fourth quarter 2017

INVESTMENT *perspective*

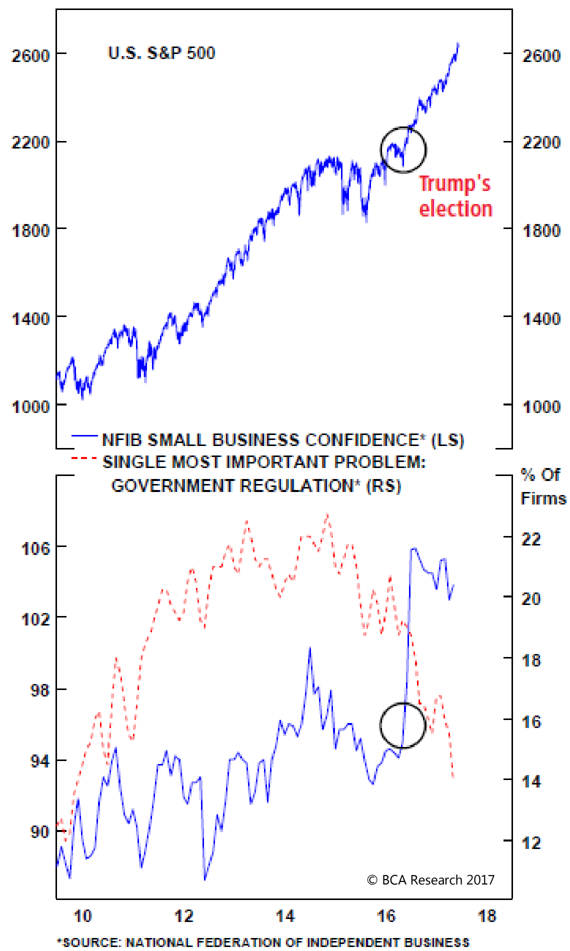
During the fourth quarter of 2017, U.S. equity markets continued to move higher with large cap and small cap equities appreciating approximately 6.64% and 2.05%, respectively. The S&P 500 and Russell 2000 Value have appreciated 21.83% and 7.84%, respectively, on a year to date basis.

During the fourth quarter, the U.S. Congress successfully passed fiscal stimulus via tax reform. The tax reform package encourages cash repatriation back to the United States, reduces the tax burden for corporations, and encourages much needed capital investment into the U.S. economy. Equally important to corporate tax reform is the continued effort by the administration to provide regulatory relief for various businesses and industries **(Chart 1)**. The combined effect of these fiscal initiatives should help to offset liquidity pressures that may result from the Federal Reserve beginning to reduce its balance sheet.

Unlike monetary stimulus that can have a very broad and potentially temporary impact to capital markets, the positive effects of corporate tax reform and regulatory relief is more targeted as the impact is very idiosyncratic at the company level. As we continue to transition from monetary to fiscal stimulus and the global capital markets adjust to the shifting liquidity environment, we would anticipate volatility for the broad market and individual stocks will begin to rise in 2018. Our outlook remains balanced, stock-specific, and not reflective of opportunities in specific industries, regions of the world, or broader market indices.

CHART 1

Market Has Cheered De-Regulation



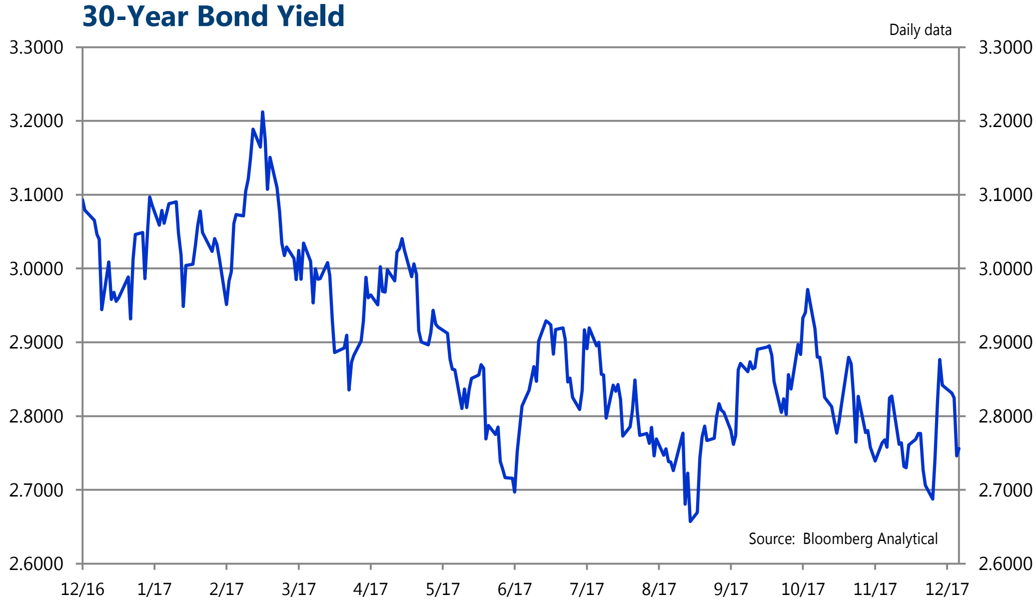
Within fixed income, 2017 returns were dominated by the credit sector and longer maturities, as the yield curve flattened dramatically at the long end **(Chart 2)**. Investment grade credit spreads narrowed 30 basis points generating 345 basis points of excess return. For the year, the 30-year Treasury bond returned over 9%, compared to only 2.14% for the 10-year bond and 0.67% for the 5-year bond. The Bloomberg Barclays Aggregate Index returned 0.39% in the fourth quarter and was up 3.54% for the year. While we expect

Chart Source: Bloomberg, Macrobond and Variant Percept credit spreads to continue to benefit from stronger global growth, improving credit metrics (especially in the bank and energy sectors), and continued strong demand, a headwind could be an acceleration in core inflation that leads to a selloff in longer Treasury yields.

Within the Municipal markets, the signing of the Tax Cuts and Jobs Act has positive and negative impacts. The minor reductions in the top tax rate brackets will not impact demand, but the reduction of the corporate tax rate from 35% to 21% will reduce demand from both banks and insurance companies. While institutional demand may decline, the supply of new issuance will be significantly reduced by the law's elimination of advanced refunding bonds by municipal entities. Going forward, we believe the tax-exempt bond market will remain the best sector for most individual investors to generate attractive, low risk tax free income.

CHART 2

30-Year Bond Yield



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