

Q4 2017 LOOK AHEAD

Disclaimer

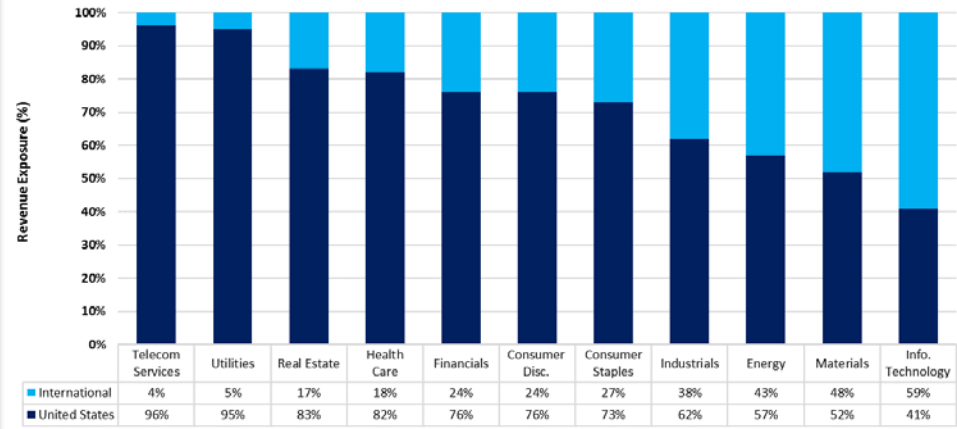
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Earnings Growth Moderates YoY

S&P 500 Quarterly Bottom-Up EPS Actuals & Estimates
(Source: FactSet)



S&P 500: Aggregate Sector Geographic Revenue Exposure (%)
(Source: FactSet)



FRED Trade Weighted U.S. Dollar Index: Broad



❑ Earnings are moderating; growth is projected to remain positive:

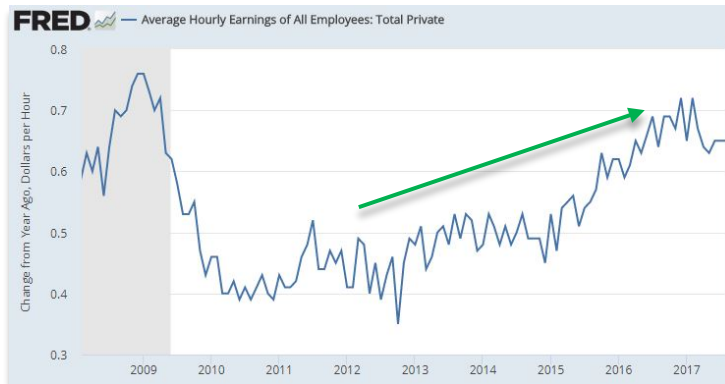
- ❑ Q2 EPS Growth: 10.3%
- ❑ Q3 Expected EPS Growth: 4.2%
- ❑ Q4 Expected EPS Growth: 11.2%

❑ A weaker U.S. dollar may fuel a resurgence in earnings based on export growth

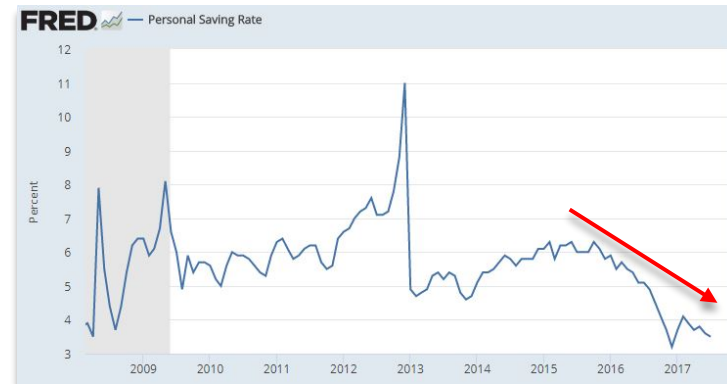
❑ 30% of S&P 500 companies have revenue exposure from outside of the United States

