

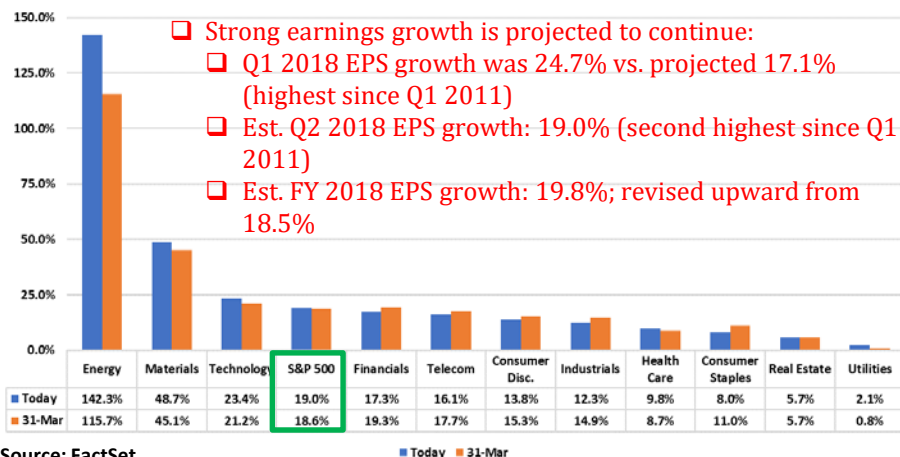
Q3 2018 LOOK AHEAD

Disclaimer

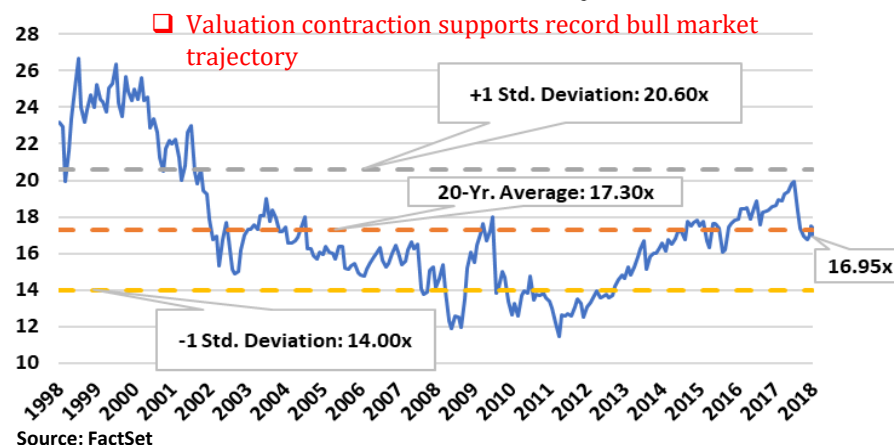
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Corporate Earnings

