QUARTERLY MARKET REPORT

FIRST QUARTER 2018

VOGEL CONSULTING

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First Quarter Highlights

Even with solid fundamental data, markets were volatile on interest rate and tariff worries

Financial Markets

- Equity markets rallied in January. Volatility returned in February and continued through March ignited by an inflation scare and fueled by technology (tech) stock scandals and intensifying protectionist trade actions. The emerging markets index was the top performer and the only major equity index to post a positive return for the quarter. An index of European stocks slid to a one-year low in March.
- The return of equity market volatility is shown by the fact that during the quarter the S&P 500 index moved 2% either up or down on 6 trading days compared to 0 days in 2017 with a move of that magnitude.
- Bond returns were mostly negative as yields rose on expectations for tighter monetary policy in the future.
- Industrial metals prices dropped from recent peaks on tariff announcements. Crude oil prices rose to the highest levels since late 2014. Gold moved higher on safe haven trading.

Overview of the Economy

- Earnings reports were good with over 75% of S&P 500 companies beating revenue and earnings forecasts.
- The economic expansion in the U.S. continues to be solid as shown by another increase in the index of leading economic indicators. Some data from Europe weakened in the quarter, such as exports. Other indicators continued to improve, such as the euro area unemployment rate dropping to the lowest level since 2008.

Notable Events

- The U.S. Federal Reserve Open Market Committee (FOMC) raised the federal funds rate target by 0.25% and indicated plans to continue its gradual pace of interest rate hikes.
- The U.S. imposed tariffs on steel, aluminum, and numerous Chinese products. China retaliated with tariffs on $3 billion of U.S. imports.

First Quarter Highlights

Volatility returned to the equity markets after the unusually calm 2017

Equity markets rallied sharply in January and drove indices to new record highs. February started with a rapid and sharp downturn with indices hitting correction territory on February 8. Equities were whipsawed in March with several sharp up and down periods.

S&P 500 Index[1]

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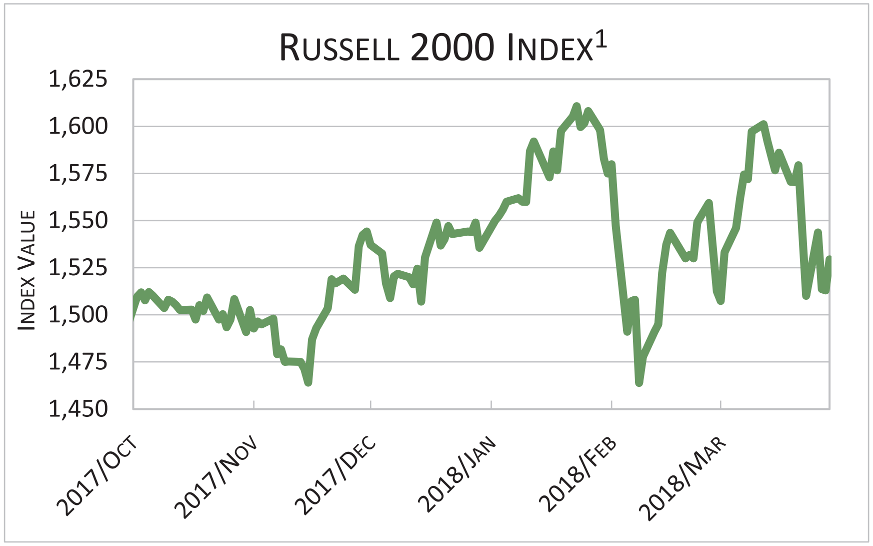
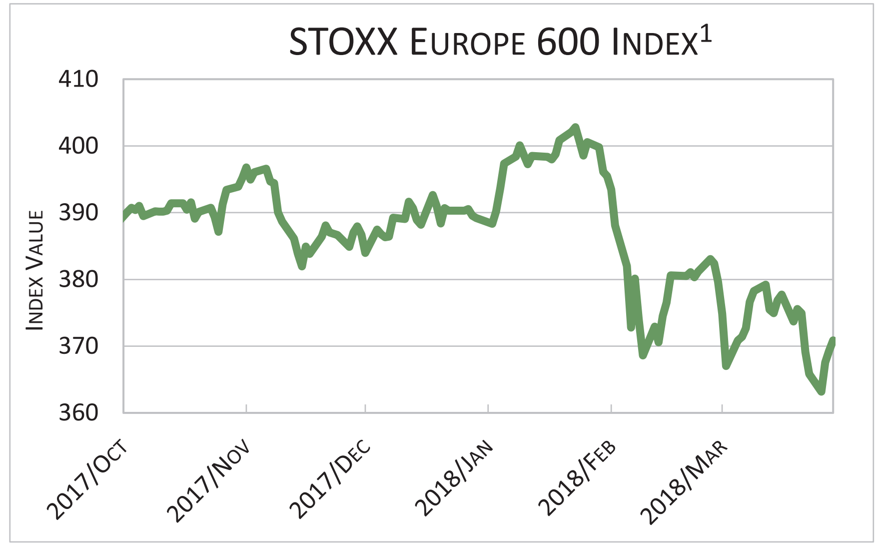
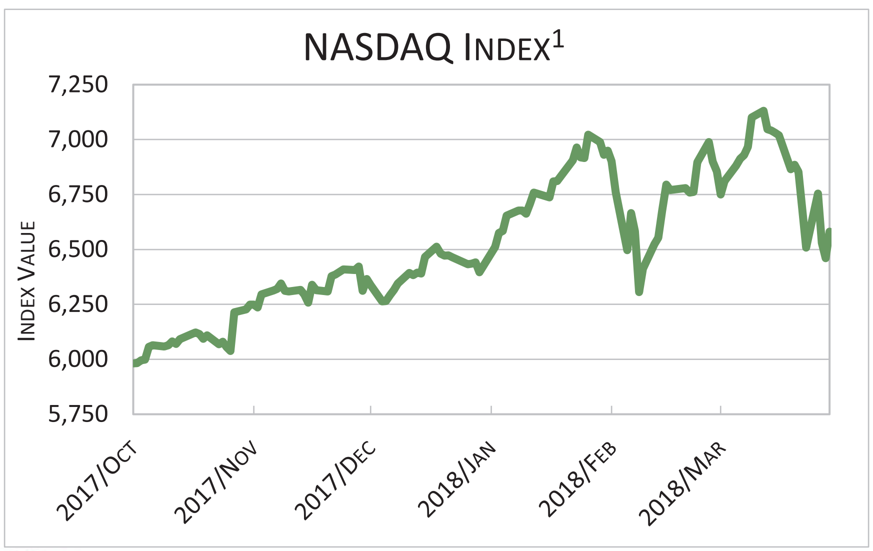
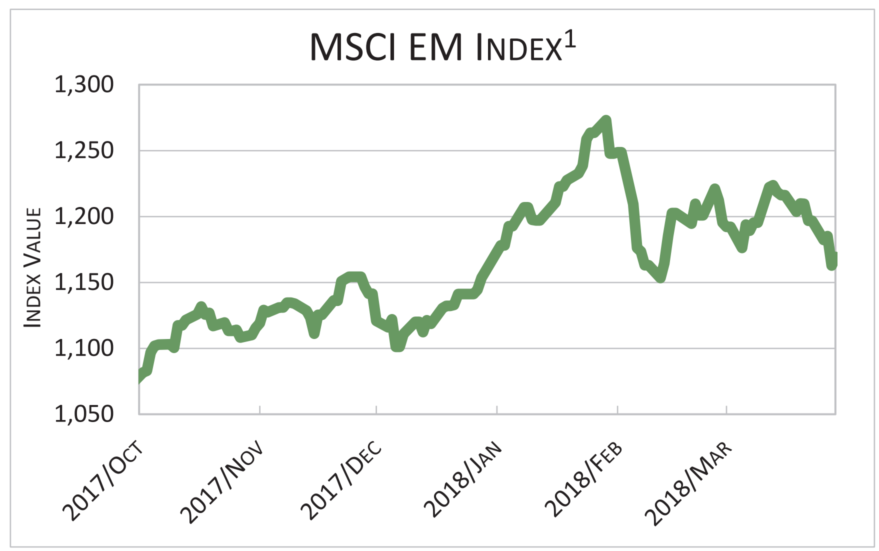
First Quarter Highlights

Volatility returned across most equity market sectors and regions









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First Quarter Highlights

Escalating trade actions raised uncertainty, volatility and risks

President Trump has talked about toughening U.S. trade policy since the campaign. Actions had mostly been limited to renegotiating trade agreements. The action on trade ratcheted up during the first quarter.

Key Trade Policy Events in the First Quarter:

- January 17: The U.S. imposed tariffs on washing machine and solar-cell imports.
- March 1: Trump announced plan for tariffs of 25% on steel and 10% on aluminum. The European Union (EU) and other countries quickly suggested retaliatory tariff targets.
- March 22: Temporary exemption to steel and aluminum tariffs announced for Canada, Mexico, EU, Australia, Argentina, Brazil, and South Korea.
- March 22: U.S. proposed 25% duties on Chinese products under section 301 to compensate for harm to the U.S. economy.
- March 23: China announced tariffs on $3 billion of U.S. imports in response to steel and aluminum tariffs.

The escalating trade action has created significant uncertainty resulting in heightened financial market volatility in reaction to any news or change in expectations. Since negotiations are ongoing, the trade related volatility is expected to continue in the near term.

What Risks Do Tariffs Pose for Financial Markets?

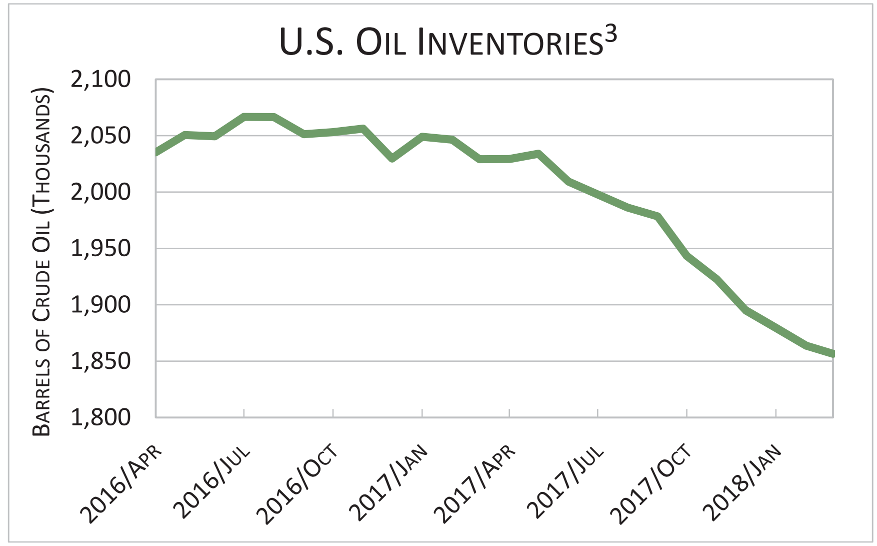
- Import tariffs add cost.
  - Higher input costs can reduce margins.
  - Higher input costs lead to price increases for customers which leads to creeping inflation.
  - Inflationary pressure will lead to higher interest rates.
  - Higher interest rates can reduce demand which hurts economic growth and increases companies' costs which hurts profits.
- Retaliatory tariffs make U.S. exports more expensive reducing the competitiveness of U.S. companies potentially reducing export sales.

