

Dear Investor,

Enclosed please find our Market & Economic Update for May 2017.

We were encouraged to see the market hit new highs this week driven mostly by better-than-expected earnings. At last count, with over 85% of the S&P 500 companies reporting, earnings are up over 13.5%. This earnings momentum has translated into a 7% gain for stocks which puts us well on the way to our 2017 target of 12%. We should see some back and fill over the next two months, and when the summer doldrums hit volume and price movement may be muted until the Q2 earnings report.

Geopolitical risk has subsided in the last month with positive developments in both Chinese and Russian relations. Our “budding up” to China appears to be creating the best rapport we’ve seen in a decade, although that could be fleeting if trade and South China Sea tensions heat up or North Korea makes a move. A meeting last week between Russian and US officials seemed like progress in the face of frosty relations, and cooperation over Syria now seems possible. Based on recent aggressive rhetoric out of DC, Iran may become the next hotspot to focus on.

From a positioning perspective, we continue to favor US Equities & Emerging Markets. Within the US Equity space, we have increased our exposure to technology significantly over the last nine months, and our Emerging Markets allocation remains at 50% of total international exposure.

As mentioned in previous updates, Chinese leverage and US consumer debt are the two main risk factors we continue to pay attention to. In addition to auto, student loan, and credit card debt, margin debt has now moved to historic levels while, concurrently the Chinese are trying to tackle a shadow banking debt load that exceeds \$6 trillion dollars, or over half of their GDP.

I’m hopeful that everybody is enjoying the improving weather. The offer is always open to discuss topics in our market update. I can be reached by phone at (804) 774-2087 or by email at jesse.ellington@bankatunion.com.



Jesse T. Ellington III
Chief Investment Officer
Union Bank & Trust
3900 Westerre Pkwy, Ste 201
Richmond, Va 23233
T 804.774.2087
C 843.412.1420
F 804.967.8821
jesse.ellington@bankatunion.com