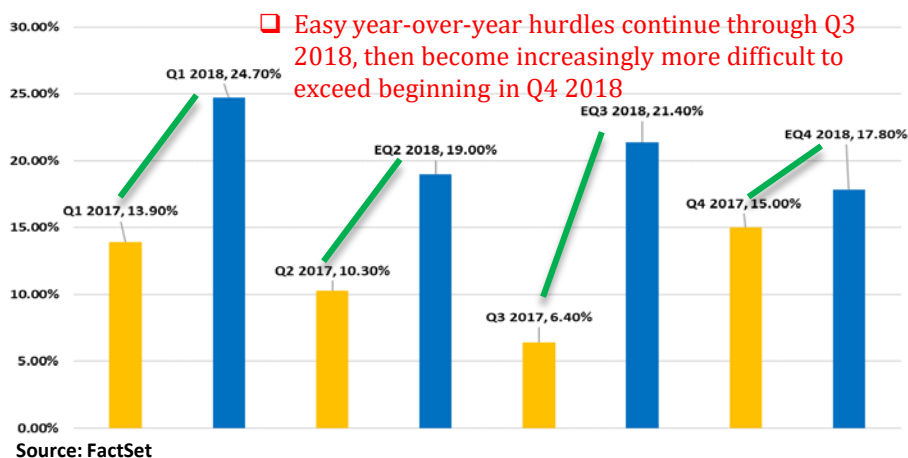
S&P 500 Earnings Growth: Q2 2018



S&P 500 Index: Forward P/E Ratio



YoY Comparison S&P 500 EPS Growth w/Projections



Proforma EPS Impact

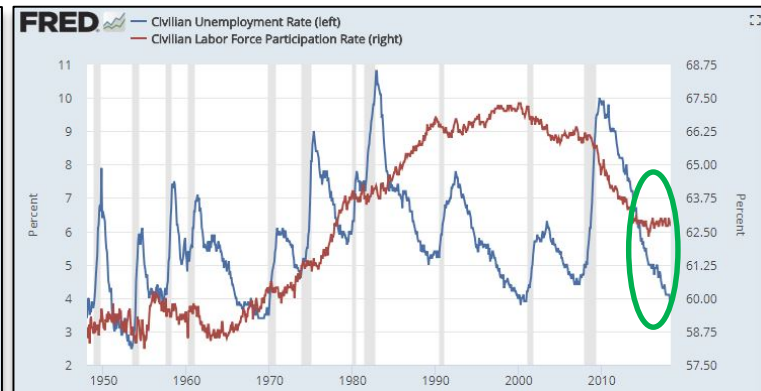
Sector	Lower US Tax Rate ¹	Minimum Foreign Tax Rate	Interest Deductibility ²	Total Impact (Ex-Buybacks)	Repatriation Buybacks ³	Total Impact (Incl. Buybacks)
Discretionary	14.7%	-0.1%	-0.1%	14.4%	0.9%	15.3%
Staples	10.8%	-0.2%	0.0%	10.6%	1.1%	11.7%
Energy	5.6%	-0.3%	0.0%	5.3%	0.8%	6.1%
Financials	10.8%	-0.3%	0.0%	10.6%	0.0%	10.6%
Health Care	10.6%	-4.0%	0.0%	9.6%	2.1%	11.7%
Industrials	12.3%	-0.3%	0.0%	12.0%	0.8%	12.9%
Technology	4.7%	-0.6%	0.0%	4.0%	5.1%	9.1%
Materials	5.5%	-0.1%	0.0%	5.4%	0.6%	6.0%
Real Estate	0.5%	-0.2%	0.0%	0.4%	0.1%	0.5%
Telecom	12.9%	-0.1%	0.0%	12.8%	0.1%	12.9%
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
S&P 500	9.1%	-0.4%	0.0%	8.7%	1.9%	10.5%

Earnings drivers:

- Tax Cuts and Jobs Act remains a driving factor for EPS growth
- Energy driven by higher commodity prices