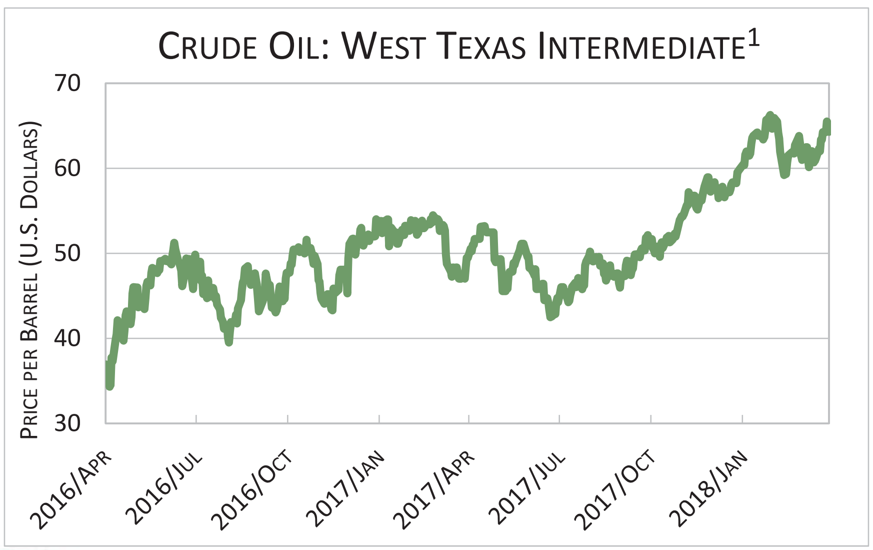
First Quarter Highlights

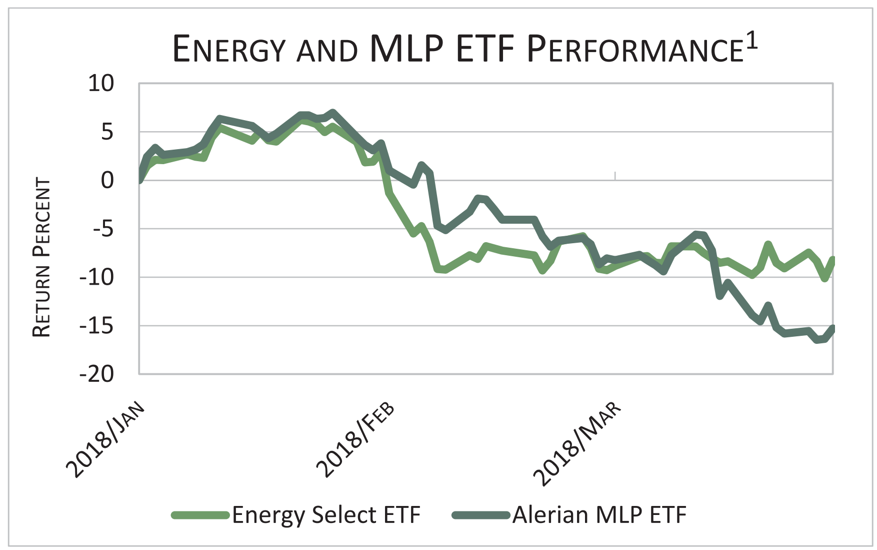
Energy sector stocks suffered steep price drops despite higher oil prices and more demand

Despite generally positive earnings reports, energy related stocks were particularly weak. Factors that contributed to the negative sentiment included:

- An International Energy Agency report said U.S. oil output could outpace global demand growth.
- Fears of higher interest rates hurt Master Limited Partnerships (MLPs).
- A Federal Energy Regulatory Commission ruling eliminating the income tax allowance for interstate pipelines with cost of service basis rates triggered a MLP sell-off.







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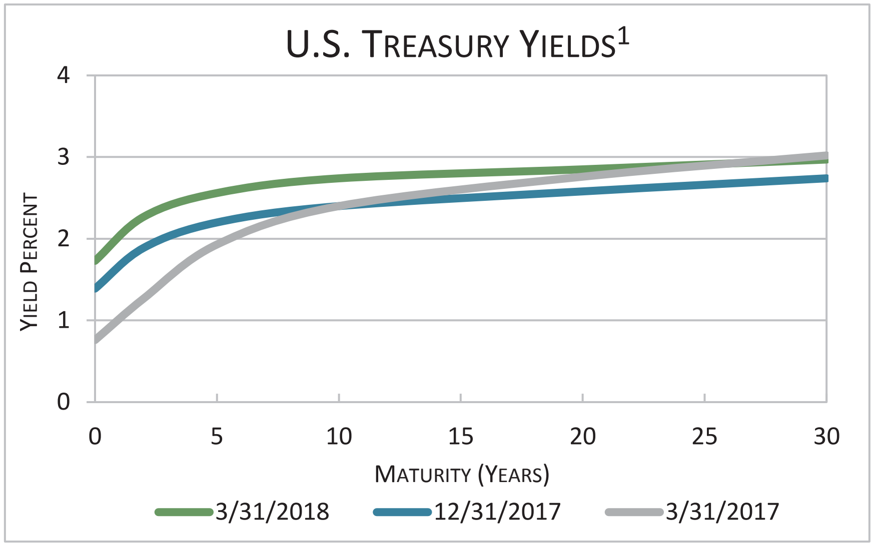
First Quarter Highlights

Bond yields rose across maturities

In 2017 short-term bond yields rose in reaction to increases in the federal funds rate by the FOMC. Intermediate and long maturity bond yields joined the march higher during the first quarter of 2018. The 10-year Treasury bond yield rose to as high as 2.96% in February, which is the highest yield since 2004. Short-term Treasury bill yields increased during the quarter to levels last seen in 2008.

The higher yields are important to savers as well as borrowers.

- For Savers/Investors:
  - After many years of near-zero returns, money market fund rates have moved up with some prime fund yields at 1.5% or higher.
  - Short-maturity bonds are becoming more competitive with high dividend paying stocks for income seeking investors.
- For Borrowers:
  - Libor and 1-year Treasury bill rates used to set adjustable rate mortgages and loans are noticeably higher than a year ago and are back to 2008 levels.



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First Quarter Highlights

U.S. dollar continued its downward trend

As the dollar has fallen, currencies in certain other regions have appreciated, which has dampened their exports.

U.S. Dollar Index[1]

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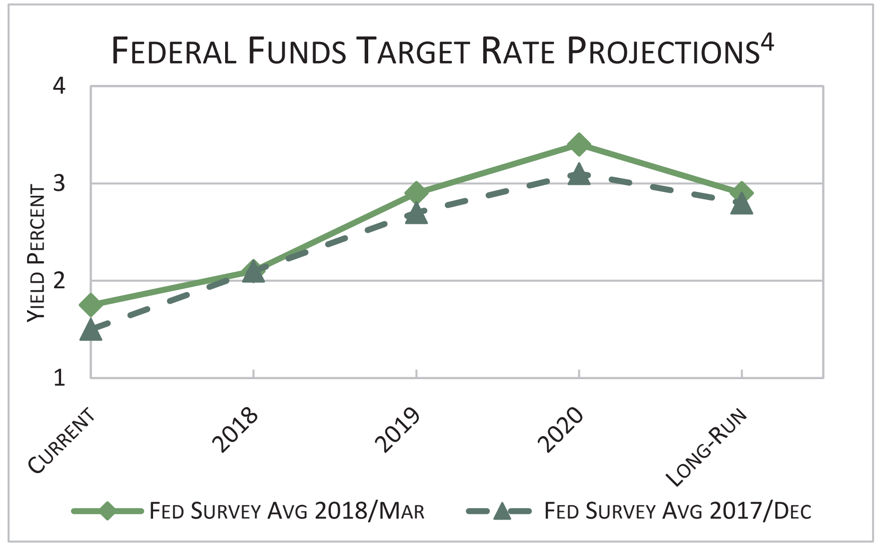
First Quarter Highlights

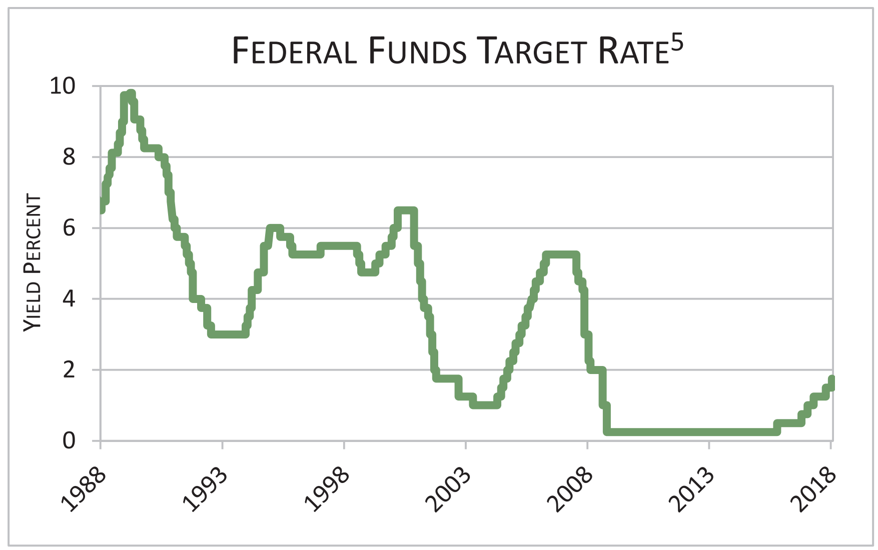
FOMC raised interest rates and signaled slightly more aggressive pace of increases in 2019

As expected, the FOMC raised the target range for its federal funds rate by 0.25% in March to a range of 1.50% to 1.75%. The FOMC's statement said that the economic outlook has strengthened in recent months and that the committee expects future economic conditions to warrant further gradual rate increases.

The median of FOMC members' latest projections for the federal funds rate are:

- The 2018 projection was unchanged indicating a rate of 2.1% by year-end, which indicates two additional rate hikes this year.
- The 2019 projection was increased to 2.9% from the previous forecast of 2.7%, which indicates three 0.25% rate hikes rather than the previous forecast of two hikes.
- The 2020 projection was increased to 3.4% from the previous forecast of 3.1%.





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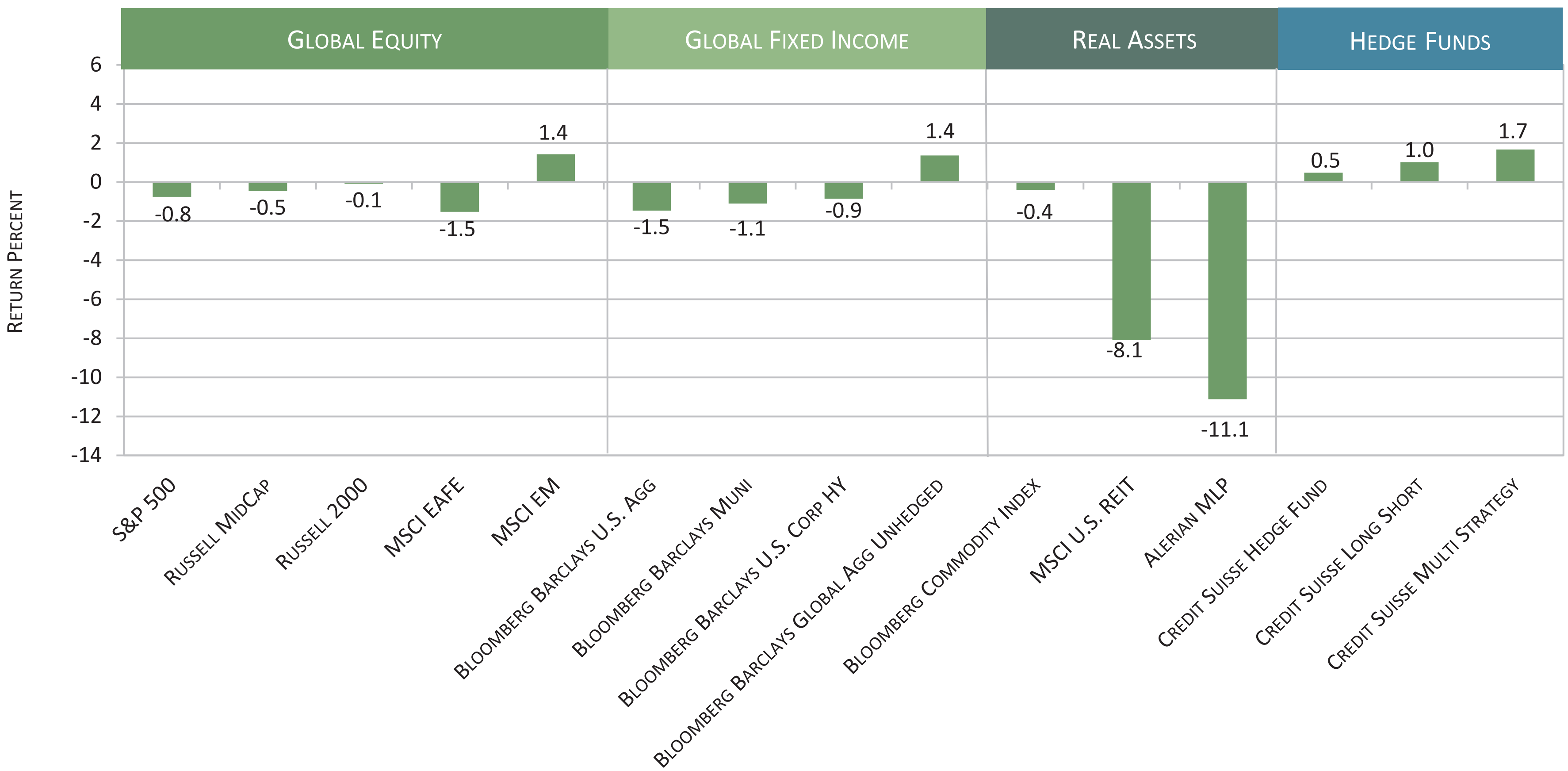
First Quarter Highlights

Worries about monetary policy, trade, and tech leadership resulted in mostly negative returns

U.S. stocks outperformed developed country stocks but lagged emerging market stocks. Small company stocks outperformed large due to less exposure to trade and tech regulation issues. Rising interest rates hurt bonds and REITs. Hedge funds outperformed stocks and bonds.

