Quarterly NEWSLETTER

Winter 2019

Commonwealth Bank & Trust Company

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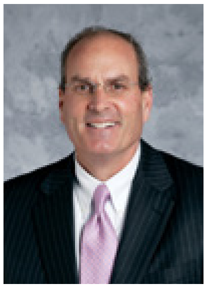

Volatility Yields Opportunities...

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Volatility reigned during the fourth quarter as markets gained 10.6% through the end of September, buoyed by strong economic data and 20% corporate EPS growth. Stocks swooned after hawkish Fed comments in early October, followed by inflationary economic data and 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% from the September highs) briefly on Christmas Eve, and has since recovered to its early December levels, essentially right back to where the year started in 2018!

While large cap stocks lost -13.5% for the quarter and -4.4% for the year, higher volatility small cap (Russell 2000, -20.2% Q4, -11.01 FY2018) and mid-cap (S&P 400, -17.3% Q4, -11.10 FY2018) indices fared worse. 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. Developed international and emerging market equities remain cheaper than U.S. stocks by many valuation metrics, but there is greater uncertainty regarding their economic fundamentals relative to the U.S. On average, bonds, which are targeted to generate income and provide a safe haven when equities are stressed, were negative every day of 2018 until December 31, when they finished with a 0.01% gain for the year.

Assuming the trade conflict is constructively resolved, we expect the market to continue its early January rally through the first half of 2019, but believe those returns will be partially given back as the year progresses unless the fundamental economic trajectory improves both domestically and internationally to provide a boost in corporate earnings. Ultimately, we think 2019 sets up for a mid-single digit total return for the S&P 500.

Q4 2018
Market Performance – Total Returns

	12.31.18 Level	Q4	YTD
Dow Jones	23327	-11.31%	-3.48%
S&P 500	2507	-13.52%	-4.39%
NASDAQ Composite	6635	-17.28%	-2.81%
Russell 2000	1349	-20.20%	-11.01%
S&P Midcap	1663	-17.28%	-11.09%
Russell 1000 Growth	1314	-15.89%	-1.51%
Russell 1000 Value	1093	-11.72%	-8.27%
MSCI EAFE	1719	-12.54%	-13.79%
	Yield	Q4	1 year
Barclays Municipal	2.69	1.69%	1.28%
Barclays Aggregate	3.28	1.64%	0.01%
Barclays High Yield	7.95	-4.63%	-2.25%

Proprietary Performance Results

Equities	4th Qtr	1 year	3 year	5 year	10 year
Aggressive Growth Fund[1]	-14.71%	5.39%	14.28%	11.74%	16.42%
Science/Technology Fund[2]	-17.34%	2.30%	12.77%	11.79%	16.01%
Focused Equity Fund[3]	-12.41%	-4.01%	8.01%	8.02%	12.76%
S&P 500	-13.52%	-4.39%	9.24%	8.47%	13.11%
Balanced	**4th Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Strategic Income Builder Fund[4]	-7.60%	-5.07%	5.38%	4.83%	8.50%
60% Russell 3000 Value, 40% Barclays Aggregate Index	-6.73%	-4.97%	5.19%	4.64%	8.31%
Alternatives	**4th Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Liquid Alpha Fund	0.77%	1.89%	0.69%	n/a	n/a
Structured Alpha LP	1.48%	3.02%	n/a	n/a	n/a
SG CTA Index	-2.43%	-5.84%	-1.73%	-	-
AQR Managed Futures	-6.03%	-8.88%	-6.16%	-1.56%	n/a
Tax-Free	**4th Qtr**	**1 year**	**3 year**	**5 year**	**10 year**
Muni Funds Blend	2.44%	2.09%	2.52%	3.28%	3.84%
Barclays 1-12 yr. Muni Index	1.61%	1.64%	1.67%	2.42%	3.30%
Aquila Churchill Tax-Free Fund of KY	1.62%	1.00%	1.57%	2.78%	4.32%
Dupree KY Tax-Free Income	1.72%	0.95%	1.71%	3.03%	4.00%

There is no assurance that any of these investment strategies will meet its investment objective. Performance results for each strategy are computed on the strategy's overall returns. Each strategy and index includes the reinvestment of dividends. Past performance does not guarantee future results. Current performance may be lower or higher than the performance results quoted. [1] Net of management fees; Inception date 7/1/1989; performance results of SMC Capital and/or its principals as advisor from inception to 2/28/06 and as sub-advisors to CBandT since 3/1/06. [2] Inception date 3/31/2006. [3] Inception date 12/31/2008. [4] Inception date 12/31/2008.

