

Dear Investor,

As 2017 winds to a close we want to wish you all a Happy Holiday season. It has been an impressive year in the markets across the board, and the Santa rally should continue unabated with tax reform passing as I write this note and most economies around the world gaining significant momentum. We remain relatively optimistic looking towards 2018 and probably the only caveat to that positive feeling is that most everybody on the street feels the same way. Hedge fund exposure to equities is at an all-time high, the VIX is at an all-time low, mutual fund cash positions are at lows and margin debt is at highs. It's a coiled spring with the herd all pushing in the same direction which can work sometimes, but makes for very painful reversals. The market has not had a 5% correction in over 18 months, which is also an all-time record.

So with that in mind we enter 2018 cautiously optimistic, but we have also initiated our bubble watch, which is included in our 2018 Outlook. Given the speed with which the markets move these days and also recent market history (1998 to 2017 – already two bubbles 2000 & 2007 tech and real estate), we believe that asset bubbles are going to be a permanent fixture in the economic cycle. We believe we are on the path towards a third bubble in the last 20 years which will probably not burst for another 2 to 5 years, the symptoms and triggers of which are outlined in our report.

Within this dynamic, asset allocation and portfolio construction are critical in order to capture a significant amount of the upside while also preparing for the inevitable busting bubble. This will be our focus as we move into 2018 and beyond.

Please see our 2018 Outlook and our Economic and Market updates for December and call or email me with any questions or concerns.



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