U.S. Consumer Strength

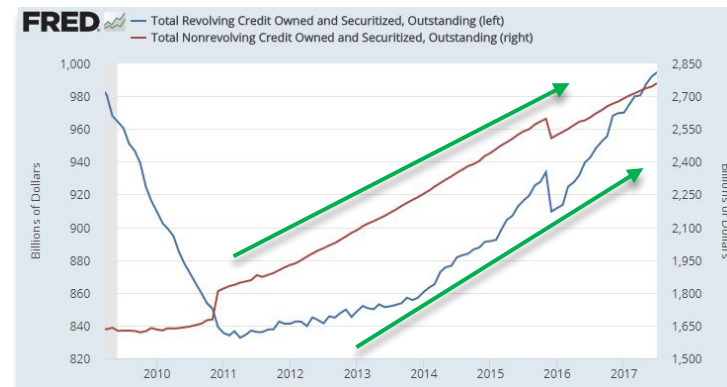
Average Hourly Earnings



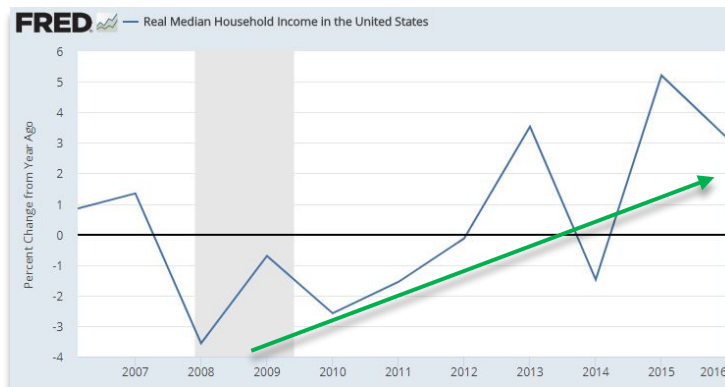
Personal Savings Rate



Credit



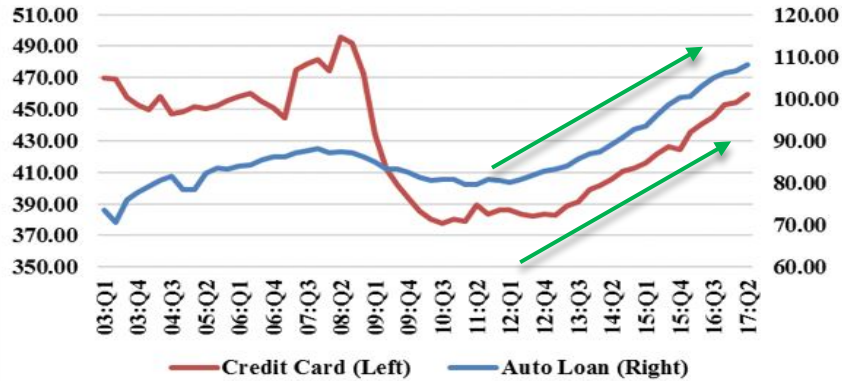
Median Household Income



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

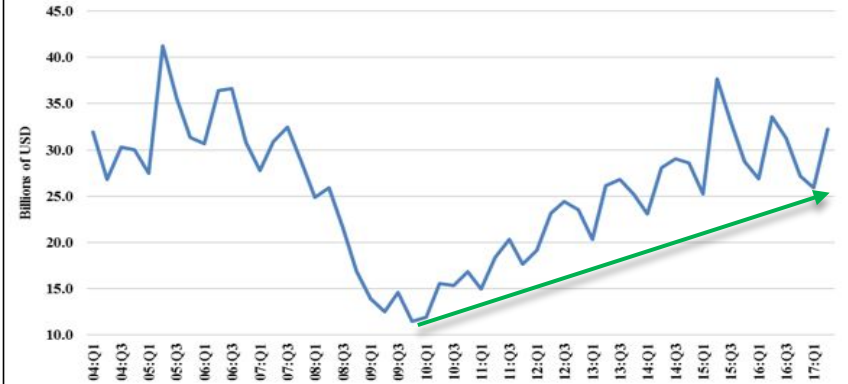
Fueling Animal Spirits

Number of Accounts by Loan Type



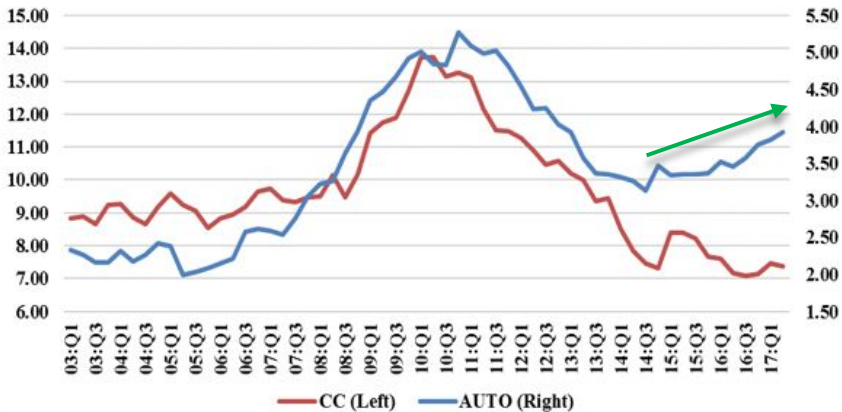
Source: New York Fed Consumer Credit Panel/Equifax

