4Q18 REVIEW & 2019 OUTLOOK

Commonwealth Bank & Trust Company

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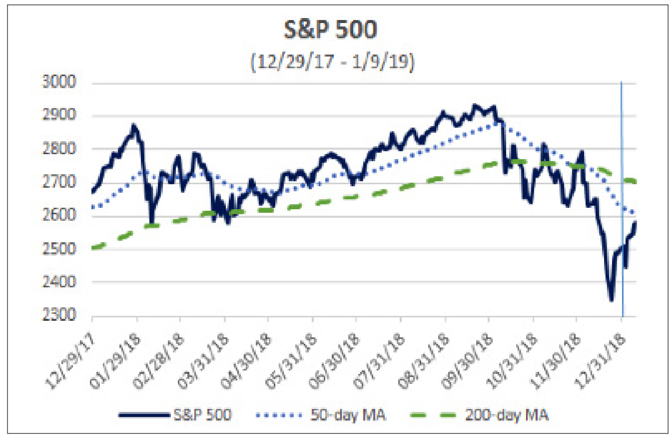
SUMMARY: PUTTING THE FOURTH QUARTER DOWNTURN IN PERSPECTIVE

After posting a solid 10.6% total return through the end of September, the S&P 500 fell 13.5% in the fourth quarter. Most of the damage happened in December as the market fell 9.0%, dipping to bear market levels (down 20% from the September peak level) on Christmas Eve. Headlines dubbed it the worst December since the Great Depression. The market rallied and sold off seven times in 2018 to finish the year down with a -4.4% return for the S&P 500 – the worst market return since the crisis. Through September, the market had rallied in response to a large tax cut that enabled U.S. market indices to post 20%+ EPS growth as well as strong economic numbers that resulted in 4%+ readings for GDP and the lowest unemployment rate in 50 years. Nevertheless, negative volatility won the year as stocks sold off on trade fears, slowing global growth and hawkish Fed actions and comments. In early October, fresh data showed employment numbers remained strong, but also revealed hints of inflation within manufacturing inputs. Meanwhile, Fed representatives reiterated that the Fed will stay the course with rate hikes. In late December and early January, the market started to bounce back as the Fed made constructive statements that it would be "patient" regarding further rate hikes.

Figure 1: S&P 500 12/29/18 - 1/9/2019

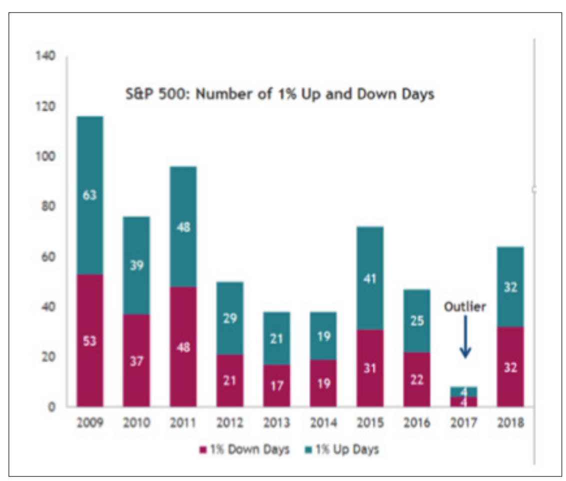


Source: CB&T, Thomson Reuters

Despite December headlines of 500+ moves in the Dow Jones Industrials, the market was off only a little more than 4% in 2018. To put it in perspective, investors lost only about 12-13 months of returns from the bull market that started in March 2009. The market is still up 275% since the crisis lows. Last year's volatility was about average, when measured by trading days when the market lost or gained more than 1% (please see Figure 2). Ten years ago, the Dow traded around 7,000 and 500 point moves were unheard of unless the global financial system was melting down. Now that the Dow is trading at 23,000, there will be more frequent large headline making moves, but the percentage impact on the market or investors' portfolios will be much less.

2018 was a bad year for investors everywhere with no major asset class performing better than inflation and diversification penalized investors. On average, bonds, which are supposed to be a safe haven when equities are down, were negative every day of 2018 until December 31, when they finished with a 0.01% gain for the year. We had success with our two alternative funds, which generated positive 2% to 3% returns for the year (please see newsletter insert). The funds invest in quantitative managed futures strategies, which are not correlated to equity markets and made good on their tendency to generate positive returns when equity markets go through drawdowns. CB&T growth strategies also performed handsomely in the face of otherwise negative returns with our Aggressive Growth and Sci-Tech funds posting positive 6% and 3% returns, respectively.

Figure 2: 1% Up/Down Days S&P 500



Source: WSJ, The Daily Shot

The good news is that valuations are relatively cheap starting the year near bear market levels and remain well below late bull market multiples. We do not think the market will reach

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extended bull market values of 19x to 20x earnings before the next bear market. There are many long term overhangs and many investors expect a prolonged correction to the bull market, which became the longest on record in August 2018. Assuming the trade conflict is partially resolved, we expect the market to rally between 7% to 12% in the first half of the year, but believe some of those returns are likely to be given back in the second half of the year unless the fundamental economic trajectory improves enough here or abroad to boost earnings. We think 2019 sets up for a mid-single digit total return for the S&P 500.