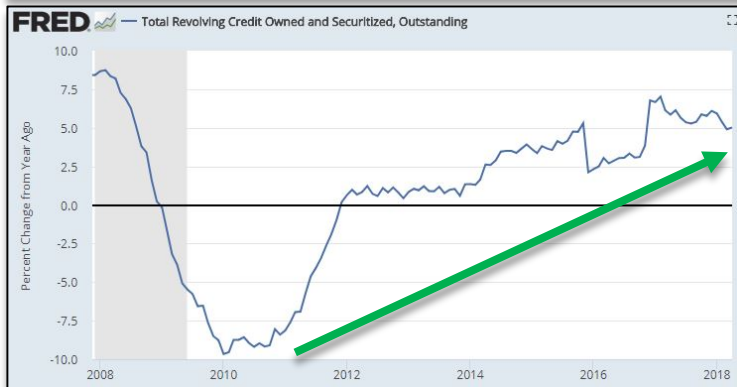
U.S. Consumer Strength

Wage
Growth:
2.7%



Unemployment
Rate
vs.
Labor Force
Participation
Rate

Total
Revolving
Credit

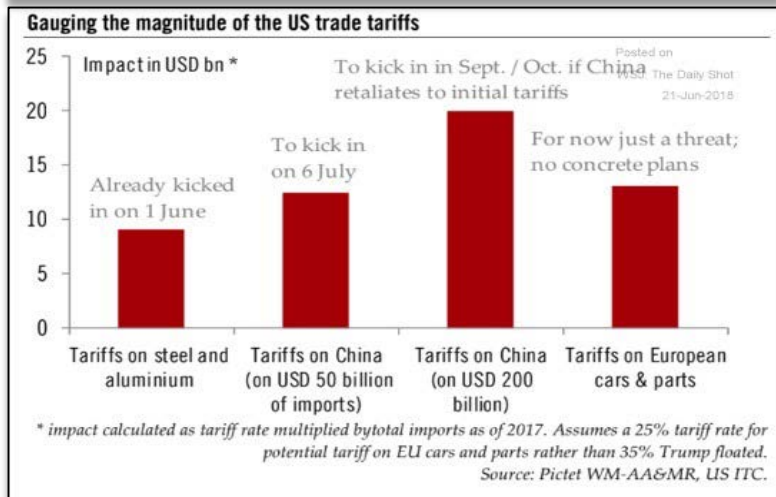
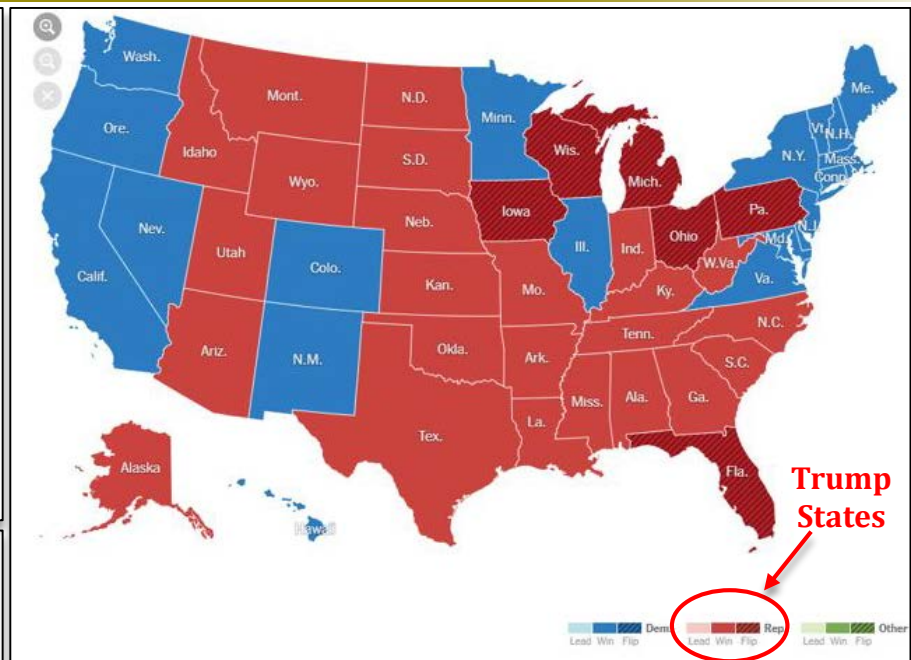
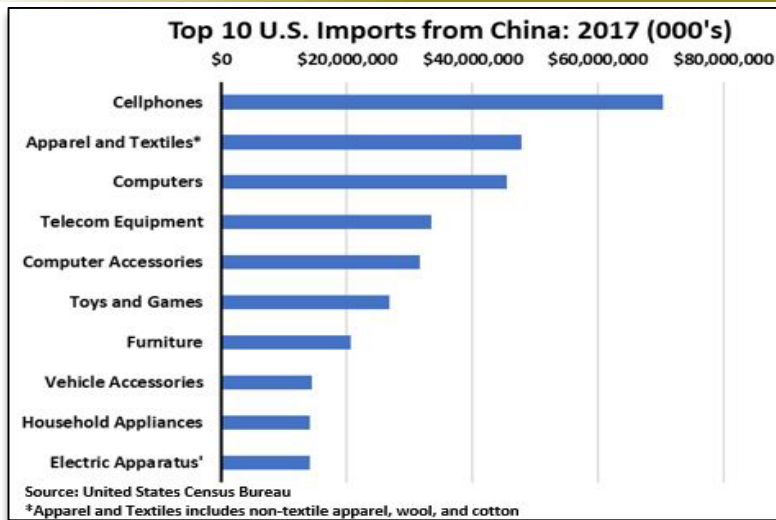