Fixed Income

In December, the Federal Reserve raised rates by a quarter point to the 2.25%-2.5% range, its fourth such hike during 2018. While still expected, the probability of the hike declined during December due to concerns over equity market underperformance, the looming government shutdown, trade tensions and, to some extent, the administration's criticism of the Fed hiking rates too fast. Given the equity declines, interest rates moved down in the so called "flight to quality" bond rally. The 10-year Treasury yield peaked on Nov. 8th at 3.24% and fell from there to end the year at 2.68%. In all, the yield curve (short vs. long rates) flattened considerably during the quarter. Curve inversion has appeared in the shorter maturities of one through three years. As we have mentioned, curve inversion has been a powerful predictor of recessions. U.S. economic growth remains strong with third quarter GDP at 3.4% vs. 4.2% for the 2nd quarter. Employment is accelerating with Job growth averaging nearly 252k during the quarter. Possibly a big concern for the Fed, wage growth has hit levels not seen in 10 years. Average hourly earnings are now growing at a 3.2% annual pace compared to 2.7% growth in the prior two years.

For the quarter, U.S. investment-grade bonds bounced back, returning 1.64%. The year-to-date return of this index was negative on every trading day during 2018, except for the final day of the year, finishing up 0.01%. If it had been down, it would have been the first time in history that both bonds and stocks (S&P 500) were negative in the same calendar year. Non-investment grade or "high yield" corporate bonds had been strong performers through September (+2.6%), but this economically sensitive asset class was impacted by the equity volatility during the 4th quarter. High yield returns declined over 2% for December, over 4.5% for the quarter, and finished the year at 2.3%, in line with investment-grade corporate bonds. International bonds performed well during the quarter as "hedged" global aggregate ex-US returned 1.9% (vs. 0.9% unhedged). Within international, we have continued to reduce emerging market bonds which have been impacted by our strong dollar. Tax-exempt municipal bonds finished the year strong, returning 1.20% in December and 1.69% for the quarter. This put the 2018 return at 1.28%, well ahead of taxable alternatives.

Our base case for 2019 is more difficult to determine given the dramatic decline in rates. We still think an inverted curve is more probable than a steepening curve, especially given heightened global volatility. That said, we could see a steeping curve if a recessionary argument is not to be seen in the incoming economic data. We remain confident in our 1-3% return forecast for investment grade bonds over the next 3 to 5 years. Overall yield is a strong predictor of future returns and the Bloomberg Barclays Aggregate index is currently yielding around 3.2%, so that would imply the higher end of that range. In addition, we have reduced our tactical underweight to core fixed income during the quarter as equity volatility spiked. While disparate, we believe bonds and alternatives combined offer a nice risk-reduction strategy within most portfolios.

Focused Equity

For the fourth quarter and the twelve months ending December 31, the strategy returned -12.41% and -4.01%, respectively, versus a -13.52% and -4.39% loss for the S&P 500 Equity Index. Since inception, the strategy has narrowly trailed the S&P 500's annual return of 13.11% by -0.35% with an annualized gain of 12.76%. However, the fund has achieved these results taking on meaningfully less risk than the S&P 500 with a beta of 0.89 and capturing only 91% of the index's annualized standard deviation.

Ventas, INC (VTR)
10/1/2018 – 12/31/2018

Leaders: Investors rotated to defensive sectors and stocks with high income during the quarter as the market corrected. Defensive positions within REITs and Utilities, American Tower (AMT +9.4%), Ventas (VTR +9.2%), and Nextera Energy (NEE, +4.4%), led the quarter. Starbucks (SBUX, +13.9%) rallied on better than expected store volumes and pricing. Abbot Labs (ABT, +29.1%) issued a broad study demonstrating that its less invasive heart valve clips offered a greater reduction of degenerative effects over five years than more invasive valve replacements. Amazon (AMZN, +28.4%) continued to dominate retail and cloud services and made greater headway into streaming and advertising. Card network companies, Visa (V +16.5%) and MasterCard (MA +25.3%) maintained their dominance in transaction processing as transactions continue to grow at double digit rates globally as mobile devices open new markets for transactions.

