WINTHROP PARTNERS

Wealth Planning & Investment Management

2018 Market and Economic Outlook

Doylestown, PA | Pittsburgh, PA | Buffalo, NY

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2017 Overview: market headlines and the S&P

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Chart, courtesy of the Bespoke Report, matches summaries of Bloomberg News headlines to the performance of the S&P 500.

Putting geo-political events in perspective

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From Winthrop Partners' vantage point it appears that many market analysts are overly concerned with the potential negative impact of geo-political events that might occur in 2018 ranging from the fear of war emanating from North Korea and Iran, espionage emanating from Russia, North Korea and China, regional conflicts in the Middle East and terrorism.

While not detracting from any of these concerns, one should review the market impact of historical geo-political events, before trying to develop investment strategies to potentially counteract their impact.

Since 1941 only 6 events negatively swayed the markets 90 days after they occurred: Pearl Harbor, the bombing of Cambodia, The Arab Oil Embargo, the USSR's Invasion of Afghanistan, The US invasion of Panama, and the 1976 brief conflict with N. Korea .

Geopolitical event	Date	S&P 500 (% since event date)		
		Initial reaction	30 days	90 days
Pearl Harbor	12 Jul 1941	-6.87	-2.90	-12.02
Cuban missile crisis	19 Oct 1962	-3.78	7.61	17.16
JFK assasination	21 Nov 1963	-2.81	3.06	8.28
US bombs Cambodia	29 Apr 1970	-15.30	-6.43	-4.94
Arab oil embargo	18 Oct 1973	-16.23	-8.45	-13.04
USSR invades Afghanistan	24 Dec 1979	-2.27	5.37	-7.78
US bombs Libya	15 Apr 1986	2.95	-1.39	0.16
US invades Panama	15 Dec 1989	-2.06	-3.73	-3.43
Gulf War	24 Dec 1990	-4.16	0.09	12.10
World Trade Center bombing	26 Feb 1993	-0.31	1.67	2.04
9/11 attacks	11 Sep 2001	-11.60	0.45	4.34
US invasion of Iraq	20 Mar 2003	2.49	2.06	15.57
Russian annexation of Crimea	27 Feb 2014	1.07	0.68	3.62
North Korea-related				
Korean war	23 Jun 1950	-12.80	-8.67	1.20
Operation Paul Bunyan	18 Aug 1976	-3.15	1.64	-4.32
2006 nuclear test	9 Oct 2006	0.90	2.60	4.60
2009 nuclear test	25 Apr 2009	-1.28	5.09	13.05
2013 nuclear test	12 Feb 2013	0.02	2.88	7.53
2016 nuclear test	9 Sep 2016	-2.55	-0.81	2.97
2017 escalation	7 Aug 2017	-0.24	-0.64	4.4
Missile test over Japan	28 Aug 2017	0.08	2.69	6.43
Average - all events		-3.71	0.14	2.76

Inflation projection (1) Core excludes food and energy inputs which are considered volatile & 2) Producer Price Index for food)

The Federal Open Market Committee projects PCE inflation will be at 1.96% by FYE 2018. The personal consumption expenditure price index (PCEPI) is the primary measure of U.S. inflation, tracking the change in prices of goods and services purchased by consumers throughout the economy.

Other Economists predict PCE inflation to be a bit higher: The USDA predicts 2.2%, The IMF predicts 2.1% and The European Commission predicts 2.1%.

Of note is how the various components of inflation are acting. Core inflation (ex food and Energy) is predicted to be in the 1.7 %, but Housing costs (3.5% incr.) and Medical expenses (2.6% incr.) will be the highest increases, but food will be kept artificially low at 1.5% even though the Producer price index is closer to 3.5-4% as traditional grocers battle for market share with Amazon, WalMart and German discounters like ALDI

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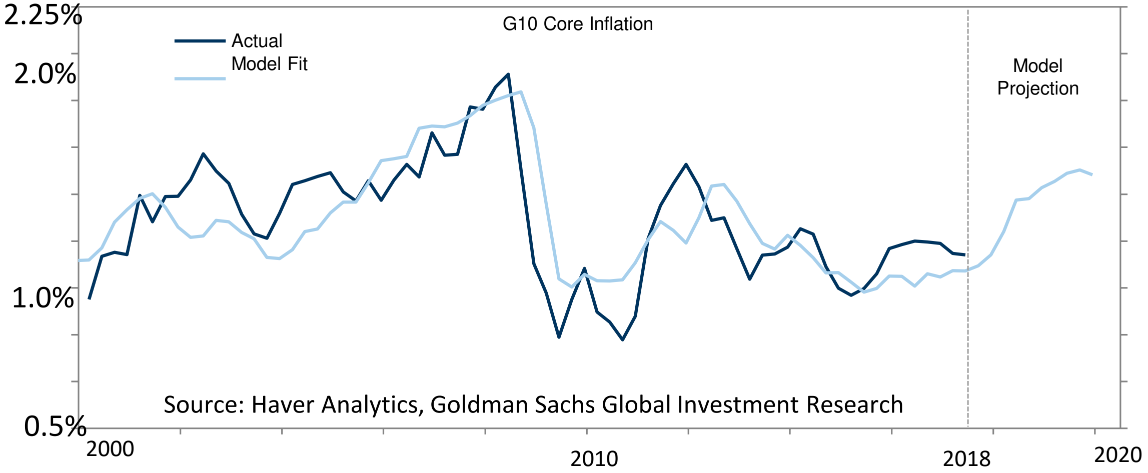

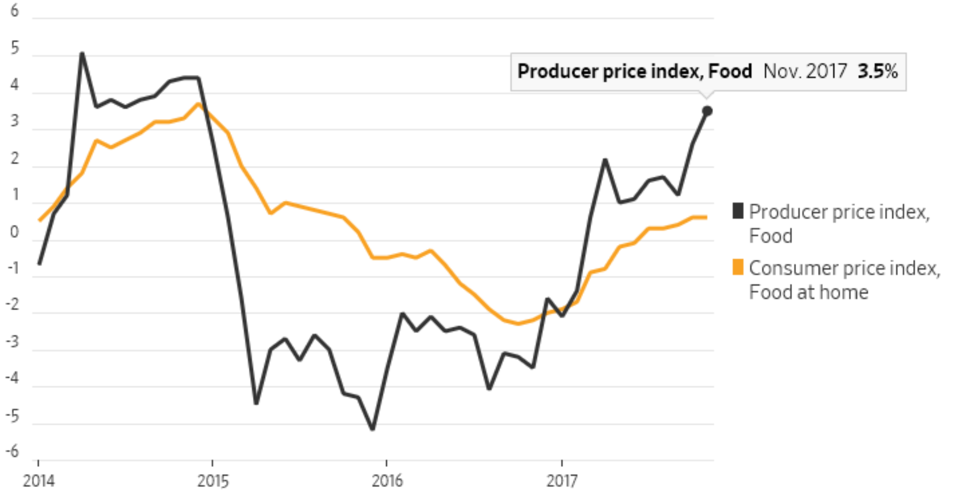

Goldman Sachs' global wage growth composition

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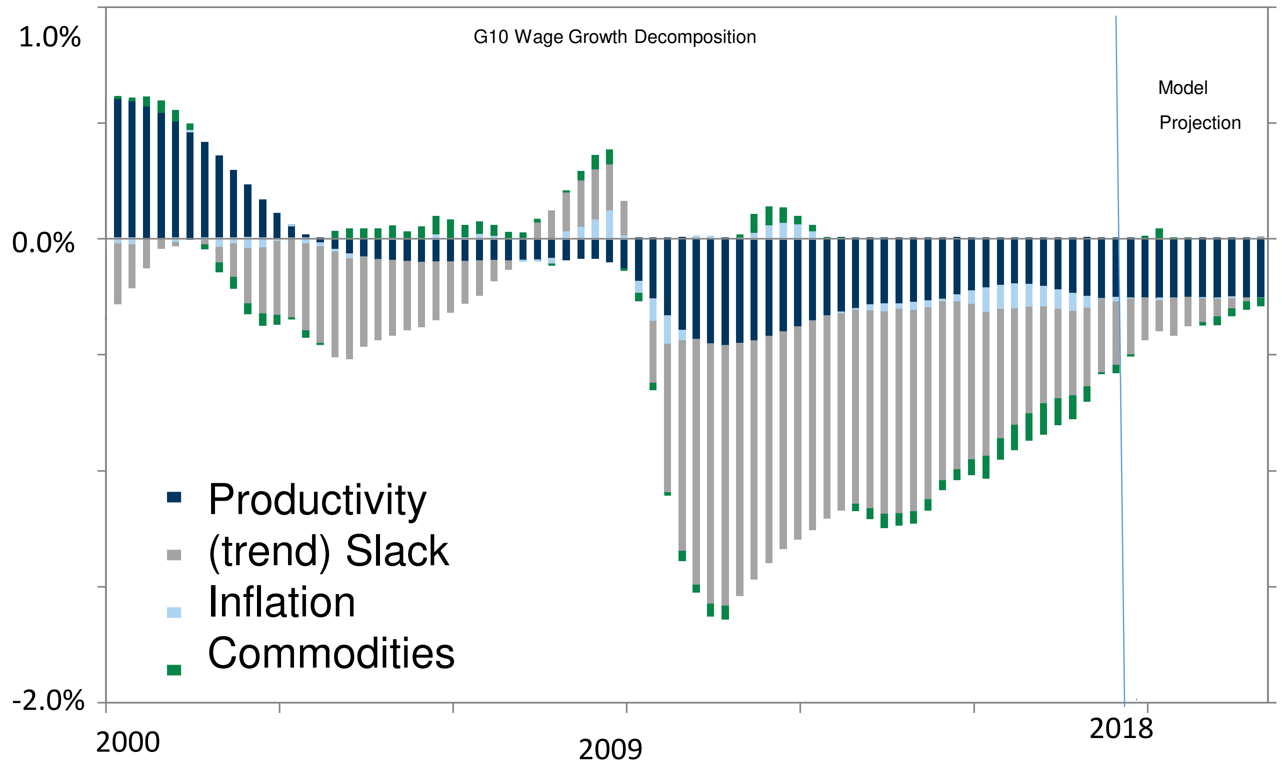
Weak Productivity Growth Key Drag on Wage Growth….

Goldman's Analysis suggests that Global labor market slack, trend productivity and lagged headline inflation explain the ups and downs of wage growth pretty well across the G10 economies. Goldman finds that labor market slack played the key role in slowing wage growth after the financial crisis but is no longer acting as a major brake for aggregate G10 wage growth. Instead, Goldman believes that weak trend productivity growth is keeping wage growth below the pre-crisis norm across all economies in its G10 sample.

However in the US, Wage Inflation has begun in tight labor markets and for skilled labor, with wage increases above the 2% national average in 2017, and will gradually spread across the US if unemployment dips below 4%.



Global unemployment has been falling rapidly

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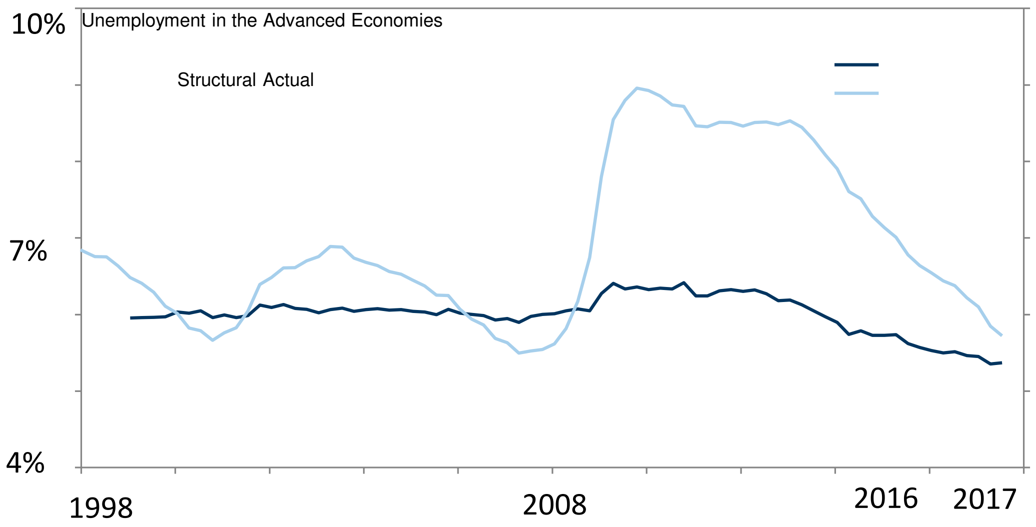
The US and China Economies have been leading the charge in employment growth. Recently during 2016 Europe's economy has shaken-off its doldrums and has been adding jobs. During the last 6 months. developing nations have also been adding jobs, but Russia and the Mideast have both been lagging in job creation.



S&P global bond defaults - number of defaults & reason by year.