Market Returns: First Quarter 2018[2]



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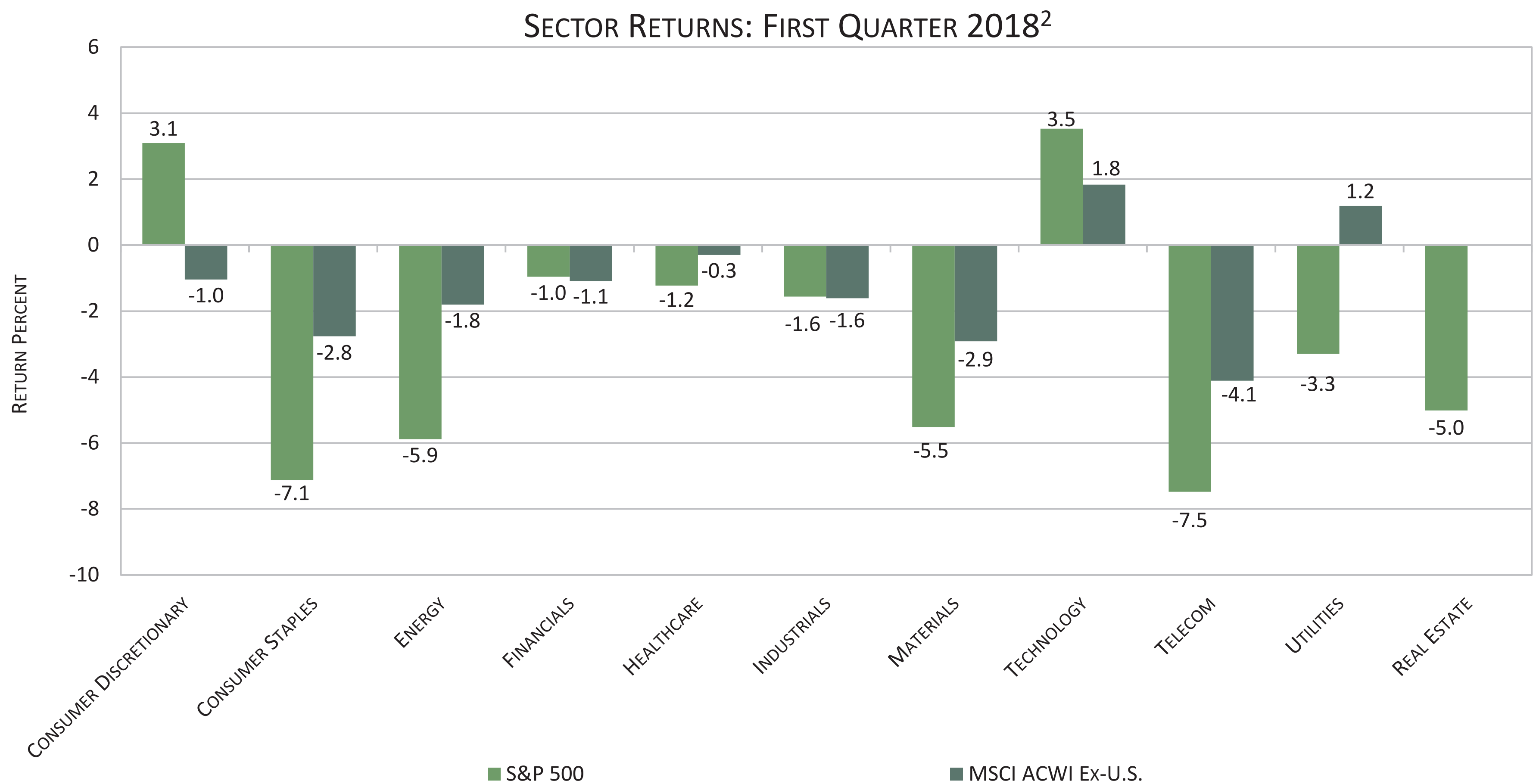
First Quarter Highlights

Stock declines were widespread with only two sectors positive in U.S. and foreign indices

The January rally helped higher growth sectors, such as tech, continue performance leadership. The lower growth, but higher income, sectors such as staples, telecom, and real estate, declined as interest rates rose. The energy sector was weak despite higher oil prices.



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First Quarter Highlights

Most hedge strategies had modest positive returns

Long/short funds generally outperformed as the shorts provided cushion against market volatility.

Event driven managers had a tougher quarter since a number of the larger merger deals, such as Time Warner/AT&T and Monsanto/Bayer, continue to suffer from regulatory delays. It had been expected that the Trump administration would be friendly toward mergers with anti-trust concerns, but the administration has been more concerned with national security, most notably blocking Broadcom's takeover attempt of Qualcomm. On a positive note, several large new deals were announced during the quarter.

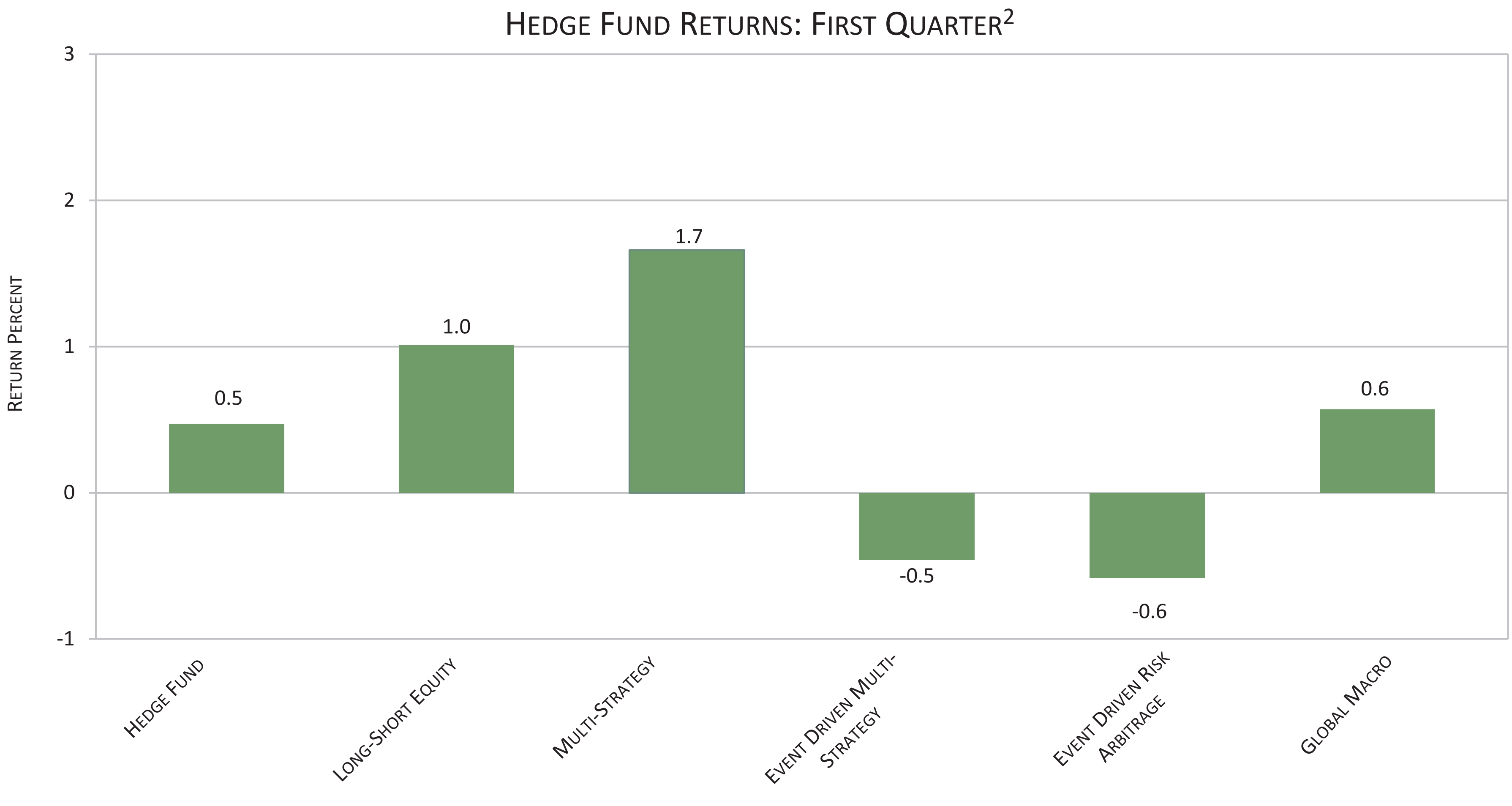
Relative value multi-strategy managers had strong performance during the quarter. Many managers added risk into widening spreads and successfully traded volatility. These mangers also benefited from the lack of volatility in credit markets. However, performance varied for more directional multi-strategy managers. Managers with heavier equity exposure exhibited greater volatility and a wider variance in returns even though returns were generally positive. Several multi-strategy managers have increased allocations to merger arbitrage and convertible bond arbitrage, which are strategies that should benefit from the increase in volatility and higher short-term interest rates.

Distressed managers had mostly positive returns for the quarter. Managers with larger equity exposure were the laggards. Distressed managers continue to struggle with the reduced opportunity set since corporate defaults remain low. Expectations are that the increase in LIBOR rates and the corresponding increase in debt service costs could lead to more distressed opportunities.

Structured credit managers performed well during the quarter benefiting from the strong economy and benign credit markets. However, many areas of structure credit appear fully valued and future returns may not be as strong as in the last few years.

First Quarter Highlights

The increase in equity volatility provided opportunity for certain hedge strategy funds



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Outlook

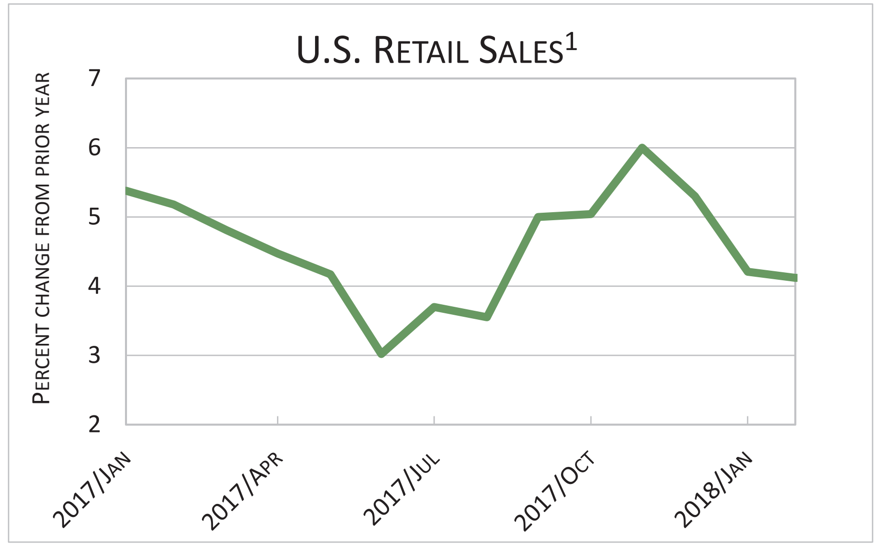
Cautiously optimistic outlook for economic growth and financial market returns despite risks

- In the U.S., economic expansion is expected to continue at a modest pace. Forecasts for 2018 GDP growth are in a range 2% - 3%. Several positive factors support the growth forecasts including: 1) the number of job openings near an all-time high, 2) accelerating manufacturing activity, 3) business and consumer confidence near multi-year highs, and 4) a potential boost to business and consumer spending from the recent tax cuts.
- The global growth outlook remains strong with the Organization of Economic Cooperation and Development (OECD) recently raising its forecast for 2018 global gross domestic product (GDP) growth to 3.9%.
- Corporate profits worldwide have been improving, and with the generally positive economic backdrop, are expected to continue to trend higher, which should support further equity market gains. First quarter earnings per share growth for the S&P 500 is projected to be 16%-18%. Such high expectations do increase the risk of stock price drops in reaction to any disappointing reports.
- Equity valuations are down from recent highs after the sell-off during the first quarter. The S&P 500 now trades at about 16 times forward earnings, which is at the historical average. European stocks are trading at year ago levels.
- The pace of the unwinding of global central bank stimulus policies, including ultra-low interest rates and quantitative easing programs, continues to be a source of uncertainty for financial markets. A pick-up in inflation could lead to a faster pace of policy change and higher borrowing costs for businesses and consumers.
- The uncertainty of the outcome of trade and tariff negotiations and the impact of trade actions on the global economy and earnings is likely to dominate financial markets and spur continued volatility in the near-term.

