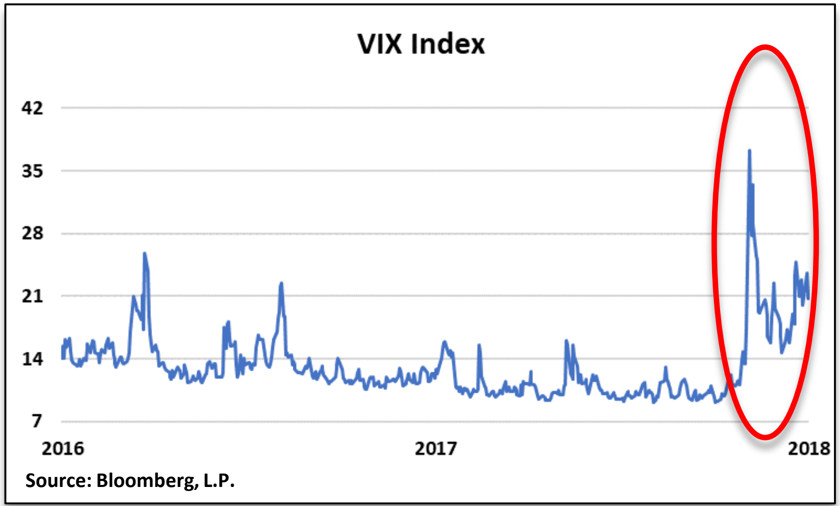
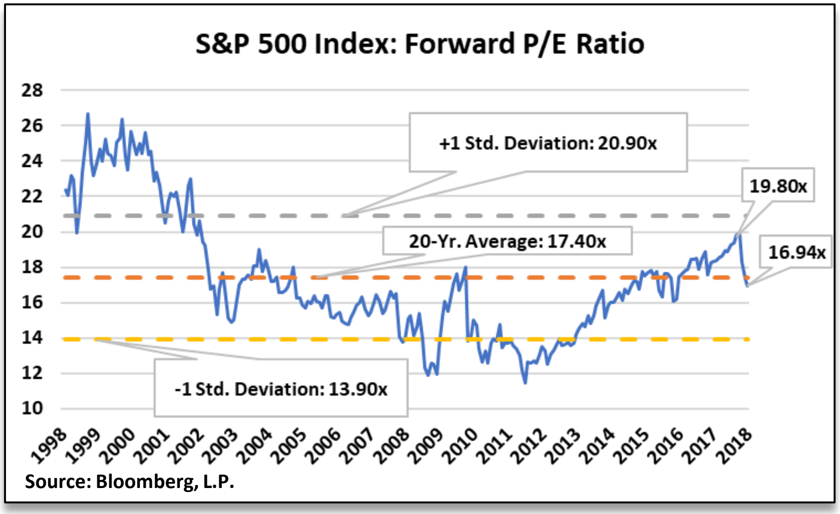
Q2 2018 LOOK AHEAD

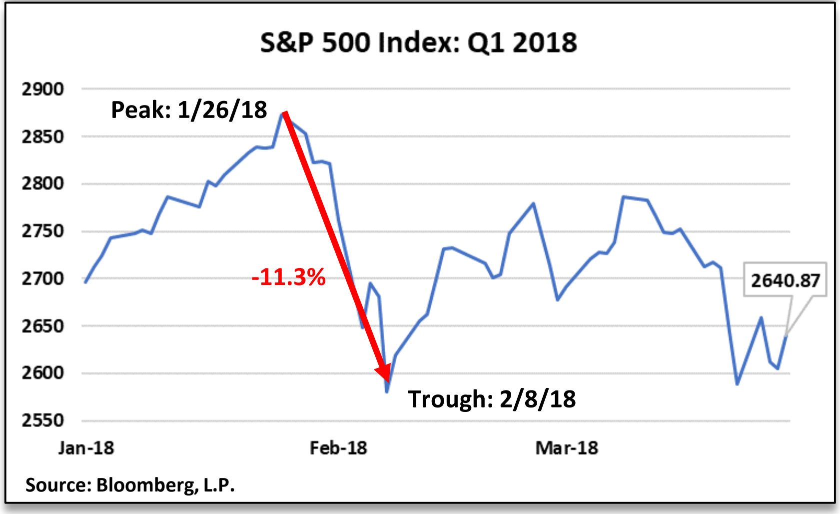
Disclaimer

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.

