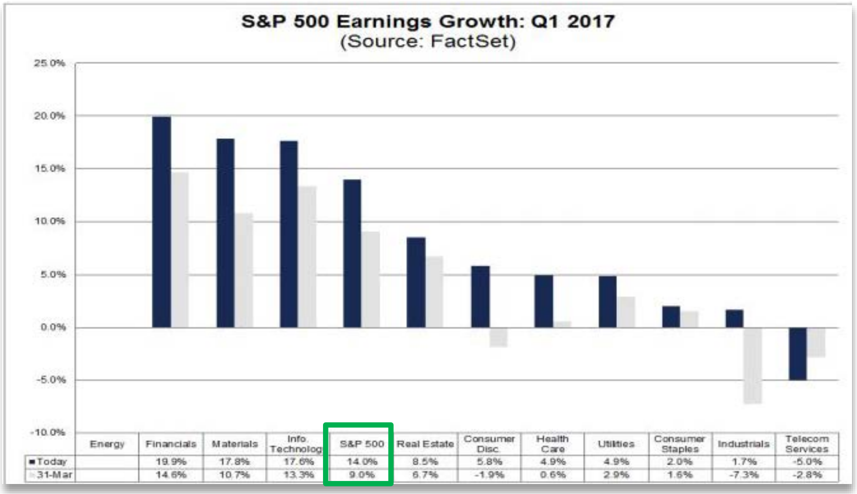
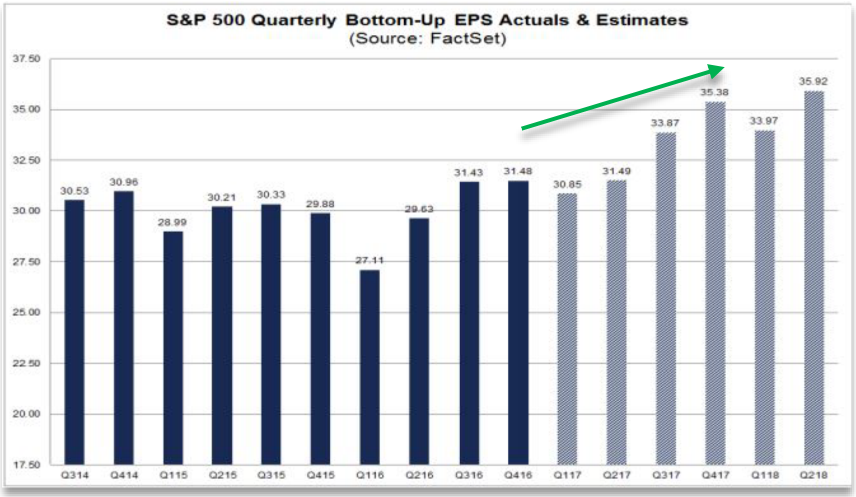
Q3 2017 LOOK AHEAD

Disclaimer

Certain information in this presentation constitutes forward-looking statements. Due to various risks, uncertainties, and assumptions made in our analysis, actual events or results or actual performance of the markets covered by this presentation may differ materially from those described. The information herein reflects our current views only, is subject to change, and is not intended to be promissory or relied upon by the reader. There can be no certainty that events will turn out as presented. Data are from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Earnings Growth Accelerates



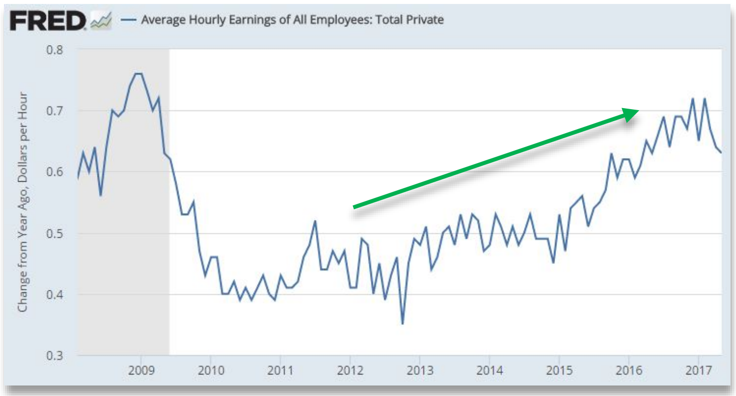


- 2Q 2017 earnings estimated to grow 2.11% QoQ and 6.28% YoY
- Estimates indicate both quarter-over-quarter and year-over-year earnings growth in 4Q 2017
- Energy earnings are expected to continue their recovery

Data Source: FactSet - https://insight.factset.com/hubfs/Resources/Research%20Desk/Earnings%20Insight/EarningsInsight_061617.pdf

