1Q18 REVIEW & 2018 OUTLOOK

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OVERVIEW

Volatility returned to markets in 1Q18, snapping a 15-month streak of positive returns in February. The S&P 500 fell -0.8% for the quarter. Last year was one of the least volatile market periods with only 8 moves of 1%, up or down. Year to date, the market has made over 20 such moves. Bond markets did not perform much better. On the back of accelerating jobs and wage (inflation) data, the 10-year Treasury reached its highest level in four years (2.94%), resulting in losses across most U.S. bond indices in 1Q18. The bad news is that neither the inflation question nor the trade ambiguity are likely to be resolved soon, leading us to expect similar volatility in the near term. The good news is that earnings have been revised upward significantly during the first quarter as companies increased earnings guidance with the impact of the tax cut (please see Table 3 below). Additionally, the current market valuation is about average based on 2018E earnings and significantly below average on 2019E earnings. Normally, we would expect investors to become overly bullish in the face of improving economic data and above average earnings results this late in the bull market as they did in early January. The January market rally was a typical late cycle response to rising earnings leading to the highest multiples of the bull market so far (18.7x 2018E earnings). January's late cycle exuberance was on track to deliver low to mid double digit returns in 2018 of 10% to 15% for the S&P 500. Lingering uncertainty over trade actions and concerns over Fed action and inflation are more likely, in our opinion, to dampen sentiment. Therefore, we think as uncertainty over these issues dissipates, the market will have room to move higher on the increase in earnings later in the year. We believe, however, that market returns will imply more rational multiples on the improved earnings fundamentals resulting in total returns in a range of 6% to 10% upside for 2018 (please see "Market Valuation" section below). The overhang of Fed hawkishness and trade skirmishes will likely keep the high multiples and returns associated with late cycle exuberance in check this year.

Table 1: Index Returns

Index Returns ending 3/31/2018	1Q18	Last 12 Months
S&P 500	-0.76%	13.97%
Russell 2000 (Small Cap)	-0.08%	11.79%
MSCI EAFE (International)	-1.53%	14.80%
MSCI EME (Emerging Markets)	1.42%	24.93%
BBG BARC Aggregate Bond	-1.46%	1.20%
Oil bbl. Price Changes	7.48%	28.34%
Gold Returns	6.93%	6.07%
Commodities Returns (CRB Index)	0.77%	5.13%

Table 2: Sector Returns

S&P 500 Sector Returns as of 3/31/2018	1Q18	Last 12 Months
Info. Tech	3.52%	27.64%
Financials	-0.95%	17.99%
Healthcare	-1.22%	11.26%
Consumer Staples	-7.12%	-0.88%
Consumer Discretion	3.08%	16.99%
Industrials	-1.56%	13.91%
Energy	-5.87%	-0.15%
Materials	-5.51%	10.53%
Telecom	-7.51%	-4.84%
Utilities	-3.31%	1.87%
Real Estate	-5.02%	1.69%

Source for Table 1&2: Informa & Bloomberg

1Q 2018 MARKET REVIEW: Volatility Returns

U.S. Stock Markets: The market rallied 7.5% in the first few trading weeks of 2018 and posted new highs, breaking through 2,800 on the S&P 500, 26,000 on the Dow Jones Industrial Average, and 7,000 on the NASDAQ in response to the expected impact on corporate earnings and the impact of the tax bill that passed in late December reducing the corporate tax rate from 35% to 21%. From January 29 to February 9, the January gains were erased as the S&P 500 fell 10% over concerns that the economy might overheat causing the Fed to accelerate rate increases after a strong jobs report and a 2.9% increase

Table 3 : Increase in Earnings for Select U.S. Indices during 1Q18

	S&P 500 Large Cap				S&P 400 Mid-Cap				S&P 600 Small Cap			
	Estimates as of 12/31		Estimates as of 3/31		Estimates as of 12/31		Estimates as of 3/31		Estimates as of 12/31		Estimates as of 3/31	
	Estimate	Y/Y Growth	Estimate	Y/Y Growth	Estimate	Y/Y Growth	Estimate	Y/Y Growth	Estimate	Y/Y Growth	Estimate	Y/Y Growth
2015A	$117.46		$117.46		$84.00		$84.00		$38.00		$38.00	
2016A	$118.10	0.5%	$118.10	0.5%	$85.00	1.2%	$85.00	1.2%	$39.00	2.6%	$39.00	2.6%
2017 E	$131.00	10.9%	$131.98	11.8%	$90.55	6.5%	$93.11	9.5%	$39.80	2.1%	$42.20	8.2%
2018 E	$148.00	13.0%	$157.99	19.7%	$101.00	11.5%	$111.21	19.4%	$46.50	16.8%	$52.16	23.6%
2019 E	$161.00	8.8%	$173.97	10.1%	$115.00	13.9%	$124.71	12.1%	$52.00	11.8%	$60.89	16.7%
2 YR CAGR		10.9%		14.8%		12.7%		15.7%		14.3%		20.1%