Table 1: Index Returns

Index Returns as of 12/31/18	Last 3 Months	Last 12 Months
S&P 500	-13.52%	-4.39%
Russell 2000 (Small Cap)	-20.20%	-11.01%
MSCI EAFE (International)	-12.54%	-13.79%
MSCI EME (Emerging Markets)	-7.47%	-14.58%
BBG BARC Aggregate Bond	1.64%	0.01%
Oil bbl. Price Changes	-38.01%	-24.84%
Gold Returns	7.54%	-1.58%
Commodities Returns (CRB Index)	-12.99%	-12.41%

Source: Informa & Bloomberg

4Q 2018 MARKET REVIEW:

U.S. Stock Markets: The S&P 500 opened the year at 2674 with perhaps the best economic and market setup in over ten years. Despite a bumpy nine months that included four sizable rallies and pullbacks, it appeared the S&P 500 found its stride by September returning 10.6% year-to-date, buoyed by strong economic data and 20% corporate EPS growth spurred by the tax cut bill passed in December 2017. From a headline standpoint, it was an ugly quarter for investor sentiment. Hawkish Fed comments in early October were followed by inflationary economic data and then a breakdown in trade talks, which were followed in early November by an election that resulted in a gridlocked legislature. There was some relief in late November, when a trade tariff deadline was extended, but the relief proved short-lived after the Fed reiterated in early December that its hawkish actions would remain on "auto-pilot". The market technically edged into bear market territory (-20.06%) briefly on Christmas Eve, when the Administration mishandled criticism of the Fed. The S&P 500 lost 13.5% in the quarter – 9.2% of the loss in December. The Fed got the memo, however, and walked back its "auto-pilot" comments in early January spurring a 10% recover from the December lows.

Table 2: Sector Returns

Sector Returns as of 12/31/18	Last 3 Months	Last 12 Months
Info. Tech	-17.34%	-0.30%
Healthcare	-8.72%	6.48%
Financials	-13.12%	-13.04%
Communication Services	-13.19%	-12.55%
Consumer Discretion	-16.42%	0.82%
Consumer Staples	-5.22%	-8.38%
Industrials	-17.32%	-13.32%
Energy	-23.78%	-18.09%
Materials	-12.31%	-14.70%
Real Estate	-3.84%	-2.23%
Utilities	1.36%	4.10%

Source: Informa & Bloomberg

Table 3: GDP Growth

2016	**0.6%**	**2.2%**	**2.8%**	**1.8%**	**1.5%**
2017	**1.2%**	**3.1%**	**3.2%**	**2.8%**	**2.5%**
2018	**2.2%**	**4.2%**	**3.4%**	*2.6%*	*3.1%*
2019	*2.2%*	*2.4%*	*2.2%*	*2.0%*	*2.2%*
2020	*1.8%*	*1.9%*			*1.7%*

Quarterly GDP = Q over Q growth. Year = annual Y over Y growth.

Source: Actual (Bold) Bureau of Economic Analysis as of 9/18. Projected (Italics) WSJ Economic Survey September 2018

While large cap stocks lost 13.5%, higher volatility small cap (Russell 2000 -20.2%) and mid-cap (S&P 400 -17.3%) indices fared worse. Small and mid-cap stocks generate most of their revenue in the U.S., which shields them from the fallout surrounding trade disputes. Furthermore, this creates a bigger earnings boost from tax cuts. Small and mid-cap stocks had been outperforming large cap stocks for much of the year, but each index finished 2018 down roughly -11% in 2018. In the fourth quarter, investors looked past their domestic benefits and sold them as if the U.S. was heading into certain recession. The market started to transition very strongly in the fourth quarter into defensive and higher income sectors, such as Healthcare, Consumer Staples, Utilities and Real Estate. Notably many of the stocks with strong secular growth stories, such as the FAANG stocks held up reasonably well. There was not a "capitulation sell-off" that is typically seen when markets

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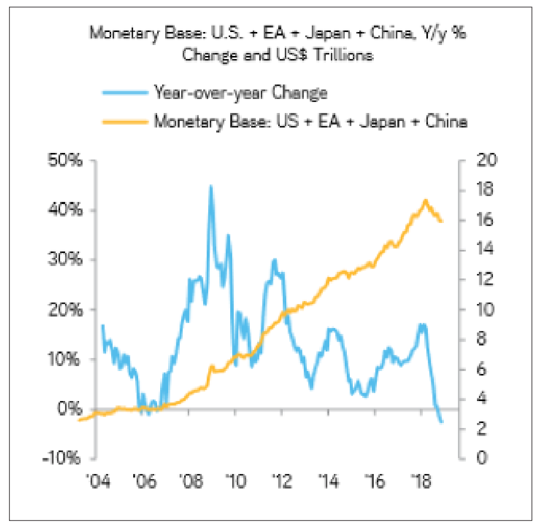
roll into the bear market phase. Moreover, secular growth stocks have rebounded sharply and recovered stronger than the overall market in January.