Personal
Savings Rate

- ❑ 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
- ❑ Personal Savings Rate trends towards pre-recession lows suggesting the U.S. consumer is likely 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>, Phillips & Co. <http://phillipsandco.com/blog/questions-for-2018/>
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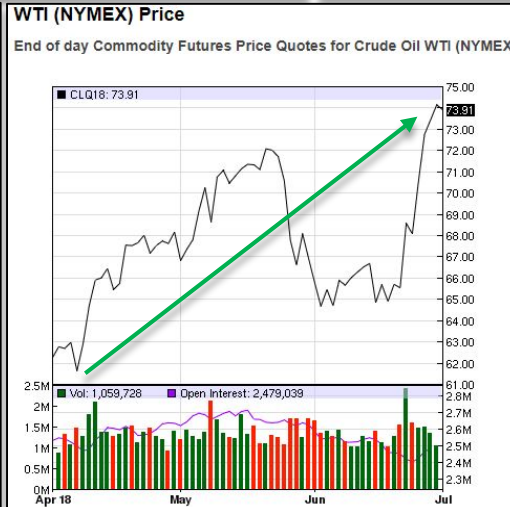
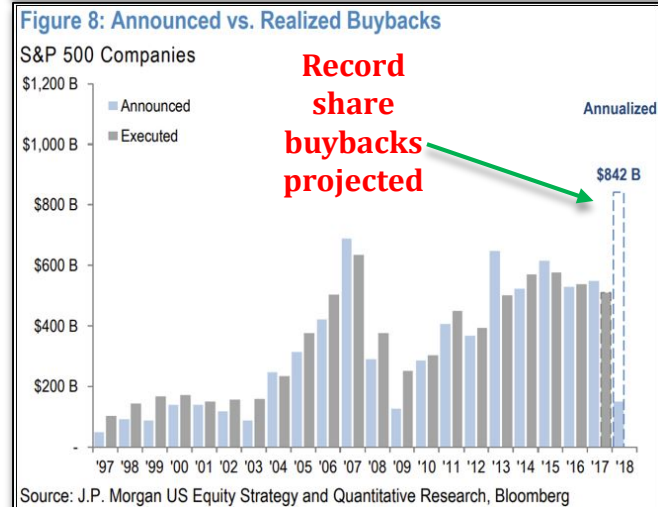
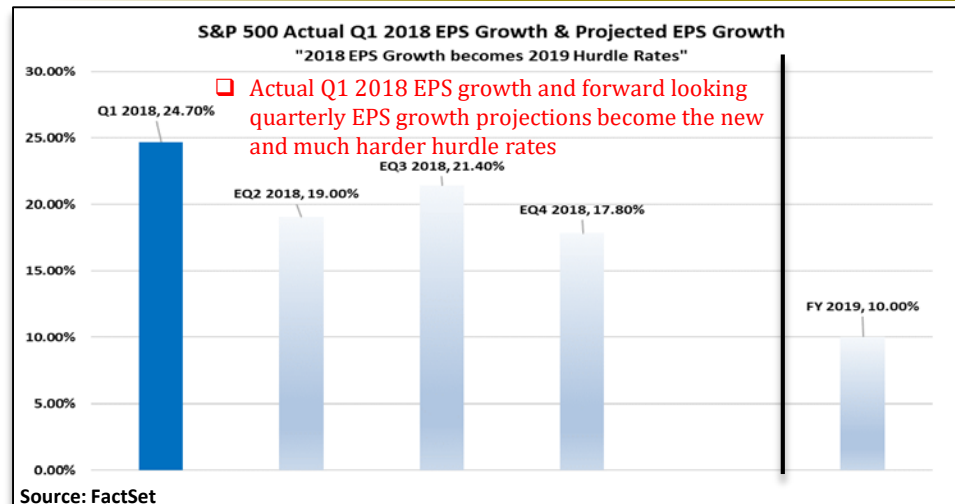
Trade War or Food Fight



- ☐ Trade war rhetoric heats up
- ☐ China's escalation hits at the heart of Trump's voter base through tariffs on agriculture (soybeans, pork, and dairy)
- ☐ Ample time before tariff implementation to resolve disputes and de-escalate tensions
- ☐ The worst is likely priced in