Source for Table 3: ThomsonOne, Yardeni Research, CB&T

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in wages. The market rallied back to finish February up 1.8% year-to-date through February. By mid-March, the market was up 4.2% on the year until discussions about trade tariffs were announced, causing the market to post a loss of -0.8% for the quarter.

Global Stock Markets: International and emerging market stocks outperformed U.S. stocks in 2017, but had mixed performance relative to the U.S. (-0.8% S&P 500, -1.5% EAFE; +1.4% EM) in the first quarter. International markets continued to benefit from a weak dollar (down -11.9% since 01/01/2017) as well as fundamental strength in developed and emerging market economies. The EAFE international index outperformed the S&P 500 in most weeks of the quarter, but fell into quarter end. The international index is beating U.S. indices in April as well. Trade headlines and concerns over the health of Deutsche Bank weighed on developed international markets, pulling results below the U.S. in March. After years of flat to down growth, EU growth matched or exceeded U.S. GDP growth in 2017 thanks to extensive quantitative easing and improvement in EU bank balance sheets. Fiscal policies, such as the tax cut and reduced regulations, should enable the U.S. to outgrow the EU in 2018, however, developed international markets currently remain more attractive from a valuation and currency perspective.

Global Bond Markets: Global bond indices performed better than U.S. bonds (-1.46%) in 1Q18 returning +1.36% and +2.52% for the BBG Global and EM Aggregate indices, respectively. The weak dollar boosted international bond returns. Taking out the currency impact, BBG Global returns were negative, but still better than the U.S. at -0.12%, while the EM bond index was slightly below the U.S. index returns at -1.48% during the quarter. Last year the 10-year Treasury remained range-bound between 2.1% and 2.6%. Accelerating jobs and wage data pushed the 10-year Treasury to break out of this range and reach its highest level in four years (2.94%), resulting in losses across most U.S. bond indices in 1Q18.

2018 ECONOMIC OUTLOOK: Improving Global Economic Outlook

U.S GDP growth came in slightly ahead of expectations for 2017 at 2.5%. The last three quarters of the year hovered around 3% despite a weak 1.2% start to the year (please see Table 4). We expect first quarter GDP growth rate to decline from the fourth quarter rate, which is typical since the first quarter is frequently impacted by weather and this year the flu season was particularly bad. Over the quarter economists lowered the 1Q18 growth estimate from 2.6% to 2.5%, but significantly boosted growth estimates for each of the next three quarters by 30bps to 40bps. The revisions increased the annual estimate from 2.7% to 2.9% and increased the 2019 growth estimate from 2.2% to 2.4%. It appears that the 2018 estimates have incorporated the impact of the tax cut, but may not have incorporated the impact into 2019 GDP estimates. On average, most forecasters expect the tax cut to increase GDP by 0.45% in each of 2018 and 2019. While some investors have expressed concern that the current business cycle has gone on too long, the current level of several economic indicators suggest that an economic downturn is at least 15 to 18 months or 5 to 6 quarters away (please see Table 5).

Table 4: GDP Growth

	Q1	Q2	Q3	Q4	Year
2016	**0.6%**	**2.2%**	**2.8%**	**1.8%**	**1.5%**
2017	**1.2%**	**3.1%**	**3.2%**	*2.8%*	*2.5%*
2018	*2.5%*	*3.2%*	*3.1%*	*2.9%*	*2.9%*
2019	*2.6%*				*2.4%*