Valuations & Volatility



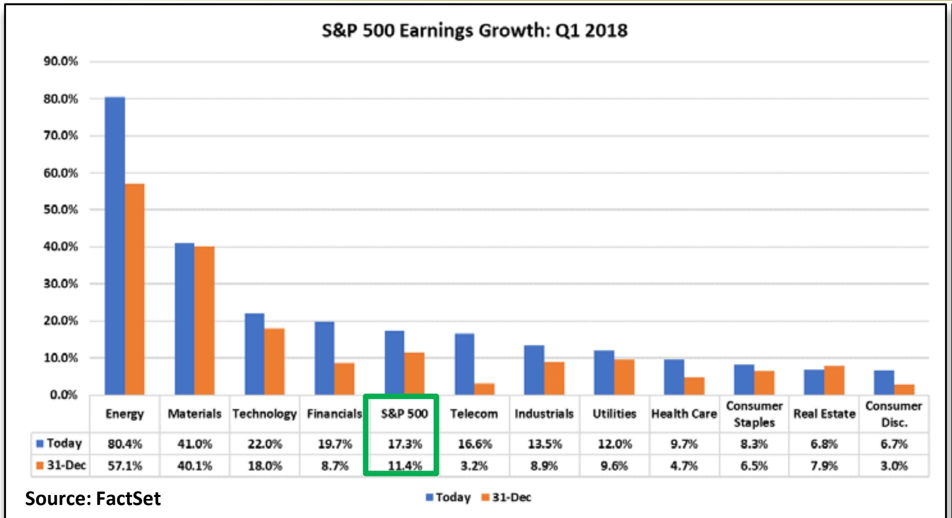




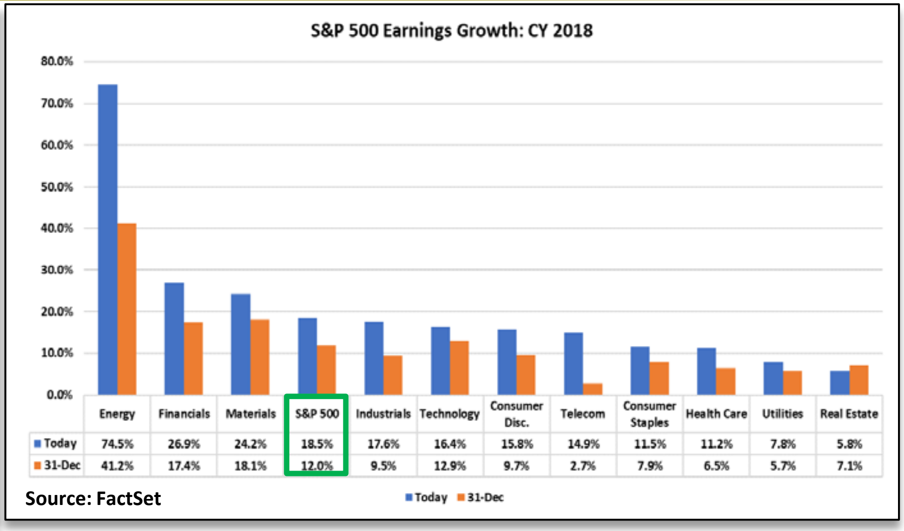
- For the first time in over two years, the VIX Index eclipsed 35, sending the market into a long overdue correction.
- The S&P 500 pulled back 11.3% from its all-time highs during Q1 2018, marking the first time the market has seen a correction of 10% or more in over 689 days.
- The pullback created a healthy reset for valuations, as the Forward P/E Ratio retreated from elevated levels back below its 20-year average.

Data Source: Bloomberg, L.P., Phillips & Co.

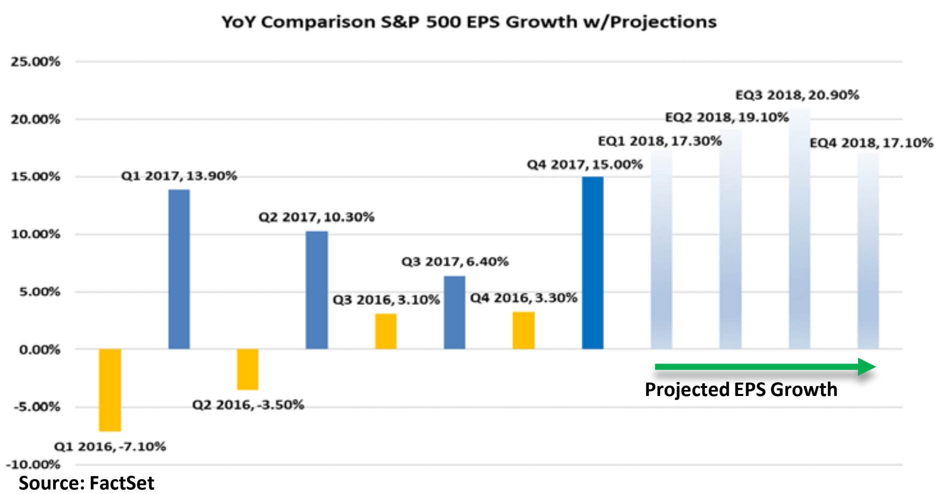
Corporate Earnings



	Energy	Materials	Technology	Financials	S&P 500	Telecom	Industrials	Utilities	Health Care	Consumer Staples	Real Estate	Consumer Disc.
Today	80.4%	41.0%	22.0%	19.7%	17.3%	16.6%	13.5%	12.0%	9.7%	8.3%	6.8%	6.7%
31-Dec	57.1%	40.1%	18.0%	8.7%	11.4%	3.2%	8.9%	9.6%	4.7%	6.5%	7.9%	3.0%



	Energy	Financials	Materials	S&P 500	Industrials	Technology	Consumer Disc.	Telecom	Consumer Staples	Health Care	Utilities	Real Estate
Today	74.5%	26.9%	24.2%	18.5%	17.6%	16.4%	15.8%	14.9%	11.5%	11.2%	7.8%	5.8%
31-Dec	41.2%	17.4%	18.1%	12.0%	9.5%	12.9%	9.7%	2.7%	7.9%	6.5%	5.7%	7.1%



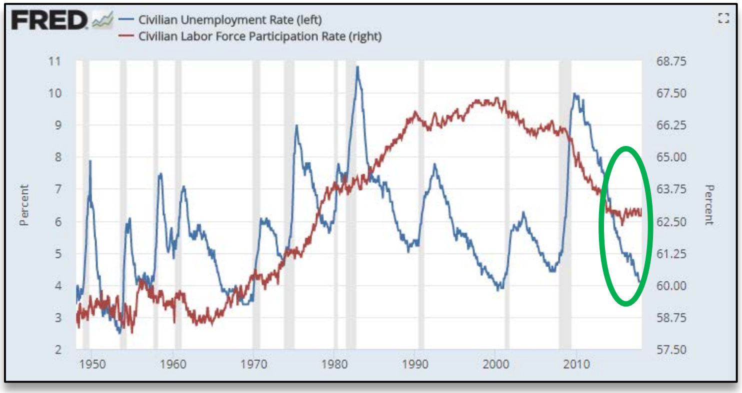
- Strong earnings growth is projected to continue:
  - Q4 2017 EPS growth was 15.0% vs. projected 10.9%
  - Est. Q1 2018 EPS growth: 17.3% (Highest since Q1 2011)
  - Est. FY 2018 EPS growth: 18.5%
- Earnings drivers:
  - Weak dollar fuels export growth
  - Energy driven by higher commodity prices
  - Financials driven by higher interest rates
- Year-over-year hurdles become easier through Q3 2018, then increasingly more difficult to exceed beginning in Q4 2018.