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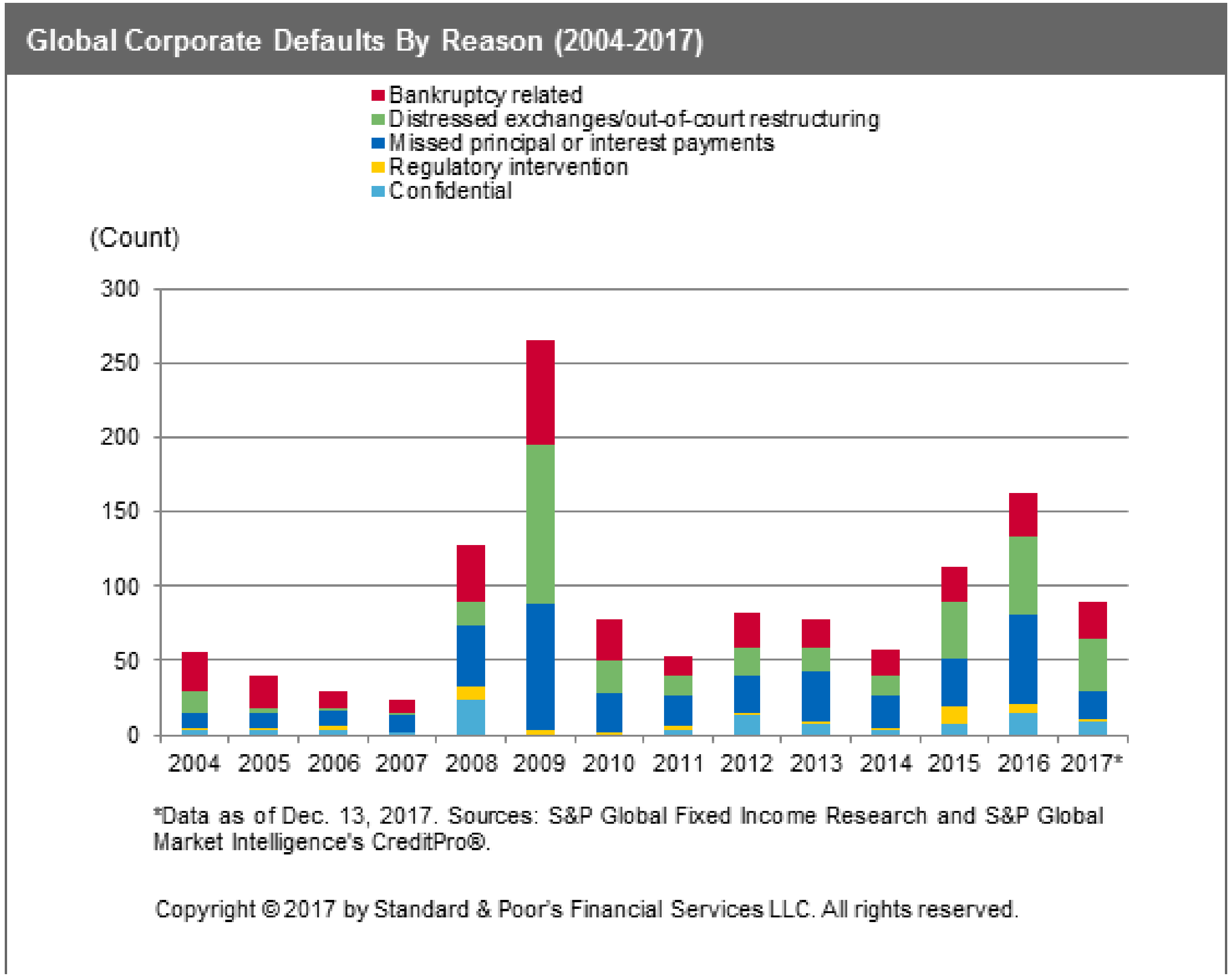
The number of Global Bond defaults declined to 90 in 2017 from about 160 in 2016 and remain well behind the 260 defaults that occurred in 2009, during the height of the recession.

The number of bankruptcy related defaults have remained relatively constant since 2010 while in 2017 the number of out-of-court restructurings and payment defaults declined the most.

Low interest rates and an improving economy are the primary reasons for the decline in defaults.



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Housing starts

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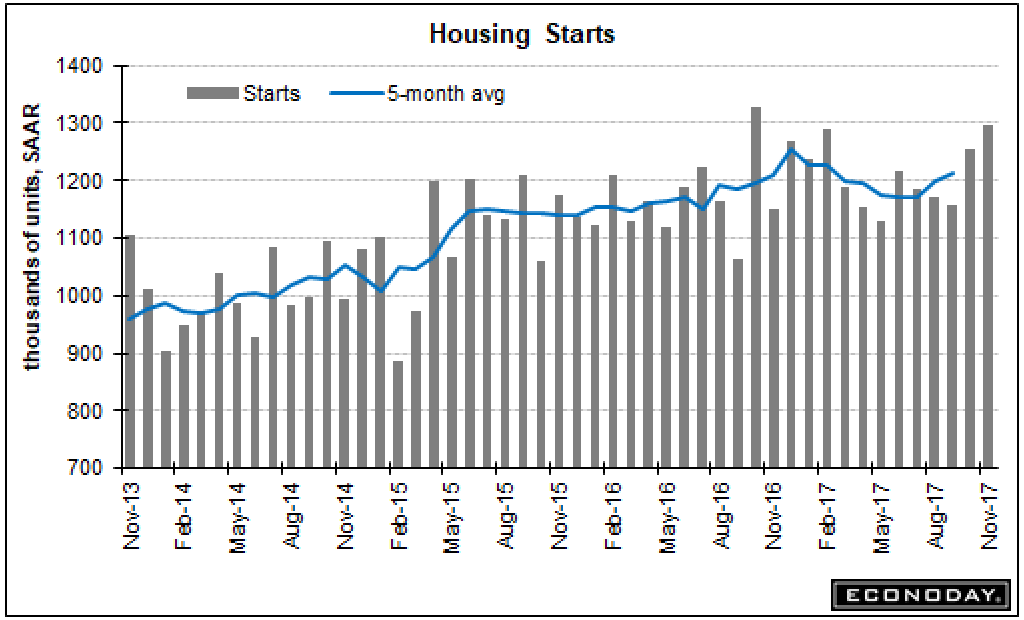
A pivot higher is underway in the new home market. The latest evidence comes from housing starts and permits which matched their unusual October strength with stronger-than-expected results for November. Starts rose 3.3 percent to a 1.297 million annualized rate and though permits fell 1.4 percent to 1.298 million, they show a 1.4 percent gain for the key single-family category to a 862,000 rate. And starts for single-family homes, up 5.3 percent to 930,000, are the highest of the expansion, since 2007.

Total completions fell 6.1 percent to a 1.116 million rate which is bad news for supply where thin conditions have held back sales. But homes under construction rose, up 1.0 percent to 1.110 million. Regional data show start strength in the West and South where permits were also strong is possible evidence of a hurricane reversal.



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Synchronized GDP growth

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Synchronization of the World Economy

The World Economy rarely moves in synchrony and when it does there are usually a number of outliers, both leaders and laggards creating a wide band of results. In 2018 economists project GDP Growth in the developed markets and the emerging markets to be positive and within a relatively tight band of seven percent. Most developed economies are expected to grow between 1% and 3% and China and India to grow at a faster rate.

Real GDP Growth

Percent Change yoy	2015	2016	2017 (f) GS	2017 (f) Cons*	2018 (f) GS	2018 (f) Cons*	2019 (f) GS	2019 (f) Cons*
US	2.9	1.5	2.2	2.2	2.5	2.4	1.8	2.1
Japan	1.1	1.0	1.6	1.5	1.5	1.1	1.3	0.9
Euro Area	1.9	1.7	2.3	2.2	2.2	1.9	1.8	1.6
Germany	1.5	1.9	2.6	2.2	2.5	2.0	2.0	1.6
France	1.0	1.1	1.8	1.7	2.0	1.8	1.8	1.6
Italy	0.7	1.0	1.5	1.5	1.1	1.2	0.9	1.1
Spain	3.2	3.2	3.1	3.1	2.5	2.6	2.2	2.2
UK	2.3	1.8	1.5	1.5	1.3	1.4	1.6	1.6
China	6.9	6.7	6.8	6.8	6.5	6.4	6.1	6.1
India**	8.0	7.1	6.4	6.8	8.0	7.4	8.3	-
Russia	-2.8	-0.2	2.2	1.9	3.3	1.8	2.9	1.8
Brazil	-3.8	-3.6	0.9	0.7	2.7	2.4	3.1	2.5
Developed Markets	2.3	1.7	2.3	2.2	2.3	2.1	1.9	1.9
Emerging Markets	4.6	4.7	5.0	4.5	5.6	4.9	5.7	5.0
World	3.5	3.2	3.7	3.5	4.0	3.6	3.9	3.4

* Bloomberg consensus forecasts as of November.
** Fiscal year basis, 2017 is India FY18 (Q2 2017 - Q1 2018). FY20 consensus numbers are not yet available.

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From a historical perspective, we are overdue for a market correction.

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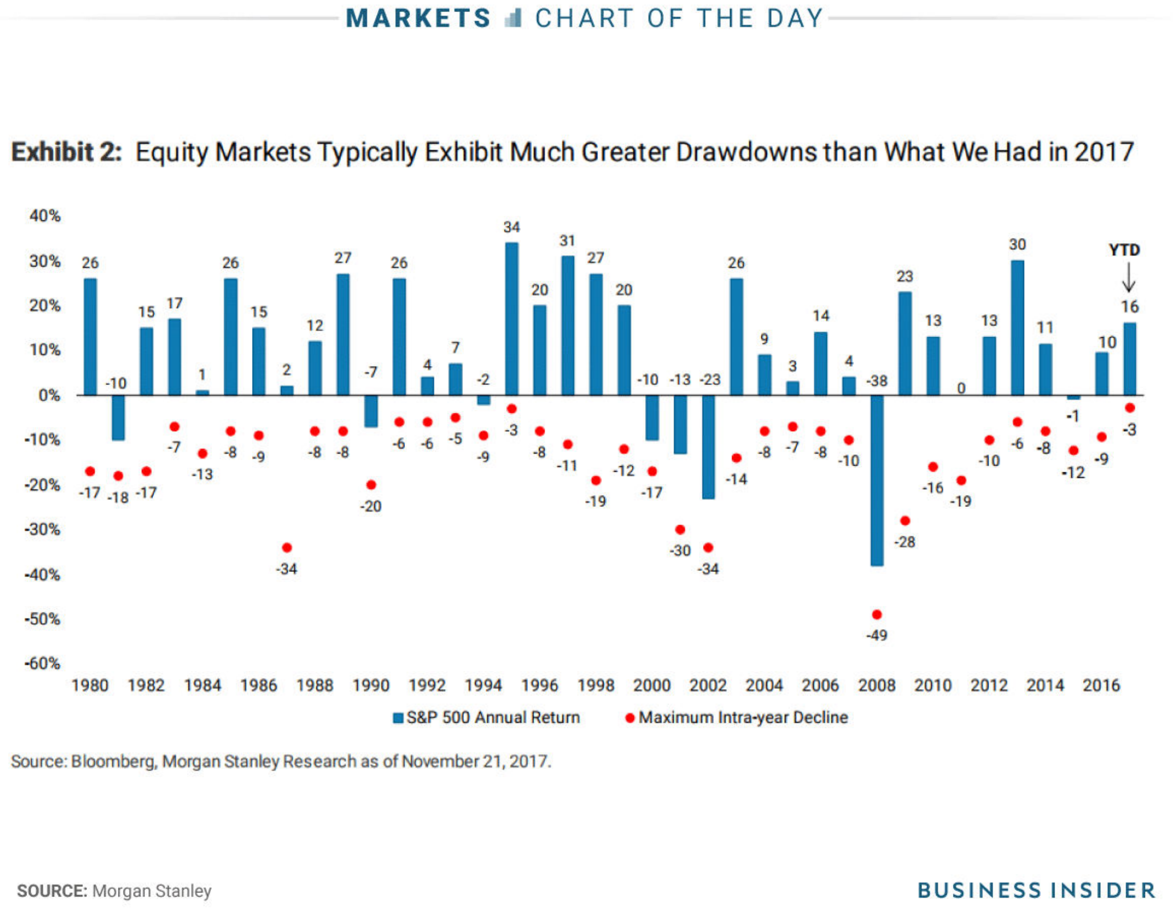
An overdue Market Correction in 2018?

On average the market annually incurs a ten point correction. However the trend in corrections since 2008 have been toward more shallow corrections and as of late no sizeable correction at all.

We should recognize the past 18 months have been a particularly benign environment and that corrections occur on a regular, but unpredictable basis. We should also remember these corrections are swift and fleeting with the market quickly returning to pre-correction levels.



In 2018 we believe the following seven themes will have a major impact on the economy, markets, companies and individuals

-Taxes: Tax Reform and its impact on Individuals, Companies, GDP and Deficits is discussed in the first investment theme.

-Trade: The White House pulled out of the TPP and seeks to restructure NAFTA, but it will be the impact of the tax code that reduces the US Trade Deficit.

-Judicial & Regulatory Environment: The Trump Presidency will likely have the largest impact of any Presidency on the Federal Judiciary and the deregulation of business.

