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1Q19 REVIEW & 2019 OUTLOOK

Commonwealth Bank & Trust Company

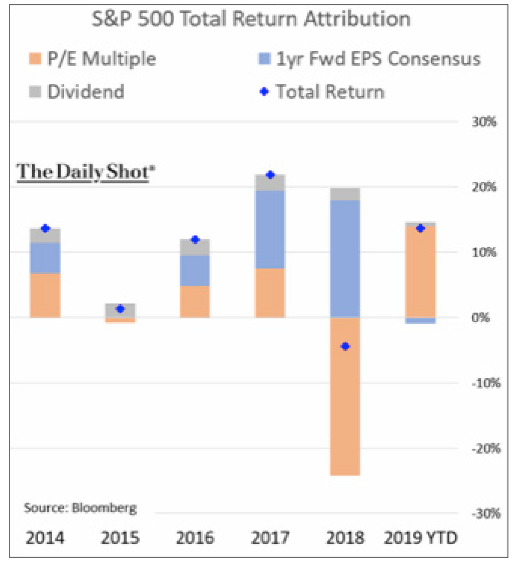
SUMMARY: CENTRAL BANKS REVERSING COURSE

After finishing 2018 with the worst quarter since the financial crisis, the S&P 500 rallied 13.65% to its best quarter in ten years. The fourth quarter sell-off and first quarter recovery were almost completely sentiment driven and not a result of changes to earnings estimates (*please see Figure 1*). Bearish sentiment won out in December as the market feared 1) the Fed was on autopilot and would hike rates until the yield curve was inverted and the U.S. economy was in recession; 2) the government shutdown would be long and drawn out, haircutting GDP growth; and 3) the trade issues would not be resolved enacting bilateral 20% tariffs between the U.S. and China on March 1. During the first weeks of the quarter, the Fed indicated it would pause rate hikes and by the end of March its language indicated it may be on indefinite hold for 2019. The shutdown ended in the last week of January and its impact appears to be far less than feared. During the final days of February, the Administration delayed the implementation of tariffs as long as trade talks were making progress.

In 2017 and 2018, Central bankers pursued a policy of tightening, by slowly withdrawing liquidity from their economic systems. Tighter monetary policy was exacerbated by trade disputes, which not only raised tariffs, but also created significant uncertainty for decision making in the broader economy for businesses to follow through on investment, expansion plans or hiring. The beginning of 2018 started off with the broadest reading of global economies growing simultaneously and ended with a rapid decline into a global slowdown. GDP growth in the Euro Area fell to 1.1% by year end and China manufacturing PMIs were contracting. Markets sold off in the fourth quarter over concerns that Central Banks were making policy mistakes and moving too quickly, which would move from regional economic softness to a deeper global-wide slowdown. Over the course of the first quarter, Central Banks signaled they were changing course. During the first week of January, the Federal Reserve signaled it would not necessarily remain on "auto-pilot" for its rate normalization program. Statements regarding policy became increasingly more dovish during the quarter and the Fed now has signaled it is strongly on hold. The Chinese government stepped up stimulus announcements in the fourth quarter and continued to announce new policies in the first quarter. The EU is no longer reducing the amount of monthly bond purchases and holding Quantitative Easing policy steady. As a result, equity markets have rebounded.

Valuations started 2019 near bear market levels, but have now recovered to about average levels. We believe the market should be able to at least maintain the 15% recovery through year end, which reflects an average 16.0x multiple on 2020 earnings. We

Figure 1: Recent S&P 500 Volatility Sentiment-based (P/E Multiple)



Source: CB&T, Thomson Reuters

Table 1: Index Returns

Index Returns as of 03/31/19	1Q19	Last 12 Months
S&P 500	13.65%	9.49%
Russell 2000 (Small Cap)	14.58%	2.05%
MSCI EAFE (International)	9.98%	-3.71%
MSCI EME (Emerging Markets)	9.92%	-7.42%
BBG BARC Aggregate Bond	2.94%	4.48%
Oil bbl. Price Changes	32.44%	-7.39%
Gold Returns	0.77%	-2.47%
Commodities Returns (CRB Index)	8.22%	-5.94%