Data Source: Phillips & Co., https://insight.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_032918.pdf

Phillips & Company

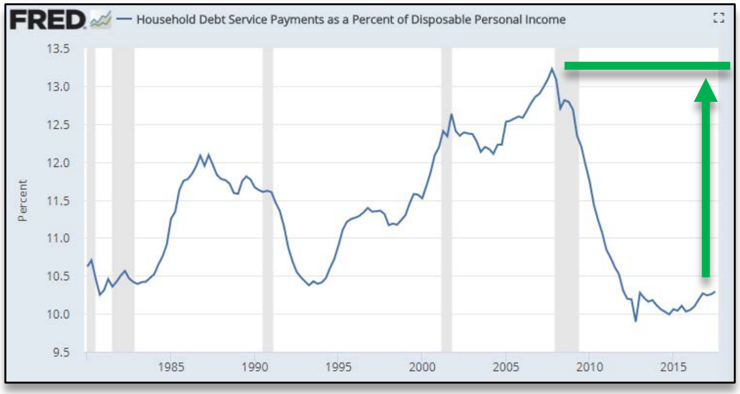
U.S. Consumer Strength

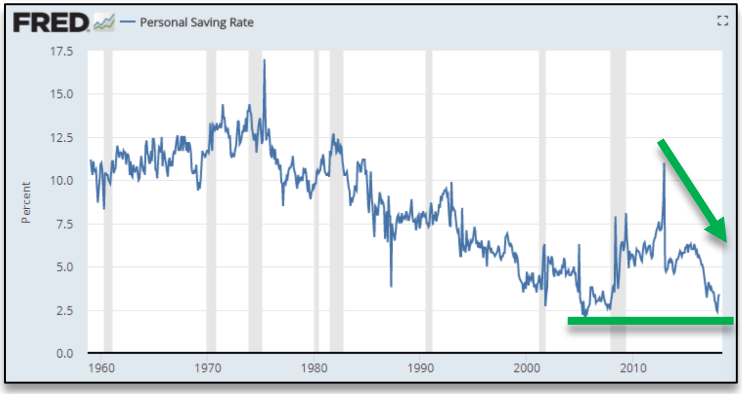
Wage Growth: 2.7%



Unemployment Rate vs. Labor Force Participation Rate

Household Debt Service Payments as a % of Disposable Income





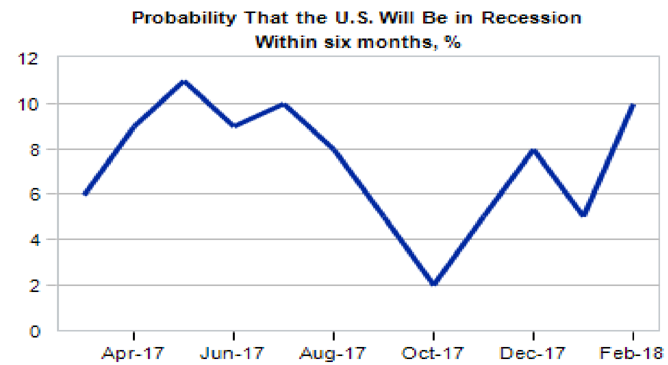
Personal Savings Rate

- ❑ Low unemployment matched by low labor force participation is likely impacting wage inflation – or the lack thereof.
- ❑ A return to peak levels of debt service payments as a percent of disposable personal income could add as much as $5.9 trillion in consumption over the next 10 years.
- ❑ Despite a slight uptick in the Personal Savings Rate, off of pre-recession lows of 1.9%, we can expect the U.S. consumer to maintain a muted level of savings.

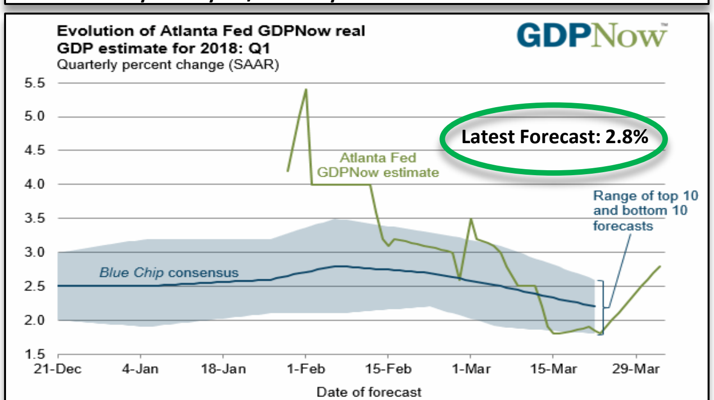
Data Source: Economic Research Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES0500000003, https://fred.stlouisfed.org/series/UNRATE, https://fred.stlouisfed.org/series/TDSP, https://fred.stlouisfed.org/series/PSAVERT, http://phillipsandco.com/blog/questions-for-2018/
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