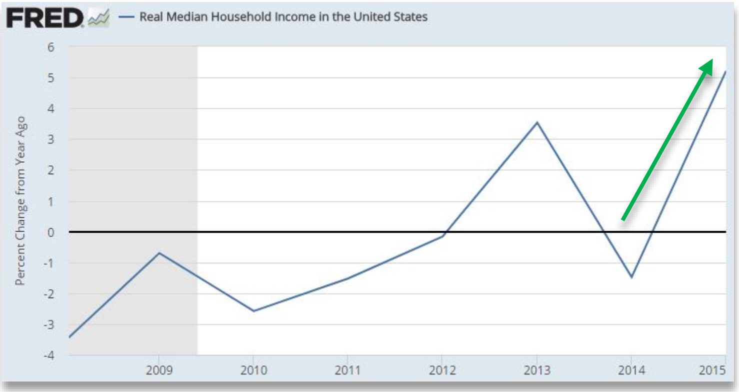
U.S. Consumer Strength

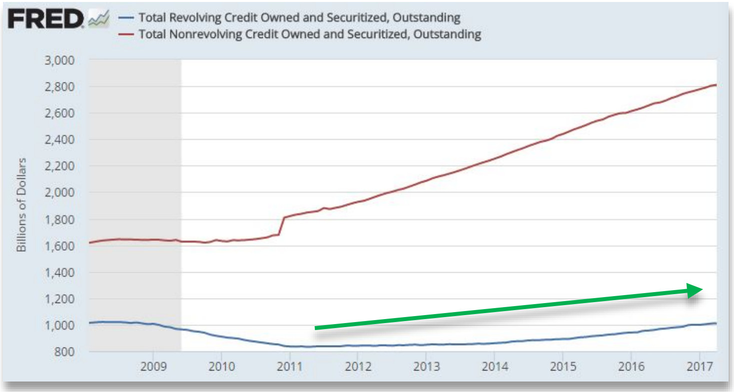
Average Hourly Earnings



Personal Savings Rate

Median Household Income

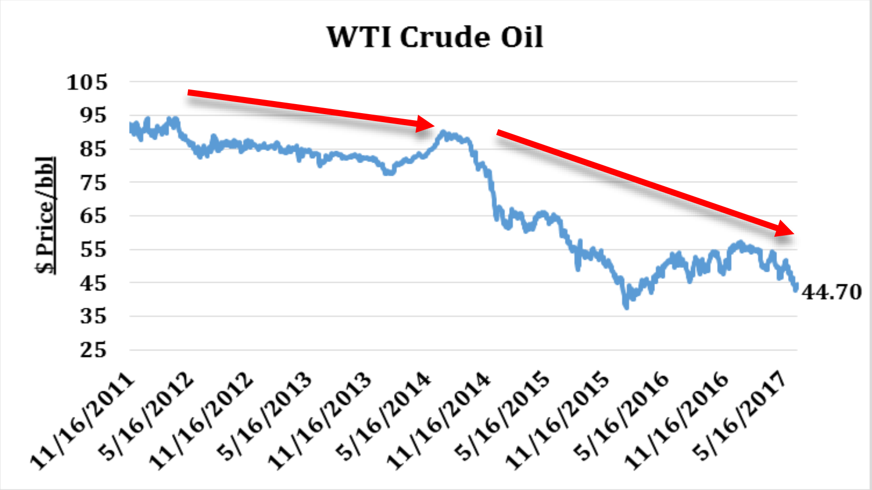


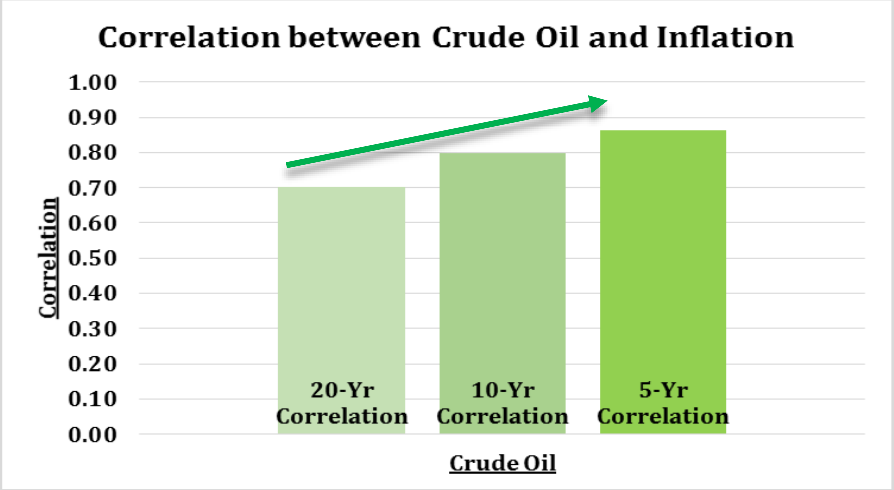


Credit

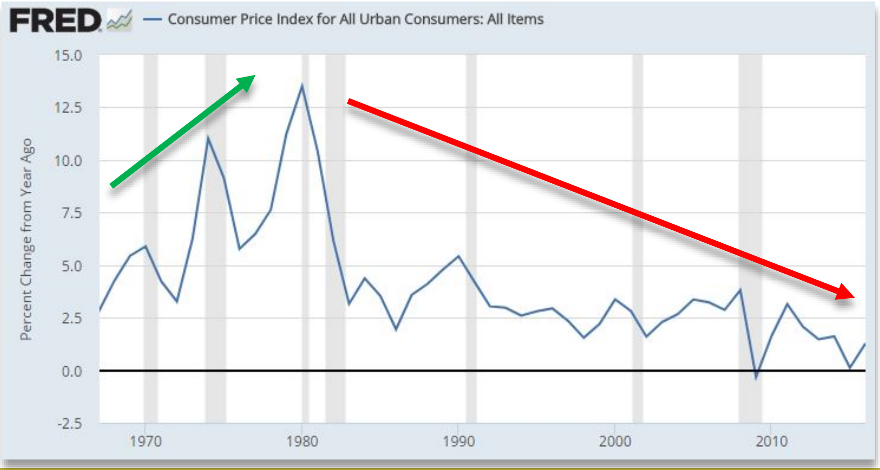
- ❑ Steady uptrends in Average Hourly Earnings, Median Household Income, and Credit has put more money in the pockets of consumers
- ❑ Slight decline in Personal Savings Rate indicates that Consumers have increased spending

