

Dear Investor,

The markets retested February lows and have slowly come back to life in the last two weeks. Much is riding on Q1 earnings growth, which has started off well so far. The expectations are for 18% S&P 500 EPS growth and the key question remains, is this priced into the market or not? Forward P/E's are hovering in the 16-17x range, so the simple answer would probably be yes. What we need to see is an earnings surprise on the upside, with growth north of 20%.

On the economic front, the story remains much the same. The bond market is laser-focused on the yield curve, which continues to flatten out as the Fed pushes on the short end. Most pundits are not expecting an inversion for at least 12 to 24 months, which suggests a recession is not yet on the horizon.

Given this backdrop, the great rotation from stocks to bonds has not hit its stride. Growth still seems to be outpacing value within individual equities, although we are starting to see signs of a shift. From an asset allocation perspective, we still think small cap will outperform large cap, and short duration is the best place to camp out on the curve from a risk/return point of view. Within equities, we still favor technology and are sticking with financials even though they have hit a rough patch of late. Energy stocks have been perking up as well, so we are exploring opportunities in that space.

Overall, 2018 should be the "show me" year. This late in an expansion, companies will have to deliver exceptional results to drive appreciation in their stock price. Those that fail will be punished severely, and we should see significant dispersion in returns which favors active management...finally!

Please contact me with any questions.



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