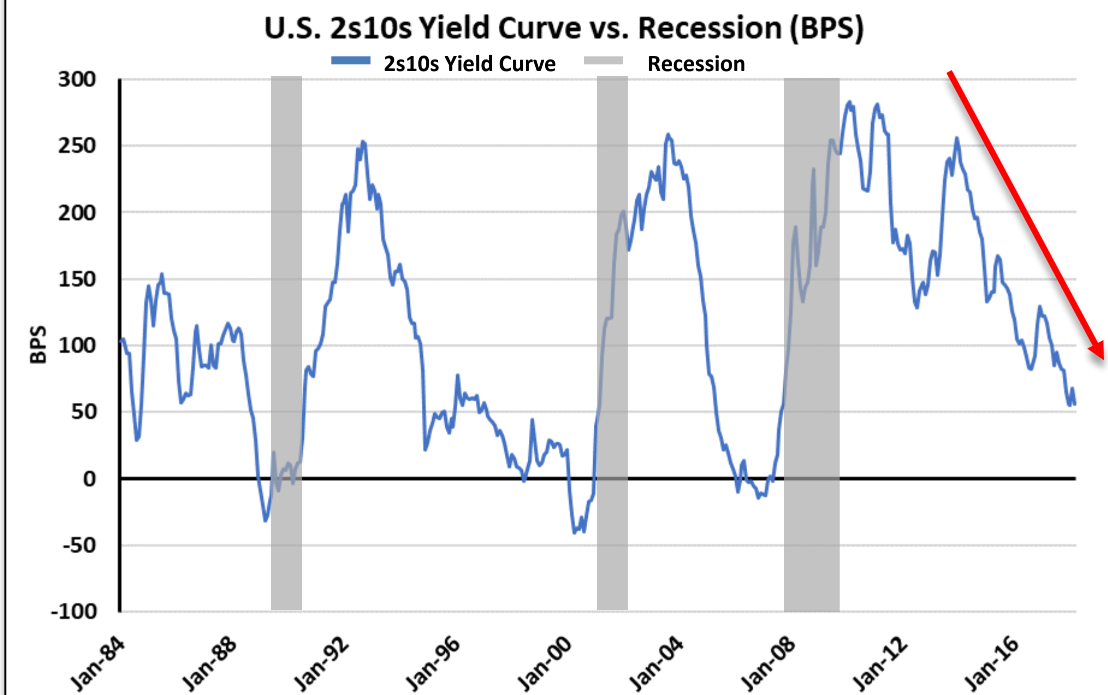
Phillips & Company

Risk of Recession



Source: Moody's Analytics/Economy.com





Source: FactSet

U.S. 2s10s Yield Curve Vs. Recession (BPS)	
Inversion Month	**Months To Recession**
January-1989	10
June-1998	31
February-2006	20
Average	***20.33***

- ❑ The probability that the U.S. will be in a recession in six months rose by 5 percentage points to 10% in February, matching the highest since July 2017. However, there is no immediate threat of a recession, as we normally adopt a recession as our baseline when the probability of a recession hits 60%.
- ❑ On average, there is slightly over 20 months from the time of the inversion in the yield curve, as measured by the spread between the 2-year Treasury Yield and the 10-year Treasury Yield, until the U.S. experiences a recession.

Data Source: Phillips & Co., https://www.frbatlanta.org/cqer/research/gdpnow.aspx, https://www.economy.com/dismal/indicators/releases/usa_recession/12C3D091-3CF4-405B-9B79-D74C9EC08396/United-States-Risk-of-Recession. 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

Food Fight vs. Actual Fight

Talking Big & Acting Small

3/1/18: Trump announces plans to impose tariffs on imports of steel and aluminum

3/2/18: EU pledges to strike back with tariffs on US-made bourbon, motorcycles, and denim jeans

3/3/18: Trump responds with threat of tariffs on European cars

3/8/18: U.S. exempts Canada and Mexico from steel and aluminum tariffs

3/16/18: EU publishes list of American products that it could target if Trump moves forward with tariffs

3/22/18: U.S. orders new tariffs on $50 billion of Chinese imports and says it will take action on China at the World Trade Organization – exemptions for steel and aluminum tariffs are granted to EU, South Korea, Australia, Brazil, and Argentina

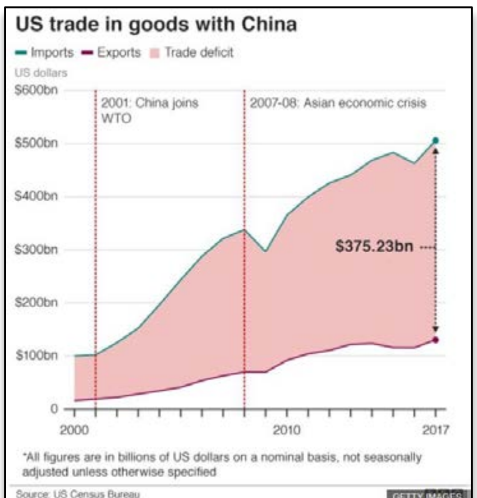
3/23/18: China outlines plans to retaliate by imposing $3b in tariffs on nuts, fresh fruit, wine, and pork

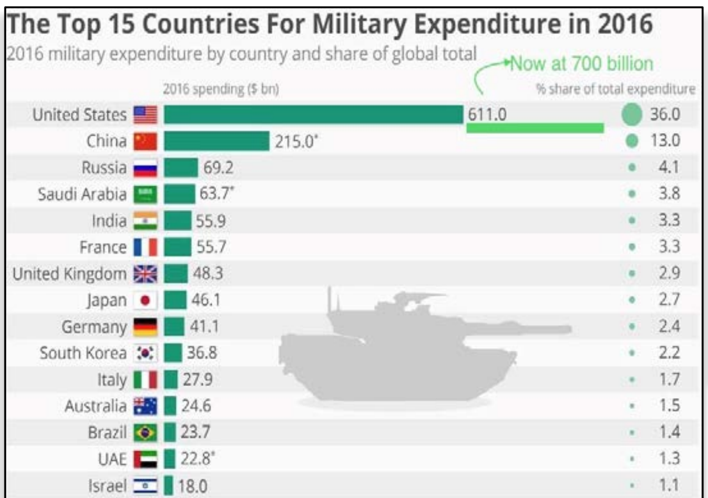
4/3/18: U.S. announces list of 1,300 industrial technology, transport, and medical products it will impose a 25% tariff on, which directly attacks China's 2025 and 2049 growth initiatives