-**Robotics/Automation/Artificial Intelligence:** The impact of RAAI on the economy, society and individual workers is increasing at a rapid rate and will have profound impacts in 2018 and beyond.

-Brand Erosion: The market share of Global brands has been eroding steadily for years as corporations merge, lose their distinctive culture, dilute their brands by product expansion, reduce product quality or quantity or make damaging corporate decisions that impair the consumer's faith in the brand. Small local competitors are winning market share by identifying and servicing local niches.

-Natural Disasters' Impact on Supply Chains: The increase in natural disasters caused by climate, disease, fire, or geological activity has coincided with the increasing complexity and length of supply chains intensifying the potential of global supply disruptions.

-The Spector of Inflation: Inflation is, and will always be the stock market's Bogeyman. Will 2018 be the year of its resurgence? Probably not.

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Page 1 of a synopsis of the eleven most impactful elements of the Conference Bill on Taxes

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The new tax laws are likely to be the most impactful of the 7 themes on the US Economy. Corporate tax rates are lowered permanently, a special repatriation rate has been established for cash held overseas, individual tax reductions have a sunset provision and many deductions have either been eliminated or reduced.

The following facts and estimates were reported by the non-partisan Tax Foundation:

The Final GOP Tax Bill would increase the national debt by $448 billion over the next decade which is only 1/3 the projected $1.5 trillion in lost tax revenues.

The Tax Foundation predicts the tax package will:
-Increase GDP by 1.7% over the decade.
-Increase wages by 1.5 percent, and
-Create 339,000 jobs.

(continued)

	Current Law	Conference Bill
Corporate Tax Rate	35%	21%, starting in 2018
Repatriation of Foreign Earnings	Foreign earnings are taxed at a 35% minus any foreign taxes paid when earnings are repatriated to the United States.	Built up foreign earnings deemed repatriated. Cash and equivalents taxed at 15.5%, other earnings and profit taxed at 8%. Eight year repayment.
Anti-Base Erosion Provisions	U.S. companies are allowed to shift profits to foreign affiliates to reduce U.S. tax burden. This includes transfer pricing.	Establishes a 5% base erosion tax calculation for one year, then goes to 10% through 2025, then 12.5%. Tax 1% higher for banks/registered securities dealers.
Like-kind Exchange of Real Property	Allows for the exchange of certain properties without recognizing a gain or loss. The like-kind exchange establishes a new basis.	Only allows like-kind exchanges for real property, preserving much of the current law.
Income Brackets	7 Brackets: 10% - 39.6% (top rate starts at $470,700 for joint filer – for 2017) 10% - <$9,325 (single), <$18,650 (married) 15% - $9,325, $18,650 25% - $37,950, $75,900 28% - $91,900, $153,100 33% - $191,650, $233,350 35% - $416,700, $416,700 39.6% - $418,400, $470,700	7 Brackets: 10% - 37% (top rates starts at $600,000 for joint filer) 10% - <$9,525 (single), <$19,050 (married) 12% - $9,525, $19,050 22% - $38,700, $77,450 24% - $82,500, $165,000 32% - $157,500, $315,000 35% - $200,000, $400,000 37% - $500,000, $600,000

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Page 2 of a synopsis of the eleven most impactful elements of the Conference Bill on Taxes

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(Continued)

The previously mentioned changes would return $600 billion in tax revenues to the government due to increased growth.

Overall, The Tax Federation believes that the plan would decrease federal revenues by $1.47 trillion on a static basis and by $448 billion on a dynamic basis, due to the aforementioned $600 billion in dynamic revenue reflow, expiration of multiple provisions, and the addition of the revenue generated from the functional repeal of the individual mandate.

Pass-through Tax Rate	Net income subject to individual marginal rate.	Allows most pass-throughs to deduct 20% of business income. Limits deduction for joint filer above $315,000 for services businesses.
Standard Deduction	$6,350 individual, $9,350 couples.	$12,000 individual, $24,000 couples.
State and Local Taxes (SALT)	Filers are able to deduct taxes paid to states and local governments (including property taxes).	Caps state, local, property, and sales tax deduction at $10,000.
Alternative Minimum Tax (AMT)	Taxpayers are required to compute tax liability on an alternative tax code; if filer would pay more in the alternative, the filer is subject to the alternative minimum tax. Tax rate is 26% or 28% depending on income.	Retains AMT, but raises exemption amount ($109,400 for joint filers). Raises exemption phase-out threshold to $1 million (joint filers).
Estate Tax	40% tax on estates above certain threshold, $5 million as base exclusion.	Doubles base exclusion to $11.2 million, indexed for inflation.
Charitable Contributions	Contributions are an allowed itemized deduction.	Increases percentage limit for charitable contributions.

Trump favors protecting US jobs over the trade globalization strategy embodied in NAFTA and the TPP

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The President stated he would enact America-First trade policies, which include creating high import tariffs and exiting multinational trade agreements in order to protect American jobs.

He withdrew from the Trans Pacific Partnership, a trade pact encompassing all Pacific Rim Countries.

NAFTA remains a contentious issue among his advisors. On the anti- NAFTA side are advisors: Peter Navarro, Wilbur Ross and Robert Lighthizer, facing off against Pro-NAFTA advisors Gary Cohn, Steven Mnuchin; John F. Kelly and Lt. Gen. H. R. McMaster. No definitive NAFTA policy exists as of this presentation.

There is also a fear that NAFTA could collapse on its own accord.

Year-to-Date Total Trade (Goods only-No Services $ in Billions as of 10/30/17) Source: US Census Bureau

Rank	Country	Exports	Imports	Total Trade	Percent of Total Trade	SURPLUS / (DEFICIT)
---	**Total, All Countries**	**$ 1,275.10**	**$ 1,935.20**	**$ 3,210.30**	**100.00%**	**$ (660.10)**
---	**Total, Top 15 Countries**	**$ 903.40**	**$ 1,500.80**	**$ 2,404.20**	**74.90%**	**$ (597.40)**
1	**China**	$ 104.00	$ 413.00	$ 517.00	16.10%	**$ (309.00)**
2	**Canada**	$ 234.10	$ 248.40	$ 482.50	15.00%	**$ (14.30)**
3	**Mexico**	$ 201.60	$ 261.30	$ 462.90	14.40%	**$ (59.70)**
4	**Japan**	$ 55.50	$ 113.10	$ 168.50	5.30%	**$ (57.60)**
5	**Germany**	$ 44.10	$ 96.90	$ 141.00	4.40%	**$ (52.80)**
6	**Korea, South**	$ 39.90	$ 59.70	$ 99.60	3.10%	**$ (19.80)**
7	**United Kingdom**	$ 46.70	$ 43.80	$ 90.50	2.80%	**$ 2.90**
8	**France**	$ 28.00	$ 39.80	$ 67.80	2.10%	**$ (11.80)**
9	**India**	$ 21.30	$ 41.00	$ 62.30	1.90%	**$ (19.70)**
10	**Taiwan**	$ 20.80	$ 35.30	$ 56.10	1.70%	**$ (14.50)**
11	**Italy**	$ 15.20	$ 40.30	$ 55.50	1.70%	**$ (25.10)**
12	**Brazil**	$ 30.50	$ 24.30	$ 54.80	1.70%	**$ 6.20**
13	**Netherlands**	$ 35.20	$ 14.30	$ 49.60	1.50%	**$ 20.90**
14	**Ireland**	$ 8.60	$ 40.10	$ 48.70	1.50%	**$ (31.50)**
15	**Switzerland**	$ 18.00	$ 29.60	$ 47.60	1.50%	**$ (11.60)**

A synopsis of a 12/20/17 WSJ article on the Tax Bill's impact on balance of trade accounting

The tax bill will likely greatly reduce the deficit by curbing the incentive for multinational companies to artificially shift profits abroad.

This could reduce the trade deficit by half, or roughly $250 billion a year, and deliver a one-shot 1% or greater boost to annual gross domestic product. The current U.S. corporate tax rate, at 35%, encourages multinationals to minimize U.S.-based income.

For example, a U.S. company may design a smartphone in California, spend $250 assembling it in China, then sell it for $750 in a third country. The $500 difference represents the output of American labor and should be treated as an American export.

To minimize U.S. tax, the company transfers its Intellectual property to an Irish subsidiary for a nominal amount, and the Irish subsidiary sells the phone for $750. The resulting profit is taxed at Ireland's 12.5% rate. This transfer pricing by U.S. multinationals understates U.S. output by $280 billion a year, according to a study by the University of Minnesota.

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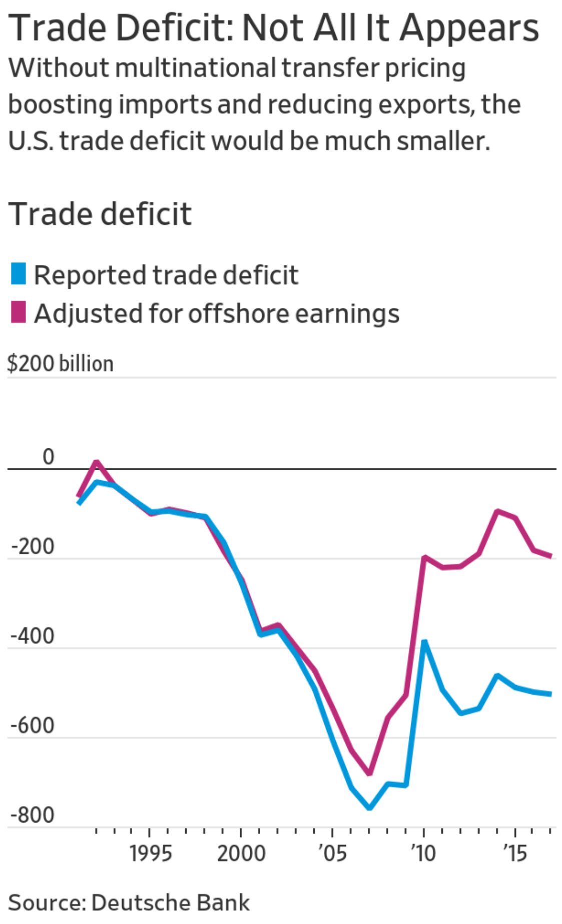

Trump's ability to reshape the judiciary

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Republicans blocked many of President Obama's judicial appointments creating vacancies. These vacancies combined with the aging demographic of the Federal Judiciary and Democrats inability to filibuster, have put President Trump in a unique position to remake the Judiciary.

To date, the focus has been on the Federal Appeals Court, the arbiter of 60,000 cases a year (the Supreme court only hears 80 cases per year).

The Long term impact of adding these justices is likely to be that the court becomes much more conservative, less interventionist and does not seek to reinterpret existing laws.

Almost Half of Appeals Judges Are Eligible for Senior Status

State of the federal appeals courts at the start of each president's first term.

Limited to judges on the 12 regional courts of appeals.

Source: Federal Judicial Center

PRESIDENT	MEDIAN JUDGE AGE	VACANT SEATS	SENIOR-ELIGIBLE SEATS
Richard M. Nixon	59	10%	10%
Gerald Ford	59	3%	10%
Jimmy Carter	60	6%	14%
Ronald Reagan	60	4%	15%
George H.W. Bush	59	12%	16%
Bill Clinton	59	13%	13%
George W. Bush	60	16%	14%
Barack Obama	62	9%	27%
Donald J. Trump	66	11%	44%

De-Regulation

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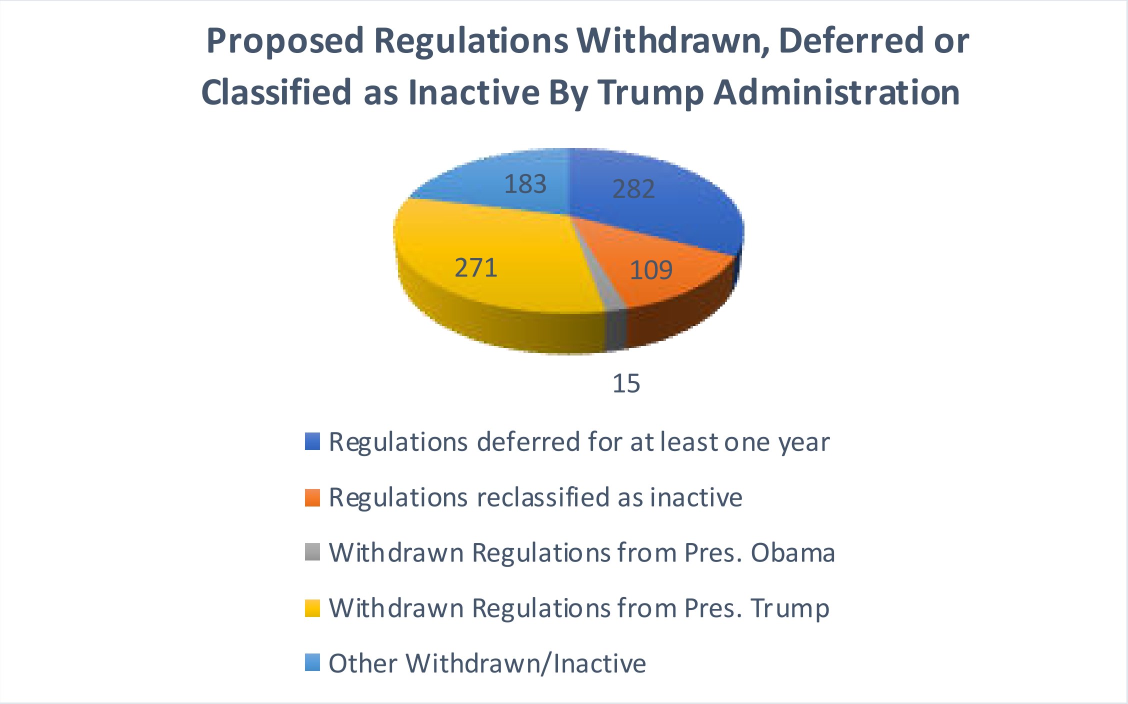
According to the Federal Register, the Obama Administration presided over six of the seven highest annual regulatory page counts ever. In 2016 his administration submitted a record 95,894 new pages.