Threat of Low Inflation





Inflation



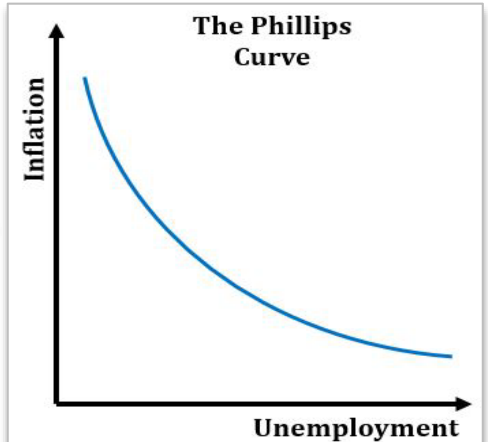
- Crude oil has entered a "bear market"
- There has been a long and slow decline towards lower inflation levels for many decades
- The steady rise in positive correlation between inflation and the price of crude oil would indicate that inflation will remain in a decline

Data Source: Bloomberg LP; Economic Research Federal Reserve Bank of St. Louis; Phillips & Company estimates
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Phillips & Company

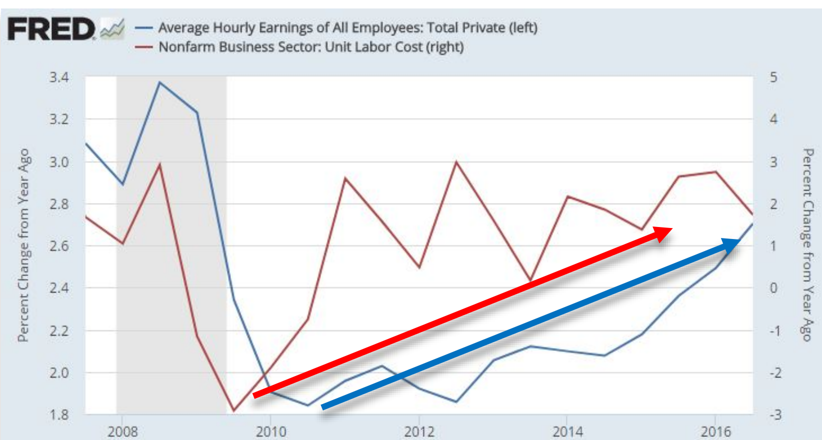
Dictating the Fed's Actions – The Phillips Curve

- ❑ Wage growth drives increases in unit labor costs
- ❑ Cause: Wages ↑ Costs ↑
  Effect: Prices ↑ Inflation ↑

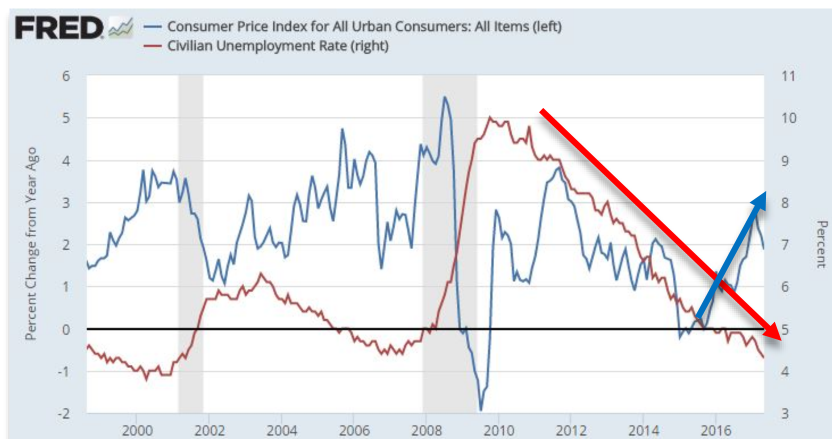


- ❑ Inflation has an inverse relationship to unemployment
- ❑ Example: Unemployment ↓ Inflation ↑
- ❑ Example: Unemployment ↑ Inflation ↓

