

Dear Investor,

After a great start to the year, since May 15<sup>th</sup> the market has gone sideways. While the summer doldrums is not a true historic market phenomenon, it appears we are living it. Much of the gain this year has been driven by strong first quarter earnings and continued expectation for policy reform out of DC. Corporate America has delivered and we expect to build upon that in Q2 with improved earnings. Congress and the executive branch, on the other hand, seem bogged down by healthcare (ACA) repeal-and-replace, which supposedly has broad voter appeal but will have little impact in driving stock prices higher. We need to keep in mind that healthcare stocks hit all-time highs on the back of ACA over the last five years. It is tax reform that has the market waiting with baited breath. Strong earnings can help us maintain this current relative high valuation, but we need that extra tax break kick to push us to new highs.

From a sector perspective we continue to favor Financials, Industrials, and Technology. This sector weighting is partly driven by our market cycle analysis, which puts us firmly in the late-mid to early-late period. It is also bottom-up driven, based on tax reform, which will be most beneficial to banks and late-cycle technology investment to help drive productivity. We remain negative on yield-oriented investments, such as Telecom and Utilities, on the assumption that rate increases will continue. Please call or email me with any questions.



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