Table 2: Sector Returns

Sector Returns as of 03/31/19	1Q19	Last 12 Months
Info. Tech	19.86%	15.44%
Healthcare	6.59%	14.89%
Financials	8.56%	-4.68%
Communication Services	13.98%	7.75%
Consumer Staples	12.00%	10.48%
Consumer Discretion	15.73%	13.19%
Industrials	17.20%	3.20%
Energy	16.43%	1.32%
Materials	10.30%	-0.43%
Utilities	10.84%	19.33%
Real Estate	17.53%	20.99%

Source: Informa & Bloomberg

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think momentum in China's recovery, a trade truce between the U.S. and China, progress towards a resolution with European trade talks and a sidelined Fed should enable market sentiment to become stronger. These developments should result in stronger sentiment or a higher multiple. Improving U.S. earnings and economic fundamentals overseas could spur investors to value the market at 16.5x to 17.0x 2020 estimates by the end of the year or the first quarter of 2020, which should enable the S&P 500 to move to the 3000 to 3100 range offering another 4% to 8% upside from a mid-April level of 2880. We are maintaining a slight overweight to U.S. equities, increasing our allocation to emerging market equities at the expense of developed international equities, which we think will take longer to recover.

1Q 2019 MARKET REVIEW:

U.S. Stock Markets: The S&P 500 started 2019 with a 13.7% rally - its best quarter in ten years. Much of the rally occurred in January after the Fed walked back its "auto-pilot" rate hike comments during the first week of the year. The month ended 7.9% higher for the best January returns in 30 years. February was up an additional 3% and March increased almost 2% as the Fed commentary became increasingly dovish moving from a "wait-and-see" pause to a strong hold over the course of the quarter.

The higher volatility small cap (Russell 2000 +14.6%) and mid-cap (S&P 400 +14.5%) indices outperformed the large cap S&P 500 after faring worse in 4Q 2018. This was the best quarter since 2012 for these indices. The market started to transition very strongly in the fourth quarter into defensive and higher income sectors, such as Healthcare, Consumer Staples and Utilities. Secular growth and cyclical stocks rebounded sharply and recovered stronger than the overall market in the first quarter.

Global Stock Markets: The International EAFE (+10.0%) and the emerging market EME (9.9%) indices rebounded sharply in the first quarter, but continued to trail the S&P 500 as they did throughout 2018. 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. Chinese indices rebounded sharply (+23.9%) in the quarter regaining much of the ground lost in 2018 as trade tariffs were delayed and talks appeared promising, as the Chinese government enacted stronger monetary and fiscal stimuli during the quarter (*please see Figure 2*).

Figure 2: U.S. vs. Chinese Equity Market

Source: WSJ, The Daily Shot

Global Bond Markets: U.S. bond indices returned 2.94% in 1Q19. The big news for the quarter in bond yields was inversion. During the last week of the quarter, the yield on the 10-year treasury dropped to 2.356% falling below the yield on the 3-month treasury on dovish Fed comments. The move pushed the yield curve to a slight inversion on the front end of the curve. Initially this spooked stock market investors as inversion traditionally signals a recession and/or bear market. Investors quickly moved forward viewing the brief inversion period as a trading anomaly, not a strengthening trend, and the market continued to rally into quarter end.

The dollar was flat for much of the quarter, but rose a little in March to finish the quarter up about 1.2%. International bond indices underperformed U.S. indices during the first quarter as the BBG Global and EM Aggregate indices returned 2.20% and 2.14%, respectively, vs. 2.94% for the Barclays Aggregate. Taking out the currency impact, the BBG Global return was a little better than the U.S. return at 2.99%, while the EM bond index performed much stronger returning 5.43% during the quarter.

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2019 ECONOMIC OUTLOOK – Signs of a Bottom for Global Growth Slowdown?

