Our view of 2018

Increasingly Optimistic

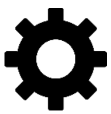
Wage growth remains in our top spot for 2018, similar to our 2017 stance. As the labor market further matures and as the supply for skilled labor dwindles lower, hourly earnings may see further upside pressure. The possibility of reduced immigration policies from Washington may further pressure wages marginally higher.

The risk of recession remains low, in our opinion, as the trend in consumer and small business sentiment may further support aggregate earnings in 2018. A maturing labor market, as well as a shrinking underemployment rate, may also help.

We believe oil prices are likely to remain stable in 2018, which may allow energy companies to further consolidate and restructure. Although this does not mean we're optimistic of higher demand relative to the supply influx, it does mean the economy, as a whole, may benefit from low oil price volatility. Earnings results for energy companies in 2017 pointed to renewed growth.

The surge in housing demand throughout 2017 took the industry, and investors, by surprise. Supply issues were evident. Both existing and new home sales remain viable for growth in 2018 amidst a low interest rate backdrop and a notable re-entry into the market by millennials. Interest rate adjustments by the Federal Reserve are likely to be ambiguous to demand over the next 12 months.

Neutral



Tax and healthcare policies from Washington remain highly questionable given the noise surrounding the White House. It's possible that bipartisanship efforts prevail but that may occur at the expense of a shattered Congress and a frustrated public.

Private payrolls have posted a historic pace of net new jobs over the past five years. Although still a crucial component of the economy, we believe a normalization period may be beginning where job creation averages closer to 150,000 jobs/month relative to the previous 200,000 average. This should not be viewed as a negative given the current maturity of the labor market.

We remain neutral on global equity markets in 2018 with a slight bias to international exposure, albeit the risk for dollar strength remains. The realized spread in the U.S. between value and growth oriented equities in 2017 may spur valuation concerns across specific sectors (mainly that of technology) while valuations and trends across international markets, such as in Europe, remain attractive, as do certain emerging markets. Fiscal and monetary policy guidance appears slightly more favorable abroad although the risk of political populism is of concern. Given the risks tied to fixed income markets, global equities may post appropriate risk/reward ratios throughout the year. This does not mean that downside risk is eliminated.

Risk & Uncertainty

The inflationary landscape may be further amplified depending on fiscal policy outcomes, all of which remain highly disputed. Even if wage growth does prove positive, trends throughout 2017 did not convince us that the Fed's 2% inflation target can be maintained, although sporadic readings above 2-2.5% remain likely in 2018. Interest rate movements, and overall monetary policy guidance tied to balance sheet deleveraging, remain ambiguous with a strong possibility of undue uncertainty. Risks remain high within investment grade fixed income allocations.

The notable dollar downside in 2017 proved beneficial for U.S. investors holding international exposure. Such downside has historically witnessed a mild reversal to the upside, which may pose a risk. Dollar strength may be further inflated from lack of promised domestic protectionism policies in Washington.

The on-going debate concerning U.S. global trade agreements, as well as the potential threats with North Korea, may cause undue uncertainty in 2018. Without a glaring economic catalyst for equity market downside, geopolitics may prove to be the reason. We remain cautious on any developments.

December 2017