Earnings vs. Costs

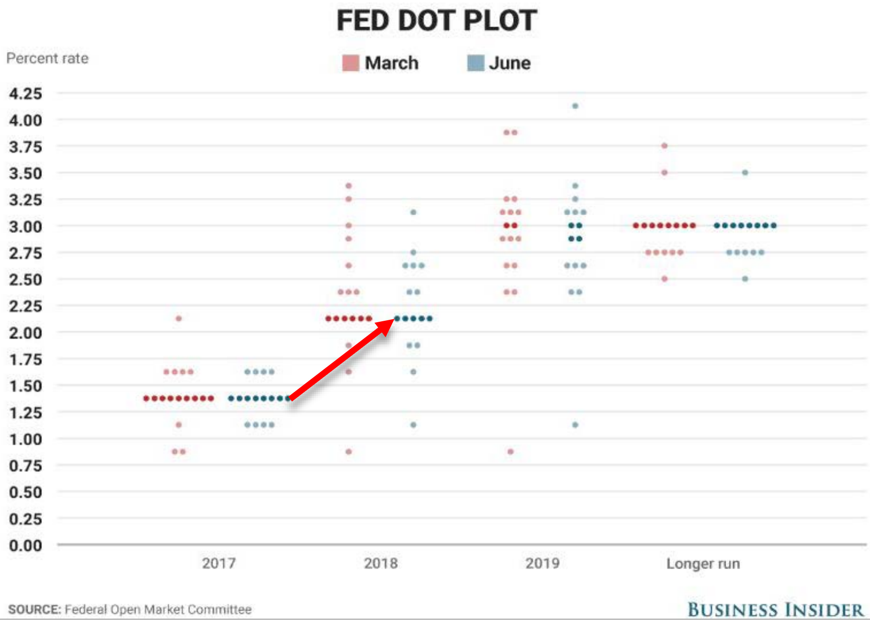


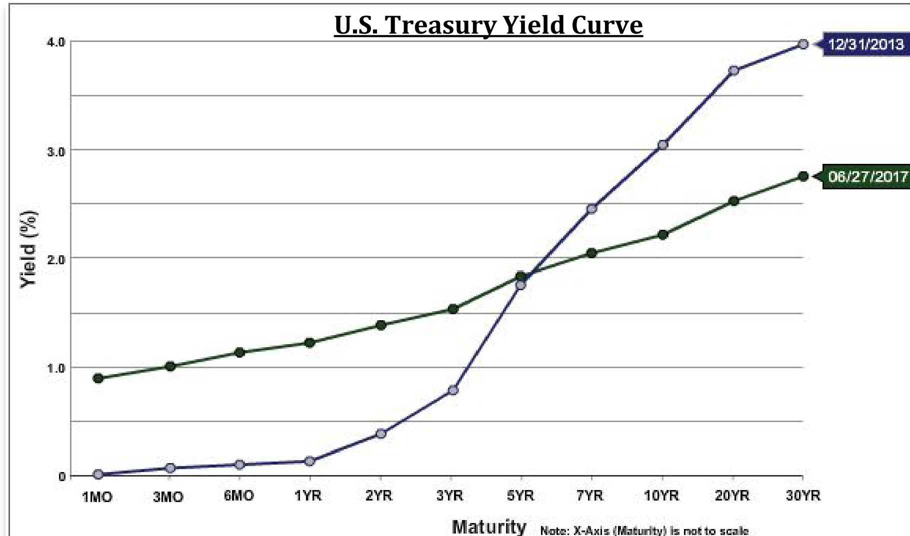
Inflation vs. Unemployment

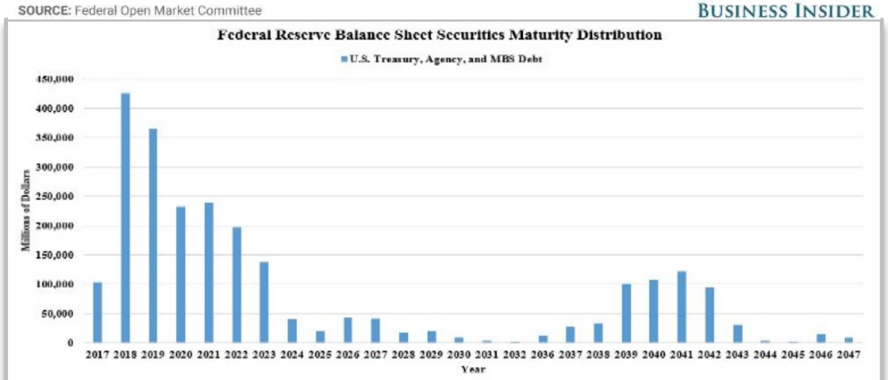


Data Source: Economic Research Federal Reserve Bank of St. Louis;
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Interest Rate Forecasts