Global Stock Markets: International EAFE and emerging market EME indices trailed the S&P 500 throughout 2018, but did not give back all of their strong 2017 performance losing -13.8% and -14.6%, respectively for the year. Additionally, both indices performed better than the S&P 500 in the fourth quarter with the EAFE losing -12.5% and the EME losing -7.5% versus the -13.5% loss for the S&P 500. Developed international and emerging market equities still remain cheaper than U.S. stocks by many valuation metrics, but there is greater uncertainty regarding their economic fundamental strength relative to the U.S. At the beginning of the year most economies were in a synchronized growth mode, which snowballed to outsized market returns by the end of 2017. International growth rates started to decline in the second and third quarter.

Global Bond Markets: U.S. bond indices rallied 1.64% in 4Q18 vs. 1.20% and 2.38% for the BBG Global and EM Aggregate indices, respectively. The dollar finished the quarter up only about 1.1%, but spent most of the quarter 1%-2% higher. Taking out the currency impact, the BBG Global return was a little better than the U.S. return at 1.74%, while the EM bond index was below U.S. index returns at -0.18% during the quarter. On a YTD basis the U.S. BBG Aggregate Bond index return was negative every day of 2018 and only turned positive on December 31, generating a 0.01% return for the year. If it remained negative, it would have marked the first time that U.S. stock and bond indices both finished the year with a loss, which we think underscores a dilemma for investors. The yield environment remains so low, that bonds offer less defensive attributes in equity market downturns, leading us to look to alternative strategies to offer additional defense. On a local currency basis for 2018, the BBG Global and EM Aggregate indices were down -1.20% and -4.71% , respectively, and up +1.76% and down -2.46%, respectively, with the currency hedged. The Fed hiked rates 0.25% four times in 2018. The 10-year treasury yield increased 80bps from 2.447% at the beginning of the year to a peak of 3.248% in October as markets sold off, however, the yield fell almost 60bps to finish the year at 2.686%.

Figure 3: Monetary Base Contracting, but Accommodative



Date as of December 20, 2018. Source: Federal Reserve Board, European Central Bank, Bank of Japan, People's Bank of China, Haver Analytics.

2018 ECONOMIC OUTLOOK – Post-Peak Growth

U.S. GDP growth was strong in 2018 and included a 4.2% reading in the 2nd quarter and the third quarter result of 3.4% beat estimates despite weather and fire disasters creating regional work stoppages. In hindsight, some of the higher economic activity was related to orders and purchases made ahead of tariffs going into effect. Economic forecasters started lowering forecasts in the fourth quarter, however, as financial conditions tightened and trade concerns started to impact business investment. The 2018 GDP growth estimate remains 3.1% versus the 2% average growth from 2015 to 2016. After several upgrades in 2018, the growth forecast for 2019 of 2.2% is now lower than forecasts were in 2017. The 2019 estimates appears to be offsetting the tax cut with an impact from trade policy. We think the 2.2% forecast for 1Q18 is probably too high, based on color from corporate earnings calls and the expected impact of the government shutdown. Despite the possible overestimate for 1Q19, we think the 2019 GDP estimates could be too low and may end up revised closer to the 2.5% level. Nevertheless, we believe the U.S. is past the peak of this economic/business cycle and additional monetary or fiscal stimulus is unlikely in the current political environment.