U.S. GDP growth was strong in 2018 and included a 4.2% reading in the 2nd quarter, before eventually settling in at 2.9% for the year. In hindsight, some of the higher economic activity was related to a surge in 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 growth forecast for 2019 of 2.1% is now lower than forecasts that were made in 2017. The 2019 GDP estimate appears to be offsetting the tax cut with an impact from trade policy as well as an overall slowdown in global growth. Last quarter we thought the 2.2% forecast for 1Q19 was too high, based on color from corporate earnings calls and the expected impact of the government shutdown. The estimate has now been lowered to 1.3%. There has been a "catch-up" increase to the 2Q19 GDP estimate raising it to 2.6% from 2.4% initially to compensate for the shutdown and weather during the first quarter. We think the 2019 GDP estimate of 2.1% may be too low and could be revised upward to a range of 2.3% to 2.5%. Nevertheless, we believe the U.S. is past the peak of this economic/business cycle, but additional monetary stimulus is unlikely at current employment levels and fiscal stimulus seems improbable in the current political environment.

In the first few months of 2018 most major economies were experiencing synchronized growth. By year-end, several were slowing or contracting, hurt by diminishing monetary stimulus or uncertainty created by U.S. trade policy. Austerity in China as it cracked down on its shadow banking system and carried out reforms in supply chains as well as an impact from the tariffs initiated earlier in the year strongly curtailed business spending. As China's economy slowed, lower incremental China demand caused its larger trading partners, the European Union and other Emerging Market countries, to slow down as well. Manufacturing economies such as Germany are contracting and may be in recession. China halted reforms and reversed course in late 2018. 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. In late March, Caixin, an independent economic data firm, issued its first expansionary (>50) PMI reading in four months for China's manufacturing sector (*please see Figure 3*).

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 started to steadily decrease in the second half of 2018. Citing weakness related to trade tensions

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%*

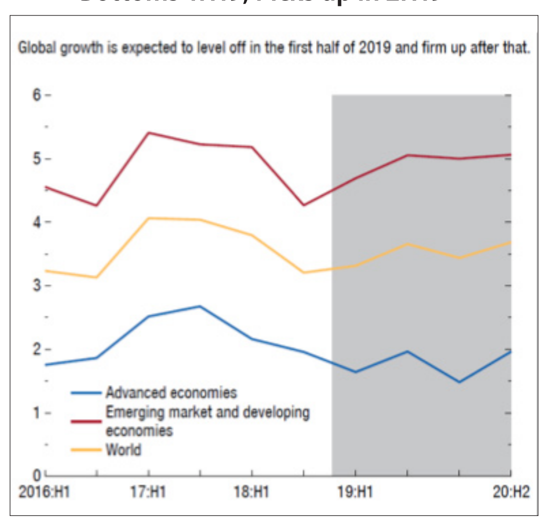
Quarterly GDP = Q over Q growth. Year = annual Y over Y growth.

Source: Actual (Bold) Bureau of Economic Analysis as of 3/19. Projected (Italics) WSJ Economic Survey March 2019

Figure 3: Caixin/Markit China Mfg. PMI

Source: WSJ, The Daily Shot

Figure 4: IMF - Global Growth Bottoms 1H19; Picks up in 2H19



Source: IMF Staff Estimates

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between the U.S. and China, the OECD and IMF cut their 2019 forecasts to 3.7% in the fall. Each downgraded the forecast to 3.5% in the winter and lowered the forecasts further to 3.3% in March and April (*please see Figure 4*). We expect global growth forecasts to be revised upward later in the year.

2019 MARKET OUTLOOK – Fed on Hold, Green Shoots in China and EU Stabilizing

As discussed above and written in our prior update, we expected the negative sentiment to be erased by the end of the first quarter and the market to rally 5%-10% and hold the rally in the first half of the year. We thought, however, the rally would fade in the second half of the year with a hawkish Fed, tightening ECB monetary policy, no firm resolution to trade, weakening U.S. fundamentals, and flat to weakening Chinese fundamentals. Our expectations have changed as the facts have changed.