President Trump issued an executive order directing departments to review regulations for rules they could rescind or repeal without damaging the law. He also directed that for each single regulation issued, agencies should identify at least two for elimination.

Through Sept. 30 the Trump Administration had taken 67 deregulatory actions but only three new significant regulatory actions. In addition since fall 2016 more than 1,500 planned regulatory actions have been withdrawn or delayed. For fiscal 2018, the current agenda includes 448 deregulatory actions and 131 regulatory actions.

The size of the economic impact of all this is hard to measure, though the Trump Administration projects the regulatory cost savings for the economy will be $9.8 billion over the next fiscal year. It is estimated that regulatory compliance cost $1.9 trillion in 2016.

-Source WSJ 12-25-17 “The Great Rules Rollback”



Many jobs performed by humans will be automated in the short to mid-term

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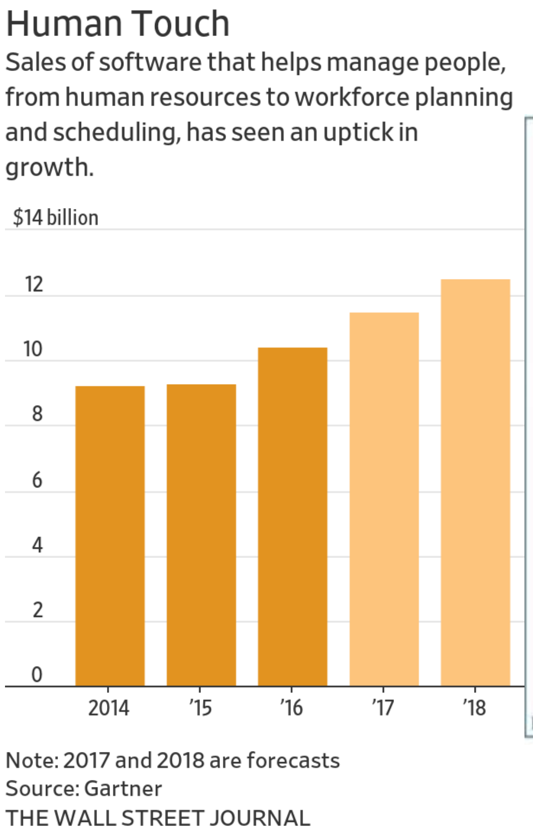
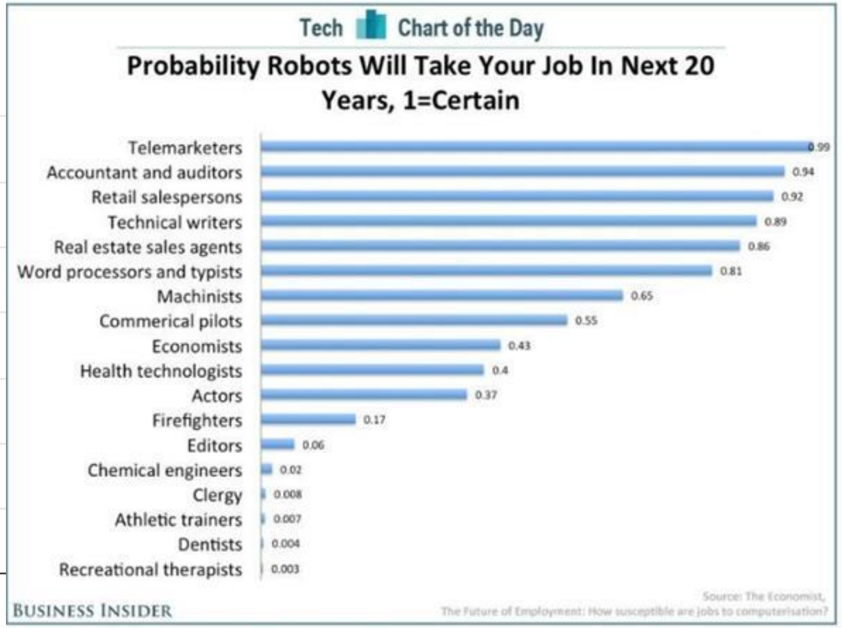
Automation, via robotics and artificial intelligence, is becoming ever more prevalent in society from robotic telemarketers and virtual receptionists to robotic manufacturing and mining.

Today software has proven itself more adept than humans in a variety of business tasks including scheduling, arranging travel, inspecting and general manufacturing. In the near future that list may expand to drivers, cashiers, waiters, food preparers and patient care providers.

As supply chains shorten, nationalism and trade barriers increase, it would stand to reason that jobs would increase, but automation is eliminating many more jobs than what these other advances are creating.

In 2016 Cambridge University Professors Frey and Osbourne estimated that about half of today's jobs will likely be automated within 10-20 years.





Many jobs performed by humans will be automated in the short to mid-term

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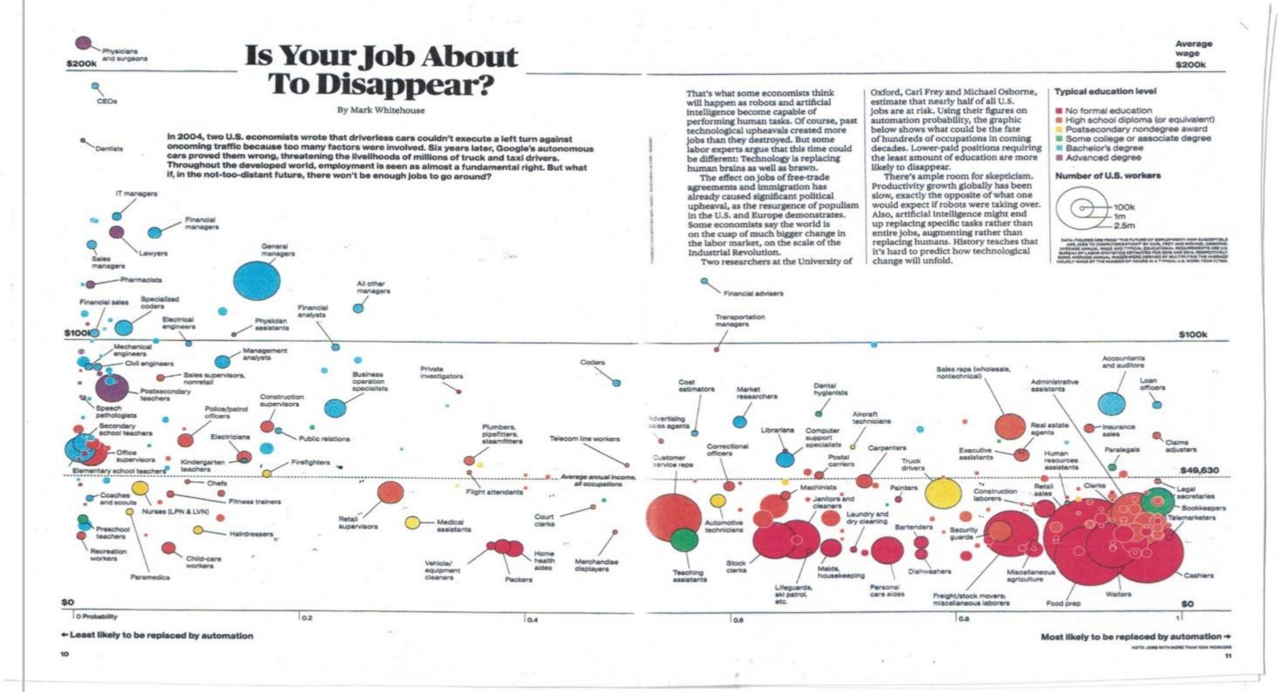
Automation, robotics and artificial intelligence will have profound effects on society going forward.

On one hand products and services will be delivered more quickly and accurately and produced more inexpensively, but on the other hand, unemployment and other societal costs will mount.

In an early reaction to the impact of automation some advanced economies like Switzerland have begun introducing the concept of universal income as a way to counteract increasing structural unemployment. Certain US Social Scientists have proposed taxing robots in much the same manner as current workers.

In any event, automation will have profound impacts upon economies, workers and society in general.



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Hundreds of Consumer brands have acquired by a dozen global companies that are now loosing market share

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Last year, 90% of the top 100 Brands lost market share. Why?

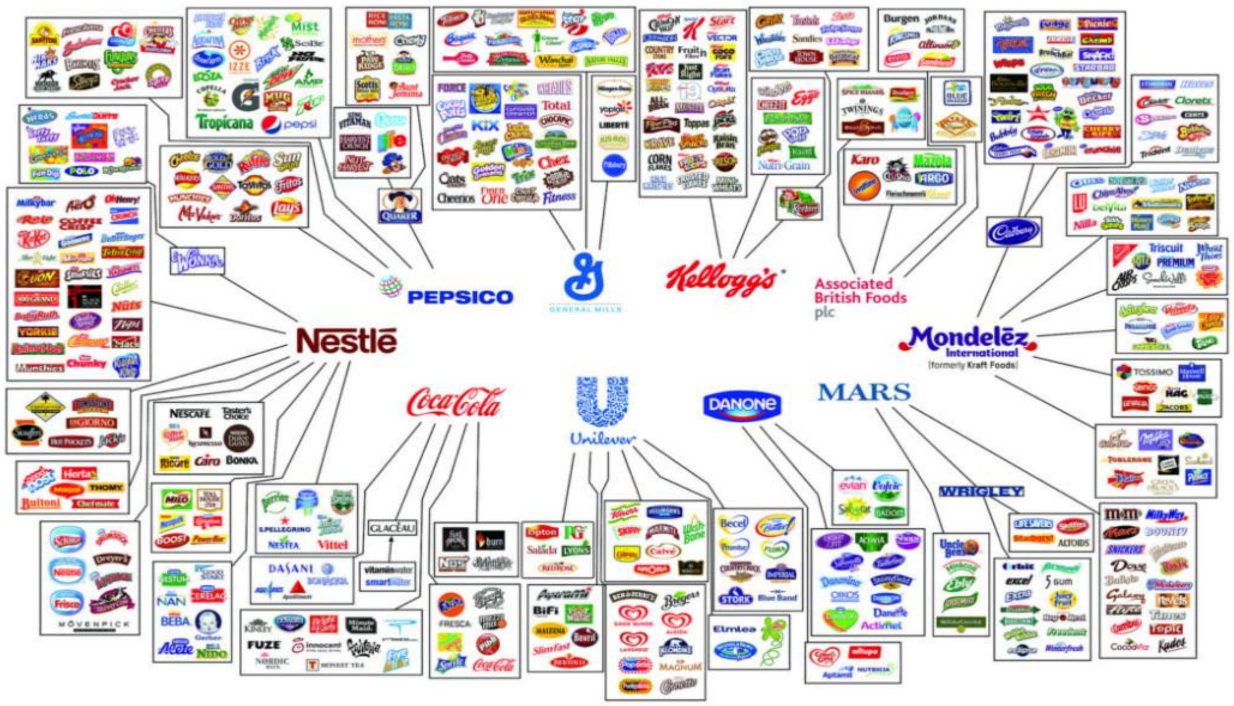
-Mergers and acquisitions eliminated the cultures that built the brands.

-Loss of trust: According to the Edelman Trust Barometer, in 1997 52% of consumers had a high level of trust in brands but by 2008 that level dropped to 22%.

-Self inflicted wounds: e.g. VW's Diesel Gate, Chipotle's E.coli, Equifax's data breach, Theranos' fake test results, Uber's collection of missteps, Wells Fargo Consumer Fraud, Subway's "Jared" and the 11 inch Footlong sandwich.

-The internet has reduced a brand's pricing power as branded, lesser-branded and unbranded goods can be easily compared and quickly procured.

-Fleet footed local competitors have exploited unique consumer niches that global brands are unable to address with standardized products.