Outlook

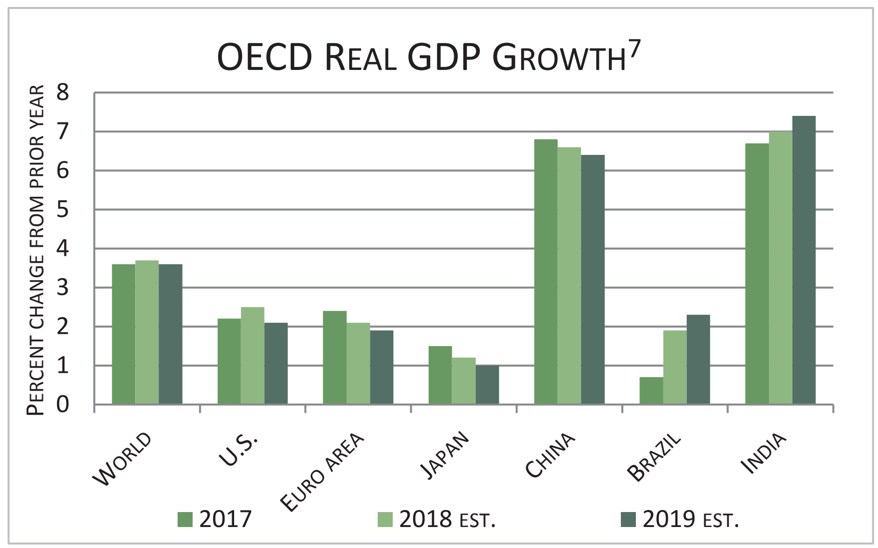
First quarter GDP may be lower than growth in recent quarters, but 2018 outlook still solid

The Atlanta Fed GDPNow forecast for first quarter U.S. economic growth is 1.8%. In recent years, GDP growth has tended to be weaker in the first quarter. One reason for the lower forecast was slower retail sales. This may be a temporary dip after strong holiday and hurricane recovery spending. The FOMC raised its estimate for 2018 GDP growth to 2.7% from 2.5% and for 2019 growth to 2.4% from 2.1%. The OECD recently raised its 2018 and 2019 growth forecasts for the U.S., the euro area, Japan, and Brazil.



U.S. GDP YoY Growth[1,6]

Year	Q1	Q2	Q3	Q4
2014	-1.20%	4.00%	5.00%	2.10%
2015	3.20%	2.70%	1.60%	0.50%
2016	0.60%	2.20%	2.80%	1.80%
2017	1.20%	3.10%	3.20%	2.90%



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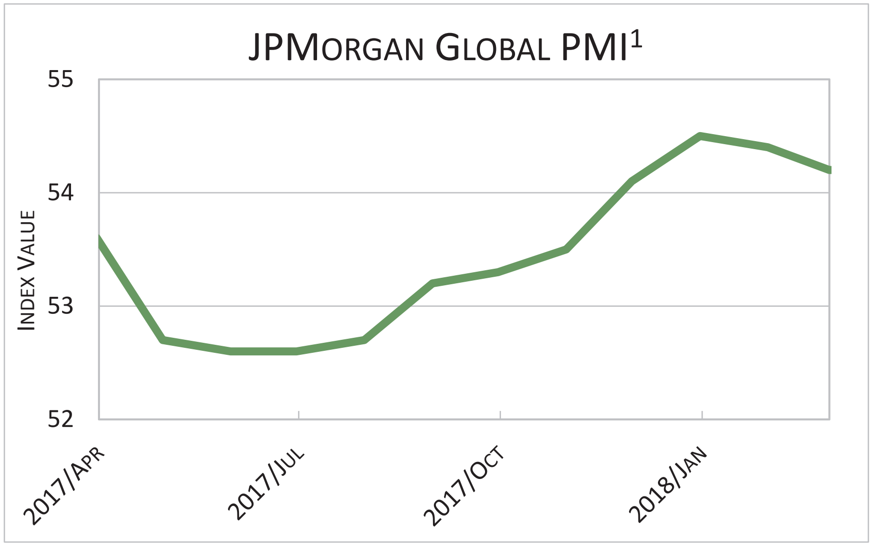
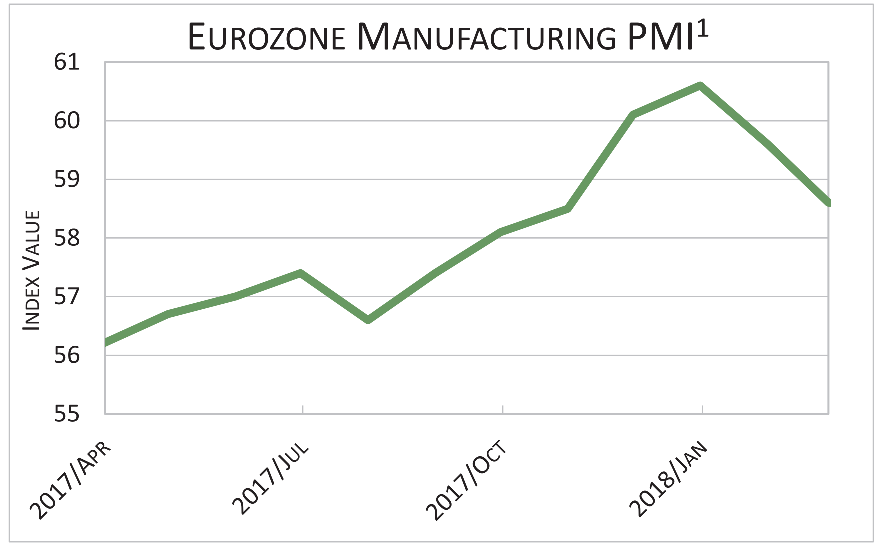
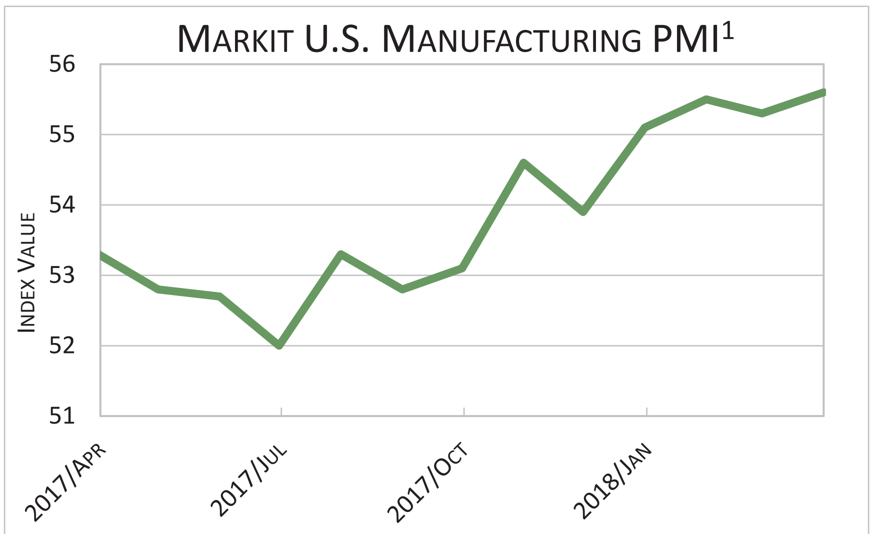
OUTLOOK

GLOBAL MANUFACTURING DATA SHOWS ECONOMIC EXPANSION CONTINUES DESPITE SLOWING IN SOME DATA







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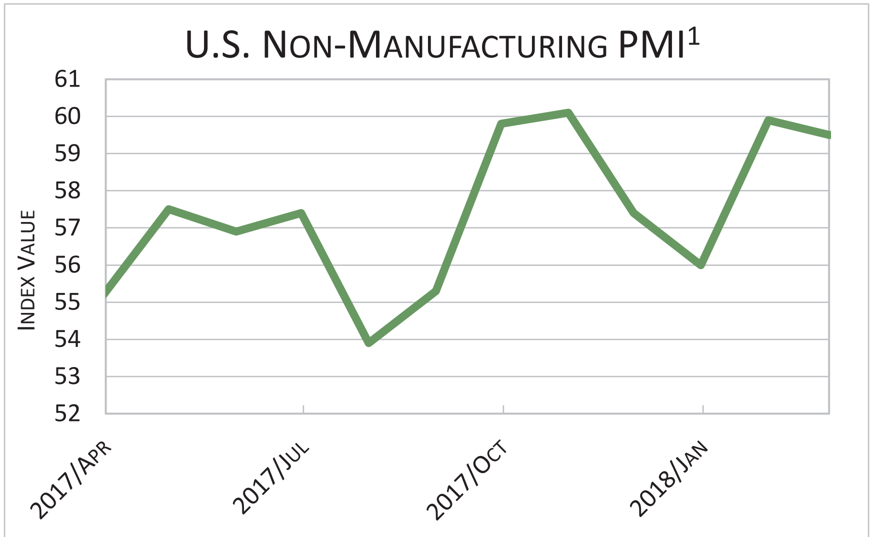
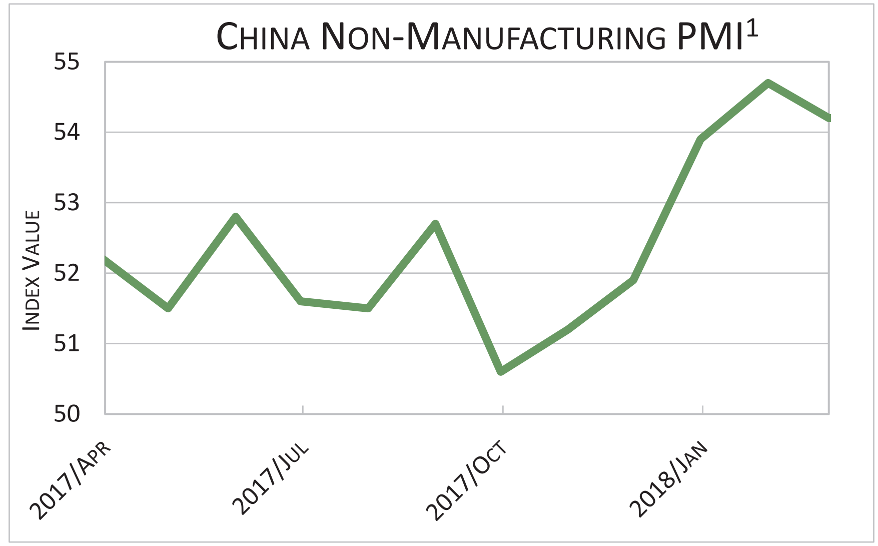
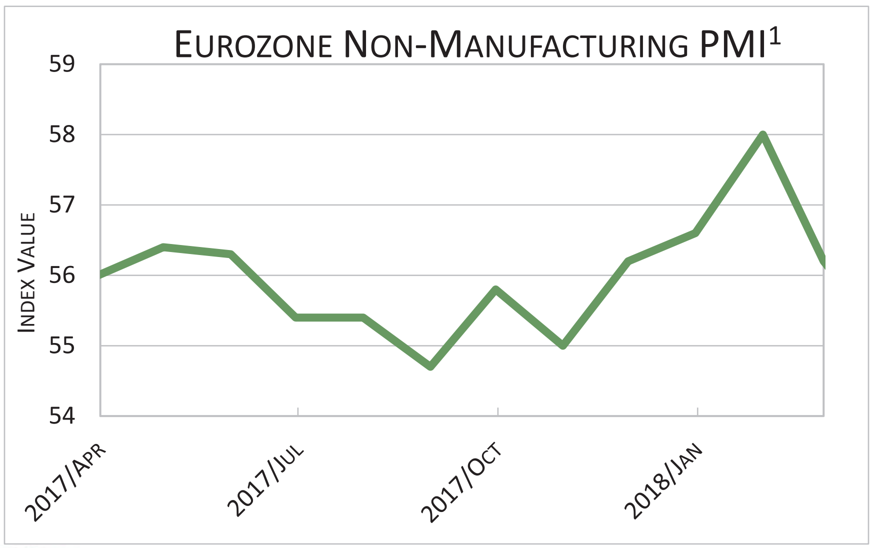
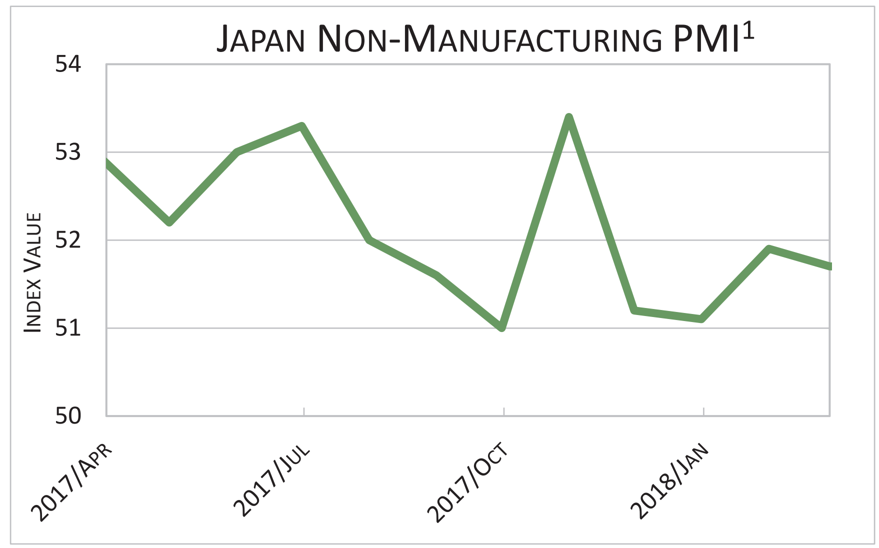
OUTLOOK

