

Dear Investor,

The U.S. stock and bond markets have entered a choppy phase in response to various important headwinds and tailwinds. One headwind that has been clearly telegraphed by the Federal Reserve is rising rates. The Fed is on track to raise the Federal Funds rate either three or four times this year, with the first increase coming on March 21st. The question that remains is how markets will react when the 10-year U.S. Treasury yield rises above the psychologically important 3% level. The other headwind, trade protectionism coming out of D.C., is more volatile and more difficult to handicap. The market had a steep two-day selloff after the resignation of Gary Cohn, who was the main opponent of tariffs within the administration, and then rallied back when there was talk of Canada and Mexico getting exemptions. We expect this seesaw to continue for the balance of the year, with a core assumption that it's more bark than bite. Should something material happen with regard to China then we think the markets could correct significantly.

On the tailwind side, we continue to be positive about corporate earnings and general business sentiment. The tax cuts will have a profound impact on Q1 and Q2 earnings as weak year-ago comparables will make 2018 numbers appear especially favorable. In addition, business and consumer confidence is at record levels which will drive consumption and investment.

Finally, we have recently published material about our "Bubble Watch". While our outlook for this year is positive, we are staying vigilant in monitoring the economic cycle closely. This expansion is now in its tenth year and this bull market is about to reach "record old age". This environment requires even more close scrutiny of the factors mentioned above, in addition to others.

As always, please let me know if you have any questions.



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