Subprime Auto Loan Origination Volume: FICO <620



Source: New York Fed Consumer Credit Panel/Equifax

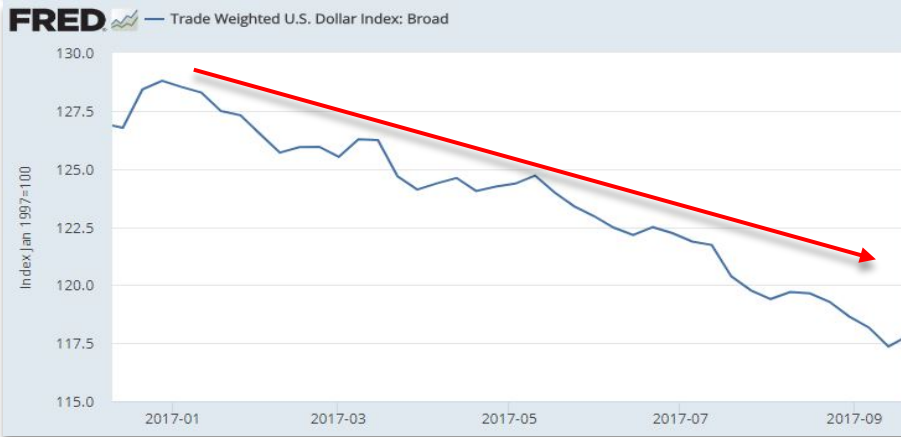
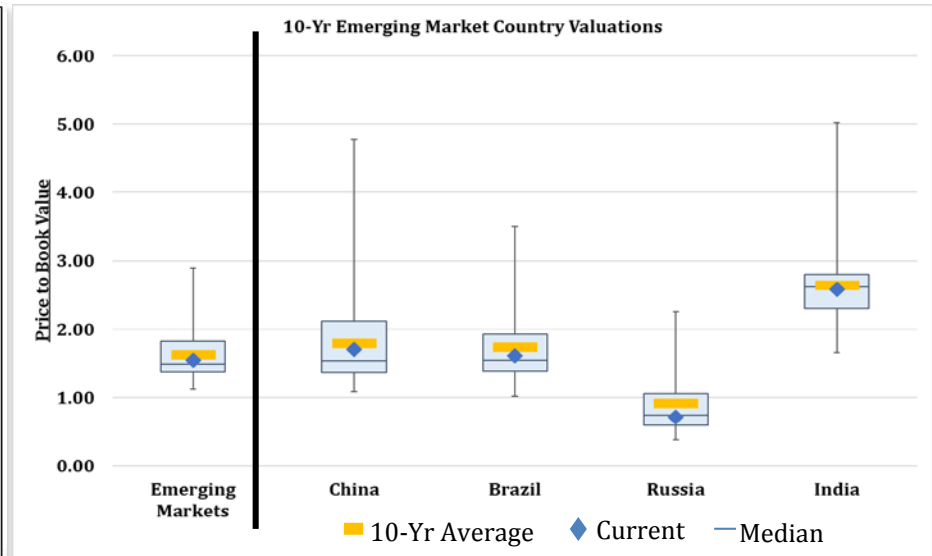
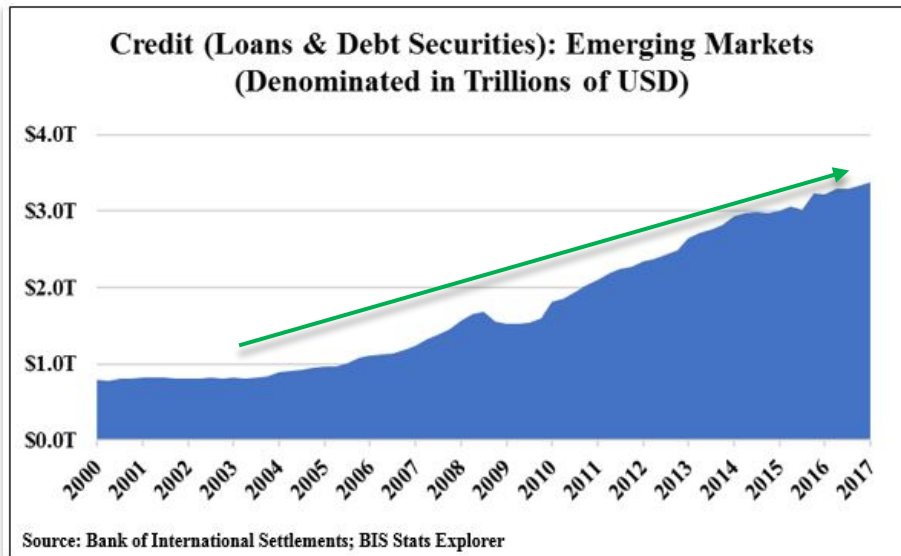
Percent of Loans: 90+ Days Delinquent



Source: New York Fed Consumer Credit Panel/Equifax

- Credit is expanding, but showing some early signs of strain
- Volumes in subprime auto loan issuance have been trending upward since 2009, despite a rising delinquency rate
- Credit card delinquency remains above 7%, which may trend higher alongside rising auto loan delinquencies.