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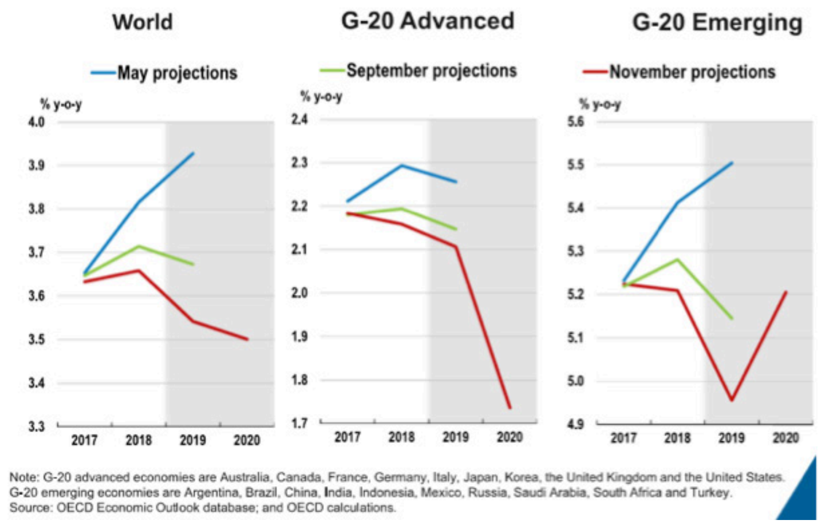
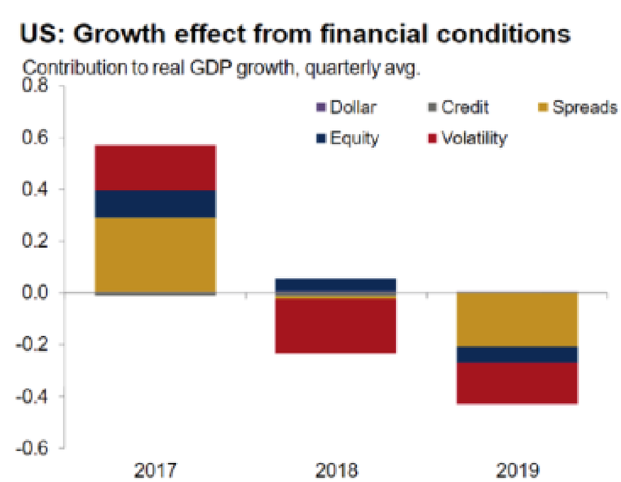
Figure 4: OECD Lowers GDP Forecasts Twice



Source: Oxford Economics & WSJ Daily Shot

The global economic setup at the beginning of 2018 was the strongest of the post-recession business cycle acquiring the buzz phrase "synchronized global growth" as all of the developed OECD and most emerging economies were expanding. No major indices and only a few international stock markets finished with positive returns in 2018. Overall the global monetary policy regime remains accommodative as Central Bank balance sheets remain at inflated levels (please see Figure 3). Incremental monetary policy and financial conditions have become more restrictive and the withdrawal of liquidity appears to have taken its toll on asset prices as no returns on any major asset class beat inflation in 2018. Furthermore, we believe austerity in China is contributing to the deceleration in Europe and Emerging markets. In recent years, China has contributed roughly 36% of the growth to Global GDP (please see Figure 8 below). China has been cracking down on its small market shadow banking system and manufacturers that have created huge surpluses of products such as steel, cement, and chemicals that have been dumped at prices below cost in the U.S. and elsewhere. Additionally, it is beginning to see an impact from the tariffs initiated earlier in the year as well as damage to business spending, despite a series of postponements. As China's economy slowed from reform efforts in 2018, lower incremental China demand caused its larger trading partners, the European Union and other Emerging Market countries, to slow down as well. The country has been trying to ballast its reforms with monetary and fiscal stimulus. To counter the reform austerity, China is trying to selectively stimulate parts of its economy and consumer spending. For most of the second half of 2018, the party tried to return its economy closer to 7% GDP growth of recent years versus its 2018 results trending towards 6%. It was not working until some faint signals appeared in late December. The government has steadily lowered bank reserve requirements, which allows banks to lend more. In January, the government issued a tax cut, announced large public works projects and promised more stimulus.

Figure 5: Waning U.S. Stimulus



Source: Oxford Economics

When economic growth was "synchronized" in early 2018, the OECD and IMF raised its world growth forecast to 3.9% for 2018 and 2019. Growth estimates rapidly deteriorated in the second half of 2018. Citing weakness related to trade tensions between the U.S. and China, the OECD and IMF cut its forecast to 3.7% in September and October. In November, the OECD downgraded its 2019 global growth

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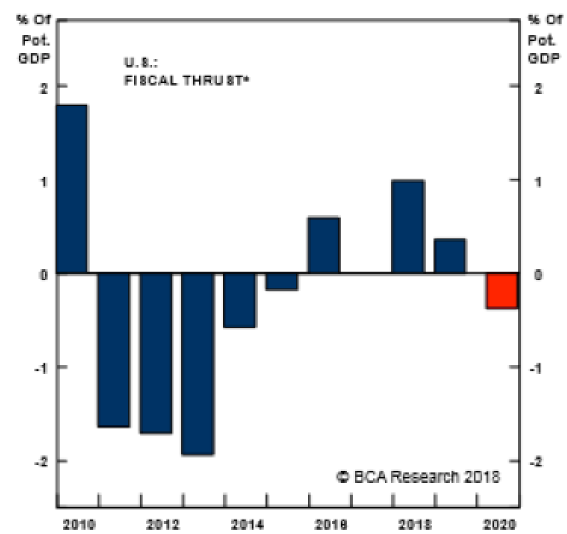
forecast further to 3.5% and the IMF followed suit in January. The latest forecasts cut estimates for the EU and most of the major Emerging Market economies (please see Figure 4).