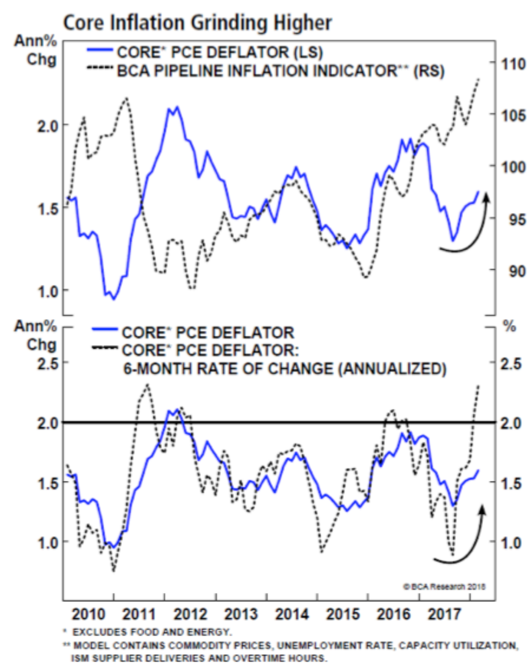
Quarterly GDP = Q over Q growth. Year = annual Y over Y growth.
Source: Actual (Bold) Bureau of Economic Analysis as of 12/17
Projected (Italics) WSJ Economic Survey Juanuary 2018.

Table 5: Indicator Levels & Months to Recession

Indicator	Months Prior to Recession	Source
Unemployment Curve	18	IMF
GDP Curve	18	DoubleLine Capital
Inflation/CPI Curve	12-18	DoubleLine Capital
Leading Economic Indicators	15-18	Conference Board
Purchasing Managers Index	10-20	ISM
Inverted Yield Curve	18-24	CB&T
2s to 10s Treasury Spread	12-15	DoubleLine Capital
High Yield Bond Spreads	12	DoubleLine Capital

**Source: Informa & Bloomberg*

Figure 1: Fiscal Policy Accelerating; Monetary Policy Moderating



**Source: BCA*

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Global growth remains strong, but the breadth of that growth may have peaked for this business cycle. In the last two quarters of 2017 all 46 OECD economies delivered positive GDP growth for the first time in ten years. Furthermore, consumer and business confidence surveys across developed economies reached new post-crisis peaks. Most OECD economies remain in strong expansion mode, but a few are demonstrating signs of deceleration. The OECD upgraded its world growth forecast to 3.9% for 2018 and 2019, in line with the IMF's forecast. The OECD predicts a decline in Eurozone growth to 2.3% in 2018 and 2.1% in 2019 after posting 2.5% growth in 2017. This suggests that the U.S. and EM countries will make up the difference in the global growth forecast.

2018 MARKET OUTLOOK: Tug of War between Fiscal Stimulus, the Fed and Trade

As discussed in the prior section, global growth remains strong, but may be peaking, although it is not likely to decelerate into recession or a slowdown in the next 12 months. Last year U.S. (S&P 500 +22%), international (EAFE +25%) and emerging markets (EEM +37%) were in synch and generated annual returns of greater than 20%. The economic and market setup in early 2018 is much stronger than in 2017. Last January only 2-3 key economic factors were in play. Currently, seven underlying economic forces are working that should enable global markets to continue to rally (for a detailed description of each of these factors, please see last quarter's investment outlook on our website). While some of these factors may be in flux (Oil, Global Trade) or decelerating (Monetary Policy) in parts of the globe, the following factors are for the most part providing a net stimulus to the global economy:

1. **Tax Reform**
2. **Dollar Weakness**
3. **International Growth/ Global Trade Growth**
4. **Global Fiscal Policy Stimulus**
5. **Global Monetary Stimulus**
6. **Resurgence in Capital Spending/ Productivity Growth**
7. **Surge/Stability of Oil Prices**

The market has responded as if it is centered in a three-way tug-of-war between 1) benefits from fiscal tax cuts that stimulate growth and dramatically increase 2018 corporate earnings; 2) a concern that U.S. monetary stimulus will tighten faster than anticipated as the Fed responds to potential inflationary pressures; and 3) worries that U.S. trade policy will result in a trade war, which could slow both U.S. and international growth. This action is playing out in the form of a lower Price/Earnings market multiple (~16x) than would be expected in the latter stages of a bull market (18x – 20x) and in the face of strong upward earnings revisions. Neither the Fed action nor the trade policy is likely to be resolved in the next quarter. We expect the market to reconcile these issues over the next quarter and refocus attention on earnings this month, which are likely to be revised upward absent any trade impact. An increase in guidance may take another quarter or two to emerge as companies will be cautious to raise earnings outlooks if their input costs are impacted by the proposed tariffs. The tax stimulus should prevail in the medium term assuming the trade conflict is not a long-term overhang

U.S. Bond Market: After four 0.25% hikes to the Federal Funds Rate since December 2016, long term rates remained below the rates at year end 2016 for all but a few weeks of 2017. This enabled the Barclays Aggregate Bond index to generate a healthy 3.5% return in 2017 despite the hikes. We had expected 1%-3% returns and were braced for negative returns last year. Strength in jobs and wage data in the first quarter finally enabled the 10-Year Treasury to break out of its 2.1%-2.6% range and move towards 3.0%, peaking at 2.94% during the quarter and sending many bond indices into negative territory for the quarter.