Emerging Markets (EM)



- Increasing U.S. dollar denominated debt by EM companies
- Declining U.S. dollar relative to other major currencies may provide a tailwind in earnings and revenue growth for EM companies
- EM sector and country valuations are showing fair to slightly undervalued relative to 10-year averages

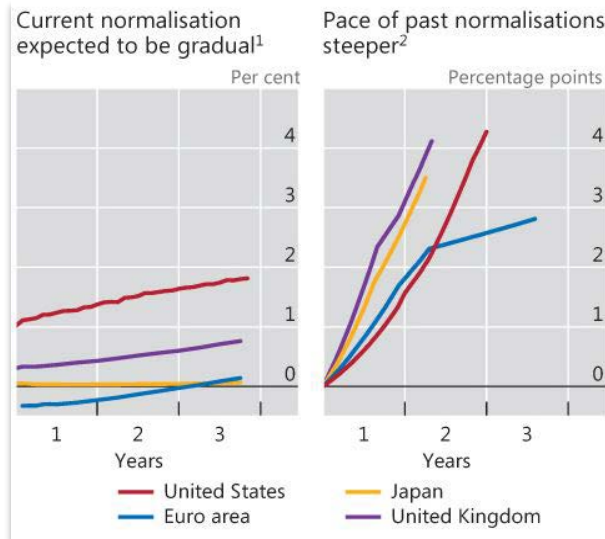
Data Source: Economic Research Federal Reserve Bank of St. Louis; Bloomberg L.P.
Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented.