2019 MARKET OUTLOOK – First Half Rally Fades in 2H19

Throughout 2018, the market was in a three-way tug-of-war between 1) benefits from fiscal tax cuts that stimulate growth and dramatically increase corporate earnings; 2) a concern that the Fed will tighten faster than anticipated; and 3) worries that a trade war could slow both U.S. and international growth. In the fourth quarter, negative sentiment, mostly spurred by hawkish Fed comments, won out. The market sell-off underscored concerns that the Fed's rate hikes had gone far enough and plans for further hikes would push the economy into recession. An unresolved trade conflict and Congressional gridlock leading to a government shutdown added to bearish sentiment.

Figure 6: Waning U.S. Stimulus



Source: BCA

U.S. Stock Markets - We believe the market will rally in the first half as the three key contributors to bearish sentiment are resolved or at least pushed further out. Already in early January, the Fed is expressing a greater willingness to pause its rate hikes, which has enabled the market to bounce back 12% from its Christmas Eve lows. We do not think the market will completely shake off Fed concerns until we get through the March and June meetings. We expect the government shutdown to be resolved in late January or early February. The ending of prior shutdowns has typically given the market a boost. Trade talks are supposed to wrap up by their March deadline. Early indications suggest progress is being made and a game plan to reduce the trade deficit to zero over the next few years is the current speculation. We believe such a proposal may be in the works, but fixing some of the more difficult issues such as the forced transfer of intellectual property and production secrets may take longer and remain in the background for some time to come.

We think resolving trade, the shutdown and the pace of Fed hikes is likely to help the market rally 5% to 10% in the first half of the year. Low unemployment, strong consumer sentiment and spending as well as a pickup in housing, should help the market retain gains in the first half of the year. We think the second half of the year will be dicey for U.S. markets. Monetary financial conditions have become tighter and the effects of the tax stimulus start to wear off in the second half of 2019 (Please see Figures 5 and 6). We think the probability for a bear market correction increases in the second half of 2019.

U.S. Bond Markets – For the past three years we have been underweight U.S. bonds in general and investment grade, medium to long duration bonds in particular. Once the Fed started to raise rates from 0% to more normal levels, we expected certain bond sectors to lose money or fall short of compensating investors for the risk. The Federal Reserve hiked rates by 0.25% for the ninth time since the financial crisis in December. The rate hikes and stronger economic data enabled the 10-Year Treasury to break out of its four-year range of 2.1%-2.6% and move almost to 3.25% during the quarter. The BBG Aggregate Bond index traded at a loss every day of the year until December 31. The index returned +1.64% for the quarter and +0.01% year-to-date. Now that the Fed has brought the short end of the rate curve up closer to normal historic levels, we think bonds will offer better returns. About 90% of return for a bond is a result of its yield. When yields were close to 0%, there was little protection and most investment grade bonds did not offer great return prospects. Based upon the current yield regime, we believe U.S. bonds should start returning 2%-3%, making them more attractive than in recent years.

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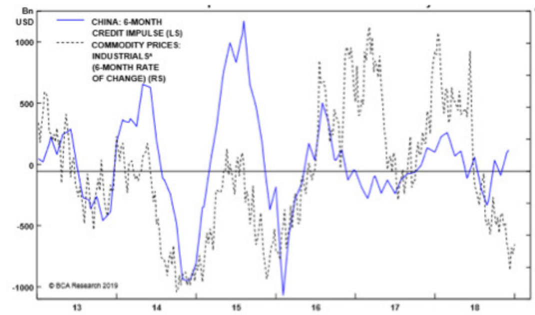
International Stock and Bond Markets – U.S. stock indices outperformed international stock indices in 2018 (EAFE: -13.8%; EM: -14.6%; S&P 500 -4.4%). International indices, however, performed better during the quarter. We believe international stocks became oversold and were recognized to be at extreme low valuations. Emerging market valuations, for example, were below levels reached during the 2008-2009 crisis. We think that many investors believe several of the international markets have corrected and bottomed and are likely to recover in 2019 or 2020.

Figure 7: Signs of Chinese Stimulus



Source: BCA Research

We believe that many developed international markets are likely to move sideways for much of 2019, unless the European Central Bank decides to pause on its "Quantitative Tightening" schedule. We think Emerging Markets are more likely to show signs of recovery in the latter half of the year, particularly if the trade conflict is partially resolved and Chinese stimulus efforts take effect. Some of the Chinese economic data is starting to show signs of improvement, but the data are not yet uniform or providing solid confirmation (please see Figure 7). Nevertheless, China is increasing its stimulus efforts as mentioned above and we are optimistic it will take hold by the second half of 2019.

MARKET RISKS: Global Slowdown or Hard Landing?

Global markets are transitioning from a prolonged period of massive Quantitative Easing and geographic pockets of fiscal stimulus to the beginning of a period of "Quantitative Tightening". The big concern for markets is, "Can Central Bankers tighten without making a policy mistake?"

