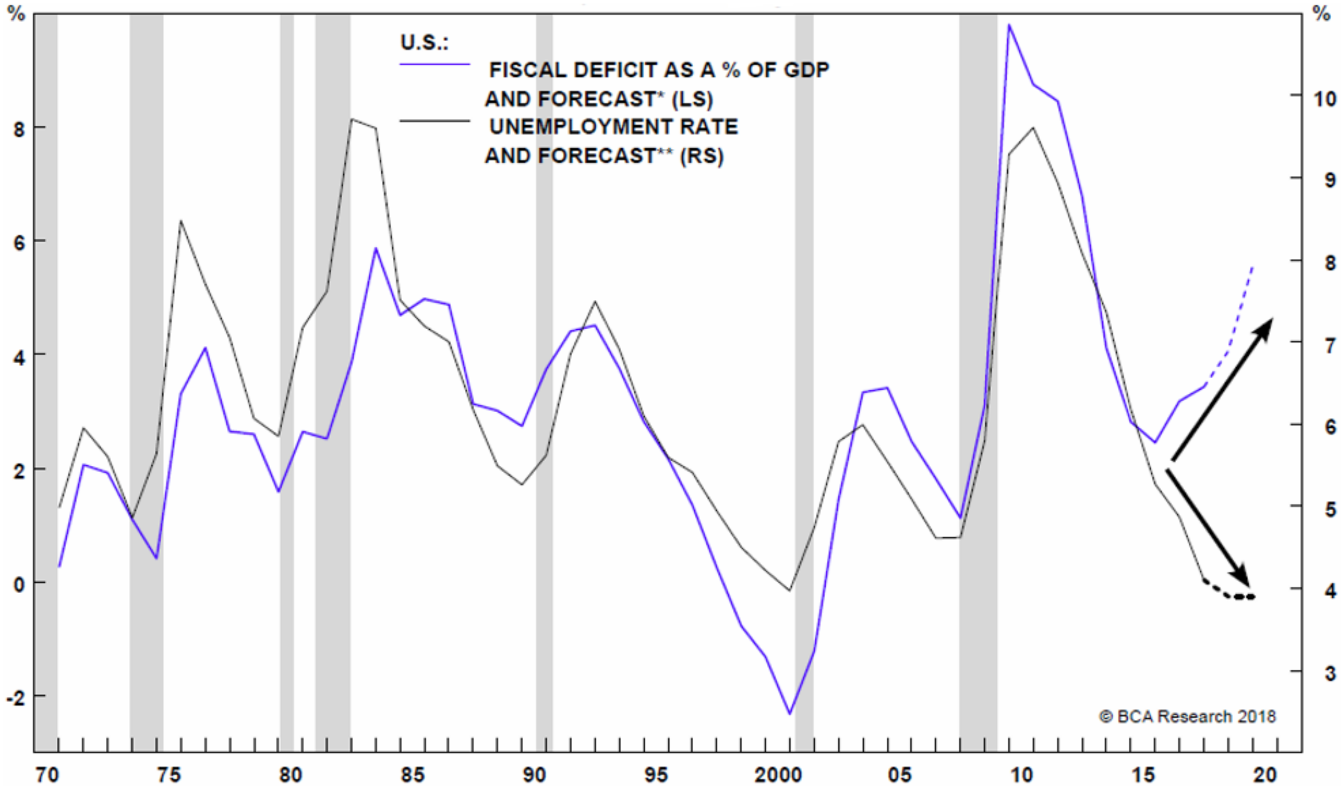
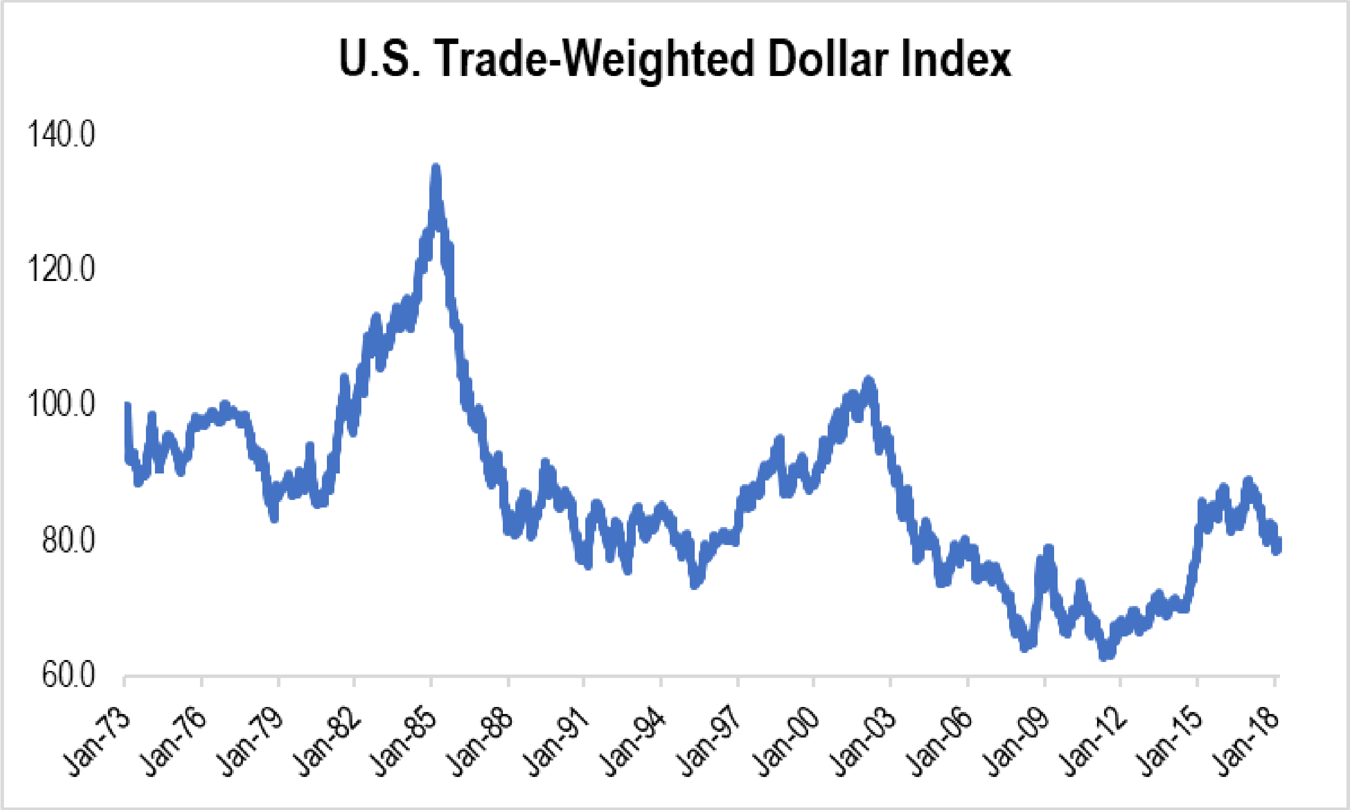
Source: Federal Reserve Bank – St. Louis