THEMES – NATURAL AND MAN-MADE DISASTERS CAUSE SUPPLY CHAIN DISRUPTIONS

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The Increasing frequency of disasters may shorten and de-complex supply chains

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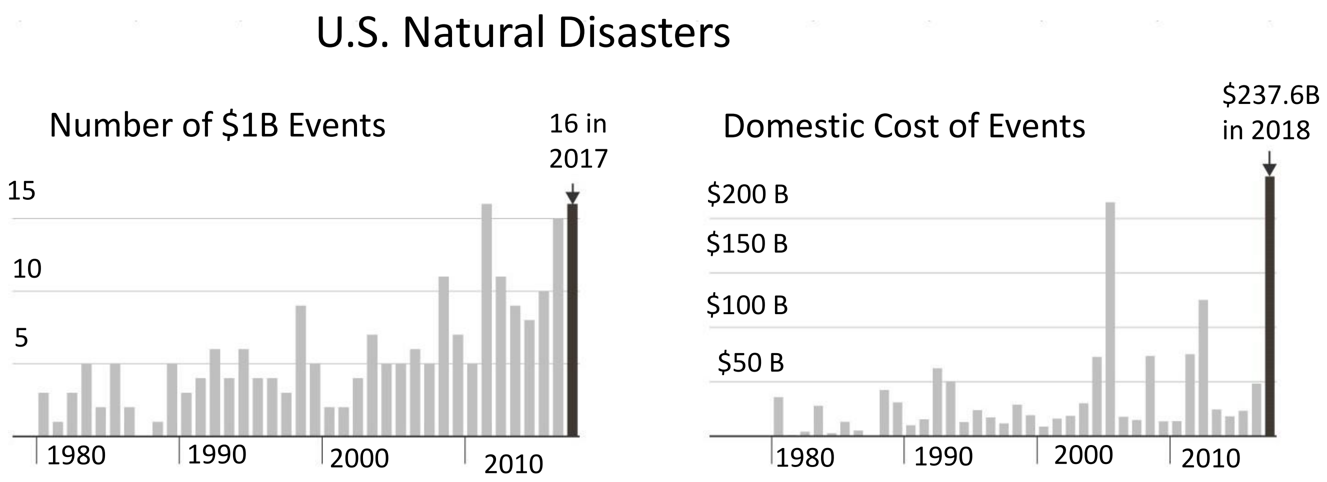
Two contradictory phenomena have been increasing at a rapid pace over the past quarter century: the number and scope of natural and man-made disasters and the length and complexity of global supply chains.

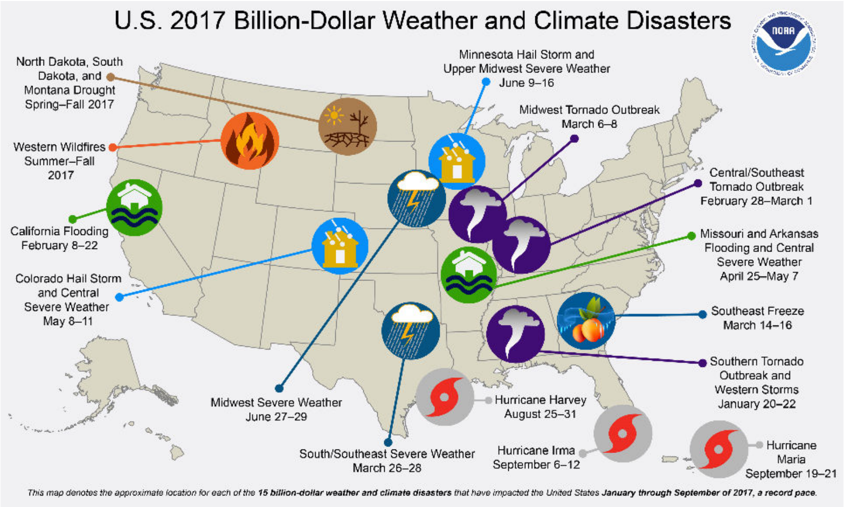
In 2016 Global Natural Disasters cost $175 Billion in Damages; in 2017 that figure nearly doubled to $306. Neither figure accounts for the costs of war, famine or pandemics.

Supply chains grew to take advantage of cheap labor, inexpensive basic materials and relatively low trade barriers, that easily overcame the costs of shipping, import taxes and supply chain disruptions.

However with automation, global production costs are leveling, nationalism is increasing, import taxes, and wars, weather and geological activity are causing expensive disruptions in supply chains.

The era of rapid globalization is probably over. Look for business models that efficiently source, produce and deliver for domestic and local markets.





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The following is an excerpt from a letter from the chief economist at Kiplenger

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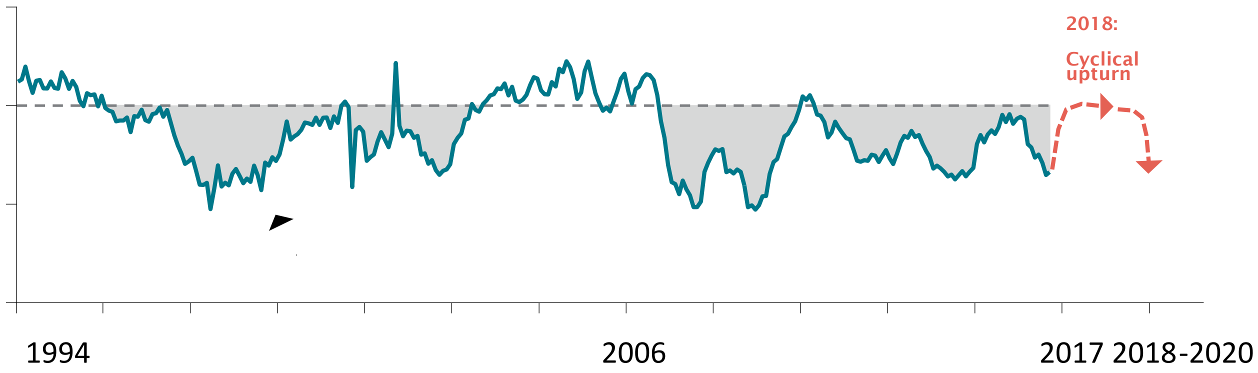
Inflation

Inflation will be 2.1% in 2018, about the same as in 2017, but the composition will be different. Energy prices rose 8% this year as rising crude oil prices spurred gasoline and fuel oil prices, and electricity and natural gas prices trended up. Look for less energy-price inflation in 2018, while other categories pick up the slack.

Non-energy prices will grow at a 2.1% rate, compared with 2017's 1.6%. As the economy grows, so does inflation. Housing will likely cost 3.5% more in 2018, compared with 2017's 3.1% growth. Medical care will go up 2.6% (versus 1.7%), and all other services will cost 2.6% more (versus 1.8%). The prices of food and other goods will likely rise at a rate similar to 2017's 1.5%. Wage Inflation has begun in tight labor markets and for skilled labor, with wage increases above the 2% national average in 2017, and will gradually spread across the US if unemployment dips below 4%.

U.S. inflation: Secularly low, but cyclically rising



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The following is an excerpt from Charles Schwab's 2018 Fixed Income Outlook

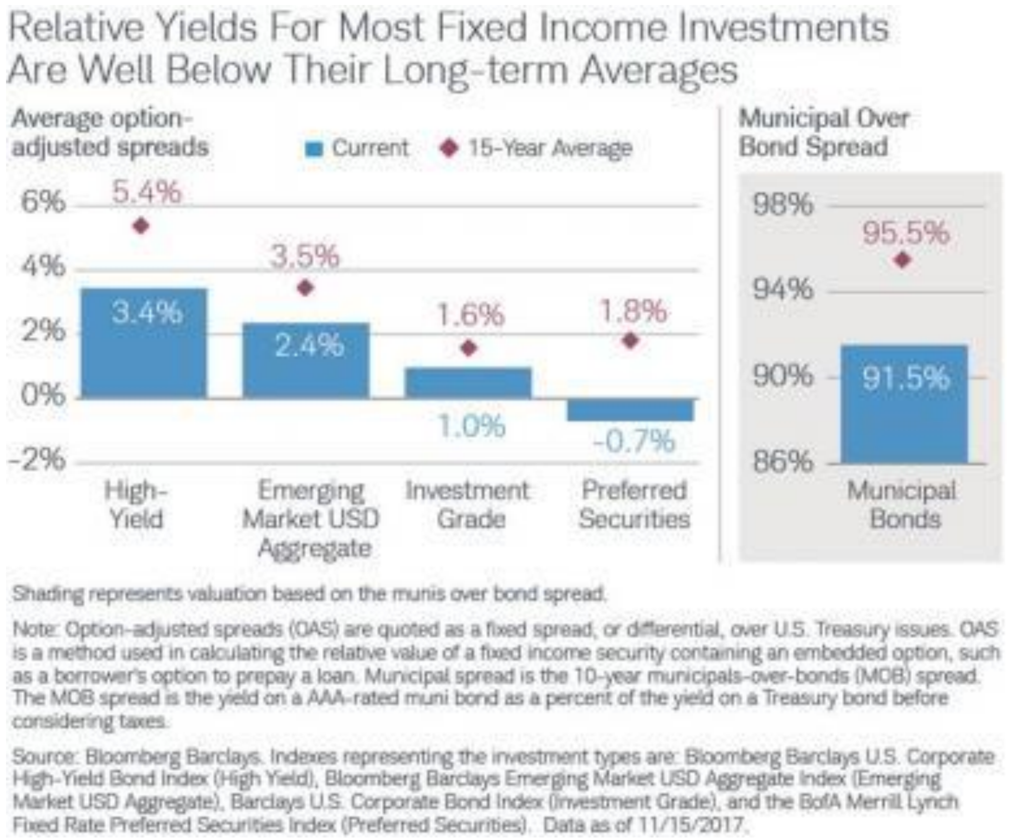
This chart is expandable in Ppt

KEY POINTS

Past the peak of central bank stimulus and led by the Federal Reserve, major central banks are poised to reduce the amount of monetary stimulus flowing to the global economy. Deflation fears are easing, with interest rates slowly moving out of negative territory in Europe and Japan, a trend we expect to continue in 2018.

Potential inflation surprise: Stronger economic growth, a tight labor market and the prospect of tax cuts could mean that inflation in the U.S. hits or exceeds the Federal Reserve's 2% target in 2018.

Markets appear complacent: With rates low, a flattening yield curve and tight credit spreads, fixed income markets aren't priced for higher inflation or volatility.



There is no assurance that Schwab's assumptions are correct or that markets will not be influenced by factors that were not contemplated when this letter was completed. Accordingly Winthrop Partners does endorse or represent that this or any other economic forecast is accurate.

The following is an excerpt from Charles Schwab's 2018 Fixed Income outlook

Central bank tightening may awaken bond bears

2018 could be the year that bond bears finally awaken from their long slumber, sending 10-year Treasury bond yields above the three-year high of 2.6%. Economic growth is picking up both globally and domestically and fiscal policy is becoming more expansive. Most importantly, the era of extremely easy money is coming to an end. The Federal Reserve is tightening monetary policy through rate hikes and balance sheet reduction. The European Central Bank (ECB) is planning to gradually reduce its bond buying program. Even the Bank of Japan (BOJ) is seeing some success with positive inflation while focusing on keeping 10-year bond yields at zero or above. As the easy-money era gradually recedes, we see more upside risk in yields than downside.

Bond markets are highly valued

Most segments of the fixed income markets appear expensive relative to long-term average valuations. Yields in the corporate and municipal bond markets are low compared to Treasury yields, providing little reward for added risk. With the economic outlook positive, we don't anticipate a major increase in yield spreads, but there simply isn't much room for further narrowing. Since risks rise as credit quality declines, we are most cautious about lower credit quality bonds—like high-yield corporate bonds. 2018 could be a year when the income generated by bonds is the major source of return rather than price appreciation.

With markets priced for ongoing moderate growth and low volatility, the risks we are monitoring include the potential for more central bank tightening than expected and the potential for fiscal stimulus from tax reform.

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Reviewing The historical relationship of major economies and their stage in the business cycle – Rare Synchronicity

This chart is expandable in Ppt

Winthrop Partners does not base its investment decisions on the perceived phase of the business cycle which is only accurately identified in retrospect, but given the exceptionally elongated current business cycle and the perceived impact upcoming fiscal tax and Fed policies can have on the business cycle, it is worth reviewing the historical impact the phases of the business cycle has had on the various sectors of the S&P.