SERVICES SECTOR IN MAJOR ECONOMIES CONTINUES SOLIDLY IN EXPANSION TERRITORY









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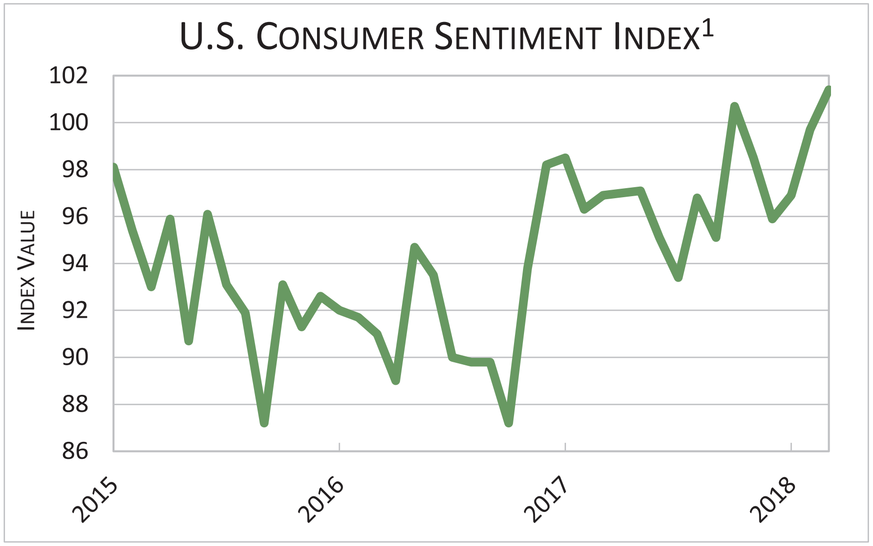
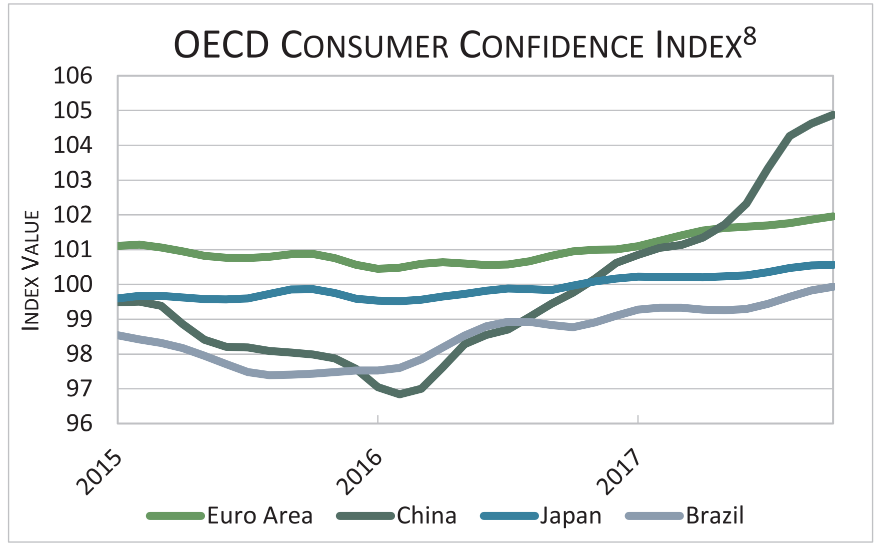
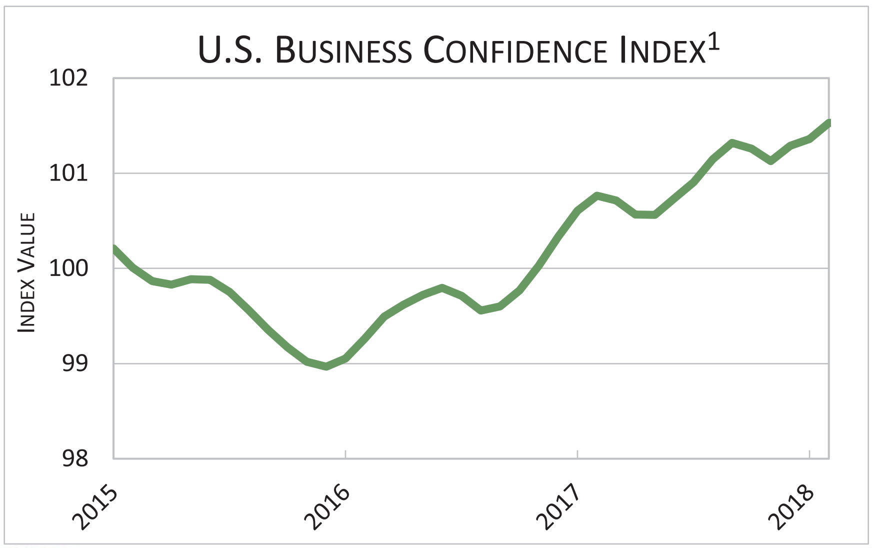
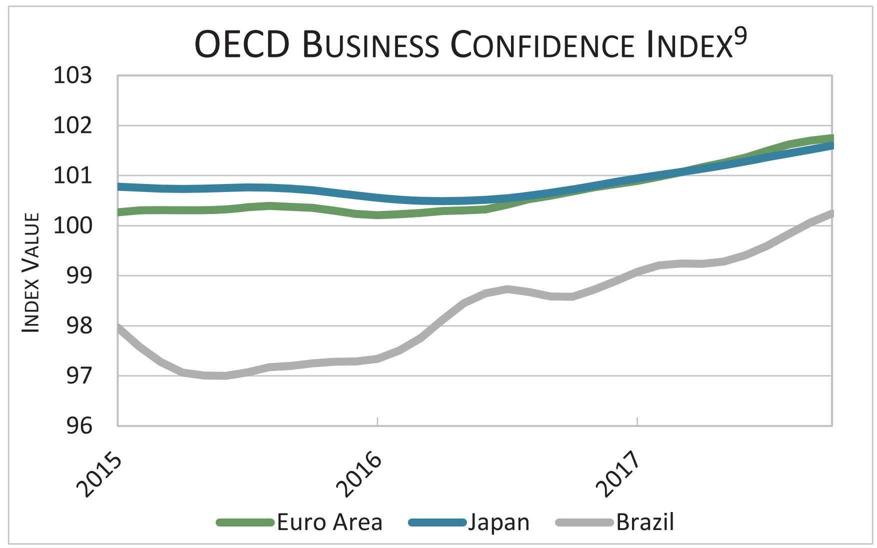
OUTLOOK

CONSUMER AND BUSINESS SENTIMENT REMAINS STRONG









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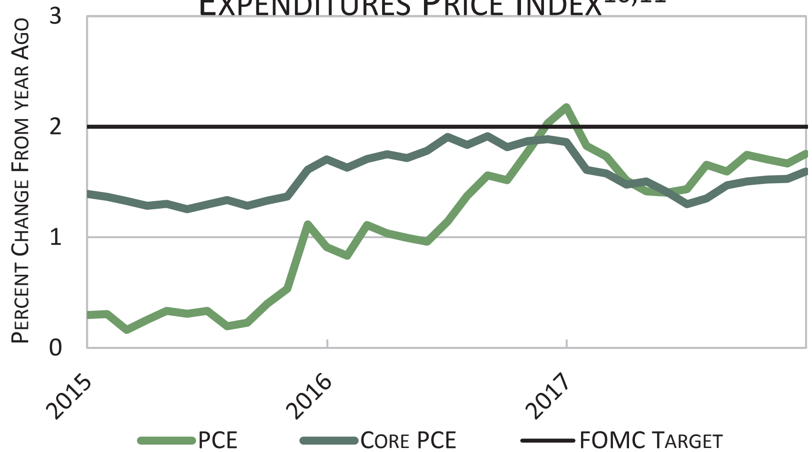
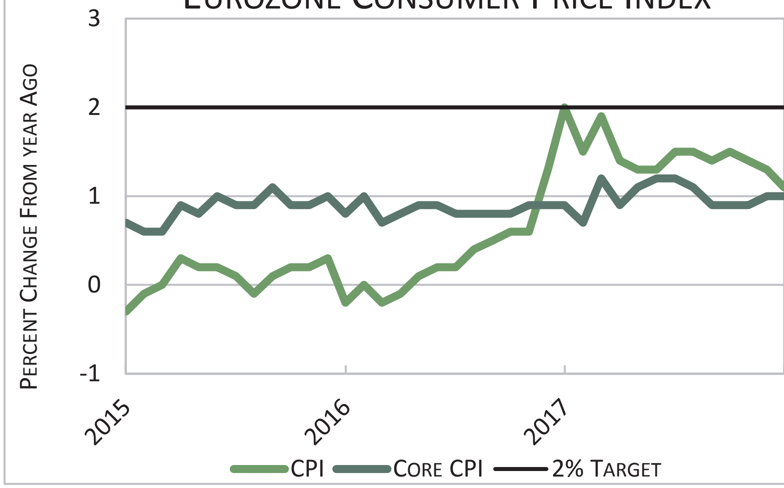
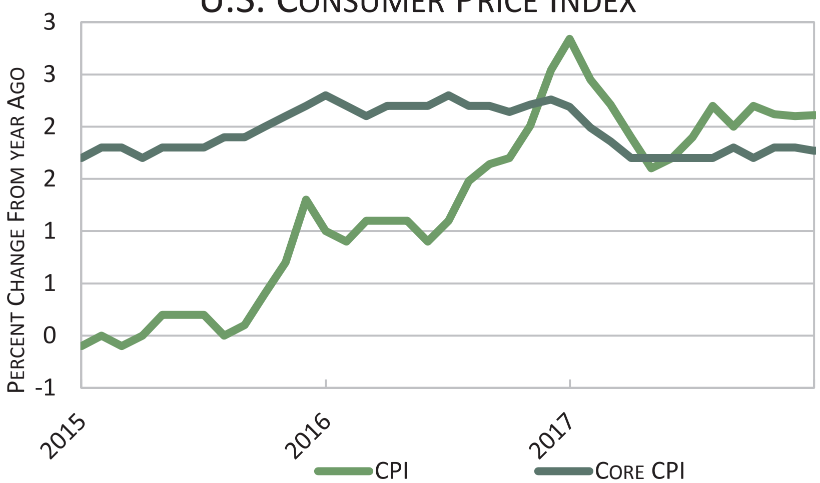
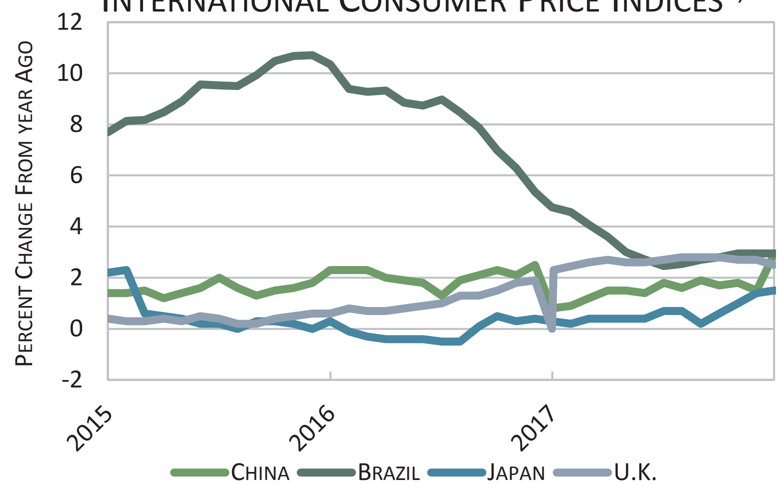
OUTLOOK