Developed Markets

YoY Changes in Headline Inflation: Developed Markets		2015				2016												2017							
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Developed Markets	U.S.	0.0%	0.2%	0.5%	0.7%	1.4%	1.0%	0.9%	1.1%	1.0%	1.0%	0.8%	1.1%	1.5%	1.6%	1.7%	2.1%	2.5%	2.7%	2.4%	2.2%	1.9%	1.6%	1.7%	1.9%
	Euro Area	-0.1%	0.1%	0.1%	0.2%	0.3%	-0.2%	0.0%	-0.2%	-0.1%	0.1%	0.2%	0.2%	0.4%	0.5%	0.6%	1.1%	1.8%	2.0%	1.5%	1.9%	1.4%	1.3%	1.3%	1.5%
	Japan	0.0%	0.2%	0.3%	0.1%	-0.1%	0.2%	0.0%	-0.3%	-0.4%	-0.3%	-0.5%	-0.5%	-0.5%	0.2%	0.5%	0.3%	0.5%	0.2%	0.2%	0.4%	0.4%	0.3%	0.5%	0.6%
	Germany	-0.1%	0.2%	0.2%	0.2%	0.4%	-0.2%	0.1%	-0.3%	0.0%	0.2%	0.4%	0.3%	0.5%	0.7%	0.7%	1.7%	1.9%	2.2%	1.5%	2.0%	1.4%	1.5%	1.5%	1.8%



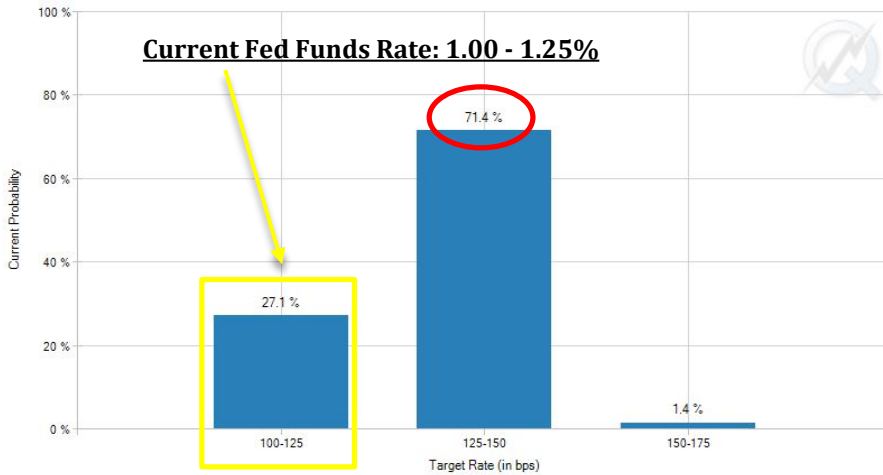
Policy rate normalization: Will this time be different?



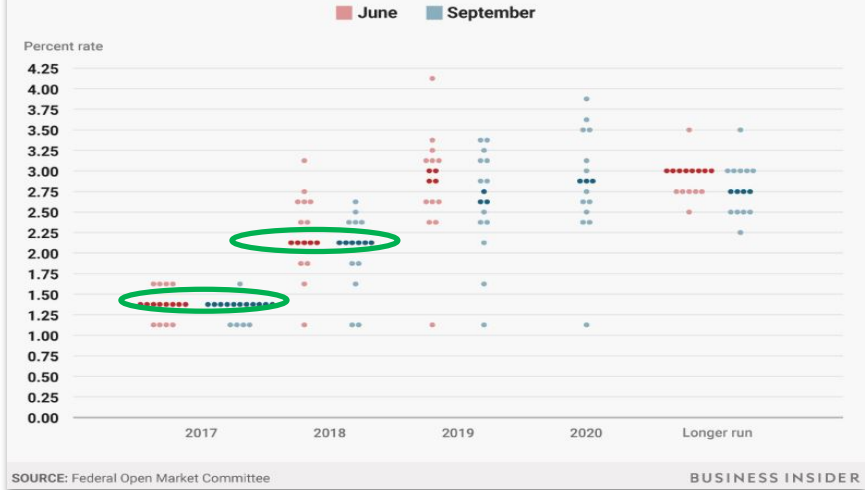
- Threat of deflation appears to be receding
- Earnings growth continues to accelerate throughout developed markets (U.S., Japan, and Europe)
- BOJ and ECB may begin to normalize monetary policy