What's It Going to Take For 2019

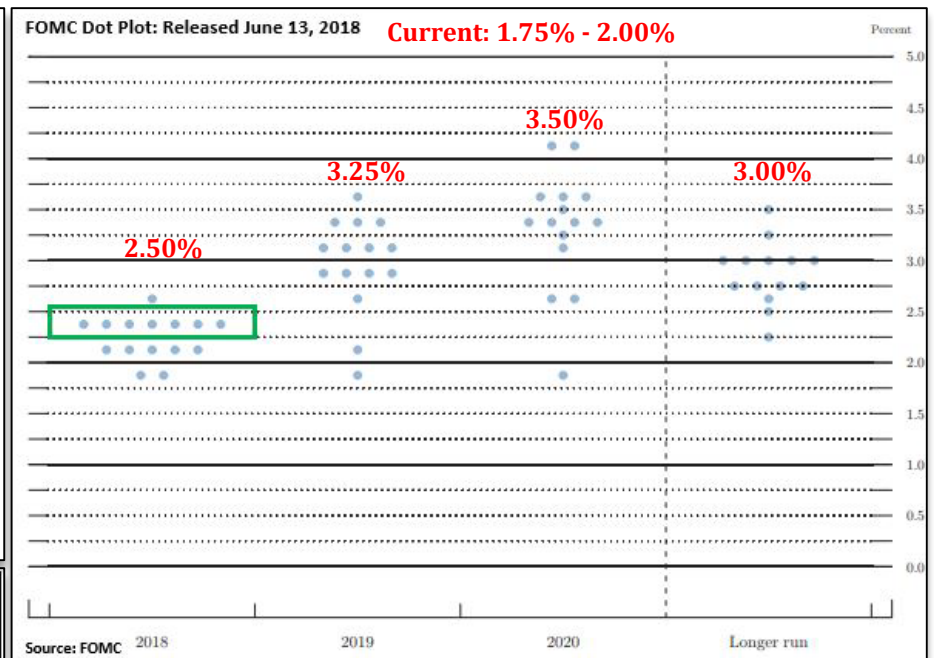
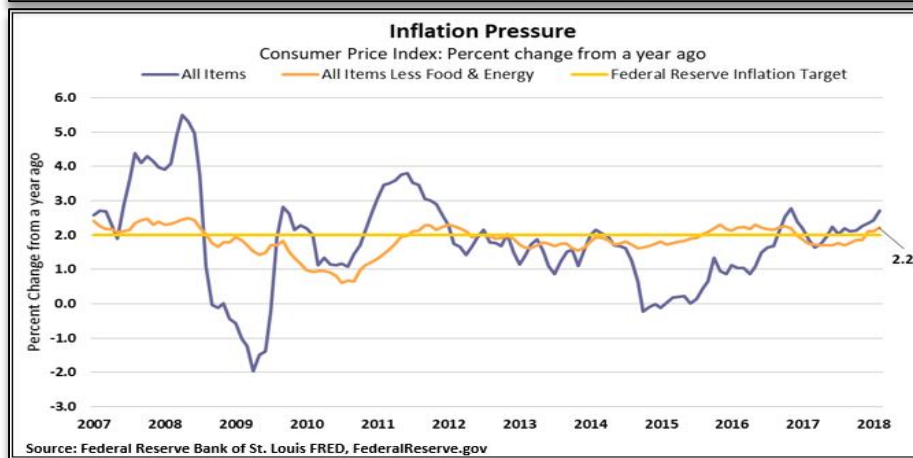
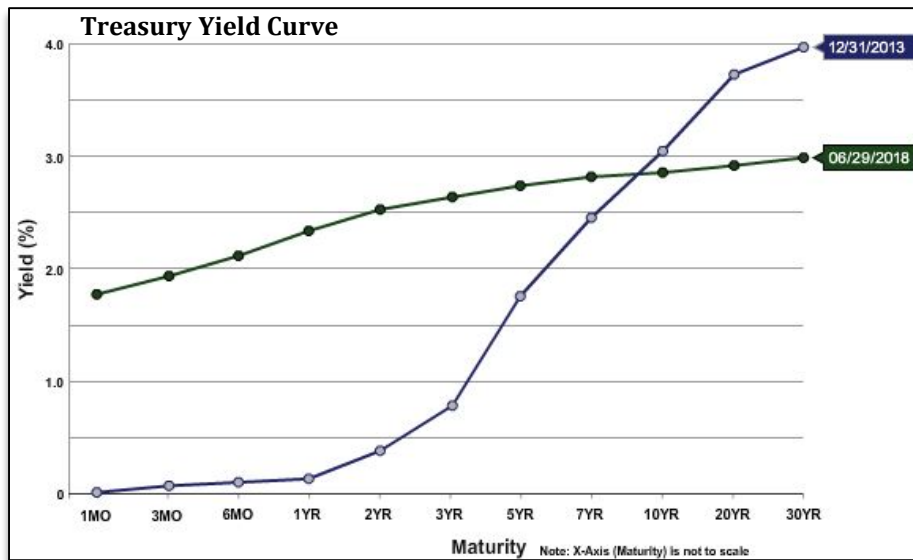
"Keep the Good Going"



Support to keep the good going:

- ❑ Stimulus from the Tax Cuts and Jobs Act continues to support share buybacks
- ❑ Movements towards bilateral trade agreements could soften the fear of potential restrictions on capital flows and easing trade war tensions
- ❑ Continued strength in oil prices benefit energy companies which are 7% of the S&P 500
- ❑ More difficult hurdle rates are likely bringing down FY 2019 EPS growth estimates providing investors some cushion
- ❑ A weakening U.S. dollar is likely to fuel export growth and benefit the 39% of S&P 500 companies with international revenues