- **Inflation Remains the Focus :** We expect fixed income returns to remain challenging in 2018 as the Fed takes action to normalize rates up to historic levels. Fed Futures now forecast three rate hikes in 2018 including the March hike and we remain in this camp. For the first time in several years we think inflation may rise meaningfully above 2%, spurred by wage growth and the recent strength in GDP readings above 3% (Please see Figure 2). Wage increases typically start picking up late in the business cycle as unemployment reaches cycle lows. Wages are also being aided by the tax reform bill. Inflation usually proportionally mirrors increases in GDP, albeit with a 6 to 9 month lag. A few monthly core inflation readings with a 3% handle could cause the Fed to become more aggressive with rate hikes (more frequent hikes or greater than a 0.25% per increase per hike), which could in turn push the yield curve towards inversion. So far we think the wage picture is improving, but will not become inflationary and hasten Fed action.

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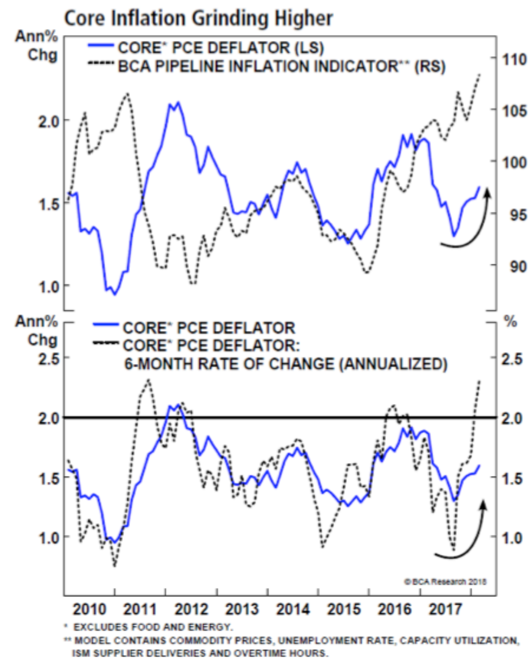
- **Implications for Investors:** Over the next 2 to 3 years, the environment for intermediate to long term bonds is likely to remain slightly bearish. We expect returns of 0% to 3% from core bonds depending on the speed of normalization.
  - Munis should remain attractive as state budgets benefit from job creation and a higher rate of GDP growth.
  - We think credit, high-yield fixed income, and emerging market fixed income offers better return potential than core domestic or developed international fixed income, but spreads for these other fixed income asset classes continue to tighten making the risk/reward trade-off challenging. During the quarter we started to allocate away from core intermediate bonds into shorter duration credit products to wait out bond volatility while generating positive returns

International Stock and Bond Markets: After outperforming the U.S. in 2017 developed international markets underperformed the U.S. (EAFE -1.53% vs. S&P 500 -0.76%) during the first quarter. S&P 500 performance ranked 27 out of 50 country stock indices in U.S. dollars (21 in local currency), even though the dollar weakened during the quarter 2.3% year-to-date. Several European markets showed signs of economic weakening in 1Q18, which along with trade concerns caused the international index to fall below the U.S. at quarter end. Emerging markets (EM) on the other hand, continued to outperform (EEM +1.42% vs S&P 500 -0.76%).

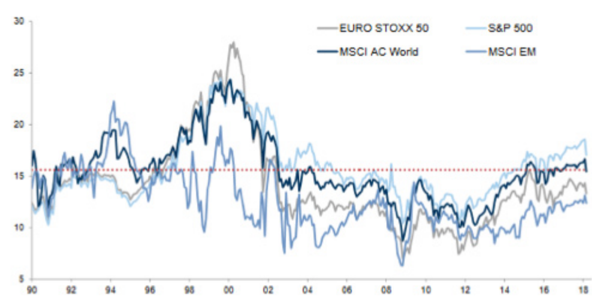
Global bond indices performed better than U.S. bonds (-1.46%) in 1Q18 returning 1.36% and 2.52% for the BBG Global and EM Aggregate indices, respectively. The weak dollar boosted international bond returns. Taking out the currency impact, BBG Global returns were negative, but still better than the U.S. at -0.12%, but EM bonds were slightly below U.S. returns at -1.48% during the quarter.