Interest Rates

Current Target Rate Probabilities for 13 Dec 2017 Fed Meeting



FED DOT PLOT



FRED
— University of Michigan: Inflation Expectation©
— Consumer Price Index for All Urban Consumers: All Items



- Projected probability of a Fed Funds Rate increase during Q4 is 71.4%
- The current Fed Dot Plot suggests one more rate increase in December of 2017 and three rate increases throughout 2018
- Inflation continues to post results below expectations

Data Source: Bloomberg L.P., Economic Research Federal Reserve Bank of St. Louis; <http://www.businessinsider.com/fed-dot-plot-september-2017-2017-9>, 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.

Trump Trade – Bonus Boost

TABLE A1
Tax Rate Structure



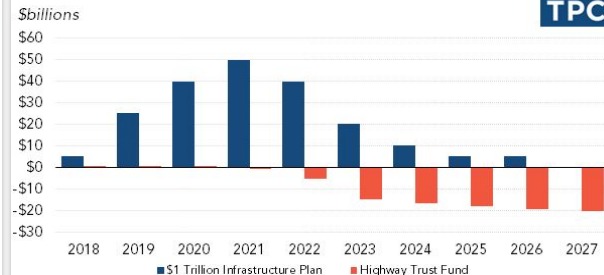
Taxable Income (\$)				Current law marginal rate (%)	Proposed marginal rate (%)
Single Filers		Married Couples Filing Jointly			
Over	But not over	Over	But not over		
0	9,325	0	18,650	10	12
9,325	37,950	18,650	75,900	15	
37,950	91,900	75,900	153,100	25	25
91,900	191,650	153,100	233,350	28	
191,650	416,700	233,350	416,700	33	
416,700	418,400	416,700	470,700	35	35
418,400	and over	470,700	and over	39.6	

Notes: Income thresholds are based on current law brackets for tax year 2017.

Repatriation winners

Company	Ticker	Overseas cash (\$B)	As pct of market cap
Cisco	CSCO	68	37
NetApp	NTAP	5	36
QUALCOMM	QCOM	30	35
Apple	AAPL	216	25
Amgen	AMGN	36	24
Oracle	ORCL	48	22
Microsoft	MSFT	128	20
Ralph Lauren	RL	1	20

Trump Administration's Transportation Plans



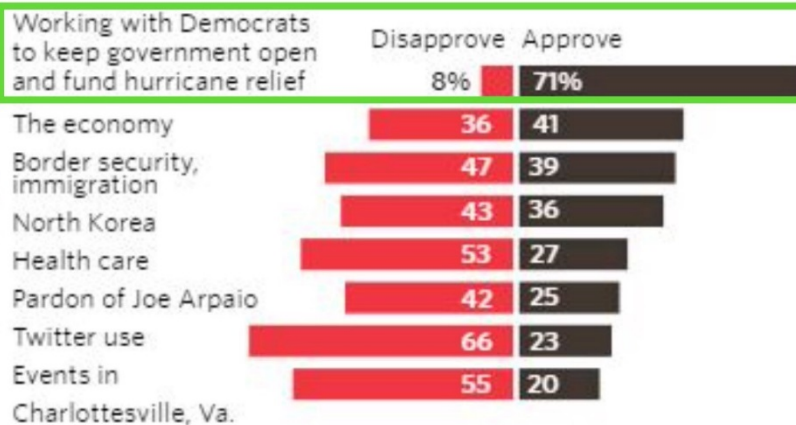
Source: OMB.
Note: Totals: Infrastructure Plan, \$200 billion; HTF, -\$95 billion.