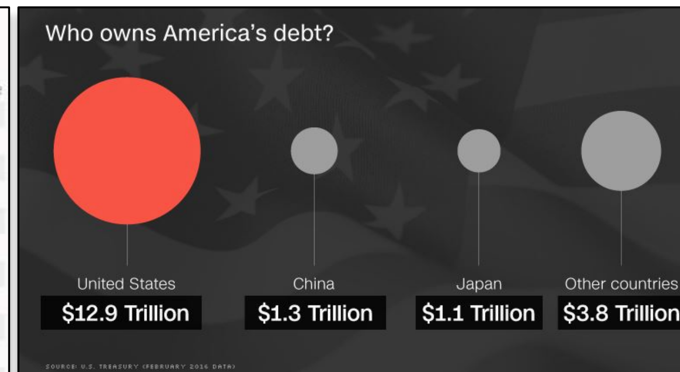
4/4/18: China retaliates by announcing $50b in tariffs on 106 U.S. goods including soybeans, aircrafts, small vehicles, and tobacco, which attacks the heart of Trump's political base

4/5/18: Trump threatens to levy an additional $100b in tariffs against China

- ❑ Trade talks will likely take longer than anticipated
- ❑ Trade deficit has its limitations
- ❑ Thank you for the defense spending
- ❑ China's nuclear option is our debt



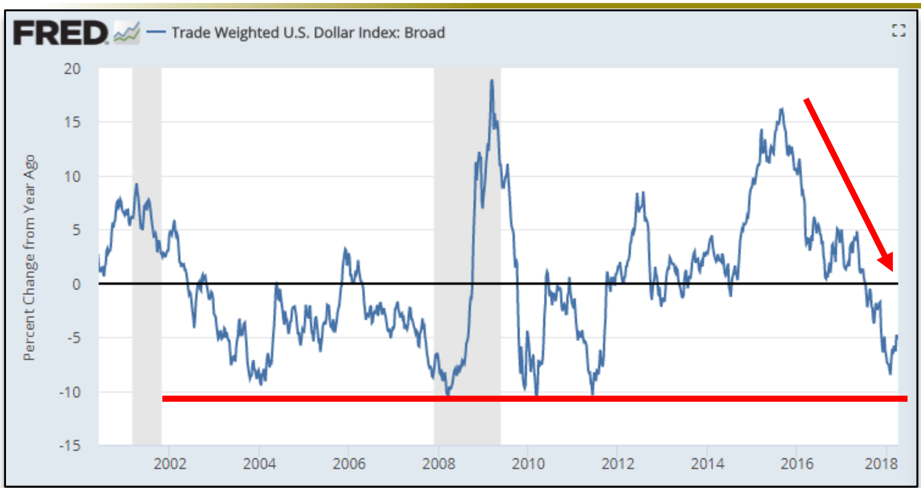


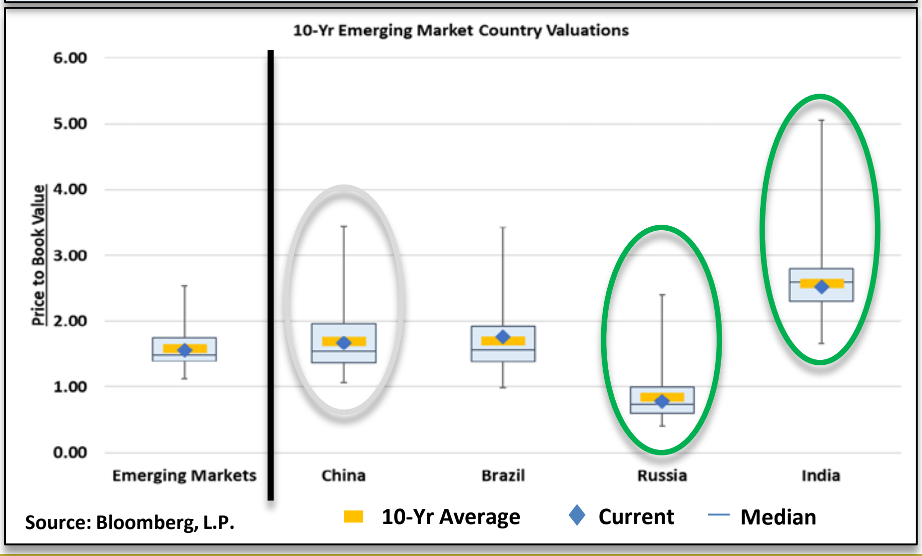


Data Source: https://www.cnbc.com/2018/04/04/the-full-list-of-us-products-that-china-is-planning-to-hit-with-tariffs.html, https://qz.com/1105337/chinas-19th-party-congress-your-five-minute-summary-of-xi-jinpings-three-hour-speech/, https://www.cnn.com/2018/03/22/politics/donald-trump-china-tariffs-trade-war/index.html, https://www.reuters.com/article/us-usa-china-trade/u-s-escalates-china-trade-showdown-with-tariffs-on-50-billion-in-imports-idUSKCN1HA2Q9, https://nypost.com/2018/04/05/trump-wants-to-levy-additional-100b-in-tariffs-against-china/, http://phillipsandco.com/blog/talking-big-and-acting-small-we-hope/