Figure 2: Inflation Appears to be Accelerating



**Source: BCA*

Figure 3: U.S. Stock P/E More Expensive than International



**Source: Datastream, IBES, Goldman Sachs Global Investment*

Since the beginning of last year, we have increased exposure in client accounts to developed international and emerging market stocks, but only increased exposure to emerging market bonds. Given current growth prospects, the lower dollar and lag in business/market cycles, we think developed international equities trade at a 10% discount and EM equities trade at a 10%-15% discount to U.S. equities. These markets are still trading at lower multiples of 14.9x and 12.5x 2018 EPS estimates, respectively, versus the S&P 500, which is trading at 16.5x 2018 EPS estimates (at 2600) (please see Figure 3). As long as the dollar remains within 3% to 5% of its current level or lower, we think international and emerging market equities should continue to outperform on a relative basis. Additionally, U.S. and international equities often alternate periods of outperformance. For example, when the bull market in U.S. equities is near the end of the cycle, the bull market for international equities is typically getting started. We believe emerging markets offer a better long-term value than U.S. stock and bond markets, but are cautious for temporary headwinds created by a rising dollar expected in response to Fed and fiscal policy. Some EM experts believe that EM fundamentals remain strong and the business cycle has a few more years, but the 37% 2017 EM return overshot the fundamentals. These experts expect EM returns to be flat to single digit in 2018, before making a move higher in 2019. We are remaining overweight International and EM equities, but we do not expect to increase allocations in in the near term. Furthermore, we could trim them defensively if the dollar rallies significantly.

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MARKET RISKS: Trade Conflicts & Bear Market Warning Signs

Keeping Trade Discussions in Perspective: We expect some of the negative market sentiment around trade to wear off over the next quarter or two as the initial uncertainty is put into a more realistic and pragmatic perspective for the following reasons:

- **Rational Behavior of Participants:** The trade discussions between the U.S. and China are progressing in a rational and orderly fashion. The U.S. proposed a 25% tariff on 1,300 products that represent $50 billion in annual trade and is threatening increasing the amount to $100 billion. The Chinese countered by proposing a 25% tariff on 106 products that represent $50 billion in annual trade. In our opinion, each side is posturing to show they are serious and emphasize the need for a negotiated settlement. For instance, representatives stated that China plans to "strongly fight back with the same scale, amount and strength".
- **Tariff-Impacted Trade vs. Relative Size of Economies**: In 2017, the U.S. imported $506 billion in goods from China and exported $130 billion to China (please see Figures 4 and 5). The U.S. imports another $15 billion to $20 billion in services (travel, shipping and outsourced R&D) and the U.S. exports another $55 billion to $60 billion in services (travel, shipping, intellectual property and software). According to the Department of Commerce, Chinese exports supported 911,000 U.S. jobs in 2015. The $50 billion in trade impacted by proposed tariffs represents 0.25% of U.S. and 0.35% of Chinese GDP, respectively. Therefore, if the tariffs caused 100% of the impacted trade to go away, it would not have a major impact on GDP growth for either country. Some multi-national companies, however, may be disproportionally impacted.
- **Timing:** The tariffs have not been enacted. The Tariff proposal notice issued by the U.S. Trade Representative requires a comment period and the earliest the tariffs could be enacted is June 6. If progress is being made the tariffs can be delayed. In early April, National Economic Council Chairman Kudlow stated that back-channel communications were occurring between U.S. and Chinese officials.
- **Advantage for United States:** For years the Party has been trying to upgrade Chinese Industry from assembly to innovation-based fabrication formally adopting a "Made in China 2025" initiative in 2015. Unfortunately, China's industrial policy has resulted in an estimated $225 billion to $600 billion annual of intellectual property theft. While intellectual property and overall trade negotiations will be difficult, there are several factors that give the U.S. an advantage over the Chinese in trade negotiations.
    - **U.S. Trade is More Important to China:** The European Union is China's largest trading partner as a region, but the U.S. is its largest single country trading partner. China ranks third in exports for the U.S. As the trade deficit indicates, the U.S. has an asymmetric trade relationship with China selling three to four times as much to the U.S. as it buys from the U.S. More importantly, U.S. exports to China comprise less than 1% of GDP, whereas China's exports to the U.S. represent over 4% of its GDP.

