MONTHLY UPDATE AND COMMENTARY
JANUARY 2018

Dear Investor,

This year has started off as strongly as we expected and it bodes well for the balance of the year. In fact, the S&P 500 has traded up two percent in the first five days of trading on 16 occasions in the past 50 years, and in every one of those cases, the index finished up for the year with an average return of 18%. Digging into those 16 years a little further, it is also a fact that the market had a significant correction during 14 of those years. With that in mind, we are sticking with our forecast of an 8 percent return this year in equities even as 1/3 of that return has been realized in the first eight trading days of 2018.

Turning to fixed income, we still expect three to four Fed raises this year which will negatively impact bond returns, but these actions should not significantly dampen our rosy economic forecast. Housing may soften with rising mortgage rates, but in general we think the process will be well managed by the Fed.

As mentioned in previous updates, we are spending a significant amount of research effort on understanding disruption and innovation and how it affects our large cap dividend growth holdings. Within the disruption space, we have also identified investment opportunities that should add significant Alpha to our portfolios. By disruption, we mean companies in the areas of biotech, artificial intelligence, machine learning, robotics, self-driving vehicles, and innovative direct business to consumer models. A recent addition to our asset allocation is an investment in a robotics ETF, which is the one area of disruption that is already seeing significant adoption and profitability. According to multiple sources, robots could replace 200 to 400 million jobs in the next 15 years.

From a risk perspective, we are most concerned about valuation and the market getting significantly ahead of itself. We are in the third stage of this bull market and earnings growth needs to keep up with forward PE multiples. We will be monitoring this situation closely and should get valuable insight as companies release 2018 guidance in their Q4 earnings reports over the next 45 days.

Please call or e-mail if you would like to discuss any of these comments.

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