Some now believe the Fed has become too dovish resulting in a significant drop in rates and a sagging if not inverted front end of the yield curve. The yield action infers that the Fed's next move may be to cut rates. As fundamentals for manufacturing/exporting countries in the EU weakened from unresolved trade policy, the ECB paused on its plan for quantitative tightening. While there has not been a resolution to trade policy, progress is being made, and tariffs have been placed on hold. The market is mostly pricing in a resolution. Corporate management teams, however, are not incorporating a trade resolution into their earnings guidance, capex budgets, nor their hiring plans. U.S. fundamentals are softer, but not weakening significantly. Furthermore, with the Fed on hold and a potential trade resolution in sight, fundamentals are now more likely to surprise to the upside by stabilizing or possibly strengthening in the second half of 2019. If rates remain in the current range, the dollar is likely to weaken giving an additional boost to the economy. While China has been increasing stimulus measures since late in the third quarter, the economic data has only recently picked up with a jump to expansionary PMI readings in late March (please see Figure 3 above)

U.S. Stock Markets: We are modestly more bullish on the U.S. stock market now than at the beginning of the year, however, investors may be pricing in some of the positive aspects of the market setup described above. On the one hand, we think EPS estimates for 2019 may have been discounted too heavily, particularly for the first two quarters. At the end of 3Q18, 2019 S&P 500 earnings were expected to grow 10% to $178 per share. Currently the 2019 estimate has fallen to $167 per share projecting 3% growth. Mid and small cap earnings were expected to grow 13% to 15% in 2019 at the end of the third quarter are now expected to deliver only 3% to 4% earnings growth. We expect 2019 estimates to be raised in coming quarters. On the other hand, 2020 estimates may still be too high expecting 12% to 13% growth for U.S. equities. Improving fundamentals should argue for the market to hold onto the gains made in the first half of the year. A materially higher market is more likely to be driven by sentiment pushing the multiple higher than a strong uptick to forecasted earnings growth. Lower rates resulting from a dovish Fed are constructive for higher market multiples. Please see market valuation section below for our estimate of market returns for 2019.

U.S. Bond Markets: Over the last twelve months we have moved from underweighting U.S. bonds to closer to equal-weighting as we thought the Fed may be nearing the end of its rate hiking cycle. In December the Federal Reserve hiked rates by 0.25% for the ninth time, but strongly halted its course in the first quarter of 2019. For the past three years we have been underweight duration favoring short term bonds, which are less volatile when rates are rising. The rate hikes and stronger economic data enabled the 10-Year Treasury to break out of its four-year range of 2.1% to 2.6% and move almost to 3.25% during the fourth quarter of 2018. Rates reversed course during the first quarter and fell to a low yield of 2.356% for the 10-year treasury in late March. After barely breaking even in 2018 (+0.01% return), the Bloomberg Barclays Aggregate Bond index returned +2.94% for the first quarter and +4.48% for the trailing twelve month period ending March 31. 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 return 2% to 3%, making them more attractive than in recent years.

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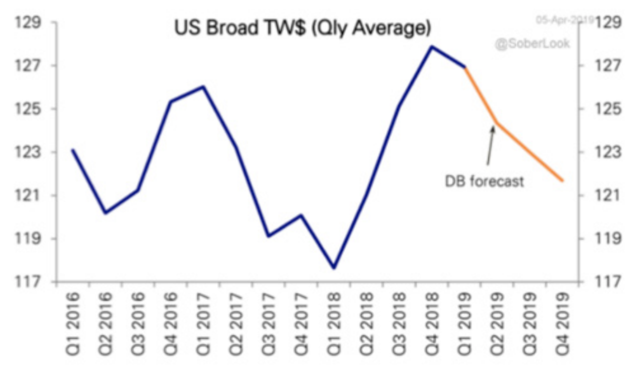
International Stock and Bond Markets: Both developed market equities and emerging market equities have rebounded from fourth quarter lows, but are still trading below average historical Price/Earnings multiples of 14x and 12x forward 2019 earnings, respectively. Currently, we are bullish on emerging market equities and have been adding allocation to portfolios during the first quarter and second quarter of 2019. The trade negotiations had been the biggest obstacle to sentiment for the asset class and this concern was largely removed in early March. China remains the key lynch pin for returns. Its many stimulus efforts are beginning to result in signs of improving fundamentals and its stock indices have rallied over 20% in 2019. Other large emerging economies and markets such as Brazil and India are rallying strongly as political uncertainty is waning. Many emerging economies are also benefitting from a 30% rebound in oil prices during the quarter. We believe the outlook for emerging economies and earnings will continue to improve. In addition, we think the dollar is likely to weaken some over the course of the year adding a further boost to returns (*please see Figure 5*).