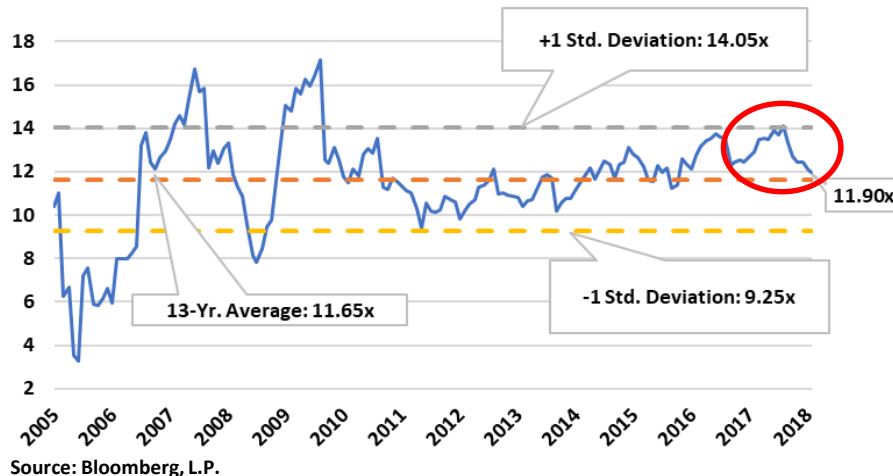
Interest Rates



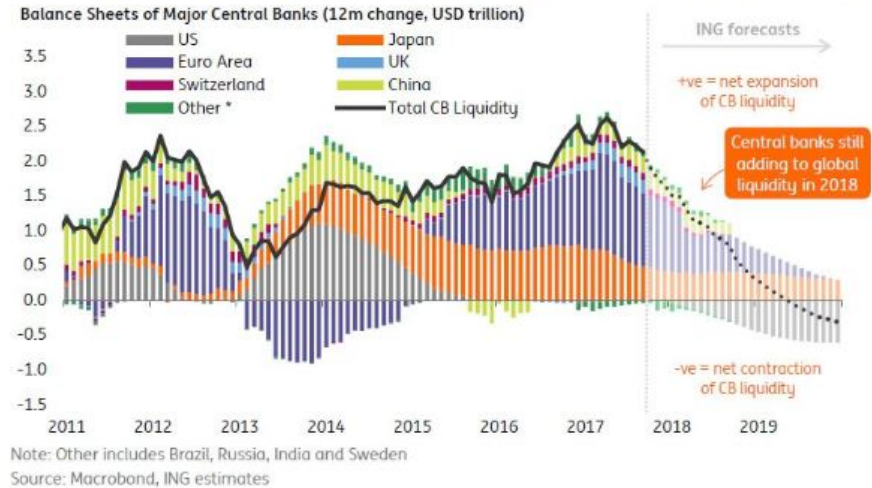
- ☐ Rate expectations for the remainder of 2018 project the Fed Funds Rate to be 2.5%, suggesting two additional rate hikes this year
- ☐ 2019 Fed Funds Rate projected to be 3.25% by end of 2019, suggesting three rate hikes throughout 2019; terminal Fed Funds Rate is projected to be 3.00%
- ☐ The yield curve continues its course of flattening
- ☐ Inflation meets the Fed's 2% target; raising interest rates becomes more trickier as to not push the U.S. into a recession

Emerging Markets (EM)

MSCI EM Index: Forward P/E Ratio



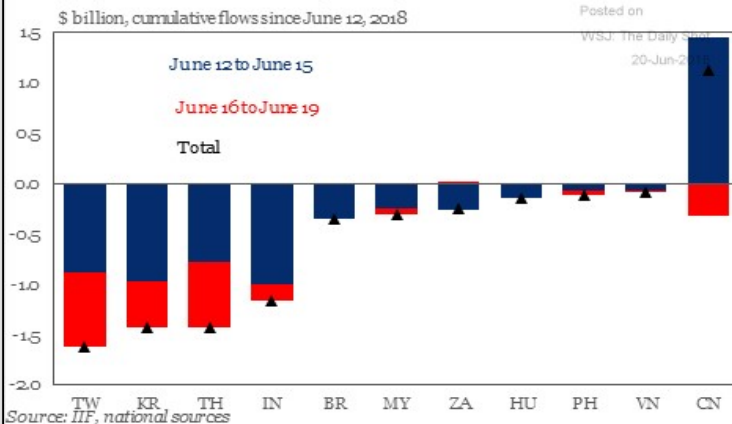
Central banks will begin to withdraw liquidity in 2018... but ever so gradually



Valuations have contracted across Emerging Markets driven by:

- ☐ EM Central banks beginning to withdrawal liquidity along with other major central banks
- ☐ Negative investment flows throughout key EM countries
- ☐ Steady upward trend in rising commodity prices
- ☐ Recent strength in the U.S. dollar