Figure 4: U.S. - China Goods Trade History

** Source: U.S. Census Bureau Research*

Figure 5: Breakdown of U.S. - China Trade 2016

Major US - China Trade Categories

2016	Imports from China US $B	Imports %	Exports to China US $B	Exports %
Electrical Machinery	$129.0	27%	$12.0	7%
Industrial Machinery	$97.0	20%	$11.0	6%
Aircraft		0%	$15.0	9%
Vehicles		0%	$11.0	6%
Furniture/Bedding	$29.0	6%		0%
Toys/Sports Equipment	$24.0	5%		0%
Footware	$15.0	3%		0%
Agricultural Products	$4.3	1%	$21.0	12%
Other Goods	$164.3	34%	$45.6	27%
Total Goods	$462.6	97%	$115.6	68%
Services	$16.1	3%	$54.2	32%
Total Imports/Exports	$478.7	100%	$169.8	100%

Source: U.S. Trade Representative

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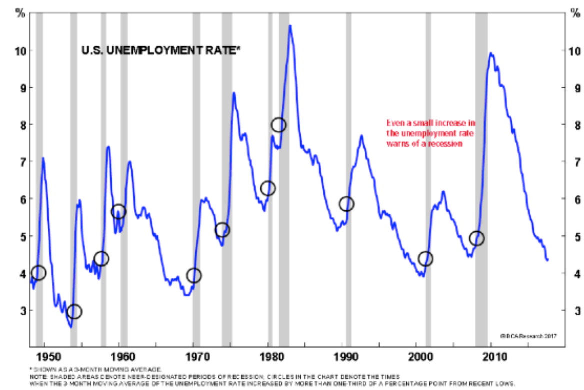
- **Tariffs More Directly Impact the Chinese Consumer:** About 20% of the products China imports from the U.S. are agricultural (soy beans, corn, wheat, cotton, hogs, etc.). In many cases, other countries cannot fully replace the U.S. agricultural imports. Therefore, the Chinese consumer is likely to be impacted through the purchase of key, day-to-day staples.
- **Treasury Bond Retaliation is Counter-productive**: China is the largest non-U.S holder of debt ($3.16T) followed by Japan ($1.06T). Several commentators have expressed concerns that the Chinese could use debt as a tool for retaliation, but such a move would be counter-productive. If China started dumping U.S. treasuries, it would drive the value of the dollar down, which would make U.S. goods cheaper for export and Chinese goods more expensive for import.

- **Expected Outcome:** We believe that sufficient positive progress will be communicated by early summer to assuage fears of a trade war or costly drag on the U.S. economy or corporate earnings. We believe strong retaliation by China is much less likely than a negotiated agreement.

Figure 6: Unemployment & Recessions



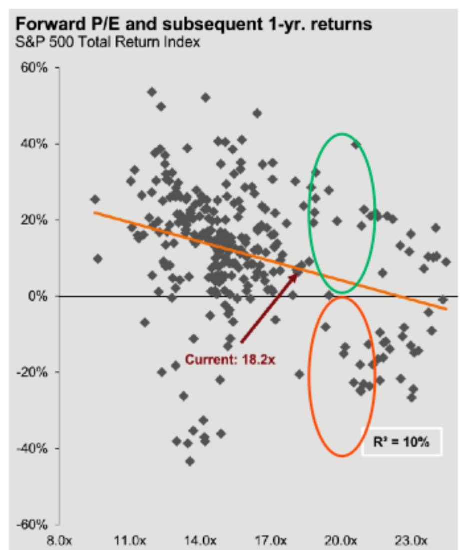
Source: BCA

Watching for Bear Market Warning Signs: Key Signs Turning from Green to Yellow, but not Turning Red

There are three key signs that signal a recession, which typically coincides with a bear market. These signals tend to signal a recession or bear market 3 to 12 months ahead.