Figure 5: Waning U.S. Stimulus



Source: Deutsche Bank via WSJ, The Daily Shot

We believe that many developed international markets are likely to move sideways for much of 2019, unless the European Central Bank decides to pause more strongly on its "Quantitative Tightening" schedule. The EU appears to be bottoming or stabilizing at this point. It should show signs of improvement as China and EM trading partners start to strengthen. We believe signs of a stronger uptick in developed market economic data will lag the improvement in EM countries by a few quarters possibly making the asset class more attractive in late 2019 or 2020 (*please see Figure 6*). We think emerging market bonds may outperform U.S. bonds in 2019, but do not have a strong enough risk/return profile for a large weighting. Developed market bonds will likely perform in line with U.S. bonds helped by a weaker dollar.

MARKET RISKS: Reversing Course on Quantitative Tightening

In 2017 and 2018, global markets attempted to transition from a prolonged period of massive Quantitative Easing to a period of "Quantitative Tightening" to normalize rates closer to historic levels and deflate potential asset bubbles. A big concern for markets has been, "Can Central Bankers tighten without making a policy mistake?" With the backdrop of trade disputes, tighter policy quickly led to a global slowdown in 2018.

Figure 6: EM Growth Rebounding Faster

Source: Goldman Sachs

Reversing Course: In 2017 and 2018, Central bankers pursued a policy of tightening, by slowly withdrawing liquidity from their economic systems. The U.S. steadily made nine 0.25% rate increases over three years. The EU was not yet tightening, but was dramatically reducing the level of monthly bond purchases as part of its Quantitative Easing program. China was rapidly reforming its banking system and restraining output of manufacturers in industries with large surpluses or overcapacity. As the year progressed, fundamental economic data weakened in China, other emerging markets and the EU. Tighter monetary policy was exacerbated by trade disputes, which not only raised tariffs, but also created significant uncertainty for decision making in the broader economy. Trade uncertainty halted

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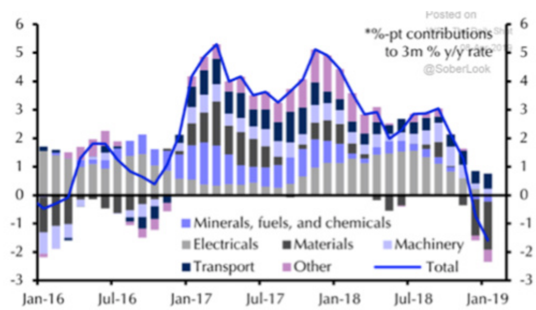
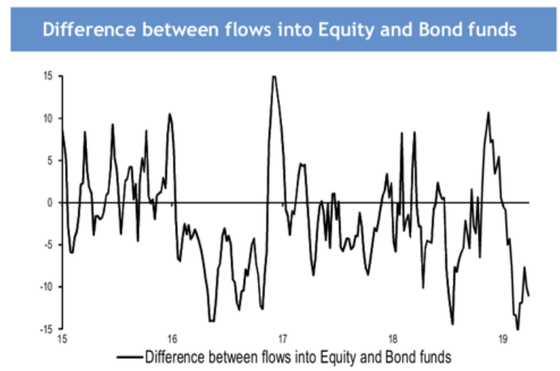
the ability for the business communities to follow through on investment, expansion plans or hiring. The trade war disrupted supply chain business sentiment and lowered capital spending in companies affected by trade (*please see Figure 7*). As a result, investment capital for new plants and operations in countries such as China, Japan and other parts of Asia slowed. Supply chain uncertainty showed up in revenue misses and weaker 2019 earnings guidance for U.S. multi-nationals during the first quarter earnings season. GDP growth in the Euro Area fell to 1.1% by year end and is projected to remain around 1.0% for 2019. Some of the EU's largest economies, which tend to be exporters with large manufacturing sectors, contracted in the last quarter. The next quarterly read will determine whether some of these economies may have fallen into recession. Markets sold off in the fourth quarter over concerns that Central Banks were making policy mistakes and moving too quickly, which would result in pushing some economies into recessions leading to regional contagious effects on the global economy.