INFLATION IS BELOW CENTRAL BANK TARGETS SO SUPPORTS GRADUAL CHANGES IN MONETARY POLICY









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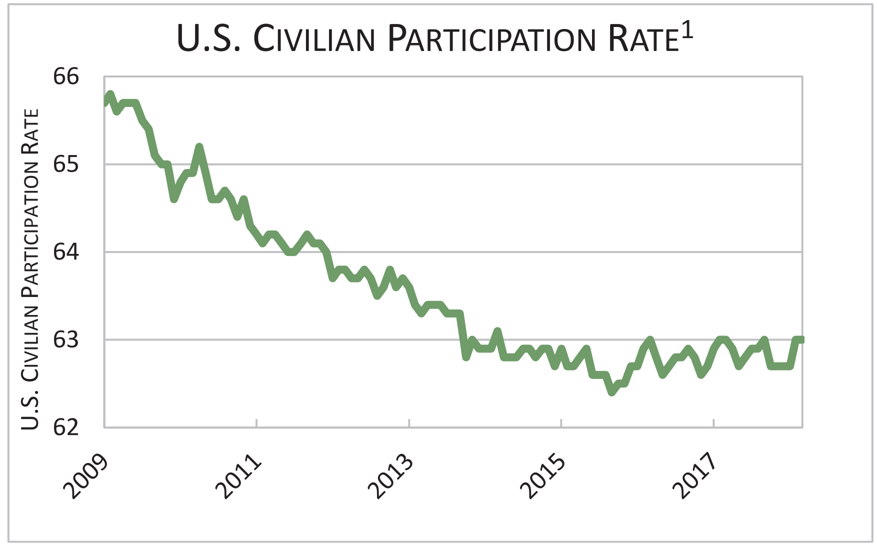
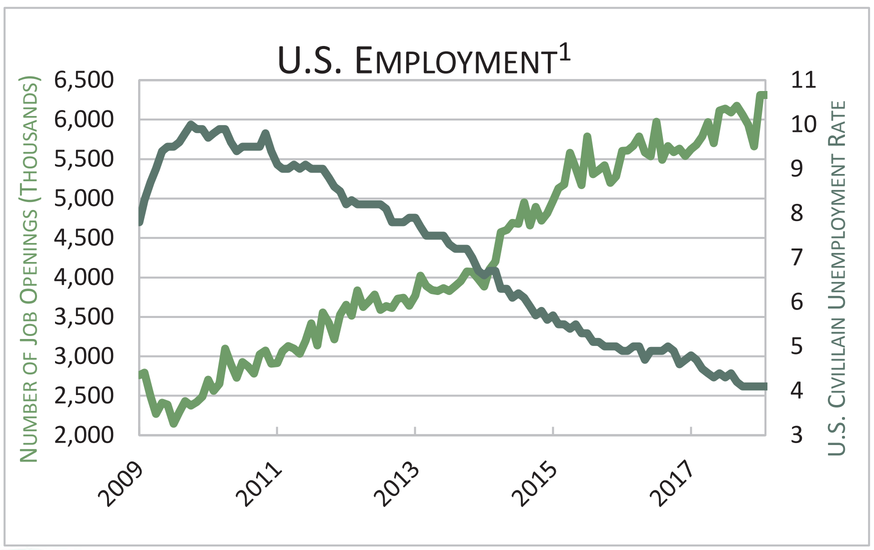
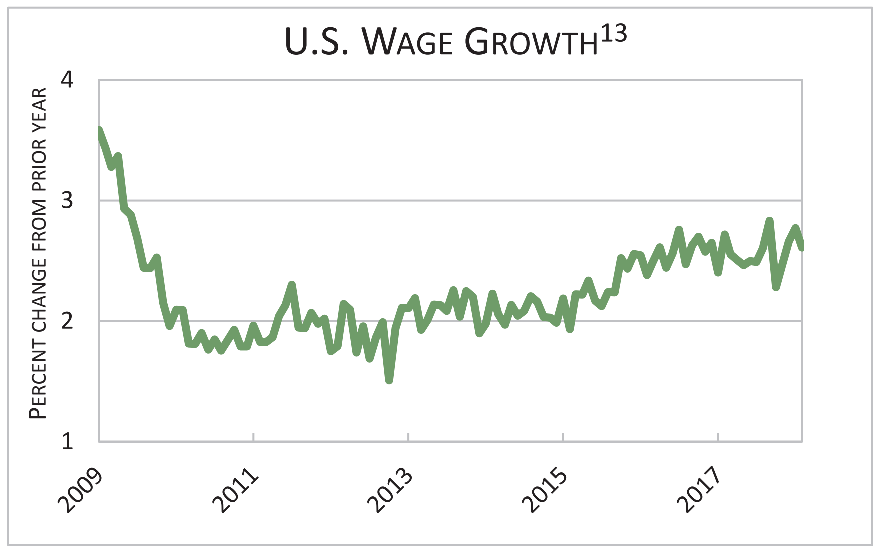
Outlook

How are potential drivers of inflation looking? – labor market

Certain data point to a tight labor market, but this has not led to significant wage inflation. The number of job openings per number of unemployed dropped to 1.1. The low labor force participation rate indicates there may be potential for more people to be drawn into the labor force. In fact, as the jobs picture improves, more people are joining the labor force. In February, the labor force rose by 806,000 people. More people looking for jobs is one factor that may dampen wage growth.







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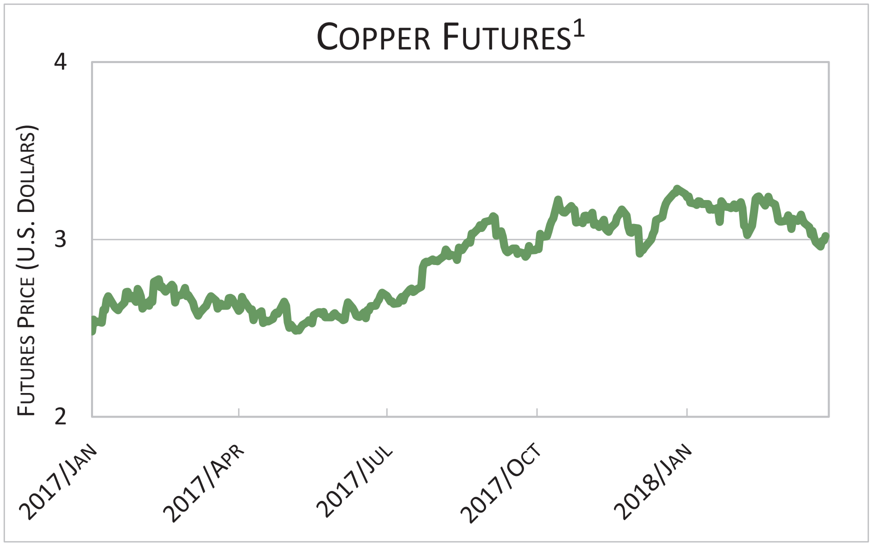
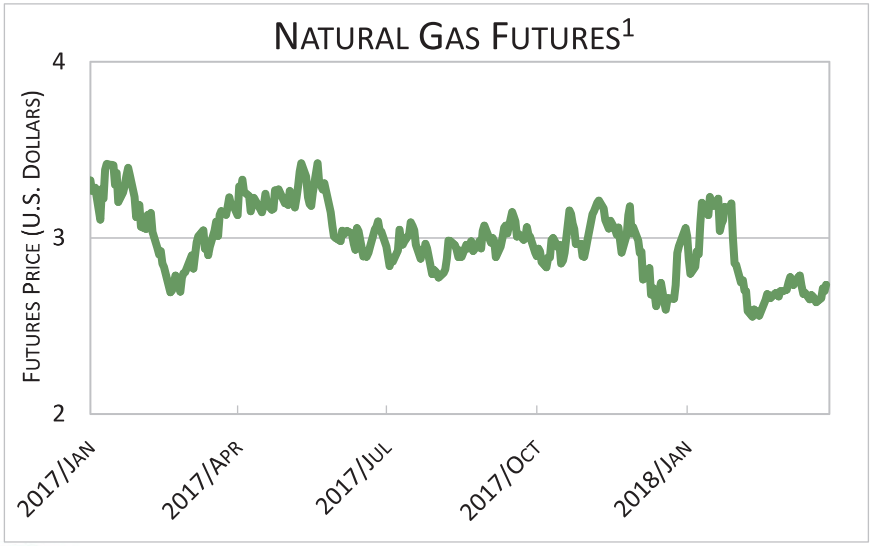
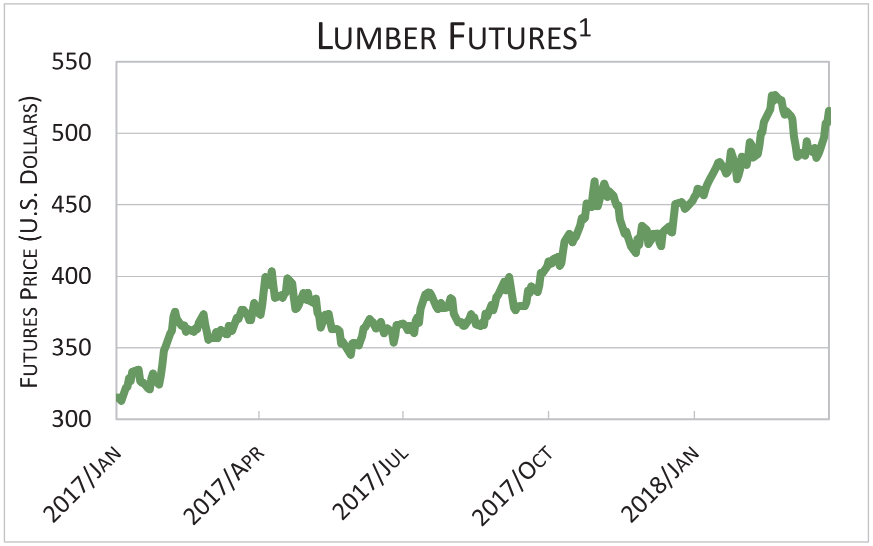
Outlook

How are potential drivers of inflation looking? - commodities

Oil prices spiked higher in the second half of 2017 but appear to be trading in a range capped by increasing U.S. production capabilities. Increasing production is also keeping natural gas prices in a historically low range. Industrial metals prices such as copper, zinc, and aluminum have come down from peak prices. Lumber is in an uptrend in part due to new tariffs on Canadian imports.