Laggards: Apple (AAPL, -29.9%) was the largest detractor in the fourth quarter after earnings revealed the growth of the iPhone has peaked and trade tensions may impact sales in China. Other FAANG stocks, Facebook (FB -20.3%), Amazon (AMZN -25.1%) and Alphabet (GOOGL, -13%) also lagged during the quarter. Most of these companies have outperformed the overall market in the January recovery rally. Commodity driven holdings, Diamondback Energy (FANG, -31.91%), Weyerhaeuser (WY, -31.81%) and EOG Resources (EOG, -31.37%), weighed on the strategy's performance during the fourth quarter, as we saw significant drawdowns during the period (Oil, -38.0%; Lumber, -7.2%). With the data beginning to point to a global economic slowdown and trade conflict in the headlines, cyclical industrials such as FedEx (FDX, -33.7%), Lockheed Martin (LMT, -20.3%) and Honeywell (HON, -17.2%) were punished. Energy holdings were the biggest detractors for the year, down -18.7% for the average position. Facebook lost -25.7% for the year as privacy concerns kept it under regulatory scrutiny causing it to increase its spending guidance to fix problems and restructure its operations

Strategic Income Builder

American Tower Corp. (AMT)
10/1/2018 – 12/31/2018

For the quarter, the strategy (SIB) returned -7.60%, somewhat behind its blended benchmark return of -6.73%, which is weighted: 60% Russell 3000 Value & 40% Barclay's US Aggregate. Most of this decline came in December. In contrast, investment-grade bonds experienced the so called "flight to quality" rally as interest rates plunged. For the full year 2018, SIB returned -5.07% to finish just behind its benchmark at -4.97%. Since inception (1/1/09), the SIB strategy has returned an annualized 8.50%, somewhat ahead of the benchmark return of 8.31%. These results mark the 10-year anniversary of this balanced and income-oriented investment product. The yield generated from the strategy has consistently exceeded that of its benchmark. The success of the portfolio is the result of an attractive mix of income producing securities, asset class and sector allocations, and tactical positions in global markets.

For the quarter, our equities returned -11.48%, outpacing the Russell 3000 Value which was down -12.24%. Unfortunately, the portfolio overweighting in stocks versus benchmark offset the outperformance. Equity allocation ended the period at 64% of the portfolio, or 4% overweight its benchmark. Dividend yield on the equity holdings is 3.6% or roughly 0.9% higher than the Russell 3000 Value and 1.5% more than the S&P 500. Procter & Gamble (PG +11%) was our best equity performer during the quarter. The stock rose nearly 9% after it reported its fiscal 1Q19 results in October, posting profit that topped estimates. Gains were especially notable in the U.S. and China. Previously we highlighted Apple as one of our top performers and through the 3rd quarter the stock was up 35%, but reports on the latest iPhone release suggested the XS, XS-Plus and XR models had fallen flat with consumers, and news of reduced component orders with suppliers raising concern for the stock. In all, Apple fell -29.9% during the 4th quarter and was our most costly position. On January 2nd the company confirmed fears, as Apple slashed sales guidance by 7.7% to $84 billion for its fiscal 1Q19 quarter ended Dec. 29th. The company singled out China as a key reason for the revision.

Quarterly fixed income performance of +0.55% trails the Bloomberg Barclays Aggregate Bond return of +1.64% by a relatively wide margin. However, on the year, fixed income results were +0.40% vs. +0.01% for the benchmark. Our tactical position within high yield bonds impacted results during the quarter with returns of -2.2% comparing favorably to comparable benchmarks were down more than -4.5%. The fixed income allocation finished the quarter at roughly 28%. Projected yield on the fixed income portfolio is currently 3.8% which compares to 3.3% for the Bloomberg Barclays Aggregate Index.

Alternative allocations declined somewhat and returned -1.6% for the fourth quarter. Portfolio allocation was subsequently increased to 6.5%. In general, we believe we can reduce portfolio volatility and enhance returns over time utilizing alternatives. While income generation is possible, it is difficult to predict in these strategies. Income/gains payouts ranged from 1.8% to 6.1% within our alternative selections during December.

Science & Technology Strategy

The Science & Technology strategy (SciTech) returned -17.34% for the fourth quarter and 2.30% for the last twelve months, outperforming the benchmark Lipper Science & Tech Fund Index, which returned -17.61% and -2.82% for the two periods. Since the inception of the fund (3/31/2006), the strategy has returned 9.10% versus 9.21% for the Lipper Science & Tech Index and 7.55% for the S&P 500. The strategy is beating the Lipper SciTech index on a risk adjusted basis, has a Sharpe Ratio of 1.07, and runs a 0.91 beta to the index.