SECTOR PEFORMANCE OVER BUSINESS CYCLE PHASE

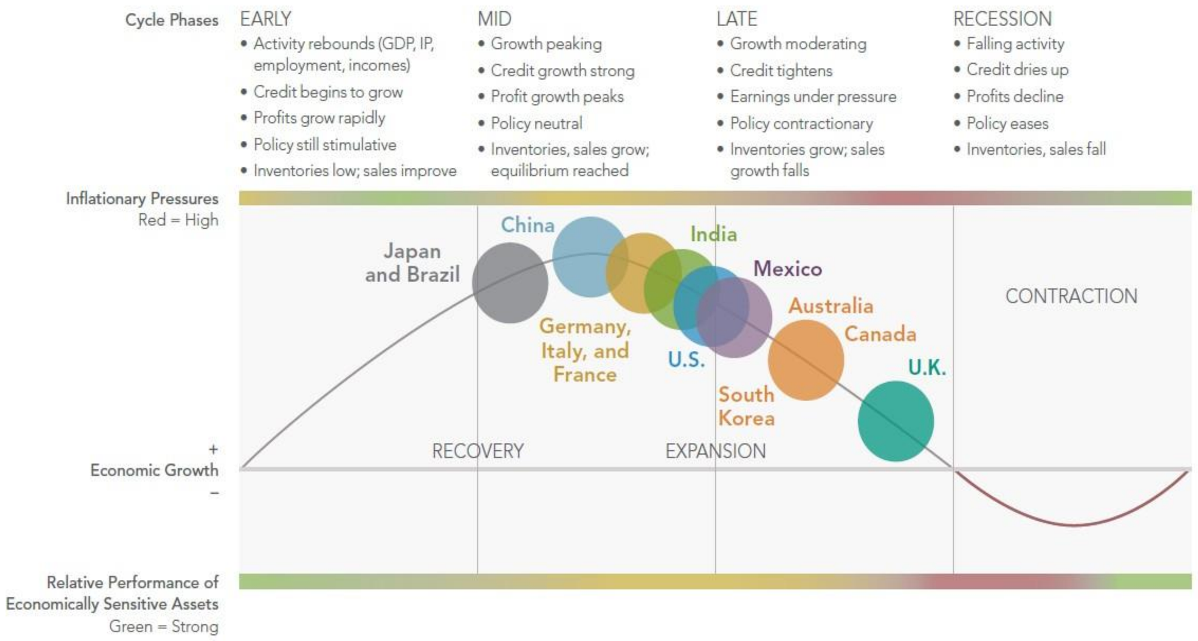
Sector	Early	Mid	Late	Recession
Consumer Discretionary	+ +		- -	
Consumer Staples	-		+	+ +
Energy	- -		+ +	
Financials	+			
Health Care	-		+ +	+ +
Industrials	+ +	+		-
Info Technology	+ +	+	- -	- -
Materials		- -	+ +	-
Real Estate	+ +			- -
Telecom	- -			+ +
Utilities	- -	-	+	+ +

++ Consistently Overperform
+ Overperform
No Clear Pattern
-- Consistently Underperform
− Underperform

Note: This analysis is sourced from Fidelity Investments and should be used in Historical context only. We do not affirm its prospective accuracy.

Source: Fidelity Investments

Fidelity Note: This is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Economically sensitive assets include stocks and high-yield corporate bonds, while less economically sensitive assets include Treasury bonds and cash.



Source: Fidelity Investments (AART)

MARKETS- INTERNATIONAL MARKETS P/E RATIOS 2004-2017 AND THE S&P SECTORS PERFOMANCE 2017

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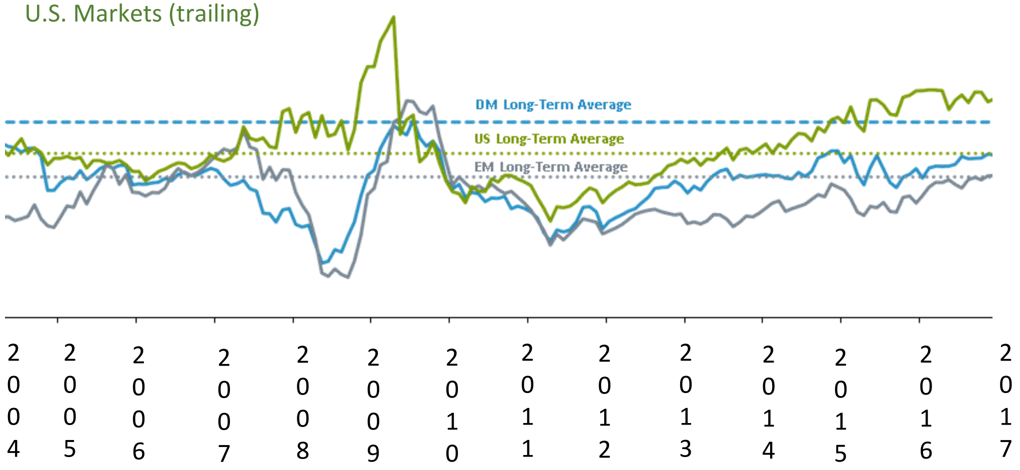
Non-U.S. Developed Markets and Emerging Markets
PE multiples look favorable compared to US valuations

International Markets PE Ratios
Developed Markets (trailing)
Emerging Markets (trailing)
U.S. Markets (trailing)

Source FactSet



The relative performance and market cap of the S&P sectors

This chart is expandable in Ppt

SECTOR AS OF 04:36 PM ET 12/29/2017	Market Cap 12/29/2017	1-Year % Change12/29/2017
Consumer Discretionary	**$5.51T**	**1 year % change+19.92%**
Consumer Staples	**$3.48T**	**1 year % change+10.38%**
Energy	**$3.70T**	**1 year % change-4.30%**
Financials	**$7.88T**	**1 year % change+19.43%**
Healthcare	**$4.91T**	**1 year % change+19.68%**
Industrials	**$4.26T**	**1 year % change+18.01%**
Information Technology	**$8.66T**	**1 year % change+35.51%**
Materials	**$2.27T**	**1 year % change+20.51%**
Real Estate	**$1.19T**	**1 year % change+9.07%**
Telecommunication Services	**$1.78T**	**1 year % change-6.05%**
Utilities	**$1.28T**	**1 year % change+9.18%**
S&P 500 ® Index	**$25.03T**	**18.83%**

The Periodic Table of Returns for Asset Classes 1992-9/30/17

This chart is expandable in Ppt

Third Quarter

Periodic Table of Returns

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*	Legend
18%	75%	17%	38%	35%	35%	35%	66%	32%	14%	26%	56%	32%	35%	35%	40%	5%	79%	28%	8%	20%	39%	28%	5%	21%	28%	Emerging-Market Stocks
17%	33%	8%	37%	23%	33%	29%	34%	26%	8%	10%	47%	26%	21%	33%	16%	-20%	58%	27%	8%	19%	34%	14%	3%	18%	21%	Foreign-Developed Country Stocks
15%	20%	3%	37%	23%	29%	21%	27%	12%	5%	4%	39%	21%	14%	27%	12%	-26%	37%	19%	4%	18%	33%	13%	1%	18%	20%	Growth Stocks
15%	19%	2%	30%	22%	24%	20%	24%	8%	2%	-2%	37%	18%	12%	22%	11%	-34%	32%	18%	4%	18%	32%	12%	1%	12%	14%	Large Cap Stocks
11%	19%	1%	28%	22%	22%	14%	21%	-1%	-2%	-6%	31%	17%	7%	18%	7%	-36%	28%	17%	2%	16%	23%	11%	1%	12%	11%	Small Cap Stocks
8%	17%	0%	20%	16%	20%	9%	21%	-3%	-4%	-9%	31%	11%	5%	16%	6%	-36%	27%	16%	2%	16%	19%	6%	0%	11%	10%	60% Large Cap 40% IG Bonds
8%	10%	-1%	18%	15%	13%	3%	12%	-5%	-4%	-15%	29%	11%	5%	12%	5%	-37%	26%	15%	0%	16%	7%	5%	-4%	9%	8%	Value Stocks
7%	10%	-2%	15%	11%	10%	-3%	7%	-9%	-12%	-16%	28%	9%	5%	11%	2%	-38%	20%	15%	-4%	15%	3%	3%	-4%	8%	7%	High-Yield Bonds
5%	10%	-2%	15%	6%	2%	-18%	3%	-14%	-20%	-20%	24%	8%	4%	9%	-1%	-38%	19%	12%	-12%	11%	-2%	-2%	-5%	7%	6%	REITs
4%	4%	-3%	12%	6%	-3%	-25%	-1%	-22%	-20%	-22%	19%	7%	3%	4%	-2%	-43%	18%	8%	-13%	4%	-2%	-4%	-15%	3%	3%	Investment-Grade Bonds
-12%	-1%	-7%	-5%	4%	-12%	-27%	-5%	-31%	-21%	-28%	4%	4%	2%	2%	-16%	-53%	6%	7%	-18%	-1%	-10%	-17%	-25%	2%	-4%	Commodities

S&P SECTOR PERFORMANCE 1/2/17 THROUGH 12/29/17

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This chart is expandable in Ppt

Sector	Last % Change 04:20 PM ET 12/29/2017	1 Day	5 Day	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year 12/29/2017
Utilities (.GSPU)	0.00%	0.00%	+0.44%	-6.02%	-0.71%	+8.32%	+9.18%	+8.19%	+52.59%	+22.65%
Telecommunication Services(.GSPL)	-0.91%	-0.91%	-0.23%	+9.52%	+2.46%	-5.97%	-6.05%	+6.65%	+15.01%	-2.98%
Real Estate (.GSPRE)	-0.09%	-0.09%	+2.01%	-1.12%	+2.42%	+7.17%	+9.07%	--	--	--
Materials (.GSPM)	-0.32%	-0.32%	+0.50%	+2.45%	+6.40%	+21.39%	+20.51%	+22.38%	+62.68%	+44.57%
Information Technology(.GSPT)	-0.61%	-0.61%	-1.11%	-1.66%	+9.46%	+36.91%	+35.51%	+56.08%	+143.64%	+165.60%
Industrials (.GSPI)	-0.29%	-0.29%	+0.21%	+4.25%	+5.83%	+18.54%	+18.01%	+29.17%	+97.64%	+78.66%
Health Care (.GSPA)	-0.73%	-0.73%	-0.72%	+0.49%	+1.64%	+20.00%	+19.68%	+19.39%	+109.08%	+131.35%
Financials (.GSPF)	-0.70%	-0.70%	-0.78%	+4.21%	+8.48%	+20.03%	+19.43%	+37.81%	+112.60%	+19.13%
Energy (.GSPE)	-0.39%	-0.39%	+0.41%	+6.92%	+5.22%	-3.80%	-4.30%	-10.08%	+2.18%	-12.67%
Consumer Staples (.GSPS)	-0.04%	-0.04%	+0.19%	+3.26%	+5.65%	+10.46%	+10.38%	+15.24%	+64.61%	+94.06%
Consumer Discretionary(.GSPD)	-0.66%	-0.66%	-0.55%	+3.19%	+9.86%	+21.23%	+19.92%	+37.03%	+113.02%	+201.79%
S&P 500 ® Index (.SPX)	-0.52%	-0.52%	-0.41%	+1.77%	+6.52%	+19.42%	+18.83%	+28.00%	+90.64%	+80.83%

SECTOR - CONSUMER STAPLES

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	8
TRADE	6
JUDICIAL & REGULATORY	2
AUTOMATION	7
BRAND EROSION	9
DISASTERS & SUPPLY CHAIN	5
INFLATION	3
Sector S&P Weight: 8.22%	1= Low Impact 10= High Impact

Consumer Staples: companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be less sensitive to economic cycles.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	-2%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	1%
RETURN ON EQUITY	25%
FREE CASH FLOW MARGIN	5%

Consumer Staples

Brand Erosion is hitting this sector the hardest as the large companies have seen their market share decline for the past 5 years with nimble local competitors taking market share.

Lower domestic taxes and the 15.5% tax rate for repatriation of earnings held abroad should produce a 10% increase in earnings.

Consumer staples firms tend to be Multinational with 60% of earnings generated from abroad, so destabilized trading patterns caused by a trade war would have a negative impact on the sector.

Multinationals have held a significant edge on client data over smaller competitors, but smaller competitors' application of rented cloud based artificial Intelligence ("AI") is significantly narrowing the gap.

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Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	7
TRADE	8
JUDICIAL & REGULATORY	8
AUTOMATION	8
BRAND EROSION	8
DISASTERS & SUPPLY CHAIN	7
INFLATION	8
Sector S&P Weight: 11.08%	1= Low Impact 10= High Impact

Consumer Discretionary: companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, travel and sporting goods; these businesses tend to be the most sensitive to economic cycles.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	0.5%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	6%
RETURN ON EQUITY	24%
FREE CASH FLOW MARGIN	5%

Consumer Discretionary

Domestic consumer discretionary manufacturers should be well positioned for 2018 as they reap the benefits of lower taxes, reduced regulation, a benign inflation environment and high level process improvements brought on by improved robotics and Artificial Intelligence.

The sector will face the headwinds of continued brand erosion, the shift in consumers toward purchasing "experiences" rather than goods and will be vulnerable to supply disruption as well as trade conflicts.

Discretionary services will benefit as experiential opportunities like travel purchases overtake tangible goods purchases. Travel services will benefit by using AI and fully integrating with social media and smart phones.

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Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	8
TRADE	5
JUDICIAL & REGULATORY	9
AUTOMATION	8
BRAND EROSION	3
DISASTERS & SUPPLY CHAIN	8
INFLATION	6
Sector S&P Weight: 5.85%	1= Low Impact 10= High Impact

Energy: companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	-4%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	-4%
RETURN ON EQUITY	0.7%
FREE CASH FLOW MARGIN	1%

ENERGY

Many experts believe that Oil will remain in the $50-55 a barrel range as fracking, IA and other technologies increase the known supply of fossil fuels and decrease the cost of extraction. Renewables continue to increase their market share as more production comes on line and technology enhances output. AI is also substantially improving the distribution, usage and the ability of power regulators to predict usage, further putting pressure on fossil fuel prices.