1. **Inverted Yield Curve**: An inverted yield curve is probably the strongest and most urgent warning sign, because most market participants recognize that the Fed is trying to put the brakes on the economy or that other signs point to a slowdown. It is typically in response to a significant pickup in inflation (3%+). Usually inversion occurs after a few large rate hikes (0.5%-1.0%) occurring within a few months of each other. Inversion makes it unprofitable for banks to lend money, so credit becomes expensive and/or dries up for many companies. Over the last quarter, the yield curve steepened a little after flattening in 2017
2. **Rise in Unemployment**: Each of the last 11 recessions since 1950 have coincided with a 0.3% rise in the unemployment rate, usually three successive 0.1% increases in the monthly unemployment announcement (please see Figure 6). The good news is the unemployment curve has a long forward momentum over time. Recent data suggests that unemployment is likely to continue to decline until mid-2019. Tariffs are likely to take some time before they have an impact on employment.
3. **Market Valuation:** While the Yield Curve and Unemployment Curve are turning yellow or remain green, respectively, Market Valuation was flashing yellow in January, when the S&P 500 rose above 2800. Even then, the Price/Earnings (P/E) multiple on the 18.7x 2018 earnings estimate was about 17% higher than normal. Since then the market has fallen to the 2600 range, and earnings estimates have signficantly increased as companies raised EPS guidance to incorporate the positive impact of tax cuts. With the tax cut increasing earnings (the denominator), the P/E has fallen back to normal levels ~16.5x. Usually markets become volatile when multiples reach 19.5x to 20.0x next year's earnings, which would be the 2925-3000 level. Even so, the market can stay at elevated multiples for more than a year (please see Figure 7).

Figure 7: P/E vs. 1-Yr. Return Forecast



Source: JP Morgan Asset Management

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MARKET VALUATION, EXPECTED RETURNS & PORTFOLIO STRATEGY

While such concerns as a trade conflict and Fed/Inflation action are not likely to be resolved soon, the good news is that earnings have been revised upward significantly during the first quarter as companies increased earnings guidance with the impact of the tax cut (please see Table 3 above). As we move further into the second quarter, we expect some of the uncertainty related to the Fed and inflation as well as trade discussions to clear. This will enable investors to focus on the improvement in earnings. The current market valuation is about average based on 2018E earnings and significantly below average on 2019E earnings.

Normally, we would expect investors to become overly bullish in the face of improving economic data and above average earnings results this late in the bull market, as they did in early January. The January market rally was a typical late cycle response to rising earnings leading to the highest multiples of the bull market so far (18.7x 2018E earnings). January's late cycle exuberance was on track to deliver low to mid double digit returns in 2018 of 10% to 15% for the S&P 500. Prolonged uncertainty over trade actions and concerns over Fed action and inflation are more likely, in our opinion, to dampen either rational or late cycle exuberance this year. Therefore, we think as uncertainty over trade and the Fed dissipate, the market will have room to move higher on the increase in earnings later in the year. We believe, however, that market returns will imply more rational multiples on the improved earnings fundamentals resulting in total returns in a range of 6% to 10% upside for 2018. The overhang of Fed hawkishness and trade skirmishes will likely keep the multiples and returns associated with late cycle exuberance in check this year.

Table 6: S&P 500 Valuation

- S&P 500 Value 01/17/18:	2,800
- S&P 500 Forward Multiple 18E:	18.7x
- S&P 500 Forward Multiple 19E:	17.0x

		Growth %
- 2017 Estimate:	$131	11.3%
- 2018 Estimate:	$150	11.3%
- 2019 Estimate:	$165	10.8%

Implied S&P 500 Valuation

	$140	$145	$150	$155	$160	$165	$170
14.0x	1,960	2,030	2,100	2,170	2,240	2,310	2,380
14.5x	2,030	2,103	2,175	2,248	2,320	2,393	2,465
15.0x	2,100	2,175	2,250	2,325	2,400	2,475	2,550
15.5x	2,170	2,248	2,325	2,403	2,480	2,558	2,635
16.0x	2,240	2,320	2,400	2,480	2,560	2,640	2,720
16.5x	2,310	2,393	2,475	2,558	2,640	2,723	2,805
17.0x	2,380	2,465	2,550	2,635	2,720	2,805	2,890
17.5x	2,450	2,538	2,625	2,713	2,800	2,888	2,975
18.0x	2,520	2,610	2,700	2,790	2,880	2,970	3,060
18.5x	2,590	2,683	2,775	2,868	2,960	3,053	3,145

Implied S&P 500 Price Change

	$140	$145	$150	$155	$160	$165	$170
14.0x	-30%	-28%	-25%	-23%	-20%	-18%	-15%
14.5x	-28%	-25%	-22%	-20%	-17%	-15%	-12%
15.0x	-25%	-22%	-20%	-17%	-14%	-12%	-9%
15.5x	-23%	-20%	-17%	-14%	-11%	-9%	-6%
16.0x	-20%	-17%	-14%	-11%	-9%	-6%	-3%
16.5x	-18%	-15%	-12%	-9%	-6%	-3%	0%
17.0x	-15%	-12%	-9%	-6%	-3%	0%	3%
17.5x	-13%	-9%	-6%	-3%	0%	3%	6%
18.0x	-10%	-7%	-4%	0%	3%	6%	9%
18.5x	-8%	-4%	-1%	2%	6%	9%	12%