ON PRESIDENT TRUMP

Do you approve of Mr. Trump's job performance?



Do you approve of Mr. Trump's handling of these issues?



- ❑ Likelihood improves that Trump may take a more bipartisan approach to moving his agenda forward
- ❑ Many corporations stand to gain from a repatriation of overseas profits as a result of corporate tax reform

Data Source: http://www.taxpolicycenter.org/sites/default/files/publication/144971/a_preliminary_analysis_of_the_unified_framework_0.pdf, <http://www.taxpolicycenter.org/taxvox/four-facts-trumps-infrastructure-week-0>, <https://www.cnn.com/2017/09/26/goldman-these-companies-are-headed-for-a-big-tax-break-on-overseas-cash.html>, Goldman Sachs Analysis, <http://graphics.wsj.com/wsjnbcpoll/?standalone=1>,

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Mean Reversion Dashboard

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

	Value	Blend	Growth
Large	120.9%	122.5%	123.5%
Mid	116.3%	115.7%	116.7%
Small	116.0%	125.3%	138.3%

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
120.5%	113.9%	114.0%	126.8%	117.5%	120.5%	123.6%	121.1%	115.2%	106.1%

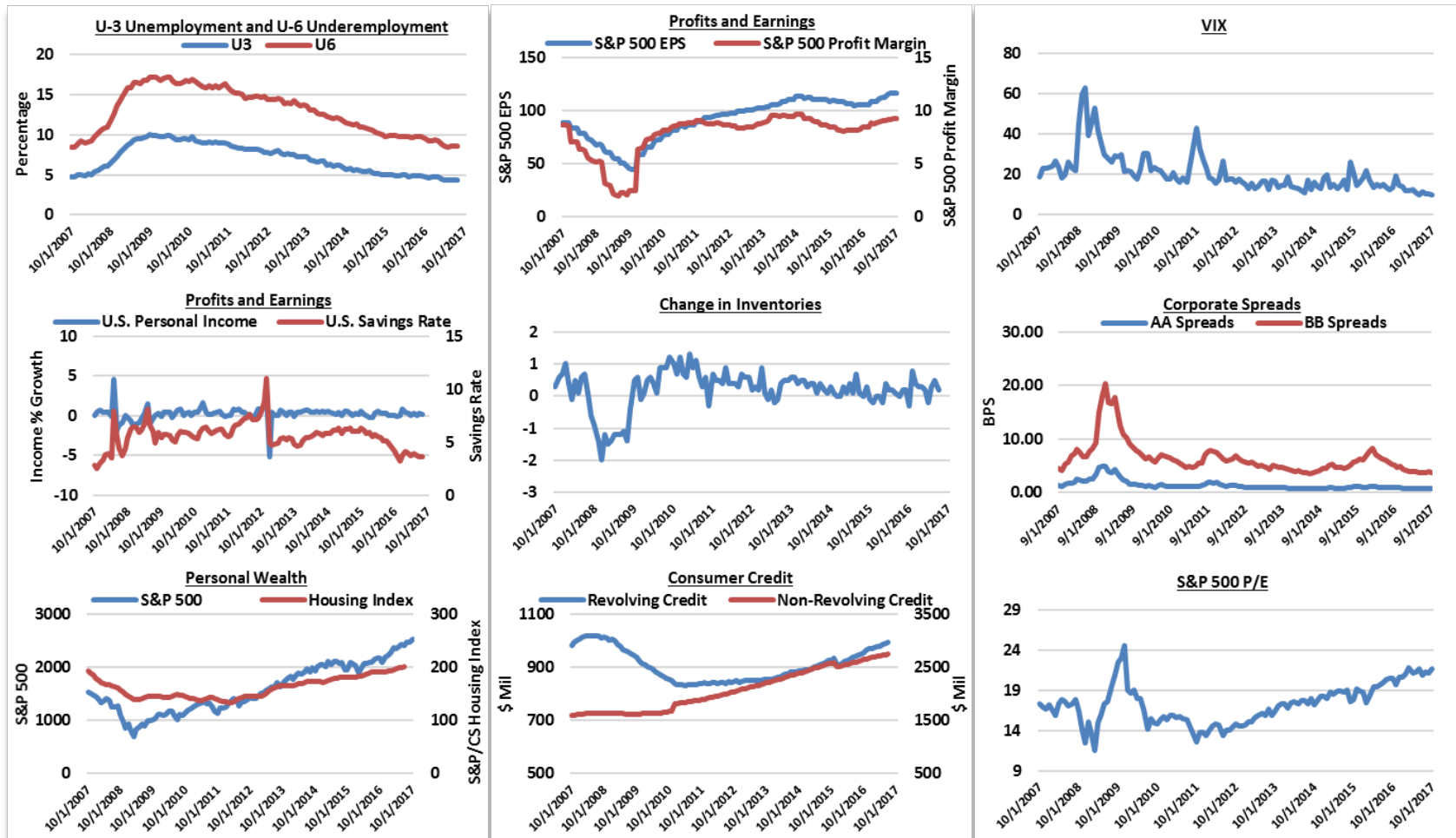
Sector Fwd P/E as a % of 20-Yr Avg. P/E

Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Real Estate	Materials
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/1383407651970/83456/MI-GTM_4Q17_1.pdf?segment=AMERICAS_US_ADV&locale=en_US

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Economic Dashboard



Data Source: Bloomberg LP and Economic Research Federal Reserve Bank of St. Louis.