Reduced regulation will be a boon to the industry as will a reduction in judicial intervention and lower taxes. Because most of America's petroleum industry is in the Gulf of Mexico and other coastal areas rising sea levels and large storms will tax the already exposed supply chains.

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	10
TRADE	8
JUDICIAL & REGULATORY	9
AUTOMATION	9
BRAND EROSION	4
DISASTERS & SUPPLY CHAIN	5
INFLATION	9
Sector S&P Weight: 15.15%	1= Low Impact 10= High Impact

Financials: companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	0.5%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	n/a
RETURN ON EQUITY	5%
FREE CASH FLOW MARGIN	n/a

Financials

Financial firms will be aided by four factors in 2018: Decreased regulation (the peel back of Dodd Frank), reduced taxes, an increase in short term rates and the increased use of AI (the industry could jettison as many as 200,000 highly skilled jobs by 2025). Mid Tier banks are now excepted from the Fed's stress test and for the Big Banks the stress test hurdles, particularly the subjective ones, have been decreased. The CEO of Morgan Stanley predicts a 15% increase in earnings which is in line with analyst views for most banks

Insurance companies which have been struggling with low investment rates, higher losses and stagnant rate environments might finally see profit improvements as upstart Fintech competitors' portfolios age and investment returns increase.

SECTOR - HEATHCARE

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	2
TRADE	2
JUDICIAL & REGULATORY	7
AUTOMATION	9
BRAND EROSION	7
DISASTERS & SUPPLY CHAIN	2
INFLATION	1
Sector S&P Weight: 14.3%	1= Low Impact 10= High Impact

Health Care: companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	35
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	2%
RETURN ON EQUITY	18%
FREE CASH FLOW MARGIN	8%

Health Care

Health Care continues to be under the gun and it will increasingly look to technology to improve patient outcomes, reduce primary and surgical costs and efficiently reach patients.

AI will be a large factor in sorting out which practices produce favorable outcomes. AI combined with drug discovery and gene sequencing technologies will drive the individualized treatments for a variety of diseases. Less invasive, and more standards-based surgery will be performed robotically and telemedicine and interconnected teleclinics and surgery centers will become more prevalent in 2018.

The judiciary may begin to reign in malpractice suits although this will likely be a long term trend.

SECTOR - INDUSTRIALS

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	9
TRADE	9
JUDICIAL & REGULATORY	8
AUTOMATION	9
BRAND EROSION	1
DISASTERS & SUPPLY CHAIN	7
INFLATION	6
Sector S&P Weight: 12.21%	1= Low Impact 10= High Impact

Industrials: companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	-3%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	-1%
RETURN ON EQUITY	22%
FREE CASH FLOW MARGIN	5%

INDUSTRIALS

Industrials will have many tail winds that should help propel companies in this sector during 2018. Tax reductions will have a significant impact on Industrials particularly Mid and Small Cap Industrials more focused on the domestic markets. For those who trade outside the US, the weaker Dollar should provide a boost, but any looming trade conflicts could pose a problem. A reduced regulatory environment should also be a benefit. Wage and raw material inflation could be a drag on the sector in 2018 as could supply chain disruptions. Industrial companies tend to maintain the longest supply chains.

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Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	9
TRADE	9
JUDICIAL & REGULATORY	8
AUTOMATION	9
BRAND EROSION	3
DISASTERS & SUPPLY CHAIN	3
INFLATION	2
Sector S&P Weight: 21.43%	1= Low Impact 10= High Impact

Information Technology: companies in technology software and services and technology hardware and equipment.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	7%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	5%
RETURN ON EQUITY	20%
FREE CASH FLOW MARGIN	20%

Information Technology (“IT”)

As a sector, IT has booked more offshore profits than any other and the one-time 15.5% repatriation tax provision will allow these companies to increase dividends and share buybacks and perhaps even re-invest. Because of their worldwide market, a weakened Dollar will also benefit them. They will continue to lead the automation disruption impacting all sectors including their own. There is increasing concern that there may be a European political “Techlash” against the Googles, Facebooks, Amazons, and Ubers who some governments believe have a monopolist status and their behavior undermines democracy, suppresses competition and destroys jobs. At the very least these companies will incur increased regulatory scrutiny, increased fines and tougher interpretation of competitive rules

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	8
TRADE	4
JUDICIAL & REGULATORY	9
AUTOMATION	9
BRAND EROSION	1
DISASTERS & SUPPLY CHAIN	7
INFLATION	5
Sector S&P Weight: 2.77%	1= Low Impact 10= High Impact

Materials: companies that are engaged in a wide range of commodity-related manufacturing and agribusiness.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	10%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	-0.1%
RETURN ON EQUITY	15%
FREE CASH FLOW MARGIN	5%

Materials

The change in the regulatory environment is the largest investment theme to impact the miners, extractors, processors and agribusinesses that comprise the sector. Under the previous administration, many tough new rules were enacted that negatively impacted the sector participant's operating flexibility and profitability and now selectively some of the rules are being relaxed and/or lifted.

Automation, particularly the increase in use of robots for processing and autonomous mobility for mining and farming, will positively impact profitability as will lower taxes.

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	5
TRADE	1
JUDICIAL & REGULATORY	5
AUTOMATION	3
BRAND EROSION	3
DISASTERS & SUPPLY CHAIN	3
INFLATION	5
Sector S&P Weight: 2.2%	1= Low Impact 10= High Impact

Real Estate: companies operating as real estate investment trusts and in real estate management and development.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	15%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	n/a
RETURN ON EQUITY	4%
FREE CASH FLOW MARGIN	n/a

Real Estate

Of all the sectors the investment themes will likely have the slightest impact on is the Real Estate sector. Large portions of the industry are owned by REITS which are pass through entities. The impacts to these entities will be positive but relatively small (Changes to the treatment of pass-through entities, interest deductions, partnership terminations, and expensing all provide benefits to REITs. A range of credits and deductions already in use have also been preserved). Relaxed environmental laws should benefit developers. Construction has not been impacted by automation, yet the Internet of Things is becoming an increasingly important factor in how buildings are managed and their costs contained. If inflation increases, REITS tend to suffer as their long term contracts lag.

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Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	8
TRADE	3
JUDICIAL & REGULATORY	9
AUTOMATION	9
BRAND EROSION	8
DISASTERS & SUPPLY CHAIN	7
INFLATION	7
Sector S&P Weight: 3.65%	1= Low Impact 10= High Impact

Telecommunication Services: companies that provide communications services primarily through fixed-line, cellular, wireless, high bandwidth, and/or fiber-optic cable networks.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	-20%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	-5%
RETURN ON EQUITY	19%
FREE CASH FLOW MARGIN	5%

Telecommunications

Deregulation, in the form of Net Neutrality (net neutrality essentially means all data will be treated and transported equally regardless of origin or quantity) should be a long-term benefit for the Telecoms (ATT&T, Verizon. Etc.) who will be able to charge large consumers of bandwidth like Netflix a higher fee to deliver Netflix's services.

Telecoms are also large purchasers of capital equipment so the new tax depreciation rules should provide them with a larger tax shield. Cord cutting (dropping cable services) and price wars on mobile services will continue to erode carriers' revenue base and the uninsured impact of natural disasters will also be expensive.

Major investment themes impact on sectors

THEME	IMPACT ON SECTOR
TAXES	10
TRADE	1
JUDICIAL & REGULATORY	9
AUTOMATION	8
BRAND EROSION	2
DISASTERS & SUPPLY CHAIN	8
INFLATION	7
Sector S&P Weight: 3.19%	1= Low Impact 10= High Impact

Utilities: companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

SECTOR FINANCIAL PERFORMACE (Last 12 Months)	%
EARNINGS PER SHARE GROWTH	19%
EARNINGS BEFORE INTEREST TAXES DEPRECIATION AMORTIZATION GROWTH	8%
RETURN ON EQUITY	7%
FREE CASH FLOW MARGIN	-1%

Utilities

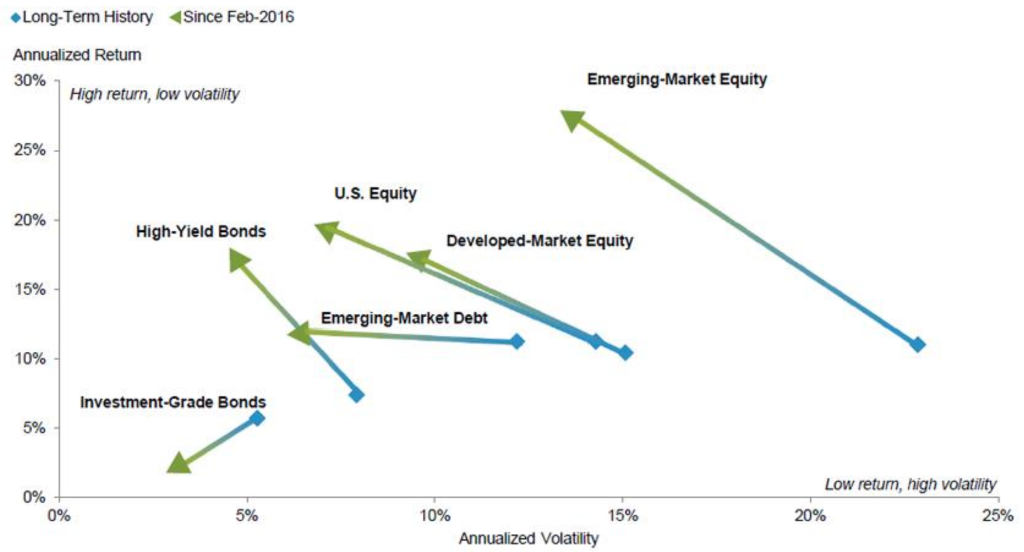
From a historical tax standpoint, utilities have had nowhere to run or hide over the years. The reduction in tax rates and the more favorable depreciation schedules should be good for all but the most indebted of the utilities (there is a cap on interest deductions). Loosening regulation across-the-board should also help the bottom line, but don't expect coal to make a comeback as most utilities converted to gas during the previous administration. Utilities like telecoms and industrials have a heighted sensitivity to natural disasters.

Utilities and REITS can sometimes be considered bond substitutes and like bonds they react badly to increased inflation which appears to be in check-for now.

MARKET FORECAST FOR 2018

This chart is expandable in Ppt

JPMorgan: Trend of market performance (Annualized: Return vs Volatility



Major investment houses projections for the S&P and 10 year Treasuries in 2018

Institutional Forecast	2018 Increase in S&P 500	UST 10 Year yeild by 3Q 2018
Credit Suisse	13.0%	2.95%
Wells Fargo	2.0%	2.95%
Morgan Stanley	1.0%	3.30%
JP Morgan	5.5%	3.00%
CitiBank	6.0%	3.10%
Vanguard	4-6%	
Goldman Sachs		3.10%
UBS	10.0%	
Deutche Bank	11.0%	
BMO	12.0%	2.75%
Pimco		2.75%
Average	6.5%	2.99%

MARKET FORECASTS FOR 2018

WINTHROP PARTNERS
Wealth Planning & Investment Management

Goldman Sachs and JP Morgan's Market Outlook for 2018

This chart is expandable in Ppt

Market Views

We prefer equity over credit, and credit over rates as we think the expansion has yet to fully mature. We prefer EM relative to DM.

Moderate but positive returns in equities. Equities remain our preferred asset class. After the run-up this year and given the potholes that need to be navigated, we expect only moderate, but positive returns supported by the continuing expansion and earnings strength. Within DM, we prefer Europe and Japan, where relative valuations are supportive and leverage to the global cycle and the rebound in global investment spending is greater than in the US. Globally, we prefer EM equities relative to DM.

Bearish on government bonds. We believe the market is underpricing the pace of future Fed rate hikes and think the softness in US inflation data this year is temporary. More broadly, the risk of more US fiscal expansion, discussions about the potential for the Fed to adopt a higher inflation target in the future and the risks around the slowdown in global QE flows all suggest the need for a higher risk premium in government bonds.

Turning point in credit approaching. We think current levels of spreads are roughly justified by the macro environment and corporate fundamentals (Page 7). From here, we expect bouts of volatility and favor a dynamic approach to manage that. We think it is too early to position for the turn in spreads for the cycle, but we are approaching that point and are more likely than not to reach it in 2018.

Oil prices bounded by OPEC cuts and shale supply. We think the willingness of OPEC to cut supply will provide a floor for oil prices at around $40/barrel and the ample supply of shale will provide a ceiling at around $60/barrel. We also expect the broader commodity market to generally be range-bound. This makes commodities a key area for a more dynamic approach to allocation.

US dollar, EM currency to outperform. After underperforming in 2017, we expect the US dollar to outperform as interest rate differentials should increasingly favor the US. Should it occur, we would sell into such strength, since the power of rate differentials is likely to eventually fade as other central banks get closer to the exit. EM currencies should continue to benefit from the global growth backdrop and low inflation, though the path is likely to be more volatile.

Source: GSAM. As of November 2017.