Leaders: As with the S&P 500, most holdings declined during 4Q18. American Tower (AMT) was the largest contributor of positive performance (+9.4%) for the quarter as investors fled to "defensive" stocks during the downturn. AMT is the largest wireless cell tower company participating in the ongoing secular growth trend of worldwide cell phone adoption, but may see revenues accelerate as the 5G wireless buildout begins. Express Scripts (ESRX) gained 3% as Cigna (CI) closed its acquisition of the company on December 20th. The managed care industry continues to consolidate and move to a vertically integrated business model.

Laggards: Align Technology (ALGN) was the largest detractor of performance for the quarter, down 46.5%. The company has continued to beat analyst estimates, but has been lowering their forward guidance as they struggled with profitability of their Invisalign product, which was impacted by unfavorable foreign exchange conditions and a promotional program that hurt pricing. ALGN has been a top performer, generating a 47% compound return over the last three years, even with the drawdown. Furthermore, the stock rebounded over 20% in January. Other large laggards for the quarter were the high flying "FAANG" stocks, which all sold off between 20%-30% for the quarter amid the risk-off trade in the markets due to trade fears, slowing global growth, and hawkish Fed actions and comments. In January, these stocks also regained much of the ground lost during the fourth quarter. We have not trimmed any of the large lagging positions.

Small Cap

Air Transport Services Group (ATSG)
10/1/2018 – 12/31/2018

The Small Cap Value Composite returned -15.16% for Q4 versus -18.67% for the Russell 2000 Value index. For the full year, Small Cap returned -5.20% vs -12.86% for the benchmark.

One top contributing holding in the Portfolio during Q4 was Air Transport Services Group Inc. (ATSG, +6%), the premier lessor of the midsize freighter Boeing 767. Late in the quarter, Amazon (AMZN) expanded the scope and duration of its long-term aircraft leasing and services contracts with ATSG. This mutually beneficial partnership will improve ATSG's cash flow visibility while Amazon gains critical airlift capability necessary to execute its e-commerce strategy. Another top contributor during the quarter was Tech Data Corp. (TECD, +14%), the second-largest IT distributor in the world. TECD reported Q3 2018 results with a strong top and bottom line beat and issued 2018 guidance above consensus estimates. We maintained the position. Another positive contributor was Genworth Financial Inc. (Cl A) (GNW, +12%), a life and mortgage insurer with significant exposure to Long Term Care (LTC) insurance. In 2016, GNW agreed to be acquired by China Oceanwide (CO) for $5.43/share. Despite regulatory concerns and delays, GNW secured approval from several regulators during the quarter, moving the stock closer to offer price. We trimmed the position shortly after quarter end.

One bottom contributing holding in the Portfolio during Q4 was Conduent Inc. (CNDT, -53%), a global business process outsourcer with expertise in transaction processing, customer care, HR services, analytics, and automation. CNDT is currently being sued by the state of Texas for unnecessary payments charged to Medicaid with a trial set for May 2019. We believe a settlement is the most likely outcome and maintained the position. Another bottom contributor was Avaya Holdings Corp. (AVYA, -34%), a provider of communications networks for companies via on-premise, cloud, and hybrid formats. Shares followed the market lower throughout the quarter despite announcing strong Q4 results. During the quarter, revenue grew +2% year over year while bookings grew +6% quarter over quarter. We maintained the position. Another weak performer during the quarter was Liberty Latin America Ltd. (Cl C) (LILAK, -29%), a provider of broadband, TV, fixed voice, and mobile services in Chile, Puerto Rico, and the Caribbean. Its Q3 results were in line with expectations, and the company announced restoration in Puerto Rico is 100% complete after Hurricane Maria decimated the island in 2017. LILAK rebuilt its network faster than its main competitor, Claro, and is positioned to gain market share. We maintained the position.