Policy Tightrope: So far Central bankers have been pursuing a slow process of tightening, by slowly withdrawing liquidity from their economic systems. Only a few countries are hiking interest rate as in the U.S. As the U.S. had in years prior to hiking rates, the EU has stopped direct purchase of constituent sovereign and corporate bonds. It is letting an increasing amount of the bonds on its balance sheet mature without the repurchase of securities, which slowly reduces the size of its balance sheet and withdraws money supply. The concern is that any one of these Central Banks can make a mistake and move too quickly pushing an economy into a deeper recession that has contagious effects on the global economy. GDP growth in the EU remains below 2.0%, with some of its largest economies forecast closer to 1% growth. Germany posted a quarter of slight contraction. GDP growth is driven by demographics, such as population and labor force growth, as well as technology, education and other factors that lead to higher productivity growth. Demographics and productivity are in a much weaker position for most Developed economies. Even the demographics for emerging economies are weaker than in prior decades. This structural demographic weakness heightens the chance for a policy error in our opinion. Furthermore if a mistake occurs, the level of rates and unemployment in many countries as well as the political climate can make stimulating some of these economies out of a recession a more difficult and lengthy proposition.

Trade Conflict: Collateral Damage

Can Indirect Impacts on Currencies and Equity Markets Cause More Harm than Tariffs?

- **Currency Rates:** Perhaps greater short-term pain may be inflicted on global trade relationships via currency exchange rates. Our greatest concern is the impact the trade conflict could have on the dollar. Economic data over the last 20 years show that a 5% increase in dollar causes about a 0.25% decrease in U.S. GDP. A rising dollar trend over the next couple of years could become a significant headwind to U.S. growth and corporate earnings. Could a negotiated outcome that results in a program that reduces the trade deficit to zero pressure the dollar higher?

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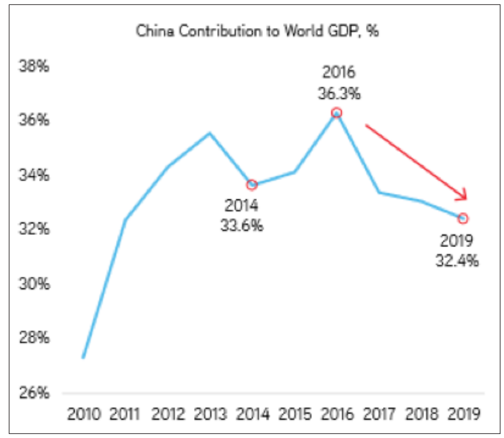
- **Trade Sentiment Weighing on International Markets:** The U.S. trade threat is hurting business and consumer sentiment more significantly in reports from overseas. The Chinese consumer is not spending as much whether it is a result of the trade conflict or an impact from economic reforms. As a trade war threatens to disrupt supply chains the drop in business sentiment is already driving capital spending lower in companies affected by trade. Furthermore, investment capital for new plants and operations in countries such as China, Japan and other Asian countries is slowing and likely to worsen until the trade conflict is resolved or there is greater certainty over its impact. Supply chain uncertainty is starting to show up in revenue misses and weaker 2019 earnings guidance for multi-nationals that rely on China and Asia for much of their incremental earnings growth.

Figure 8: China % of World GDP Growth



Source: WSJ: The Daily Shot

Watching for Bear Market Warning Signs: Key Signs Remain Yellow

There are three key signs that typically signal a recession. A recession is two consecutive quarters of contraction or negative GDP growth. GDP is a lagging data point, whereas markets look to leading data points, which is how markets often sink into bear territory 3 to 12 months in advance of the lagging GDP data. None of the major indicators are signalling problems at the current time.

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. It is typically in response to a significant pickup in inflation (3%+). In recent months the yield curve has steepened in response to Fed moves and stronger economic data, reversing an almost two-year period when the curve steadily flattened.
2. **Rise in Unemployment** – Each of the last 11 recessions since 1950 have coincided with a 0.3% rise in the unemployment rate, usually in the form of three successive 0.1% increases in the monthly unemployment announcement. The good news is the unemployment curve has a long forward momentum over time. Recent data suggests that unemployment could continue to decline until mid-2019.
3. **Market Valuation** – Typically, the last phase of a bull market coincides with multiples reaching 19x to 20x next year's earnings. Forward multiples ranged from 13x to 14x at year end and have expanded to 14x to 15x currently after a 7% market rally in January. These multiples are below average for a bull market and much below normal for the final stages of a bull market.

MARKET VALUATION, EXPECTED RETURNS & PORTFOLIO STRATEGY

As we foretold last quarter, the 10% earnings growth implied at $178 per share for 2019 proved too high and have been revised downward to $175 per share implying 7% growth (please see Figure 9). Revisions for the earnings of companies in cyclical sectors such as energy, technology and materials encompassed most of the revisions. Oil prices fell 38% in the fourth quarter and 25% for 2018. Energy EPS estimates were lowered by 30% during the quarter. Technology and materials earnings estimates were cut 7% and 6%, respectively. These are also three of the four sectors with the highest international revenues. Only utilities saw a meaningful increase to estimates of 2%. We believe there is a little over-reaction in these sectors, but the overall estimate and 7% growth rate should be reasonable assuming the economy remains strong.