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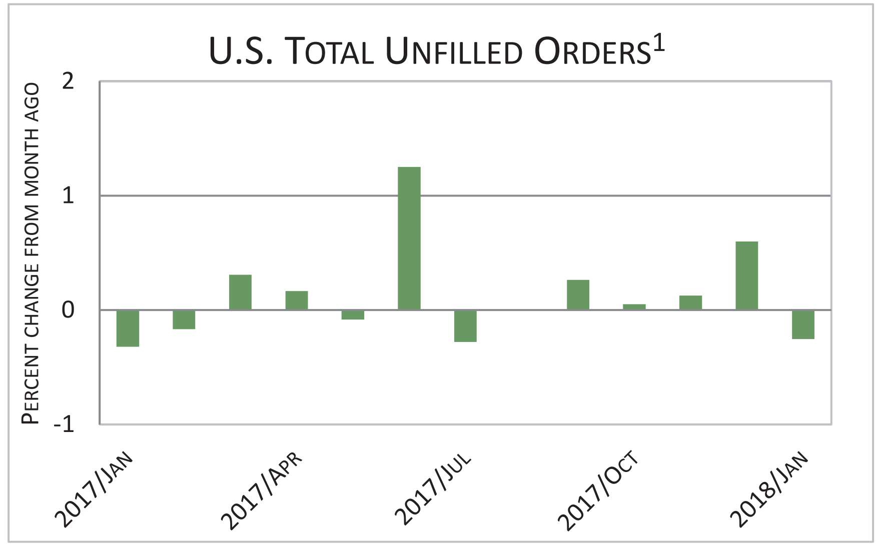
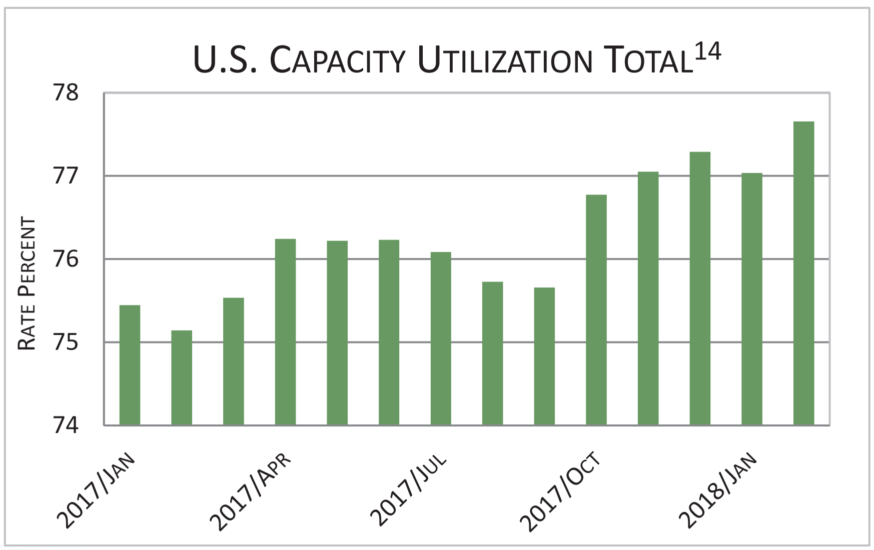
OUTLOOK

HOW ARE POTENTIAL DRIVERS OF INFLATION LOOKING? – CAPACITY CONSTRAINTS

U.S. total capacity utilization has been trending higher but still has room to grow with the current rate below the historical average at less than 78%. Other indicators are not showing signs of strains in the manufacturing sector. The most recent durable goods report showed that unfilled orders declined and total inventories have been relatively steady.





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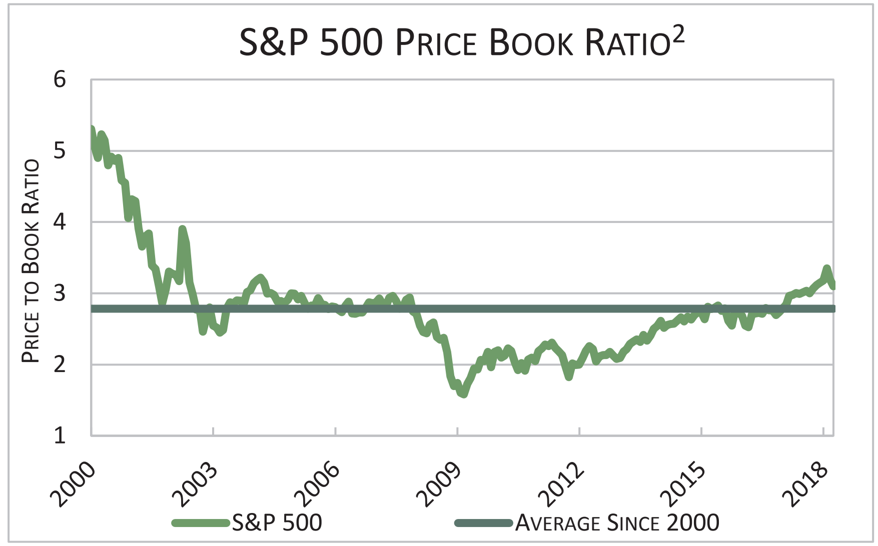
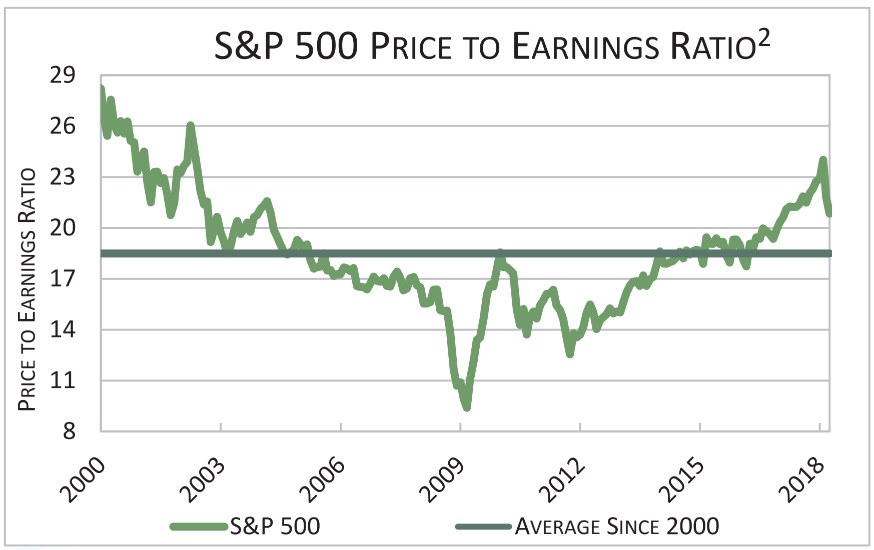
Outlook

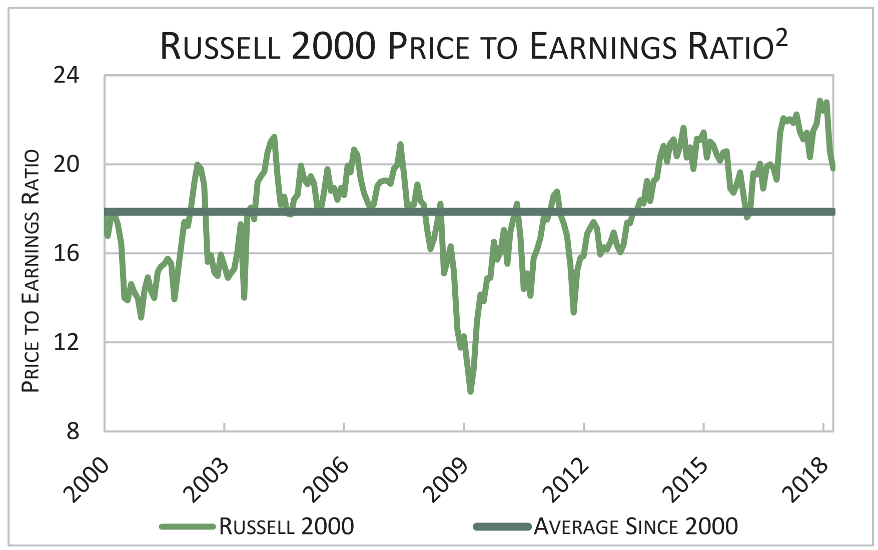
U.S. equity valuations have come down from recent highs

Various U.S. equity valuation measures shown on this page that use historical data continue to show that equities are not cheap. Valuations, while high, have come down off recent peaks due to the generally good fourth quarter earnings and the equity market sell-offs in February and March.

Many analysts expect healthy gains in profits for 2018. Price to earnings ratios using forecasted earnings have come down closer to historical average levels.







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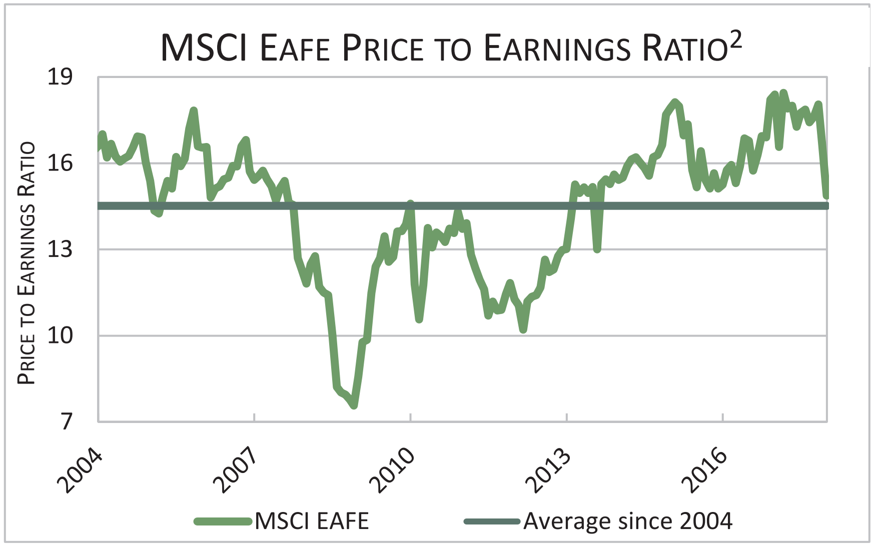
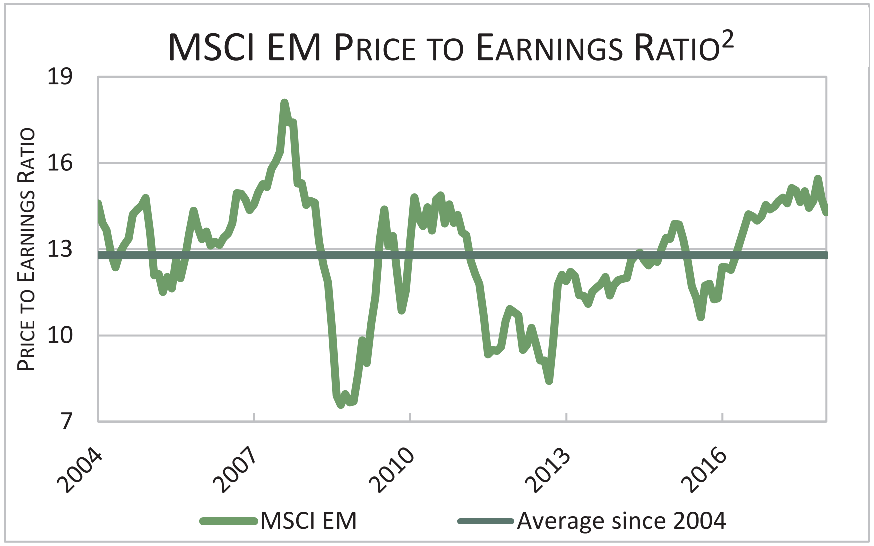
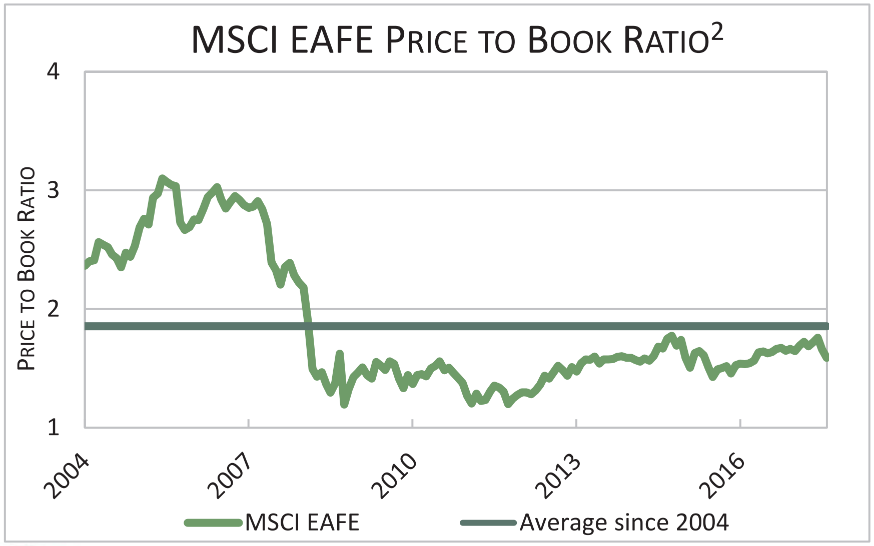
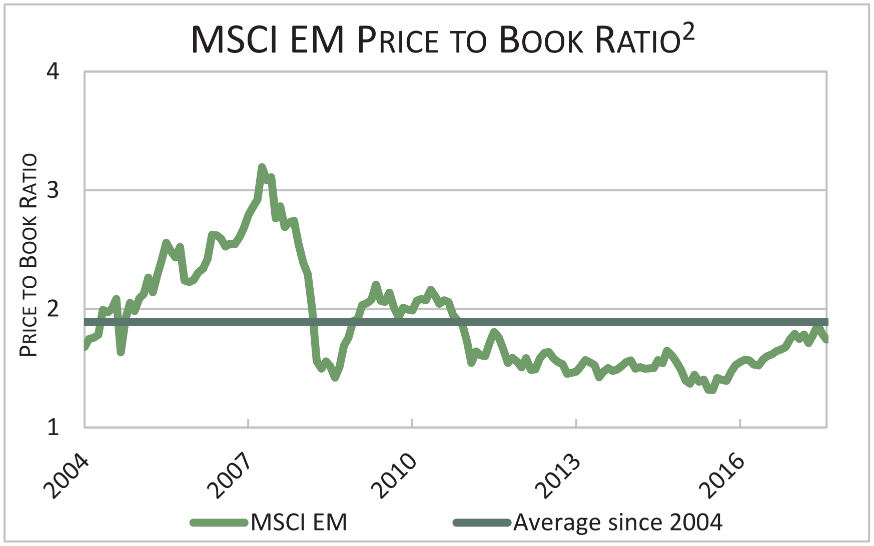
Outlook