Emerging Market Portfolio Flows by Country

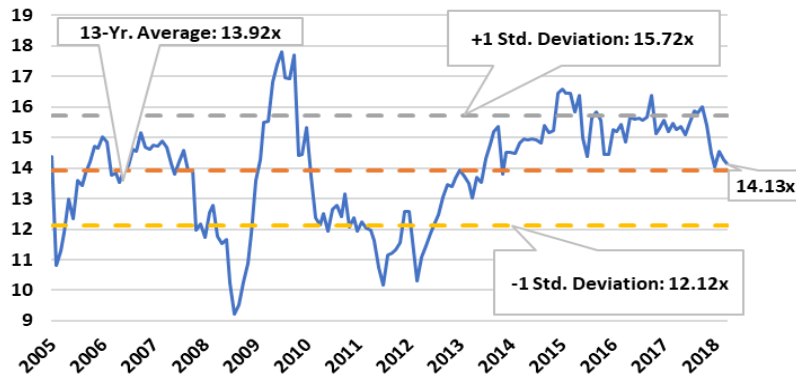


Dow Jones Commodity Index



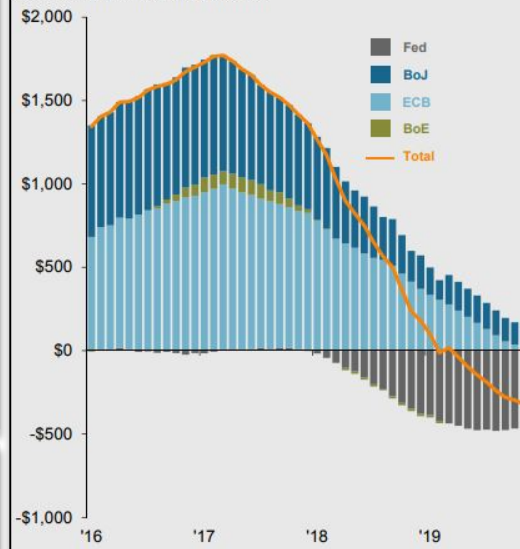
International Developed Markets

MSCI EAFE Index: Forward P/E Ratio



Global central bank balance sheet expansion*

USD billions, 12-month rolling flow

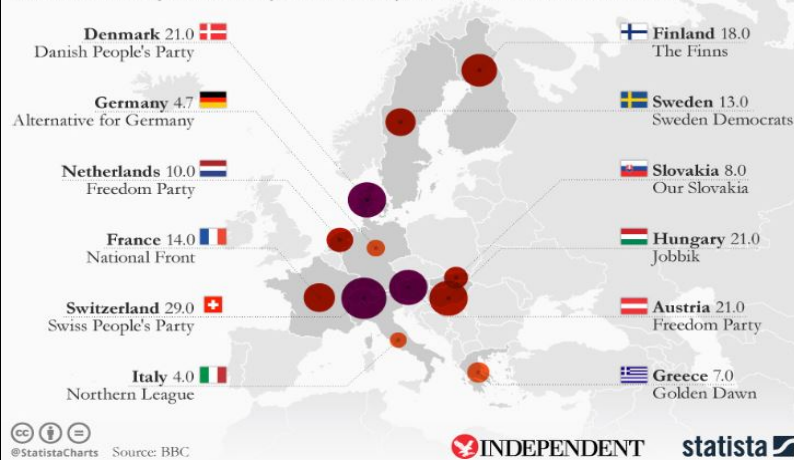


Overview - the spring 2018 forecast

	Real GDP		
	2017	2018	2019
Belgium	1.7	1.8	1.7
Germany	2.2	2.3	2.1
Estonia	4.9	3.7	2.8
Ireland	7.8	5.7	4.1
Greece	1.4	1.9	2.3
Spain	3.1	2.9	2.4
France	1.8	2.0	1.8
Italy	1.5	1.5	1.2
Cyprus	3.9	3.6	3.3
Latvia	4.5	3.3	3.3
Lithuania	3.8	3.1	2.7
Luxembourg	2.3	3.7	3.5
Malta	6.6	5.8	5.1
Netherlands	3.2	3.0	2.6
Austria	2.9	2.8	2.2
Portugal	2.7	2.3	2.0
Slovenia	5.0	4.7	3.6
Slovakia	3.4	4.0	4.2
Finland	2.6	2.5	2.3
Euro area	2.4	2.3	2.0

The rise of nationalism across Europe

% of votes won by nationalist parties in Europe's most recent national elections



- ❑ Valuations contracted across International Developed Markets
- ❑ International Developed Market Central Banks follow U.S. Fed in balance sheet normalization
- ❑ The rise of nationalism throughout Europe threatens the stability of the EU
- ❑ Low EU GDP growth followed by lack of ECB stimulus threatens International Developed Market earnings growth

Mean Reversion Dashboard

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

	Value	Blend	Growth
Large	104.3%	111.4%	117.1%
Mid	101.5%	103.9%	108.7%
Small	105.1%	113.4%	121.2%