The good news is that valuations started the year near bear market levels and remain below average valuation levels. At the beginning of the year, the market at 2507 was valued at 14.4x 2019 and 12.9x 2020 earnings, which are closer

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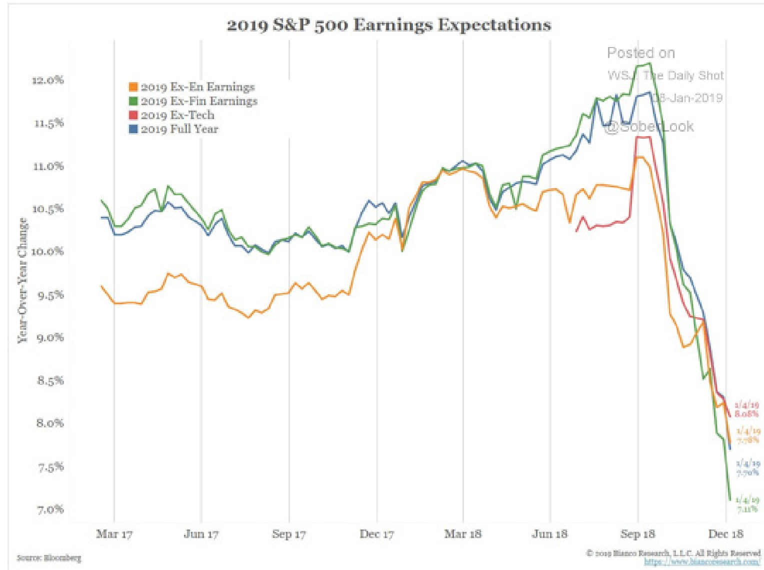
to bear market multiples. Next year's estimate of $194 implying 11% growth appears too high, which understates the 2020 multiple of 12.9x. The market has recovered 5% to 2640, revising the multiples upward to 15.1x and 13.6x for 2019 and 2020 estimates. Even if earnings growth was flat for the next two years, the market multiple would be 16.3x – about average for a bull market. Multiples fall to 13x to 14x during bear markets suggesting that the market has about 11% downside from here, which would be down 20% from the September market high of 2941. We do not think the market will reach extended bull market values of 19x to 20x earnings before the next bear market and the market peak may have been reached last September. There are too many long term overhangs and many expect a correction to the bull market, which became the longest on record in August 2018. Nevertheless, we expect the market to rally between 7% and 12% in the first half of the year, but believe some of those returns are likely to be given back in the second half of the year unless the fundamental economic trajectory improves enough here or abroad to boost earnings. We think 2019 sets up for a mid-single digit total return for the S&P 500.

Figure 9: Earnings Estimates Cut during 4Q18



Source: WSJ: The Daily Shot

Table 5: S&P 500 Valuation

					Growth %
- S&P 500 Value 12/31/18:	2,507		- 2017 Actual:	$132	11.8%
- S&P 500 Forward Multiple 18E:	15.4x		- 2018 Estimate:	$163	23.1%
- S&P 500 Forward Multiple 19E:	14.4x		- 2019 Estimate:	$175	7.4%
- S&P 500 Forward Multiple 20E:	12.9x		- 2020 Estimate:	$194	10.9%

Implied S&P 500 Valuation

	$155	$160	$165	$170	$175	$180	$185	$190
13.0x	2,015	2,080	2,145	2,210	2,275	2,340	2,405	2,470
13.5x	2,093	2,160	2,228	2,295	2,363	2,430	2,498	2,565
14.0x	2,170	2,240	2,310	2,380	2,450	2,520	2,590	2,660
14.5x	2,248	2,320	2,393	2,465	2,538	2,610	2,683	2,755
15.0x	2,325	2,400	2,475	2,550	2,625	2,700	2,775	2,850
15.5x	2,403	2,480	2,558	2,635	2,713	2,790	2,868	2,945
16.0x	2,480	2,560	2,640	2,720	2,800	2,880	2,960	3,040
16.5x	2,558	2,640	2,723	2,805	2,888	2,970	3,053	3,135
17.0x	2,635	2,720	2,805	2,890	2,975	3,060	3,145	3,230
17.5x	2,713	2,800	2,888	2,975	3,063	3,150	3,238	3,325
18.0x	2,790	2,880	2,970	3,060	3,150	3,240	3,330	3,420
18.5x	2,868	2,960	3,053	3,145	3,238	3,330	3,423	3,515
19.0x	2,945	3,040	3,135	3,230	3,325	3,420	3,515	3,610
19.5x	3,023	3,120	3,218	3,315	3,413	3,510	3,608	3,705
20.0x	3,100	3,200	3,300	3,400	3,500	3,600	3,700	3,800