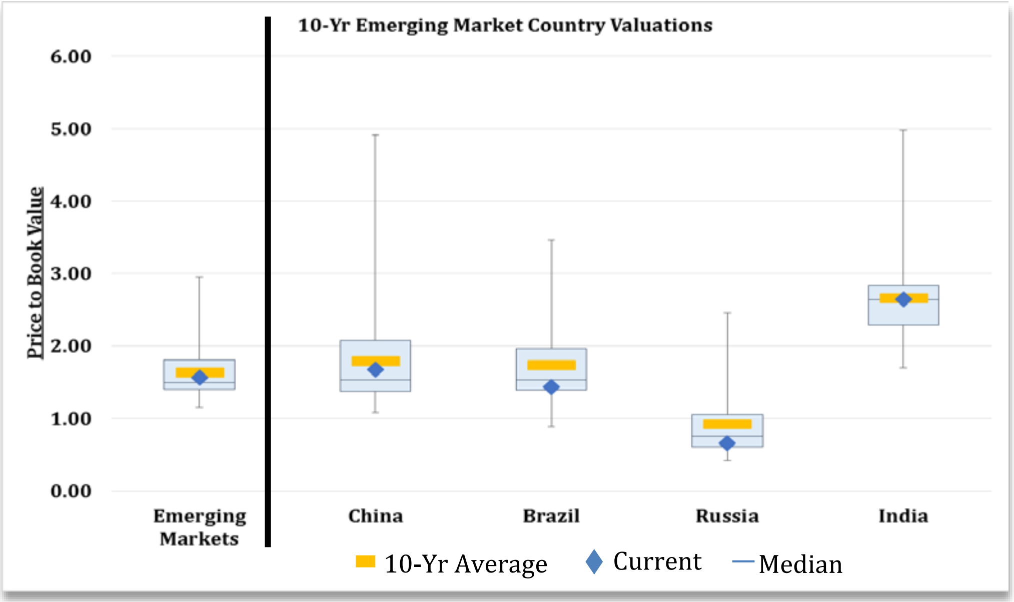
Maturity: Earlier Years / Later Years

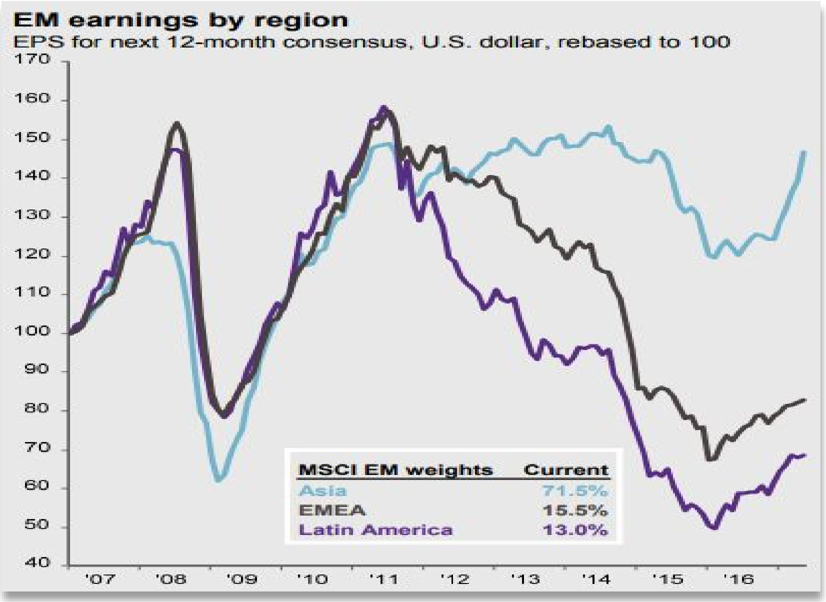
- ❑ Odds are out-of-favor for additional Fed Funds Rate increases
- ❑ The flattening yield curve is a result of rising short-term rates and falling long-term rates, driven by the FOMC's continued reinvestment in longer maturity assets (Treasuries, Agency, and MBS)
- ❑ Early stages of the Fed balance sheet normalization will likely have continued asset purchases at the long-end of the yield curve

Data Source: http://www.businessinsider.com/fed-dot-plot-june-2017-2017-6; United States Department of the Treasury; Mortgage Bankers Association - https://www.mba.org/mba-newslinks/2017/june/mba-newslink-monday-6-19-17/residential/mba-chart-of-the-week-us-treasuries-and-agency-mbs-on-feds-balance-sheet

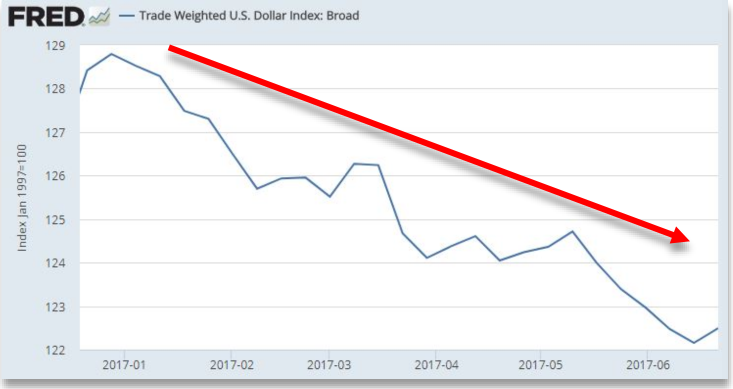
Phillips & Company

Emerging Markets





U.S. Dollar



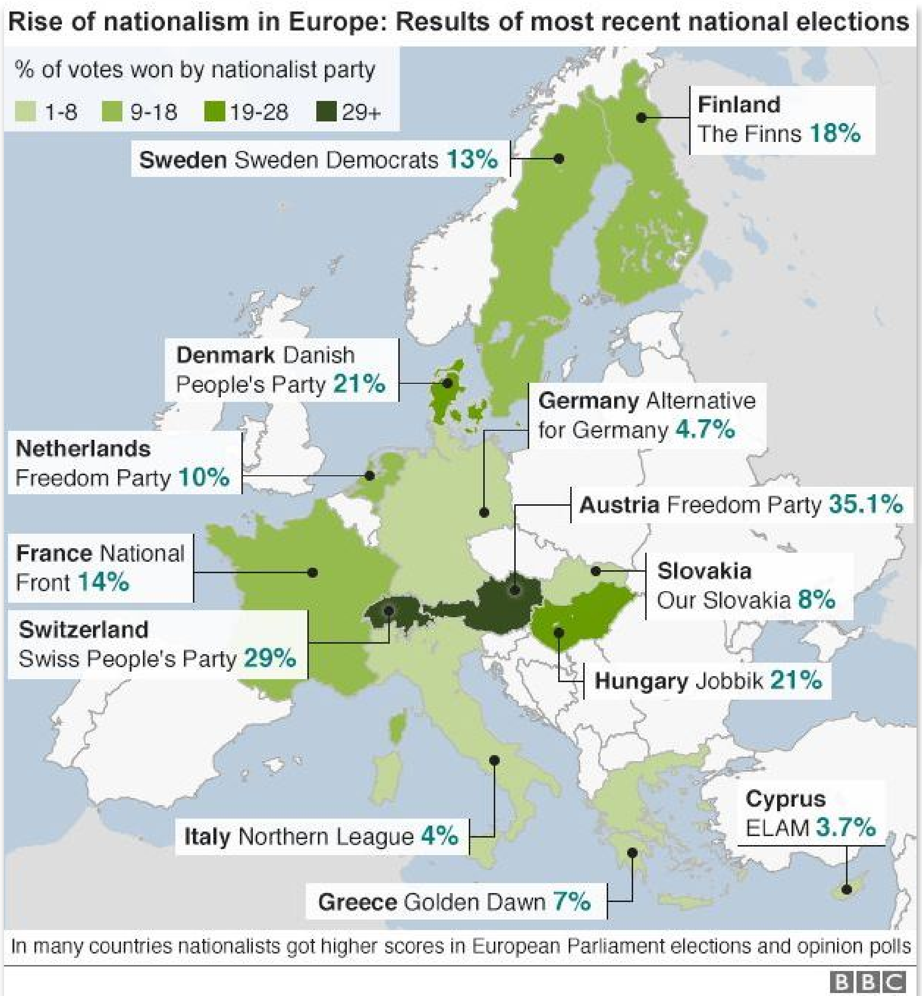
- Emerging Markets remain undervalued relative to their 10-Yr averages
- Undervalued countries within Emerging Markets: China, Brazil, and Russia
- Continued weakness in the U.S. Dollar should benefit Emerging Market companies
- Forward EPS by region has regained upward momentum