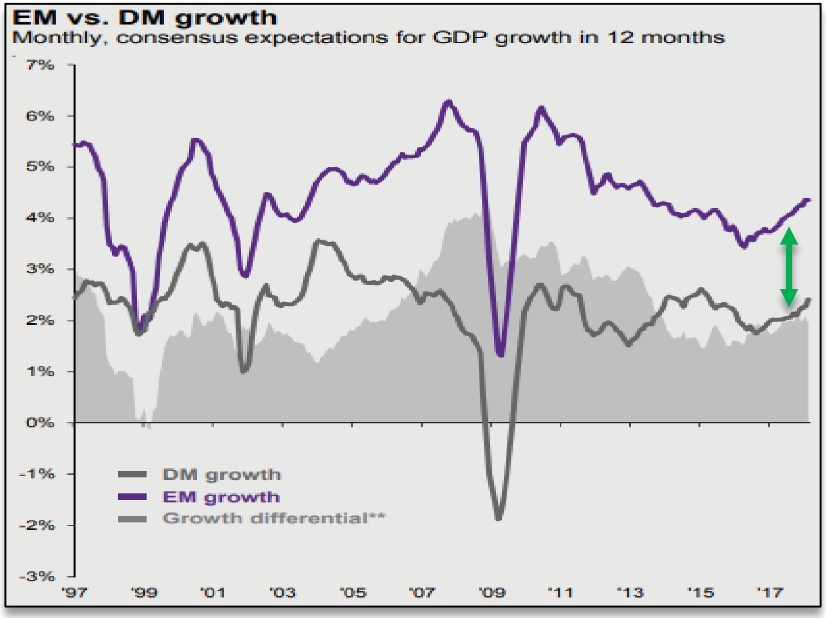
Phillips & Company

Emerging Markets (EM)





- Weakness in the U.S. dollar is likely to support continued growth in Emerging Market equities
- EM GDP growth is expected to maintain its upward trajectory, while keeping a healthy differential to Developed Market growth



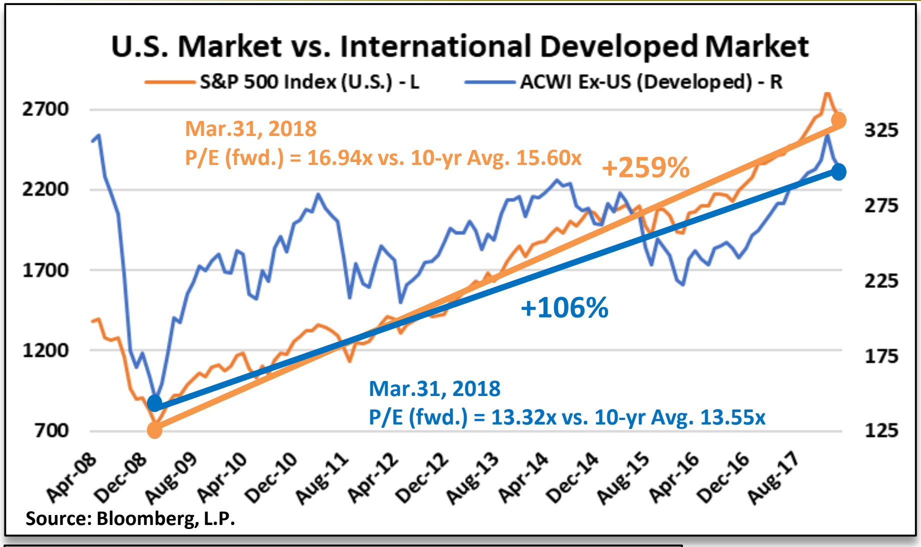
- Valuations within Emerging Markets are fairly valued; albeit, country specific valuations in Brazil look to be higher than average.
- India, Russia, and to some extent China, remain attractive areas to look for opportunity.

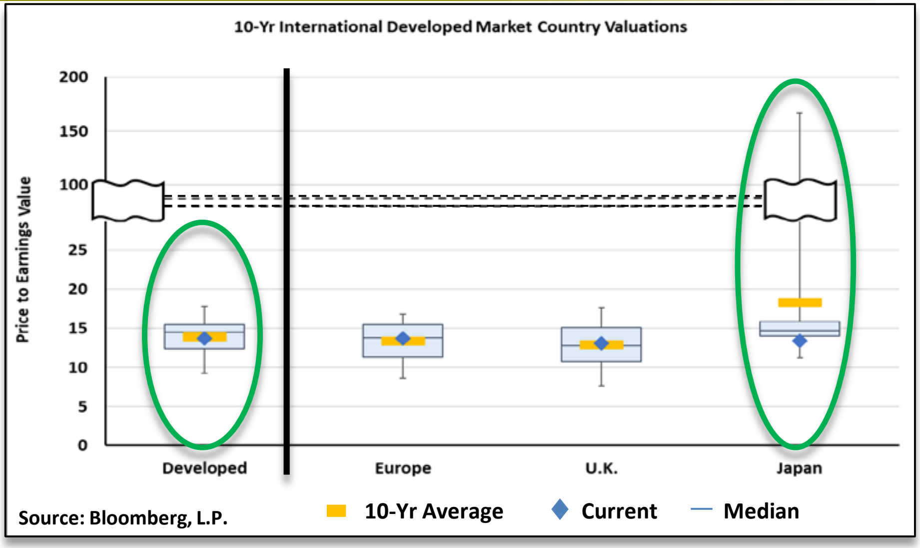
Data Source: Economic Research Federal Reserve Bank of St. Louis; Bloomberg, L.P., https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_2Q18%20(3).pdf?segment=AMERICAS_US_ADV&locale=en_US, https://fred.stlouisfed.org/series/DTWEXM

