

Dear Investor,

Please see our attached Market and Economic Update for November. As the year winds to a close, we are encouraged by the first back-to-back quarters of 3+ percent GDP growth since 2014. While the seesaw economy may be ending, we still see cross-currents that could either stimulate or handicap continued growth. Consumer sentiment is hitting 16 year highs on the back of a record stock market and very low unemployment, yet manufacturing and housing still seem to be sputtering. Third quarter earnings were strong with about 74% of S&P 500 companies beating earnings expectations. In addition, about 66% of companies beat sales expectations, which is the highest we have seen in four years. Unfortunately, the market seems to be pricing in this good news with a forward PE of 18 versus a ten year average of 14.1.

Where do we go from here? If tax reform passes before year end the market could hit new highs, and we may get there anyway based on pure market euphoria. While we remain constructive on the market backdrop overall, we will get worried if PE multiples rise above 20 without a commensurate increase in earnings expectations. We will keep an eye on the Fed as they raise interest rates at the December meeting and then plot another expected three increases in 2018. From a portfolio construction perspective, we still favor equities over bonds, and within the equity sector technology and financials should outperform over the next six months. Our investment team will be gathering in early December to set our overall 2018 outlook and we look forward to sharing our Asset Allocation course changes with you. Please call me directly with any questions at 804-774-2087 or email me at jesse.ellington@bankatunion.com.



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