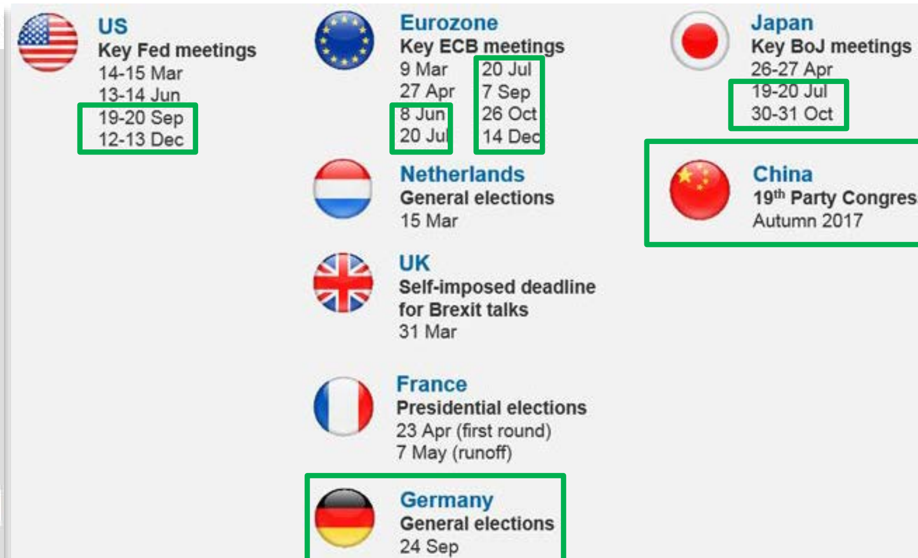
Data Source: Bloomberg LP; Economic Research Federal Reserve Bank of St. Louis; JP Morgan Asset Management, Guide to the Markets - https://am.jpmorgan.com/blob-gim/protected/1383426387662/83456/MI-GTM_2Q17_June%20v2.pdf?segment=AMERICAS_US_ADV&locale=en_US

Phillips & Company

Developed Markets - Nationalism Defeated

A Return to EU Unity (Sort of)