Kentucky Municipals

Quarterly bond issuance by Kentucky municipalities fell to $1.5 billion from $1.7 billion in the previous quarter. Competitively awarded deals were $352 million with negotiated deals of $1.1 billion. Deal size was very strong averaging $54 million with 28 new issues in total. Bank-qualified (BQ) issuance came in at only $74 million or 5%, while the majority was Non-BQ issuance, coming in at $1.4 billion or 94%. We historically have used non-BQ because yields were typically higher. But as we suspected, BQ yields are converging with non-BQ given the effective 21% corporate tax rate or 20% deduction for S-Corp banks. Deals of note include $30 million of tax-exempt and taxable general obligations of Louisville Metro (rated Aa1/AAA). Louisville Metro has agreed to participate in the development of the Butchertown Stadium District Redevelopment Project. The Project will include the construction of a 10,000 seat soccer stadium and the redevelopment of the brownfields and adjacent properties by Louisville City Stadium, LLC ("Louisville City Stadium") and Butchertown Development District, LLC ("BDD").

KY bonds tracked the national market during the quarter. The S&P Municipal Bond Kentucky Total Return Index returned 1.73% vs. 1.69% for the Bloomberg Barclays Municipal Index. For 2018, these returns were 1.17% vs. 1.28%, respectively.

Kentucky Pension Update

On December 13th, the Kentucky Supreme Court blocked a Republican-backed pension overhaul law, sending lawmakers back to the drawing table on how to pay for the state's ballooning benefits obligations. Republicans have sought to pare back benefits and force greater contributions to shore up the state retirement system debt. According to Moody's, "The reversal is a credit negative for the commonwealth, delaying reforms to its severely underfunded pension plans that were set to provide modest savings over the long term. The year ended with Republican Governor Matt Bevin calling the legislature back in session to pass a version of the bill again, but lawmakers could not reach an agreement and adjourned. Recently, lawmakers announced a bipartisan "pension working group" to review the pension systems structure, costs, benefits and funding with a goal of coming up with a proposal that can pass the legislature with bipartisan support.

Other News

Toyota Motor Corp. is slowing down production of what's been the top-selling car in the U.S. for 16 years running, a telling indication of the deep slump in sedan sales. Camry sales in the U.S. this year through October dropped 6.1% from a year earlier. In recent years, the RAV4 crossover has outsold the Camry by a growing margin. In December, the automaker decreased production on one of the three assembly lines at its Camry assembly plant in Kentucky. None of the plant's 8,000 permanent workers or 1,500 temporary employees will lose their jobs, according to a company spokesman.

In related news, Ford is also working to retool plants, lower costs and focus on SUVs over slow-selling sedans and small cars. Ford said it would eliminate shifts at assembly plants in Michigan and Kentucky but give all affected workers jobs at other locations nearby. About 500 workers will move from the Louisville Assembly Plant, which makes the Ford Escape and Lincoln MKC crossovers, to instead make Super Duty pickups and full-size SUVs at the Kentucky Truck Plant, also in Louisville. The Escape plant will go from three shifts to two in the spring.

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/.

COMMONWEALTH LIQUID ALPHA FUND

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4Q18 PERFORMANCE REVIEW

Almost every major asset class lost value in 2018, but it was a solid year for our alternatives funds, which continue to provide strong portfolio diversification. Commonwealth Liquid Alpha Common Trust Fund ("Liquid Alpha") returned 2% and Commonwealth Structured Alpha ("Structured Alpha"), the strategy's LP version, made over 3%. These positive returns came despite the benchmark SG CTA Index losing -6% and the S&P 500 falling over -4%. In December, when equities suffered their worst year-end performance since the Great Depression, the funds both made over 1%, and were both up over 3% intra-month when equities were at their lows.

	FY 2018	Since Inception (Jan 2016)	Sharpe Ratio (LTD)
Liquid Alpha	1.89%	2.07%	0.11
SG CTA Index	-5.84%	-6.23%	-0.23
S&P 500	-4.39%	27.72%	0.81
Barclays Aggregate	0.01%	6.21%	0.72
60/40 Stock /Bond	-2.63%	19.12%	0.95
50 / 30 / 20 Stock / Bond / Alts	-1.81%	16.14%	0.92

Source: Morningstar, CBandT estimates

Liquid Alpha provides investors access to best-in-class, niche, non-correlated investment managers in a cost effective manner. We believe 2018 serves as a strong proof of concept for this approach. The factors that drove market conditions in 2018 are unlikely to suddenly abate in 2019, and so the diversification that strategies like Liquid Alpha can offer is likely to remain valuable to investors that wish to manage market volatility.