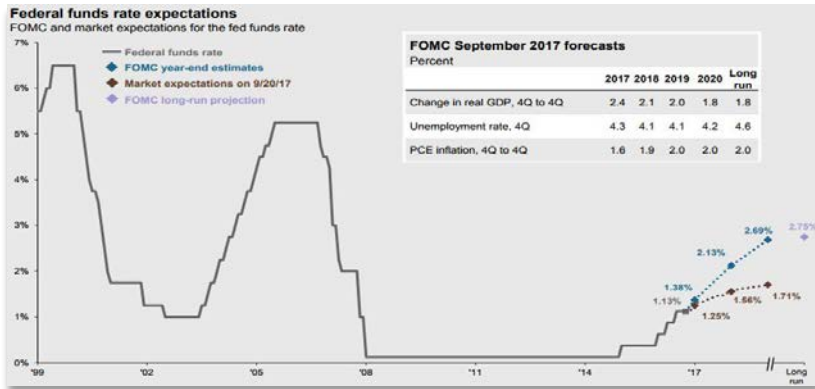
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Summary & Recommendations

Summary

- ❑ We expect a stronger U.S. dollar amid increased discussions about global central banks normalizing monetary policy
- ❑ U.S. consumers remain a driving force for global growth; expansion of credit and decreased savings is likely to continue
- ❑ Earnings growth remains strong; declines in estimates will likely increase the opportunity for companies to surprise to the upside
- ❑ Increased probability for one more rate increase in 2017; however, the market remains in a “lower for longer” mentality



Recommendations

- ❑ Continue making slight increases to fixed income duration beyond the benchmark
- ❑ Normalize allocation weightings in Emerging Markets and Developed International Markets
- ❑ Evaluate the addition of High Yield Municipals to appropriate portfolios
- ❑ Realign return expectations to factor in a normalized correction which will likely be driven by a more difficult YoY earnings comparison in 2018

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
¹Assumes 50% recovery rate of lost value.
²Measures market high to market low.

Data Source: Phillips & Co.; American Funds - <https://www.americanfunds.com/individual/planning/market-fluctuations/past-market-declines.html>; https://am.jpmorgan.com/blob-gim/1383407651970/83456/MI-GTM_4Q17_1.pdf?segment=AMERICAS_US_ADV&locale=en_US

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THANK YOU

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