Pouring Fiscal Stimulus On An Already Strong Economy Is Unusual



Source: BCA Research

Persistent Weakness In The U.S Dollar Is A Bit Vexing



Source: BCA Research

Heritage Market Views

Monetary Policy — **Less Accommodating**

The Federal Reserve raised interest rates in March, and at least two more rate hikes are expected this year. A stronger economy should put upward pressure on rates as well. Thus far, inflation has remained benign even with the unemployment rate near 4%. If wage growth accelerates, the Fed will likely become more aggressive in raising interest rates. This is the biggest risk to markets, in our view. A new Fed Chairman has added some near-term uncertainty.

Fiscal Policy — **Accommodating**

The Tax Cuts & Jobs Act was signed into law late last year. The law lowers the corporate tax rate to 21% from 35%--a boost to corporate earnings. Fiscal stimulus usually occurs at points when the economy is weak rather than when it is near full employment, stoking fears that the new legislation, while needed for long-term competitive positioning, will fuel inflation and increase deficits.

Economic Fundamentals — **Positive**

Fourth quarter GDP growth registered 2.5%. In the U.S., manufacturing activity is expanding with consumer confidence and business sentiment still ebullient. In the Eurozone, readings on manufacturing activity are off their highs but still at elevated levels. Japan's economy is in its best shape in fifteen years. Earnings in emerging markets have improved but are still below 2011 levels, suggesting further upside potential.

Market Dynamics — **Positive**

Positive market momentum from last year carried into early January, but volatility surged in February followed by tariff announcements and privacy issues at Facebook. The S&P 500 and the Dow both declined in Q1 for the first time in ten quarters.

U.S Equities — **Positive**

The S&P 500 is trading at 16.4x 2018 earnings, about in-line with the long-term average multiple. In the context of improving earnings and still low interest rates, we see the market as attractively priced, leaving us with a constructive view. Bear markets typically coincide with recessions, and there is little evidence of a recession. The Russell 2000 is trading at 22.4x earnings. Companies considered to be the biggest beneficiaries of tax reform, primarily U.S.-centric businesses, have begun to outperform.

International Equities — **Positive**

The MSCI EAFE index is trading at a discount (13.8x) to the long-term average of around 16x. Various economic indicators are improving and earnings should improve. EM was up almost 38% last year, but the sector still trades for 12.1x earnings. EM economies are becoming more consumer and technology driven. Higher interest rates and inflation present a threat to EM balance sheets.

Bond Yields & Credit — **Negative**

Fixed income performed well last year, but the path of least resistance for rates seems higher. Ten-year yields have nearly breached 3.0% with inflation percolating a bit. The expanded opportunity set to add income through country selection, including EM, and credit selection remains an attraction for global bonds. High yield spreads are meaningfully below their long-run average and do not appear to be appropriately compensating investors for the risk. We have eliminated HY exposure in client portfolios.

Commodities — **Neutral**

Oil inventories have become more favorable, and OPEC seems inclined to keep cuts in place. Global demand is trending closer to 2% than the historic average of about 1.2%. These factors have pushed oil in to the mid-$60/bbl. There has been underinvestment in legacy fields worldwide with fracking and technological advances filling the gap.

U.S. Dollar — **Positive**

Accelerating growth outside the U.S. was attracting capital, likely explaining dollar weakness last year. The dollar may be poised to strengthen given the outlook for higher rates in the U.S. and a still-strong domestic economy.

Disclosures

Past performance is no guarantee of future results. No assurance can be given that an investor will not lose invested capital. This performance is neither a composite performance nor actual performance experienced by any past or present client.

The “Hypothetical” or “Historical” performance is a simulated historical calculation of how this portfolio of managed assets would have performed over the period indicated. Performance calculations are based on the indicated asset weights presented and assume annual rebalancing. No annual rebalance is captured for time analysis periods less than one year in length. “Hypothetical” or “Historical” performance of the portfolio is shown Gross of the manager fees and Gross of Investment Advisory Fees. Performance of mutual funds is shown net of fees based on published expense ratios.

Definitions:

S&P 500: The Standard & Poor's 500 Index is an index of 500 stocks seen as a leading indicator of US equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

Russell 2000: The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

MSCI ACWI: A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

MSCI EAFE: The MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

Emerging Markets: Emerging Market Equity is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

Investment Grade Corporates: Investment Grade Corporate bonds are represented by the iShares iBoxx $ Investment Grade Corporate Bond ETF. The iShares iBoxx $ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds.

Global Bonds: Global bonds are represented by the BoAML Global Broad Market Index. The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including global bonds.

TIPS: Treasury Inflation Protected Securities are represented by the BBgBarc US Treasury US TIPS Index. The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

High Yield Corporates: High Yield Corporates are represented by the BBg US Corporate High Yield Index. The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested.

Preferred Stock: Preferred stock is represented by the BoAML: Preferred Stock Adjustable Rate Index.

US Treasurys: US Treasurys are represented by the BBgBarc Aggregate Bond Treasury Index.

Commodities: Commodities are represented by the Bloomberg Commodity Index.

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