HOW WE MADE MONEY THIS YEAR

- Carry and value strategies performed well
- Commodities and global currency markets were drivers of positive return

These tend to be markets and strategy styles to which large, established managers have less exposure to, and this is part of the reason we focus on niche/emerging managers

	2018 Return
Global Equity Indices	-0.76%
Global Currencies	1.01%
Global Fixed Income	-0.15%
Commodities	1.79%
TOTAL	1.89%

Source: Morningstar, CBandT estimates

HOW WE LOST MONEY THIS YEAR

- Trend-following strategies lost money
- Global equity index and global fixed income markets were drivers of negative return

These tend to be areas where large managers, especially those with 40 Act mutual funds, are concentrated

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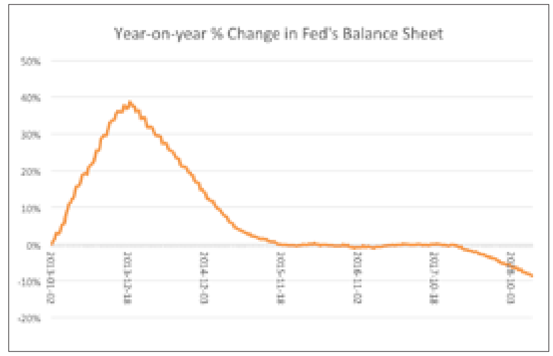
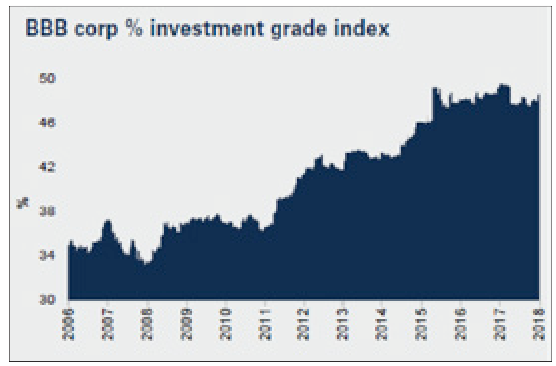
2019 OUTLOOK

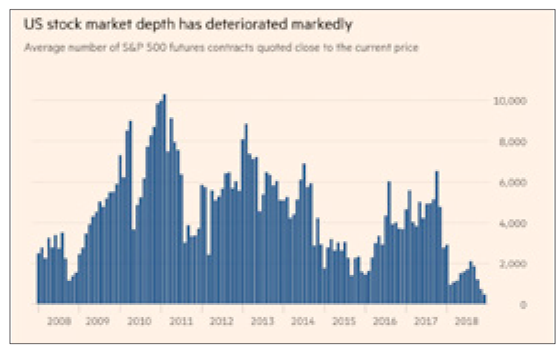
Most measures of economic growth imply that a US recession is still at least 12 months away. Given the 4Q18 sell-off in risk assets, we are seeing pockets of value in a variety of areas, and think stocks will continue to trade higher in 1H19. However, while markets have stabilized since the December lows, we see meaningful macro risks to markets for later in 2019:



Source: FRED, CB&T Estimates



As of 8/28/2018 Source: Boomberg-Barclays U.S. Corporate Investment Grade Index



Source: JP Morgan

- China fixed asset investment has been decelerating sharply since 2013 and they are scrambling to head off the negative economic effects of the trade war and structural reforms. Since China represents nearly 40% of global growth, they will need to continue major stimulus in 2019 to keep the global economy chugging along.
- The Fed rate hike and hawkish rhetoric spooked markets in December, but Chairman Powell has backed off a bit and now looks set to pause rate hikes in 2019. However the roll-off of the Fed's bond portfolio continues. This "Quantitative Tightening" is contractionary policy that reduces market liquidity and suppresses economic growth.
- Corporate credit markets are a concern. The BBB market (the lowest rung of investment grade bonds) is now the largest it has ever been. Since the Financial Crisis, companies have been issuing debt so they can buy back equity and now leverage is at high levels. We are overdue for a correction in credit, and this could spur a wave of downgrades and indiscriminate selling.
- Market liquidity is structurally poor due to bank regulation and the rise of automated trading and ETFs, in addition to the aforementioned "QT." This is likely to lead to wild price swings, which we have already seen in the past couple months.
- We believe, with global markets decidedly late in the economic cycle, now is a time to maintain or add diversifying alternatives to traditional portfolio allocations. For investors without proper diversification, particularly those overweight to global stocks, 2018 was almost certainly a negative performance year. Liquid Alpha now has a 3-year track record and has outperformed its benchmark by nearly 8% over that period, while being negatively correlated to the stock market.