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

International Developed Markets

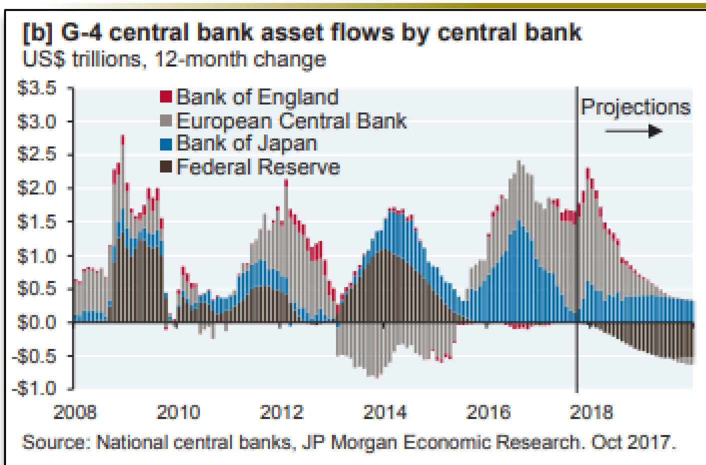


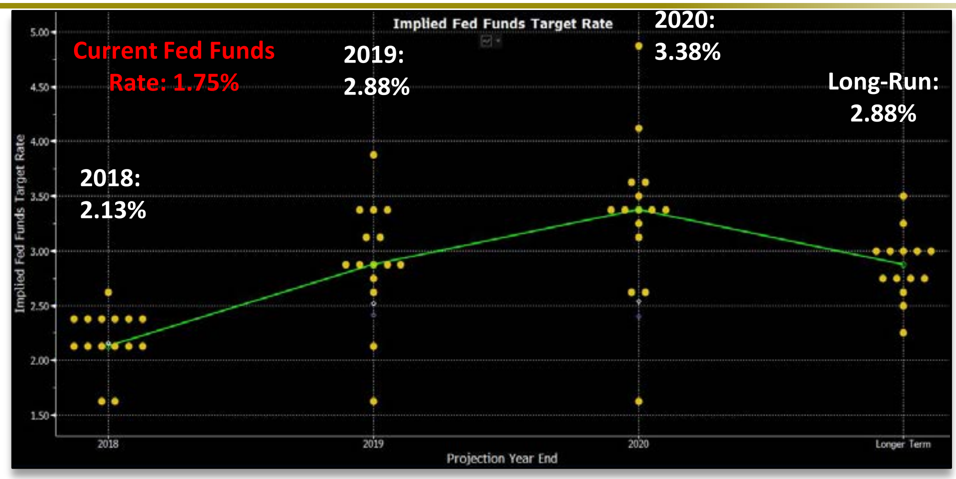


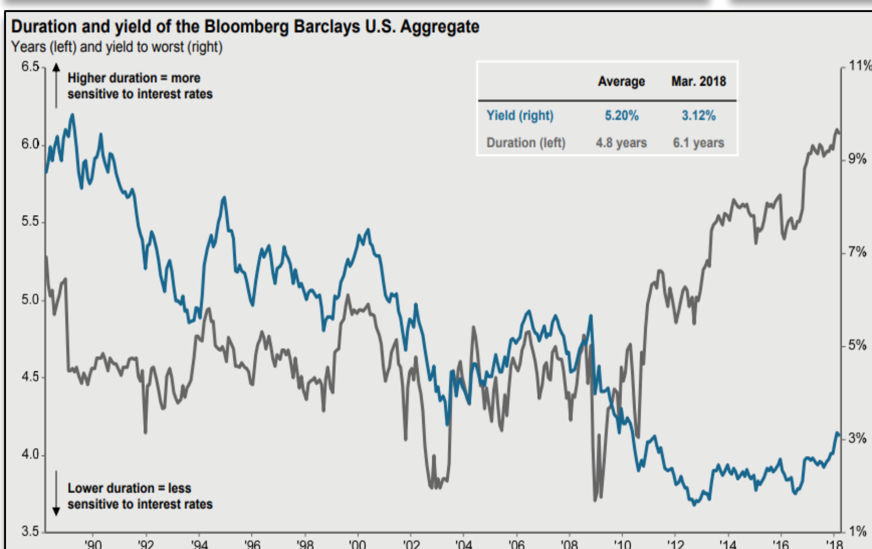
- The International Developed Market Index values have yet to surpass their pre-financial crisis level highs.
- On a price-to-earnings basis, International Developed markets are slightly under their 10-year average P/E Ratios.
- International Developed markets still have attractive valuations on an absolute and relative basis; from a country perspective, Japan continues to be the most attractively valued.
- Global earnings are on the rise alongside economic confidence throughout Europe and other developed market economies, despite EPS in Europe having yet to eclipse its pre-financial crisis levels.

Data Source: Bloomberg, L.P., https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_2Q18%20(3).pdf?segment=AMERICAS_US_ADV&locale=en_US
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.

Fixed Income







- The Global Central Banks appear to be coordinated, bringing an end to Global QE by reversing central bank asset flows and moving toward policy normalization.
- The Fed is targeting 3 rate hikes in 2018, 3 hikes in 2019, and 4 hikes in 2020; the long-run projected Fed Funds Rate is estimated to be slightly below 3% at 2.88%.
- Inflation will be a key indicator of central bank follow-through.
- Investors' demand for yield has driven an increase in duration at the expense of high interest rate sensitivity.
- Keep in mind that changes in interest rates don't always correlate to changes in equity market returns.