Figure 7: Slowdown in Global Trade Exports



WSJ, The Daily Shot

Figure 8: Equities Remain Under-owned



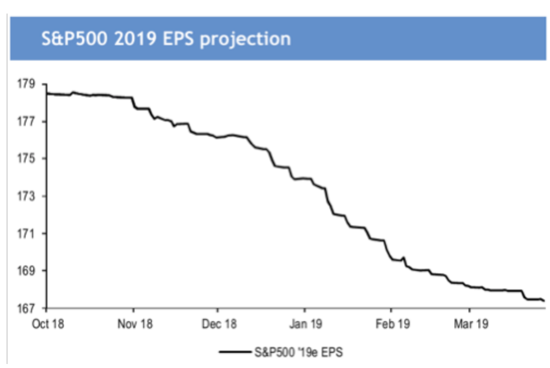
JP Morgan Cazenove

Over the course of the first quarter, Central Banks signaled they were changing course. During the first week of January, the Federal Reserve signaled it would not necessarily remain on rate hike "auto-pilot" based on economic data. Statements regarding policy became increasingly more dovish during the quarter and the Fed now has signaled it is strongly on hold. Futures and other market data indicate no additional rate hikes in 2019 and show a reasonable probability (~40%) of a rate cut at year end. In late March the yield curve inverted pricing in a rate cut as the ten-year treasury yield fell below that of the three-month treasury during a few trading days. The Chinese government stepped up stimulus announcements in the fourth quarter and continued to announce new policies in the first quarter. The EU is no longer reducing the amount of monthly bond purchases and holding Quantitative Easing policy steady. As a result, equity markets have rebounded. Nevertheless, U.S. and global equity inflows have not caught up with the outflows of last year and are "under-owned" on a relative basis, which leaves room for additional buying pressure and upside later in the year (*please see Figure 8*).

MARKET VALUATION, EXPECTED RETURNS & PORTFOLIO STRATEGY

As we predicted last quarter, the 10% earnings growth for the S&P 500 implied by the $178 per share estimate for 2019 proved too high and has been revised downward to $167 per share implying 3% growth (*please see Figure 9*). Revisions for the earnings of companies in cyclical sectors such as energy (-20% expected EPS growth revised down from +16%), technology (-11% from -3%) and materials (-12% down from +5%) encompassed most of the revisions. These are also three of the four sectors with the highest proportion of international revenues. A few dollars of the reduced earnings can be explained by the swing in oil prices. Assuming oil can sustain the 30%+ recovery to recent

Figure 9: Drop in 2019 S&P 500 EPS Estimates



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price levels, we would expect $2 to $3 of earnings to be added back to the estimate later in the year. First and second quarter earnings results could be tricky for investors and may keep the market range-bound, if investors cannot find more optimistic data points. At the beginning of the year, first quarter 2019 earnings were supposed to grow roughly 3% over 1Q18, but estimates have been guided and/or revised to a -3% decrease. Of the 107 S&P 500 companies that provided quarterly guidance, 79 guided earnings for 1Q19 below prior analyst estimates. Second quarter earnings have been lowered to 0% growth. If sentiment requires evidence of stronger earnings growth to move the market higher, it may have to wait until 2020. Third quarter earnings are expected to deliver low single digit growth with high single digit growth not expected until 4Q19, which will be reported in January and February of 2020. Revenue growth guidance, however, remained relatively stable for much of the S&P 500. We believe the 1Q19 results will beat estimates and deliver flat to slightly positive growth over 1Q18. This leads us to believe that estimate revisions for 2019 have become overly negative and project that they will be revised up to $170 to $172 for 2019 for 5% to 6% growth. We think the 2020 estimate may be too high and may only exhibit 6% to 7% growth knocking the estimate down to $182 from $187 currently.