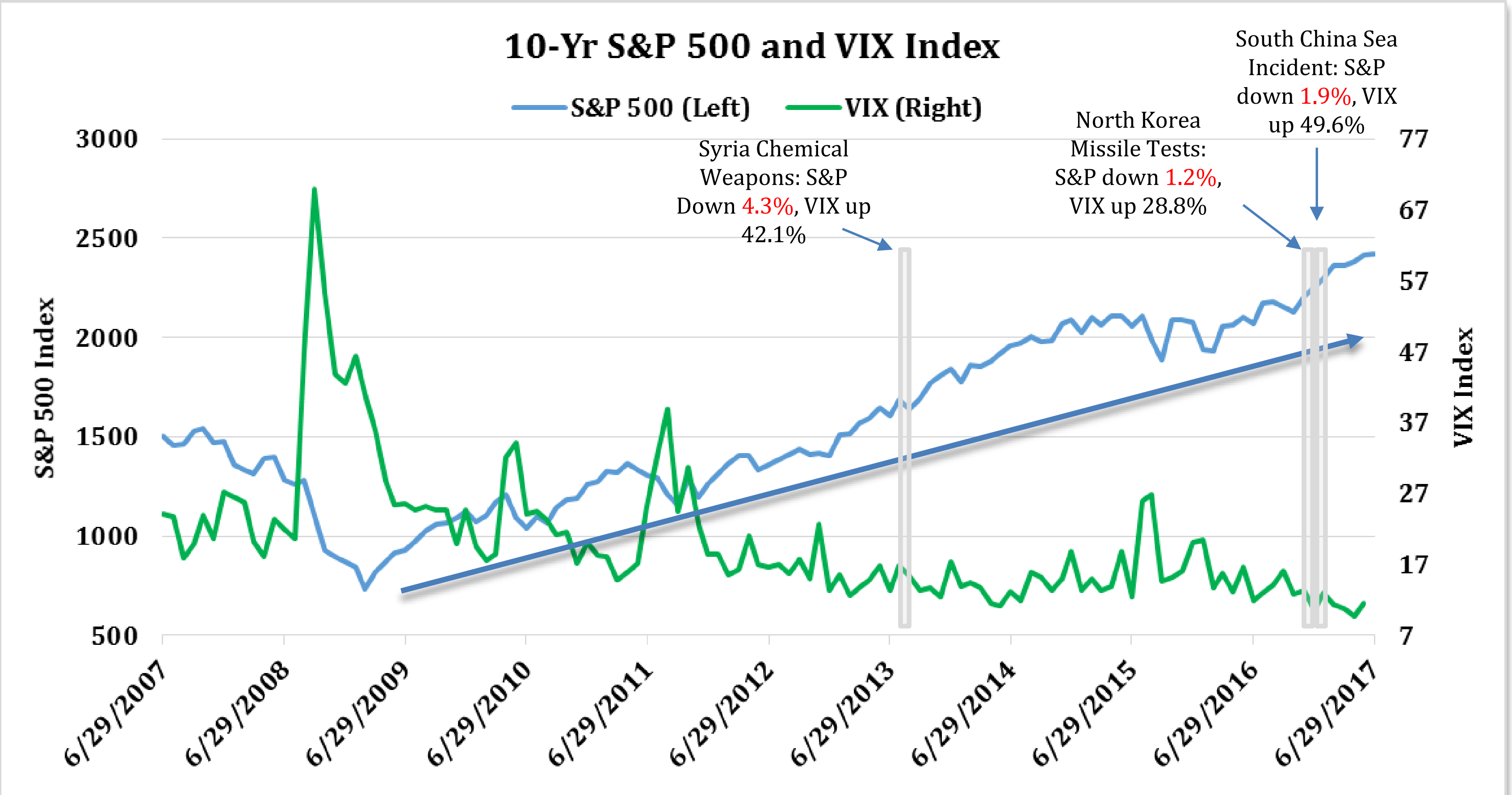


- European Central Banks continue quantitative easing (QE)
- Macron wins French elections
- Hung parliament in UK election leaves no party able to win a majority – incumbent Prime Minister Theresa May intends to remain the Conservatives leader; however, we believe no party will have enough strength to negotiate favorable BREXIT terms
- German elections will take place on September 24, 2017; Angela Merkel and her conservative bloc remain ahead in the polls
- Italy's Five Star Movement Defeated

Data Source: https://www.macquarie.com/au/advisers/expertise/market-insights/tick-tock-goes-the-european-political-clock; http://www.bbc.com/news/world-europe-36130006; http://www.express.co.uk/news/politics/713430/German-election-2017-federal-vote-will-Angela-Merkel-lose-prediction-AfD-CDU-SDP-polls; http://www.abc.net.au/news/2017-06-09/uk-election-results-in-hung-parliament:-bbc/8603456

Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Wall of Worry



Data Source: Bloomberg LP
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Phillips & Company

Mean Reversion Dashboard

Style Current P/E as a % of 15-Yr Avg. P/E

	Value	Blend	Growth
Large	120.0%	121.4%	120.3%
Mid	116.7%	116.2%	115.1%
Small	109.5%	116.7%	128.1%

Regional Fwd P/E as a % of 10-Yr Avg. Fwd P/E

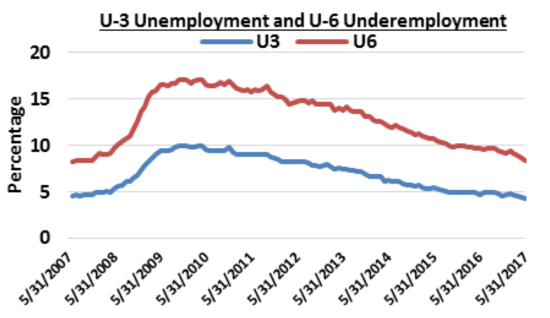
ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
110.1%	107.3%	99.8%	113.6%	107.9%	113.0%	104.8%	93.0%	97.1%	84.7%

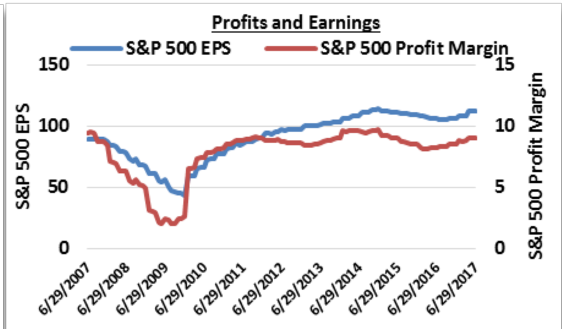
Sector Fwd P/E as a % of 20-Yr Avg.

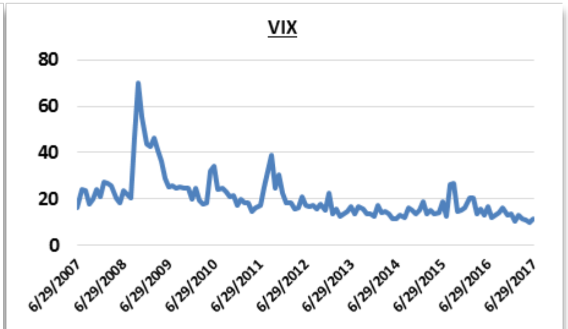
Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
102.3%	90.4%	89.3%	109.2%	151.7%	109.4%	121.1%	78.3%	130.7%	117.1%	129.7%

