

Market Review

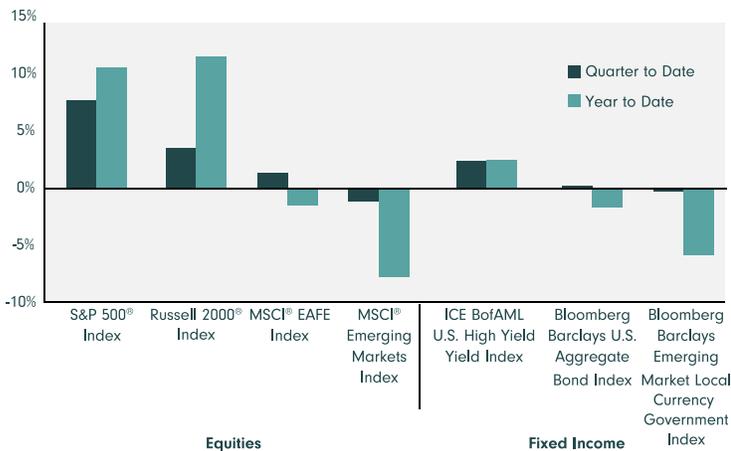
Third Quarter 2018

Domestic equities continued to march ahead in the third quarter with the S&P 500 Index gaining 7.71%, bringing the year-to-date return to 10.56%. Small stocks, as measured by the Russell 2000 Index, lagged their larger counterpart, advancing 3.58%, but are ahead for the year with a return of 11.51%. Trade-war concerns continued to mount during the quarter, which caused international and emerging-market stocks to perform very poorly. The MSCI EAFE Index managed a modest gain for the quarter, of 1.35%, but is still down year to date, at -1.43%. Emerging-market stocks have performed the poorest so far this year, with the MSCI Emerging Markets Index slipping 1.09% for the quarter, widening the year-to-date loss to -7.68%.

U.S. Treasury yields continued to rise modestly during the quarter, with the 10-year rate moving from 2.86% to 3.06%. The Bloomberg Barclays U.S. Aggregate Bond Index was essentially unchanged for the quarter, up 0.02%, with a year-to-date return of -1.60%. High-yield bonds continued to be among the best performers in fixed income; the ICE BofAML U.S. High Yield Index was up 2.44% for the quarter, helping boost the year-to-date return to 2.52%. Local-currency emerging-market debt continued to struggle, with the Bloomberg Barclays Emerging Market Local Currency Government Index falling 0.25% for the quarter to extend the year-to-date loss to -5.75%.

Index Returns

Periods ending September 30, 2018



Data is obtained from Bloomberg and is assumed to be reliable. Past performance is no guarantee of future results.

Trade Spat with China Escalates

China is arguably the most important emerging-market country in the world, and U.S.-China trade tensions clearly escalated throughout the recent quarter. There was some easing of uncertainty in global trade relations, with the renegotiation of the North American Free Trade Agreement among the U.S., Mexico and Canada—now dubbed the U.S.-Mexico-Canada Agreement, or USMCA. Still, spats with China have become more prolonged, and it seems more time will be required for a solution. Both President Donald Trump and the Chinese leadership appear to be “digging in their heels” for a more protracted trade battle. This has clearly cast a poor environment over emerging-market stocks and bonds given the importance of China. Economic problems in

smaller countries, such as Turkey and Argentina, haven’t helped sentiment, either. Strength in oil prices, a fairly strong dollar and trade tensions have caused strong headwinds in emerging markets. Additionally, Europe has clearly slowed somewhat since the beginning of the year due to trade concerns and continued difficulties with Italian banks and the prospects of Brexit. It is fairly certain that although the global economy is still growing, a “global synchronized recovery” isn’t being mentioned anymore by Wall Street strategists.

Emerging Market Currencies Relative to U.S. Dollar

Indexed to 100 from January 1, 2017 through September 30, 2018



Data is obtained from Strategas and is assumed to be reliable. Past performance is no guarantee of future results.

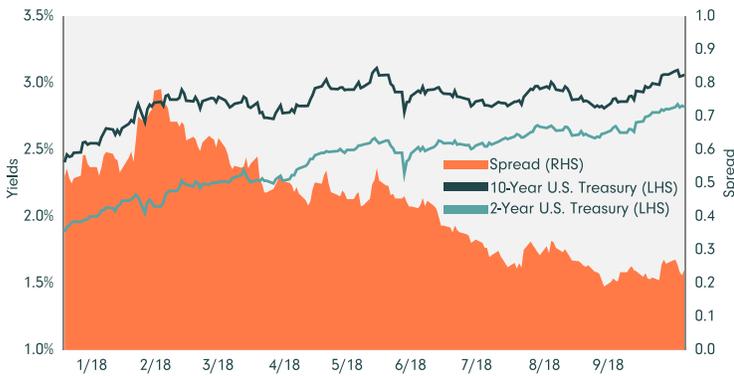
We still don’t know how long these negotiations with China will take to be resolved, but the market is starting to provide favorable longer-term prices on many well-positioned Chinese stocks. Valuation spreads between the U.S. and the rest of the world are fairly wide today due to this uncertainty.