Valuations started the year near bear market levels, but have now recovered to about average levels. Using a $171 estimate for 2019 and $182 for 2020, the multiples at the 2834 quarter end level for the S&P 500 are 16.5x and 15.5x, which is about average. If our earnings estimates are correct, the market should be able to hold 15% gains made by mid-April, which places an average 16.0x multiple on our estimate for next year's earnings. We think momentum in China's recovery, a trade truce between the U.S. and China, progress towards a resolution with European trade talks and a sidelined Fed should enable market sentiment to become stronger. This should result in a higher multiple. The downturn in the fourth quarter leads us to believe that the record length of this bull market makes investors jittery. We do not think the market will reach extended bull market values of 19x to 20x earnings before the next bear market. Nonetheless, EPS multiples are positively correlated with EPS revisions. Therefore, we think sentiment over improving U.S. earnings and economic fundamentals overseas could spur investors to value the market at 16.5x to 17.0x 2020 estimates by the end of the year or the first quarter of 2020, which should enable the S&P 500 to move to the 3000 to 3100 range offering another 4% to 8% upside from a mid-April level of 2880.

Table 4: S&P 500 Valuation

- S&P 500 Value 03/31/19:	2,834
- S&P 500 Multiple 18E:	17.5x
- S&P 500 Forward Multiple 19E:	16.9x
- S&P 500 Forward Multiple 20E:	15.1x

		Growth %
- 2017 Actual:	$132	11.8%
- 2018 Estimate:	$162	22.7%
- 2019 Estimate:	$167	3.3%
- 2020 Estimate:	$187	12.0%

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 3/31/2019

	$155	$160	$165	$170	$175	$180	$185	$190
13.0x	-29%	-27%	-24%	-22%	-20%	-17%	-15%	-13%
13.5x	-26%	-24%	-21%	-19%	-17%	-14%	-12%	-10%
14.0x	-23%	-21%	-19%	-16%	-14%	-11%	-9%	-6%
14.5x	-21%	-18%	-16%	-13%	-10%	-8%	-5%	-3%
15.0x	-18%	-15%	-13%	-10%	-7%	-5%	-2%	1%
15.5x	-15%	-13%	-10%	-7%	-4%	-2%	1%	4%
16.0x	-13%	-10%	-7%	-4%	-1%	2%	4%	7%
16.5x	-10%	-7%	-4%	-1%	2%	5%	8%	11%
17.0x	-7%	-4%	-1%	2%	5%	8%	11%	14%
17.5x	-4%	-1%	2%	5%	8%	11%	14%	17%
18.0x	-2%	2%	5%	8%	11%	14%	17%	21%
18.5x	1%	4%	8%	11%	14%	17%	21%	24%
19.0x	4%	7%	11%	14%	17%	21%	24%	27%
19.5x	7%	10%	14%	17%	20%	24%	27%	31%
20.0x	9%	13%	16%	20%	23%	27%	31%	34%

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

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UPDATE ON BEAR MARKET WARNING SIGNS: KEY SIGNS REMAIN YELLOW

With two rare exceptions in the last 100 years, bear markets coincide with recessions, so market watchers and investors remain vigilent for economic signals indicating recessions. A recession is two consecutive quarters of 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. There are three key signs that typically signal a recession. None of the major indicators are signalling problems at the current time, however, one indicator, an inverted yield curve, flashed red for a couple of days in the last week of March.

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%+). The yield curve has been relatively flat for the last two years and gradually steepened in the last half of 2018. After Fed members made comments that they did not see the need to hike rates and that "the rate normalization process has concluded", the yield curve inverted in the last week of March as the 10-year yield fell below the yield on the three-month treasury. Like the one-day bear market on Christmas Eve, we do not see the brief inversion as a clear sign. An important inversion indicator where the 2-year treasury yield is higher than the 10-year yield was not reached (*please see figure 10*). Typically, the yield curve will remain inverted for many months before signs of recession become clear.
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 (*please see figure 11*). The good news is the unemployment curve has a long forward momentum over time. We believe the unemployment rate is bottoming and more likely to fall before it experiences a sequence of increases.
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 16x currently after a 15% market rally through mid-April. The multiples are about average for a bull market with rates this low and much below normal for the final stages of a bull market.