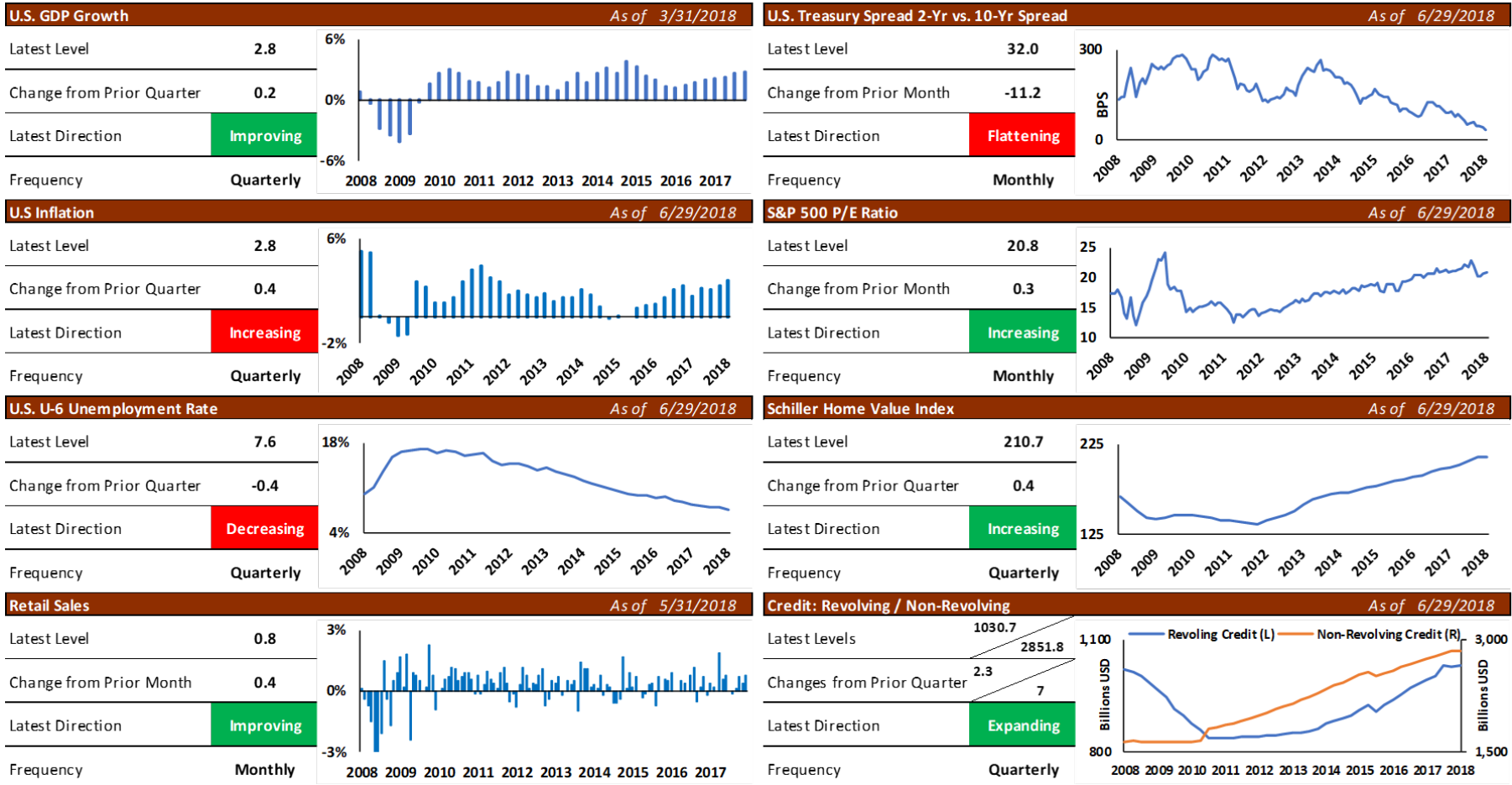
Regional Fwd P/E as a % of 10-Yr Avg. Fwd P/E

ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
103.9%	100.0%	96.8%	108.3%	107.1%	106.4%	106.1%	88.0%	103.8%	90.7%

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
97.7%	88.0%	87.2%	100.6%	106.3%	110.0%	97.1%	61.3%	112.7%	128.9%	112.9%

Economic Dashboard



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.

Our View and Recommendations

Our View

- ❑ U.S. consumer remains the global leader
- ❑ Expect continued volatility as a reordering of global trade becomes bilateral versus multilateral
- ❑ China and U.S. to resolve disputes over intellectual property leading to market stabilization
- ❑ EM to recover as Central Banks follow the Federal Reserve's lead in unwinding global stimulus
- ❑ International Developed Markets trapped in a low growth spiral without further stimulus
- ❑ Continued rising rates alongside wage-push inflation
- ❑ Flattening yield curve adds an early warning sign for investors

Recommendations

- ❑ Continue U.S. portfolio weightings to policy targets +/- 2%
- ❑ Tilt-to-value over growth as a defensive posture
- ❑ Rebalance back to target for EM
- ❑ Underweight Developed Market to policy
- ❑ Remain active in Fixed Income
- ❑ Continue to favor moderate durations close to benchmark as Fed action will likely impact short-term rates and the flight to safety will likely impact long-term rates
- ❑ Look for opportunity in noncorrelated assets to help mitigate risk in the overall portfolio and maintain a defensive posture

THANK YOU

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