Source: Yardeni Research.CB&T. Note add ~2% in dividends for S&P 500 total return
Analysts' Consensus estimates are $131, $150, and $162 respectively
Yellow box - rational expectations; Green box - "irrational exuberance"

1Q18 REVIEW & 2018 OUTLOOK

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ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	**ACTIONS TAKEN →**	**RESULTS**	**WE BELIEVE →**	**ACTIONS WE ARE TAKING**
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
We thought the market rally will continue into 2018 with the potential for another 5%-10% total return. We were concerned that the 7% January rally would result in a pullback. We expected small & midcap to outperform on tax reform.	Trimmed U.S. large cap stocks, moved to underweight. Maintained overweight on small/mid cap stocks.	The market pulled back in February, recovered in March, but fell to a loss of -0.8% (14% LTM) for large cap S&P 500 at quarter end and remains below year end in April. Small and Mid cap stocks posted small losses of -0.1%, but outperformed large cap.	Bearish negative market sentiment over Fed/Inflation and trade will moderate. We remain optimistic that small & midcap will outperform on tax reform impact and higher domestic market exposure.	Continue to trim U.S. large cap stocks on rallies and maintaining underweight allocation. Maintaining overweight on small/mid cap stocks.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
We expected the dollar to remain range bound in the near term.	We are maintained our overweight allocation to emerging markets and developed international stocks.	The dollar fell another 2% during 1Q18 (-11% since 1/12017). Emerging markets (+1.4% 1Q18, 24.9% LTM) outperformed, but developed international stocks (-1.5%) lagged during the quarter, but continues to outperform last 12 months (+14.8%)	We expect the dollar to remain range bound in the near term. We believe rate increases from the Fed and higher relative U.S. GDP growth could pressure the dollar higher later this year (2H18?).	We are maintaining our overweight allocation to emerging markets and developed international stocks. We are watching the dollar and expect it to remain within 3%-5% of current levels. We may cut international/ EM exposure if the dollar rallies sharply.
FIXED INCOME			FIXED INCOME	
We expected a 0.25% Fed Funds rate increase in March and the Fed to remain constructive for at least the first half of the year.	We remained underweight core bonds. We remained overweight credit/high yield bonds. We maintained our allocation to emerging market bonds and did not add to weights due to historically tight spreads.	The Fed raised the Fed Funds rate 0.25% December. Core bonds returned -1.46% in 1Q18, while high yield bonds generated a -0.90% return. International and EM bonds returned 1.36% and 2.52%, respectively, on an unhedged basis; and -0.12% and -1.48%, respectively, with currency hedged.	We expect a 0.25% Fed Funds rate increase in either June and/ or September. We are concerned GDP and wage growth could lead to a rise in inflation in 2H18, which could result in more hawkish Fed action.	We remain underweight core bonds. We remain overweight credit/high yield bonds, but are shifting to shorter duration credit. We are reallocating some core intermediate bonds to shorter duration IG floating rate and short-term bonds.
We believed munis were at fair value to slightly undervalued at the beginning of 2018.	We maintained an equal weight to munis and were concerned how tax policy would impact muni returns and funds flow.	Munis outperformed core bonds in the quarter (-1.11% vs. -1.46%) and for the last twelve months (2.66% vs. 1.20%).	We believe munis are at fair value to slightly undervalued at the beginning of 2018.	We are maintaining an equal weight to munis at this time.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
After a record low period, volatility would increase in 2018. We think the trades talks, rate increases and GDP/ Inflation surprises would act as catalysts for higher volatility mostly later in the year.	We maintained ~8% allocation to alternatives. We continued to watch Gold for a breakout.	Volatility returned to the market with >20 1% moves in 1Q18 vs. 8 in 2017. **SG CTA alternatives index fell -2.87** as alts funds increased weightings to U.S. equities. CB&T's Liquid Alpha alternatives CTF fell only -0.06% in 4Q17, because it intentionally has little exposure to U.S. equities. Gold increased 6.93%.	We expect volatility to remain high in 2018. We think trade talks, rate increases and inflation surprises will continue to act as catalysts for higher volatility skewing to relative value strategies versus directional trendfollowing	We are maintaining ~8% allocation to alternatives. We expect to increase to 10% after equity exposure is reduced in alts models. We continue to watch Gold for a breakout and are not adding to or reducing positions.
For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.				