Figure 10: 2/10 Inversions and Recessions

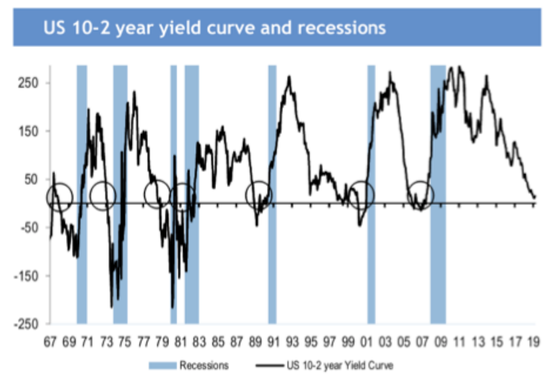

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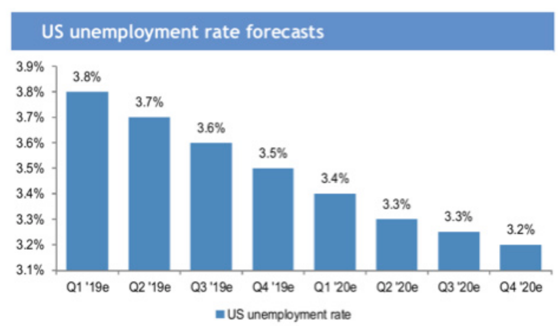
Figure 11: Unemployment Rises before Recessions



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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**	
Expect 1H19 rally. Fed will stay on sidelines. Trade conflict is key for 2019. Expect 1H19 rally and remaining about equal weight in large cap.	Do not reduce equities in face of 4Q18 downturn. Let positions recover. Added weight to large cap.	Large Cap 13.7%, Small 14.6% and Mid cap 14.5%.	Maintaining current weights despite recovery. Expect market to hold 15% gains made in 2019 YTD. Possible upside of 4%-8% in next 9-12 months.	Holding current weight of domestic equity positions.
INTERNATIONAL EQUITIES			**INTERNATIONAL EQUITIES**	
We thought monetary policy (China Stimulus, EU Pause) and trade resolution may enable EM and International equities to recover, particularly in 2H19.	We started out the year with EM underweight and international stocks equal weight. We added to EM during the quarter.	International equities rebounded 10.0% and EM rebounded 9.9%. Chinese and EM data improving faster than EU and developed data.	We think Chinese stimulus is beginning to impact China and other EM. Believe political picuture constructive for Brazil and India. Higher oil prices constructive. Expect dollar to fall on lower U.S. rate picture.	We are adding to EM positions and using Developed international equities as a source of funds.
FIXED INCOME			**FIXED INCOME**	
We expected 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 remained underweight fixed income, but started to add to core bonds, but most of the fixed income portfolio weight remains short duration.	The Fed has become increasingly dovish and members have signaled the rate normalization program is over. Bonds had strongest returns in years returning 2.94% in 1Q19. 10-year treasury fell below 2.4% in March from a 3.25% high in 4Q18.	We believe the Fed will not raise rates in 2019 and the next move is more likely a rate cut. A rate cut is unlikely anytime soon as employment remains below 4%. Record deficit likely to cause rates to rise off March lows.	We remain underweight fixed income and keeping our current allocation levels with large overweight to short duration securities.
We believed munis were at fair value to slightly undervalued.	We maintained an equal weight to munis.	Munis slightly underperformed core bonds in the quarter (+2.90% vs. +2.94%).	We believed munis are at fair value.	We are maintaining an equal weight to munis at this time.
ALTERNATIVE ASSETS			**ALTERNATIVE ASSETS**	
We expected volatility to remain high in 2019 over trade, global growth and political concerns.	We maintained a 10% allocation to alternative strategies.	With the exception of a few spikes during the quarter, volatility steadily declined during the quarter. Managed futures alternatives, which makes up the heaviest weight of our alternatives, returned 1.9%.	We expect volatility to be about average as we expect resolution or mitigation of trade disputes and global growth to start rebounding.	Despite possibly more muted volatility than in 2018, 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/.				