Implied S&P 500 Price Change 12/31/2018

	$155	$160	$165	$170	$175	$180	$185	$190
13.0x	-20%	-17%	-14%	-12%	-9%	-7%	-4%	-1%
13.5x	-17%	-14%	-11%	-8%	-6%	-3%	0%	2%
14.0x	-13%	-11%	-8%	-5%	-2%	1%	3%	6%
14.5x	-10%	-7%	-5%	-2%	1%	4%	7%	10%
15.0x	-7%	-4%	-1%	2%	5%	8%	11%	14%
15.5x	-4%	-1%	2%	5%	8%	11%	14%	17%
16.0x	-1%	2%	5%	8%	12%	15%	18%	21%
16.5x	2%	5%	9%	12%	15%	18%	22%	25%
17.0x	5%	8%	12%	15%	19%	22%	25%	29%
17.5x	8%	12%	15%	19%	22%	26%	29%	33%
18.0x	11%	15%	18%	22%	26%	29%	33%	36%
18.5x	14%	18%	22%	25%	29%	33%	37%	40%
19.0x	17%	21%	25%	29%	33%	36%	40%	44%
19.5x	21%	24%	28%	32%	36%	40%	44%	48%
20.0x	24%	28%	32%	36%	40%	44%	48%	52%

Source: Yardeni Research & CB&T. Note add ~2% in dividends for S&P 500 total return

Pink Shade - Bear Market from 2941 2018 peak; Yellow Shade - Expected Levels; Green Shade - Irrational Exuberance

4Q18 REVIEW & 2019 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	
Fed/Inflation and trade remain an overhang. Small & midcap may have peaked for the cycle as rising interest rates and labor costs may outweigh benefits from tax cut and domestic positioning.	Moving to slight underweight on small/ mid cap stocks. Adding to U.S. large cap stocks but remain slightly underweight. Added to more defensive, low volatility selections.	Small (-20.2% 4Q18; -11.0% YTD) and Mid cap (-17.3%; -11.0%) stocks underperformed large cap (-13.5%; -4.4%) during 4Q18 and YTD.	The Fed may have backed off, but economic data remains on the cusp of inflation keeping the Fed sidelined. Trade conflict is key for 2019. Expect 1H19 rally and remaining about equal weight in large cap.	Expect 1H19 rally. Adding weight to large cap but looking for opportunities for more defensive additions.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
We thought the dollar would move higher, pressuring EM and developed international.	We cut EM to significantly underweight and moved to more defensive mix (lower beta) developed international stocks.	The dollar spiked ~3% during the quarter, but only finished 4Q18 up 1% and up 4.4% YTD. Emerging markets (-7.5% 4Q18, -14.6% YTD) underperformed and developed international stocks (-12.5%; -13.8%) also lagged.	We think monetary policy (China Stimulus, EU Pause) and trade resolution may enable EM and International equities to recover, particularly in 2H19.	We are leaving EM underweight and international stocks about equal weight. We expect to add weight on signals from China and trade conflict resolution.
FIXED INCOME			FIXED INCOME	
We expected a 0.25% Fed Funds rate increase in December. With short-term yields rising above 2%, we upgraded our fixed income returns expectations for 2019 to 2%-3%.	We remained underweight core bonds, but added to short duration fixed income in 4Q18. We trimmed Emerging Market bonds.	The Fed raised the Fed Funds rate 0.25% in December Core bonds returned +1.64% in 4Q18; +0.01% for 2018. Our shorter duration bond portfolio outperformed benchmarks.	We expect the Fed to pause for 1Q19 and possibly for the rest of the year. If trade resolution and EU/ China policy results in rejuvenated global growth, additional rate hikes could occur in 2H19.	We remain underweight, but are beginning to add to core bonds, but most of the fixed income portfolio weight remains short duration.
We believed munis are at fair value to slightly undervalued.	We maintained an equal weight to munis.	Munis outperformed core bonds in the quarter (+1.69% vs. +1.64%) and for 2018 (+1.28% vs. +0.01%).	We believe munis are at fair value to slightly undervalued.	We are maintaining an equal weight to munis at this time.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We expected volatility to be high in 2018. We thought trade tensions, Central Bank tightening and inflation surprises would be catalysts for higher volatility.	We increased our allocation to alternatives from 9% to 10%, focusing on managed futures, market neutral and other non-correlated alternatives.	The market rallied 7 times before retreating to the beginning year level(3x in 4Q18). The SG CTA alternatives index benchmark returned -2.4% in 4Q18 and -5.8% for 2018. CB&T's Liquid Alpha alternatives outperformed in 4Q18 returning +0.8%, but outperformed in 2018 gaining +1.9%.	We expect volatility to remain high in 2019 over trade, global growth and political concerns.	We are maintaining our 10% allocation continuing to focus on strategies with no structural correlation to equities.
For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.				