Non-U.S. equity valuations have also come down from recent highs









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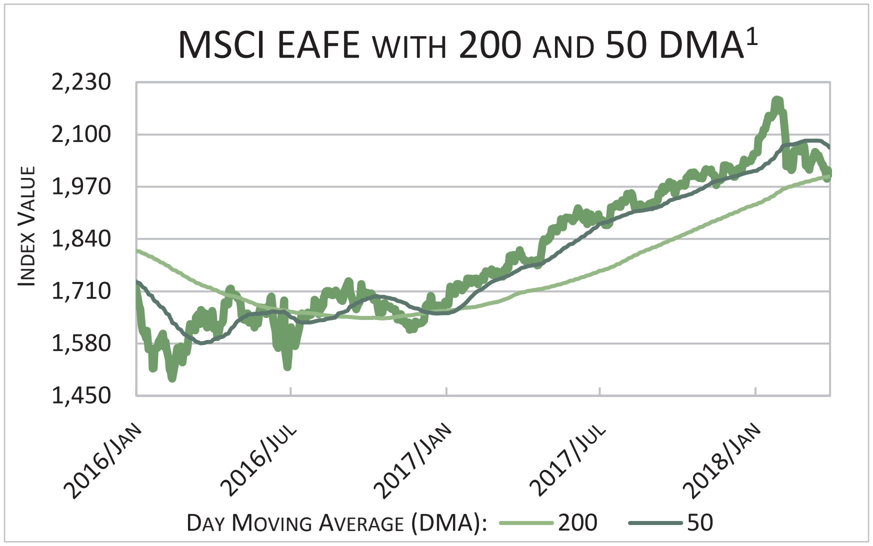
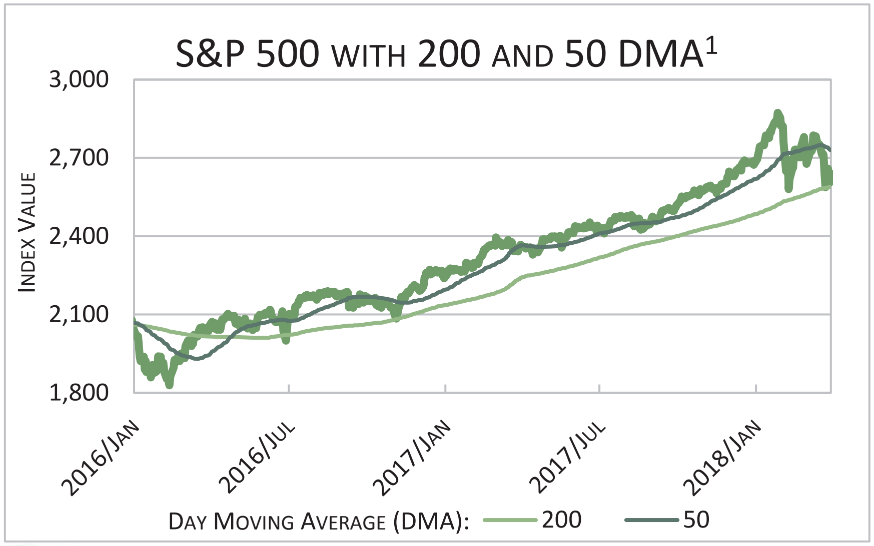
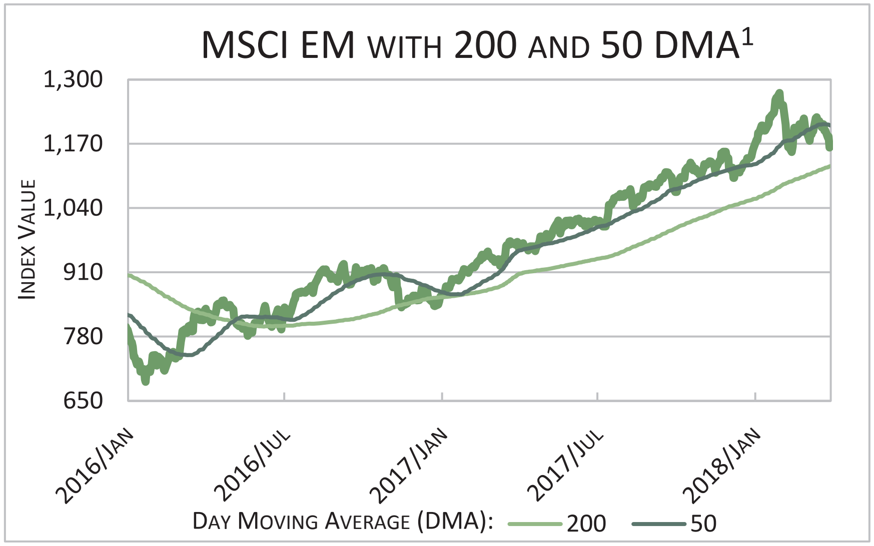
OUTLOOK

SINCE THE FEBRUARY SELL-OFF, GLOBAL EQUITY MARKETS HAVE BEEN TRADING IN A RANGE

After the strong gains in January, global equity indices have been trading in a range that is near the 50-day moving average on the upside and at or just below the 200-day moving average on the downside. The range bound trading is likely to continue while the uncertainty lingers about what impact tariffs or a trade war will have on global economies and corporate earnings. First quarter earnings reports could be a catalyst to resume the long-term uptrend.







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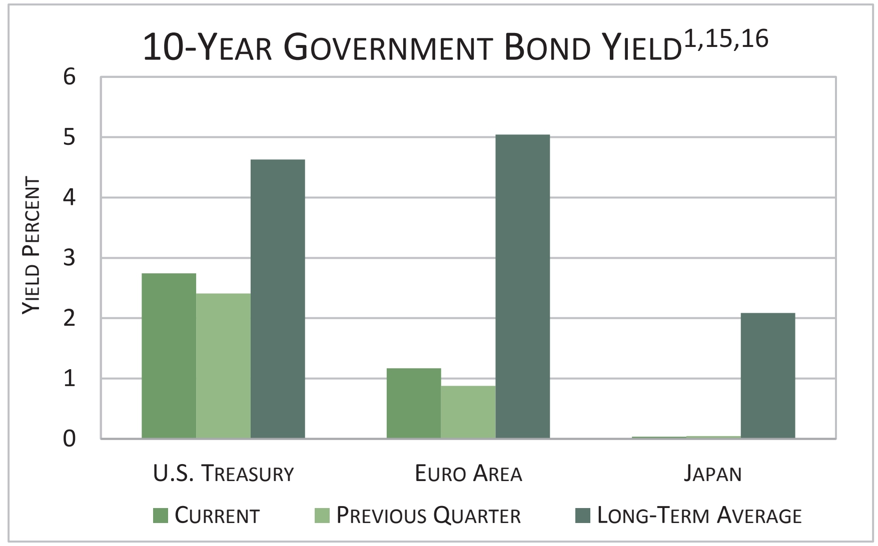
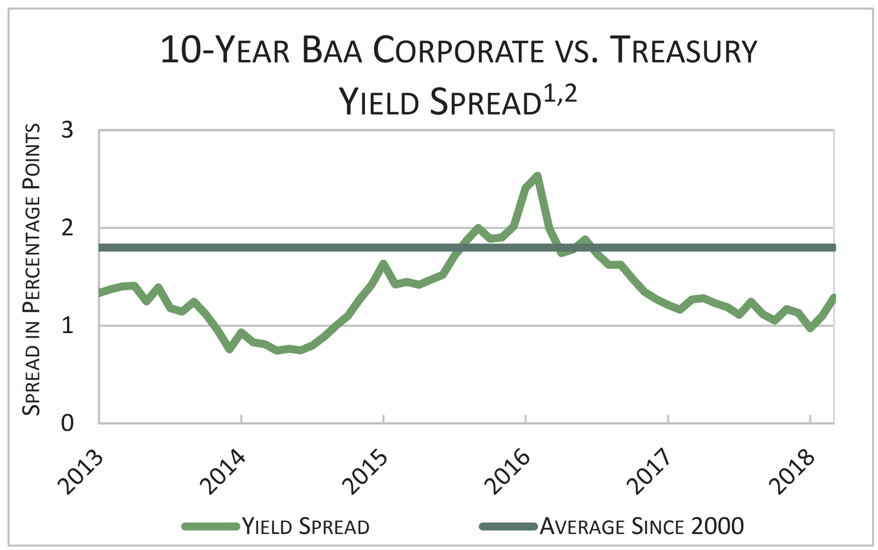
OUTLOOK

POTENTIAL BOND RETURNS APPEAR LIMITED GIVEN LOW YIELDS AND STRONG ECONOMIC ACTIVITY

Even though bond yields in the U.S. and eurozone moved higher during the first quarter on solid economic growth, yields remain low compared to historical averages. Therefore, with economic growth expected to continue at a moderate rate and forces such as tightening labor markets likely to gradually drive inflation higher, bond yields are likely to rise and prices fall. Add in the FOMC's plans to gradually raise short-term interest rates and shrink its balance sheet, and fixed income markets look overvalued. However, as long as inflation remains below the FOMC's target, yields are not expected to spike higher.

The below average yield advantage of corporate bonds over Treasury bonds continues to limit the return potential for corporate bonds.





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Vogel Tactical Recommendations

Favor equities over bonds and hedge strategies. Overweight emerging markets equities.

Asset Class	Action	Commentary
Domestic Large-Cap Equity	Equal weight	Economic and earnings growth is strong and valuations have come down some, but volatility is likely to remain high due to trade and monetary policy uncertainty.
Domestic Mid-Cap Equity	Equal weight	Economic and earnings growth is strong and valuations have come down some, but volatility is likely to remain high due to trade and monetary policy uncertainty.
Domestic Small-Cap Equity	Equal weight	Economic and earnings growth is strong and valuations have come down some, but volatility is likely to remain high due to trade and monetary policy uncertainty.
International Developed Equity	Equal Weight	Economic activity has moderated in the eurozone and Japan, but is still positive and monetary policy is still accommodative.
International Emerging Market Equity	Overweight	Higher growth rates than in developed countries are forecast as fundamentals are improving. A weaker U.S. dollar is also a positive.
Fixed Income - Investment Grade	Underweight	Higher yields have made bonds more attractive than in the past, but gradual interest rate increases and less reinvestment by the Federal Reserve point to elevated price risk.
Fixed Income - High Yield	Underweight	Yield spreads are near cycle lows which increases the price risk.
Hedge Strategies	Underweight	The flexibility to position portfolios for various risk scenarios can provide return opportunities, but high asset values may limit return potential.
Real Assets	Equal weight	Economic growth is raising inflationary risks but supply issues could limit upside for commodity prices. Strong economic growth and labor markets are positive for real estate demand and rents, tempering risks from higher interest rates.
Cash	Overweight	Maintain at least 12 months of reserves for spending needs. Yields have improved.

DISCLOSURES

Important Disclosures:
This report is being provided to you for your review and consideration and does not constitute a recommendation to purchase, sell or hold any security, and should not be construed as investment advice. Past financial performance is no guarantee of future results.

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Sources: *Number below corresponds to the superscript notation in chart titles*

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