Data Source: Bloomberg, L.P., https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_2Q18%20(3).pdf?segment=AMERICAS_US_ADV&locale=en_US, https://www.jpmorgan.com/jpmpdf/1320744602085.pdf. 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

Mean Reversion Dashboard

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

	Value	Blend	Growth
Large	107.3%	112.5%	116.2%
Mid	103.6%	105.4%	109.3%
Small	101.0%	110.9%	121.3%

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
105.6%	103.2%	103.5%	109.2%	103.8%	103.5%	111.3%	109.4%	102.6%	100.1%

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

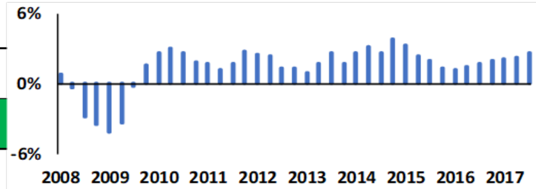
Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
101.6%	85.6%	87.9%	103.7%	111.4%	109.4%	101.2%	64.0%	114.1%	111.2%	113.6%

Data Source: Bloomberg LP; JP Morgan Asset Management - https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_2Q18%20(3).pdf?segment=AMERICAS_US_ADV&locale=en_US. 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

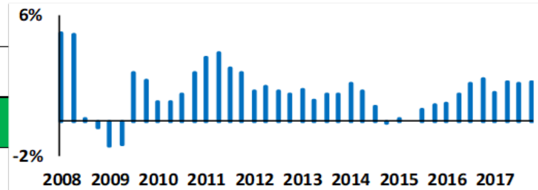
Economic Dashboard

U.S. GDP Growth	As of 12/31/2017
Latest Level	2.6
Change from Prior Quarter	0.3
Latest Direction	Improving
Frequency	Quarterly



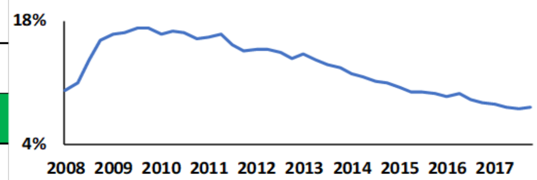
U.S. Treasury Spread 2-Yr vs. 10-Yr Spread	As of 3/30/2018
Latest Level	47.3
Change from Prior Month	-13.8
Latest Direction	Flattening
Frequency	Monthly

U.S Inflation	As of 3/30/2018
Latest Level	2.2
Change from Prior Quarter	0.1
Latest Direction	Increasing
Frequency	Quarterly

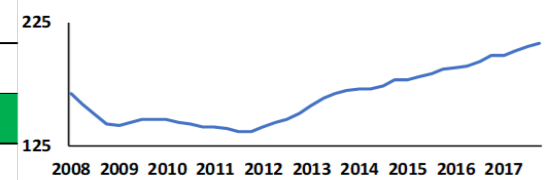


S&P 500 P/E Ratio	As of 3/30/2018
Latest Level	21.3
Change from Prior Month	-0.6
Latest Direction	Decreasing
Frequency	Monthly

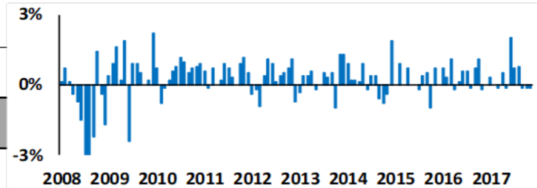
U.S. U-6 Unemployment Rate	As of 3/30/2018
Latest Level	8.2
Change from Prior Quarter	0.1
Latest Direction	Increasing
Frequency	Quarterly



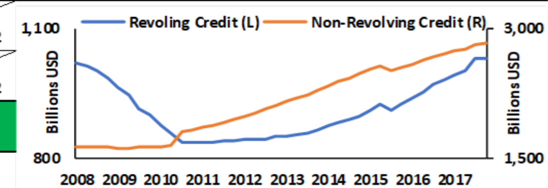
Schiller Home Value Index	As of 3/30/2018
Latest Level	207.4
Change from Prior Quarter	1.5
Latest Direction	Increasing
Frequency	Quarterly



Retail Sales	As of 2/28/2018
Latest Level	-0.1
Change from Prior Month	0
Latest Direction	No Change
Frequency	Monthly



Credit: Revolving / Non-Revolving	As of 3/30/2018
Latest Levels	1029.8 / 2825.2
Changes from Prior Quarter	0.7 / 13.2
Latest Direction	Expanding
Frequency	Quarterly



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

Our View and Recommendations

Our View

- ❑ Valuations and volatility in equity markets are likely to return to normal levels.
- ❑ Technology stocks, specifically F.A.N.G stocks, may continue to drag on broader U.S. equity valuations as they make up just over 21% of the S&P 500's market cap weighting.
- ❑ Strong fundamentals remain in place, as evidenced by global earnings growth and strong consumer sentiment.
- ❑ International Developed and Emerging Markets continue to offer the best valuations, albeit pockets of higher country specific valuations.
- ❑ The official end of QE and global central bank coordination of policy rate normalization is likely to continue flattening the yield curve.
- ❑ Risks of recession are likely pushed out beyond 2018 and into 2019.
- ❑ Demand for yield is driving a longer duration, which is leading to excessive interest rate risk for many investors.
- ❑ Trade war fears persist, but will likely dissipate if China realizes that selling U.S. Treasuries into the open market as retaliation will further damage the Communist Party's initiatives to turn China into a fully developed nation.

Recommendations

- ❑ Continue U.S. portfolio weightings to policy targets +/- 2%.
- ❑ Maintain reduced exposure to Technology.
- ❑ Increase exposure to Energy and Financials.
- ❑ Increase Emerging Markets exposure up to +3% of policy targets.
- ❑ Overweight policy weightings in Developed Markets.
- ❑ Continue to moderate durations around 5 years as Fed action will likely impact short-term rates and the flight to safety will likely impact long-term rates.
- ❑ Use frequent market dips during times of elevated volatility to deploy excess cash across policy targets.
- ❑ Look for opportunity in noncorrelated assets to help mitigate risk in the overall portfolio.

Data Source: Phillips & Co.

THANK YOU

tphillips@phillipsandco.com