Yield Curve Concerns

The Federal Reserve, in a widely expected move, raised short-term rates in September, and we fully expect another increase in December of this year. However, the U.S. yield curve has continued to flatten and has started to attract debate from many Fed governors. Some Fed members believe the flattening or potential inversion of the curve is merely “technical” and not that meaningful. Other Fed members believe the Fed should respect the shape of the yield curve (particularly if it inverts) and potentially pause after December’s rate hike. We believe full inversion is a clear negative for the economy and should be respected by the Fed regardless of the supposed reasons it is occurring. A flat curve can be tolerated for quite some time, but an inversion not so likely. In terms of the sustainability of the U.S. expansion, Fed actions over the next six to 12 months will be important to watch.

Treasury Yields Compress

Period ending September 30, 2018



Data is obtained from Bloomberg and is assumed to be reliable. Past performance is no guarantee of future results.

U.S.: Pillar of Strength

In the global economy, the U.S. continues to be one of the pillars of strength. Current business conditions appear to be very solid, continuing from second-quarter business strength. For instance, the Institute for Supply Management’s non-manufacturing index hit 61.6 in September, the highest reading in the index’s 10-year history. A level above 50 suggests expansion in the U.S. service sector. In addition, unemployment numbers denote strength we haven’t seen in decades, and corporate buybacks and dividends continue to grow. Stock buybacks for the S&P 500 Index were \$190.6 billion during the second quarter, the highest level in history, and the 12-month repurchases through June 2018 were 29% higher than the year-earlier total. Stock dividends have grown meaningfully as well: The 12-month total through June among S&P 500 companies was \$435.7 billion, up 7% year over year.

S&P 500® Index Quarterly Dividends and Stock Buybacks



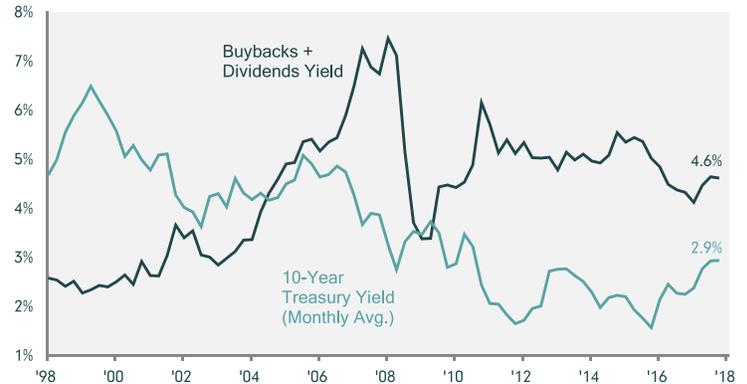
Data is obtained from S&P Dow Jones and is assumed to be reliable. Past performance is no guarantee of future results.

Furthermore, combining the yields of corporate buybacks and dividends among S&P 500 companies, the net effect has been yields greater than those provided by Treasuries.

Other areas of strength in the U.S. include corporate cash flow, which is benefiting from tax reform as well as good operating results. So far, U.S. businesses have had enough domestic momentum that they have overcome most of the background noise on trade, but the longer this persists, it could eventually become a headwind for our markets as well.

S&P 500® Stock Buybacks and Dividends Combined Yield vs. 10-Year Treasury Yield

Period ending September 30, 2018



Data is obtained from Strategas and is assumed to be reliable. Past performance is no guarantee of future results.

As always, we will invest in companies with a sustainable competitive edge and a sound balance sheet. We firmly believe this is the best long-term protection we can provide our clients in this period of heightened uncertainty. We thank you for your trust and confidence.



Douglas S. Foreman, CFA

Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 32 years of investment experience.

Bloomberg Barclays U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least \$250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The Bloomberg Barclays Emerging Market Local Currency Government Index is a flagship index that measures the performance of local currency Emerging Markets (EM) debt. Classification as an EM is rules-based and reviewed annually using World Bank income group, International Monetary Fund (IMF) country classification and additional considerations such as market size and investability. The ICE BofAML U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The MSCI® EAFE Index is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. The MSCI® Emerging Markets (EM) Index is a free-float adjusted market capitalization index tracking the equity performance of global emerging markets. The Russell 2000® Index is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The S&P 500® Index is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy.

This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor’s opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. Past performance is no guarantee of future results.