		Compound Return 2018 (%)	Arithmetic Return 2018 (%)	Annualized Volatility	Compound Return 2017 (%)	Inflation	U.S. Cash	U.S. Intermediate Treasuries	U.S. Long Treasuries	TIPS	U.S. Aggregate Bonds	U.S. Short Duration Government/Credit	U.S. Long Duration Government/Credit	U.S. Inv Grade Corporate Bonds	U.S. Long Corporate Bonds	U.S. High Yield Bonds	U.S. Leveraged Loans	World Government Bonds hedged	World Government Bonds	World ex-U.S. Government Bonds hedged	World ex-U.S. Government Bonds	Emerging Markets Sovereign Debt	Emerging Markets Local Currency Debt	Emerging Markets Corporate Bonds
FIXED INCOME	Inflation	2.25	2.26	1.25	2.25	1.00																		
	U.S. Cash	2.00	2.00	0.50	2.00	0.08	1.00																	
	U.S. Intermediate Treasuries	3.00	3.07	3.75	2.25	-0.17	0.23	1.00																
	U.S. Long Treasuries	2.50	3.28	12.75	2.00	-0.23	0.04	0.78	1.00															
	TIPS	2.75	2.90	5.50	3.50	0.07	0.07	0.65	0.51	1.00														
	U.S. Aggregate Bonds	3.25	3.32	3.75	3.00	-0.12	0.10	0.81	0.78	0.78	1.00													
	U.S. Short Duration Government/Credit	3.50	3.52	2.00	3.25	-0.09	0.41	0.76	0.41	0.67	0.74	1.00												
	U.S. Long Duration Government/Credit	3.25	3.68	9.50	3.25	-0.17	0.00	0.68	0.89	0.64	0.91	0.50	1.00											
	U.S. Inv Grade Corporate Bonds	3.50	3.67	6.00	3.25	-0.12	-0.04	0.41	0.46	0.64	0.82	0.60	0.79	1.00										
	U.S. Long Corporate Bonds	3.75	4.23	10.00	3.75	-0.16	-0.06	0.39	0.58	0.57	0.81	0.47	0.88	0.96	1.00									
	U.S. High Yield Bonds	5.25	5.59	8.50	5.75	0.12	-0.10	-0.26	-0.27	0.31	0.19	0.15	0.12	0.57	0.47	1.00								
	U.S. Leveraged Loans	5.00	5.28	7.75	5.00	0.32	-0.14	-0.50	-0.46	0.06	-0.07	-0.10	-0.10	0.33	0.24	0.80	1.00							
	World Government Bonds hedged	2.50	2.54	3.00	1.75	-0.26	0.10	0.83	0.85	0.52	0.81	0.58	0.80	0.52	0.56	-0.19	-0.42	1.00						
	World Government Bonds	2.50	2.71	6.50	2.00	-0.01	0.13	0.66	0.48	0.66	0.71	0.68	0.59	0.58	0.54	0.17	-0.14	0.58	1.00					
	World ex-U.S. Government Bonds hedged	2.25	2.29	3.00	1.75	-0.27	0.07	0.71	0.75	0.43	0.72	0.50	0.72	0.50	0.54	-0.14	-0.36	0.97	0.51	1.00				
	World ex-U.S. Government Bonds	2.25	2.56	8.00	2.00	0.02	0.11	0.56	0.37	0.61	0.62	0.62	0.50	0.55	0.50	0.24	-0.07	0.48	0.99	0.42	1.00			
	Emerging Markets Sovereign Debt	5.25	5.70	9.75	5.50	0.00	-0.02	0.22	0.16	0.58	0.60	0.46	0.50	0.76	0.68	0.72	0.40	0.28	0.55	0.29	0.57	1.00		
	Emerging Markets Local Currency Debt	6.25	6.94	12.25	6.50	0.12	0.12	0.15	0.02	0.46	0.41	0.41	0.31	0.56	0.48	0.61	0.30	0.14	0.59	0.13	0.63	0.82	1.00	
	Emerging Markets Corporate Bonds	5.25	5.57	8.25	5.50	0.05	-0.06	0.10	0.02	0.50	0.51	0.45	0.40	0.78	0.67	0.75	0.54	0.13	0.43	0.14	0.46	0.89	0.73	1.00
	U.S. Muni 1-15 Yr Blend	2.50	2.55	3.25	2.50	-0.06	0.03	0.46	0.47	0.52	0.66	0.45	0.57	0.58	0.53	0.26	0.10	0.52	0.43	0.49	0.38	0.51	0.27	0.39
	U.S. Muni High Yield	4.50	4.73	7.00	4.25	0.21	-0.12	0.00	0.06	0.31	0.30	0.08	0.27	0.41	0.34	0.43	0.54	0.11	0.10	0.13	0.11	0.43	0.23	0.39
EQUITIES	U.S. Large Cap	5.50	6.41	14.00	6.25	0.05	-0.06	-0.31	-0.35	0.06	0.00	-0.04	-0.03	0.27	0.23	0.69	0.55	-0.24	0.14	-0.18	0.21	0.52	0.59	0.55
	U.S. Mid Cap	5.75	6.93	16.00	6.75	0.07	-0.08	-0.34	-0.35	0.07	-0.01	-0.05	-0.04	0.29	0.24	0.74	0.59	-0.26	0.10	-0.20	0.17	0.52	0.58	0.56
	U.S. Small Cap	5.75	7.35	18.75	7.00	0.04	-0.08	-0.37	-0.38	-0.02	-0.10	-0.12	-0.11	0.18	0.15	0.65	0.51	-0.29	0.03	-0.23	0.10	0.42	0.51	0.46
	U.S. Large Cap Value	5.75	6.75	14.75	6.25	0.04	-0.07	-0.32	-0.35	0.02	-0.02	-0.05	-0.04	0.26	0.22	0.68	0.53	-0.23	0.13	-0.17	0.20	0.50	0.59	0.54
	U.S. Large Cap Growth	5.25	6.19	14.25	6.25	0.07	-0.06	-0.32	-0.36	0.09	0.00	-0.04	-0.04	0.28	0.22	0.71	0.58	-0.26	0.12	-0.20	0.20	0.52	0.57	0.55
	Euro area Large Cap	6.75	8.91	22.00	7.25	0.04	0.03	-0.21	-0.30	0.14	0.09	0.12	0.02	0.36	0.29	0.69	0.50	-0.19	0.32	-0.15	0.39	0.61	0.70	0.61
	Japanese Equity	6.25	7.25	14.75	5.75	0.02	-0.09	-0.25	-0.21	0.12	0.08	0.05	0.09	0.38	0.34	0.60	0.46	-0.18	0.17	-0.14	0.23	0.49	0.57	0.55
	Hong Kong Equity	6.50	8.39	20.50	7.50	-0.01	0.08	-0.18	-0.24	0.17	0.14	0.15	0.10	0.44	0.38	0.64	0.50	-0.15	0.23	-0.12	0.29	0.61	0.68	0.65
	UK Large Cap	6.25	7.61	17.25	7.50	0.09	-0.01	-0.30	-0.36	0.12	0.05	0.05	0.00	0.38	0.31	0.73	0.63	-0.26	0.25	-0.20	0.33	0.60	0.66	0.64
	EAFE Equity hedged	6.25	7.12	13.75	6.50	0.00	-0.04	-0.40	-0.35	-0.03	-0.03	-0.08	-0.02	0.31	0.27	0.69	0.61	-0.26	-0.03	-0.18	0.03	0.52	0.54	0.57
	EAFE Equity	6.25	7.61	17.25	6.75	0.05	0.00	-0.24	-0.30	0.16	0.10	0.11	0.06	0.42	0.35	0.74	0.56	-0.20	0.31	-0.16	0.39	0.65	0.74	0.67
	Emerging Markets Equity	8.00	10.04	21.50	9.25	0.08	0.08	-0.19	-0.26	0.25	0.14	0.18	0.08	0.44	0.36	0.73	0.55	-0.17	0.32	-0.14	0.39	0.68	0.81	0.69
	AC Asia ex-Japan Equity	8.25	10.20	21.00	9.25	0.01	0.06	-0.18	-0.22	0.24	0.16	0.18	0.11	0.46	0.39	0.72	0.53	-0.13	0.30	-0.10	0.36	0.66	0.76	0.68
	AC World Equity	6.00	7.10	15.50	6.75	0.06	-0.02	-0.28	-0.34	0.14	0.06	0.06	0.02	0.38	0.31	0.76	0.59	-0.23	0.25	-0.18	0.33	0.63	0.72	0.66
	Global Convertible hedged	5.00	5.45	9.75	-	0.03	-0.04	-0.33	-0.34	0.14	0.09	0.07	0.03	0.45	0.36	0.82	0.67	-0.23	0.12	-0.16	0.19	0.64	0.62	0.71
	Global Credit Sensitive Convertible hedged	4.25	4.44	6.25	-	0.14	-0.07	-0.12	-0.19	-0.01	-0.01	-0.03	0.01	0.19	0.18	0.28	0.33	-0.10	0.08	-0.06	0.12	0.19	0.23	0.28
ALTERNATIVES	Private Equity	7.25	9.21	21.00	8.00	0.06	-0.03	-0.25	-0.30	0.10	0.04	0.03	0.00	0.30	0.25	0.65	0.51	-0.20	0.19	-0.16	0.25	0.51	0.57	0.53
	U.S. Direct Real Estate	5.25	5.79	10.75	5.50	-0.01	-0.02	-0.04	-0.05	0.04	0.05	0.00	0.04	0.11	0.10	0.23	0.14	0.00	0.08	0.01	0.10	0.19	0.22	0.15
	U.S. Value Added Real Estate	6.50	7.37	13.75	7.00	-0.01	-0.03	-0.05	-0.06	0.04	0.05	0.00	0.03	0.11	0.10	0.25	0.15	-0.01	0.09	0.01	0.10	0.20	0.23	0.16
	European Direct Real Estate	5.75	6.72	14.50	6.25	-0.03	-0.01	-0.21	-0.19	-0.08	-0.08	-0.10	-0.08	0.05	0.03	0.28	0.25	-0.16	-0.08	-0.13	-0.06	0.17	0.18	0.17
	Asia Core Real Estate	5.50	6.07	11.00	5.50	-0.01	0.05	-0.14	-0.15	-0.02	-0.06	-0.05	-0.06	0.04	0.03	0.23	0.16	-0.12	0.05	-0.10	0.08	0.14	0.25	0.10
	U.S. REITs	6.25	7.42	16.00	6.00	-0.05	-0.07	-0.02	0.00	0.21	0.27	0.09	0.25	0.44	0.42	0.62	0.36	0.10	0.29	0.13	0.32	0.56	0.59	0.47
	Global Infrastructure	6.25	6.89	11.75	6.25	0.10	-0.01	-0.10	-0.11	0.03	0.00	-0.02	-0.01	0.08	0.06	0.22	0.19	-0.08	0.05	-0.06	0.07	0.16	0.19	0.16
	Infrastructure Debt	4.25	4.41	5.75	4.25	-0.05	-0.04	0.44	0.51	0.67	0.81	0.57	0.78	0.92	0.88	0.47	0.32	0.54	0.49	0.51	0.45	0.65	0.39	0.67
	Diversified Hedge Funds	4.25	4.52	7.50	3.50	0.19	0.08	-0.41	-0.40	0.06	-0.10	-0.07	-0.10	0.22	0.16	0.60	0.65	-0.35	-0.04	-0.29	0.02	0.36	0.39	0.44
	Event Driven Hedge Funds	4.75	5.13	9.00	4.75	0.23	-0.02	-0.46	-0.50	0.05	-0.11	-0.06	-0.15	0.27	0.19	0.77	0.76	-0.41	0.02	-0.35	0.11	0.47	0.52	0.58
	Long Bias Hedge Funds	4.75	5.27	10.50	4.50	0.14	-0.01	-0.41	-0.47	0.08	-0.08	-0.01	-0.12	0.30	0.21	0.75	0.67	-0.38	0.10	-0.32	0.19	0.53	0.62	0.61
	Relative Value Hedge Funds	4.50	4.73	7.00	4.25	0.26	-0.02	-0.40	-0.42	0.16	0.01	0.03	-0.04	0.40	0.30	0.84	0.85	-0.34	0.01	-0.28	0.09	0.55	0.54	0.64
	Macro Hedge Funds	3.75	4.02	7.50	4.00	-0.10	0.18	0.12	0.10	0.26	0.20	0.27	0.19	0.27	0.24	0.17	0.06	0.18	0.31	0.20	0.31	0.23	0.31	0.20
	Direct Lending	7.00	7.46	10.00	6.75	-0.04	-0.07	0.29	0.33	0.61	0.74	0.53	0.70	0.97	0.91	0.68	0.47	0.40	0.49	0.39	0.48	0.77	0.57	0.81
	Commodities	3.75	5.06	16.75	3.75	0.26	0.08	-0.11	-0.27	0.27	0.05	0.18	-0.02	0.24	0.17	0.46	0.37	-0.24	0.35	-0.25	0.41	0.39	0.54	0.43
	Gold	4.00	5.58	18.50	4.00	0.04	0.08	0.37	0.24	0.50	0.42	0.41	0.32	0.37	0.30	0.11	-0.08	0.25	0.53	0.19	0.52	0.35	0.40	0.33