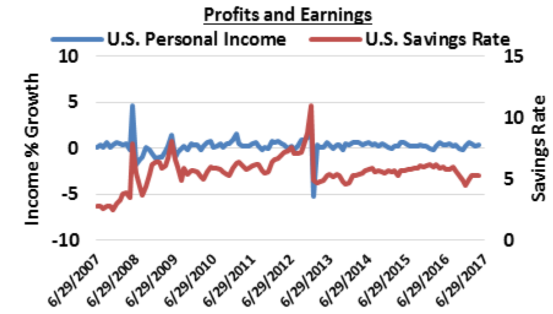
Data Source: Bloomberg LP; JP Morgan Asset Management, https://am.jpmorgan.com/blob-gim/protected/1383426387662/83456/MI-GTM_1Q17_March.pdf?segment=AMERICAS_US_ADV&locale=en_US

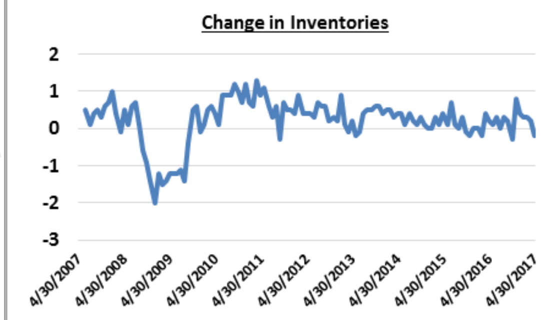
Economic Dashboard

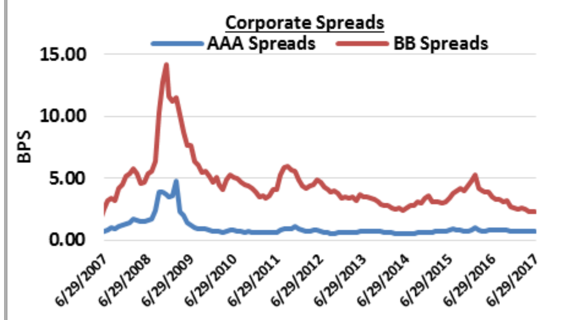


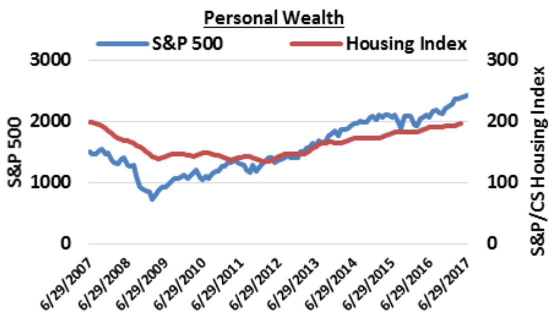


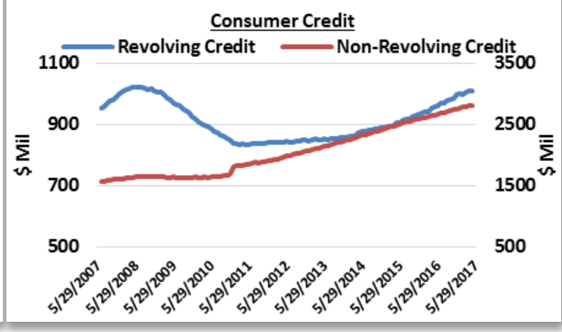


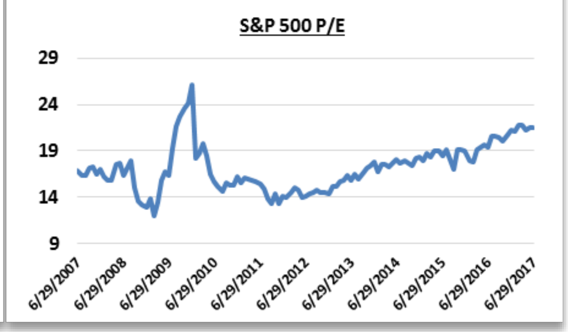












Data Source: Bloomberg LP and Economic Research Federal Reserve Bank of St. Louis.
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Phillips & Company

Conclusions & Recommendations

Summary

- We expect that continued weakness in the U.S. dollar could benefit Emerging Markets, while China, Russia, and Brazil remain undervalued
- Consumer strength is growing; signs of increased spending should continue to benefit corporate earnings
- Expectations for additional rate hikes this year have fallen below 50%, while the Fed's plan to begin normalizing their balance sheet will likely weigh on longer term rates
- We see the price of crude oil and the rising correlation with inflation as an intermediate obstacle that could hold inflation below the Fed's long-term target
- Continued QE and a move away from nationalism should likely continue to provide attractive opportunities throughout International Markets
- Political conflicts have resulted in short-term pull-backs alongside increased volatility

Recommendations

- Rebalance portfolio's to target policy weights
- Continue to normalize allocation weightings in Emerging Markets and Developed International Markets
- Remain active in managing fixed income duration
- Review portfolio risks, as we expect a rising likelihood of a correction based on where we are in the market cycle

A History of Declines (1900-December 2016)

Type of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence
-5% or more	About 3 times a year	47 days	August 2015
-10% or more	About once a year	115 days	August 2015
-15% or more	About once every 2 years	215 days	October 2011
-20% or more	About once every 3½ years	341 days	March 2009

Source: Capital Research and Management Company

[1]Assumes 50% recovery rate of lost value.

[2]Measures market high to market low.

Data Source: Phillips & Co.; American Funds - https://www.americanfunds.com/individual/planning/market-fluctuations/past-market-declines.html

Phillips & Company

THANK YOU

tphillips@phillipsandco.com