



TRADE WARS

During the first quarter of 2018 the Trump administration levied substantial tariffs on a number of imported goods (solar cells, steel and aluminum) and also proposed restrictions on technology transfers and foreign acquisitions. These steps have been identified as a means to combat an increasingly large Chinese-US trade deficit and to pressure China to improve its enforcement of global intellectual property rights. Market volatility spiked on the announcement with the expectation that China would take retaliatory steps, and the potential for a trade war to ensue. As expected, China countered with a matching \$50B tariff on imported US goods (soybeans, cars and airplanes). The US has since proposed additional tariffs on a broad range of Chinese goods and the risk of a full-blown trade war has intensified. So, what are the potential ramifications of higher tariffs on domestic and global economic growth?

The utilization of tariffs and other trade restrictions are generally referred to as protectionism or protectionist policy. Under classic economic theory, the thought goes that free trade results in a more efficient utilization of global resources and ultimately higher global economic growth and standards of living. The theory of comparative advantage roughly states that each country should focus on the production of products in which it is efficient at producing and then trade for products where they are less efficient. Classic theory implies that all trading partners benefit from trading, and the aggregate standard of living of all partners is expected to increase as a result of free trade. However, these benefits are not spread equally across all countries, industries or workers. Herein lies the seed of protectionist policy.

In 2017, the US trade deficit with China was \$370B. A function of exports to China totaling \$130B vs. imports from China of \$500B. On a simplistic level, one could argue that the current imbalance results in China benefiting more from the trading relationship. The reality is infinitely more complex. The vast majority of US consumers benefit from purchasing lower cost imported goods. In contrast, for those individuals employed in domestic industries where production is less efficient, trading may result in the loss of employment and fewer domestic jobs. The current Trump administration campaigned on a promise to bring jobs back onshore to US workers, particularly those in manufacturing industries. This is clearly one objective of the recent tariffs. The other stated objective is to address what is cited as extensive intellectual property theft. More specifically, the current administration wants China to stop pressuring American companies to share technology to gain access to the Chinese market, forcing US firms to license their technology in China on unfavorable terms, and help limit the hacking of US companies' trade secrets.

Based on classic economic theory, we can make several general observations on the impact of higher tariffs. Increased tariffs push up costs (inflationary) and push down growth (lower GDP) for all trade partners. This points to a backdrop of slower global growth, higher input costs and lower corporate earnings. At the same time the Fed continues to pursue tighter monetary policy (raising interest rates) aimed at easing inflationary pressures. The end result is domestic fiscal policy that is in direct conflict with monetary policy. Conflicting policies creates a high level of economic uncertainty, uncertainty leads to market volatility. It's no

wonder then that current market volatility has skyrocketed. The Chicago Board Options Exchange SPX Volatility Index (VIX) went from all-time lows of 9.14 in late 2017 to nearly 40.0 in the first quarter of 2018.

GLOBAL ECONOMIC LANDSCAPE

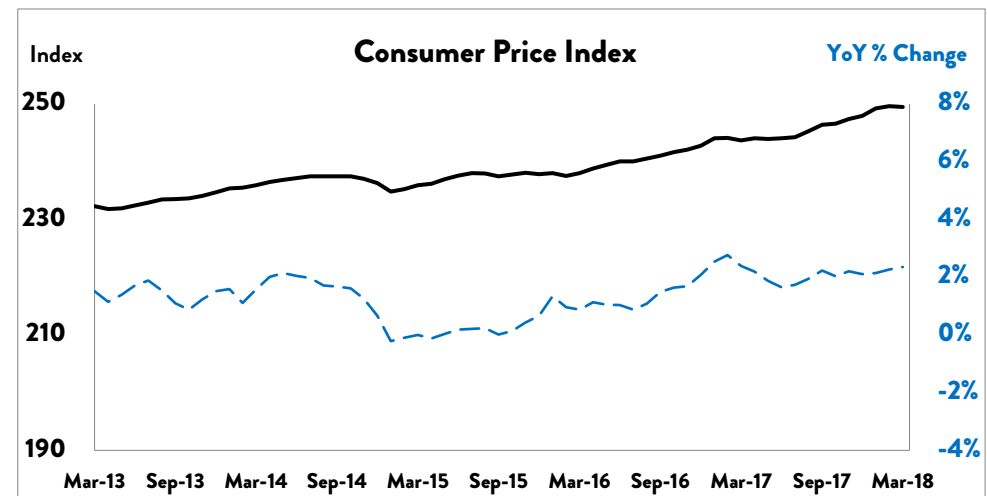
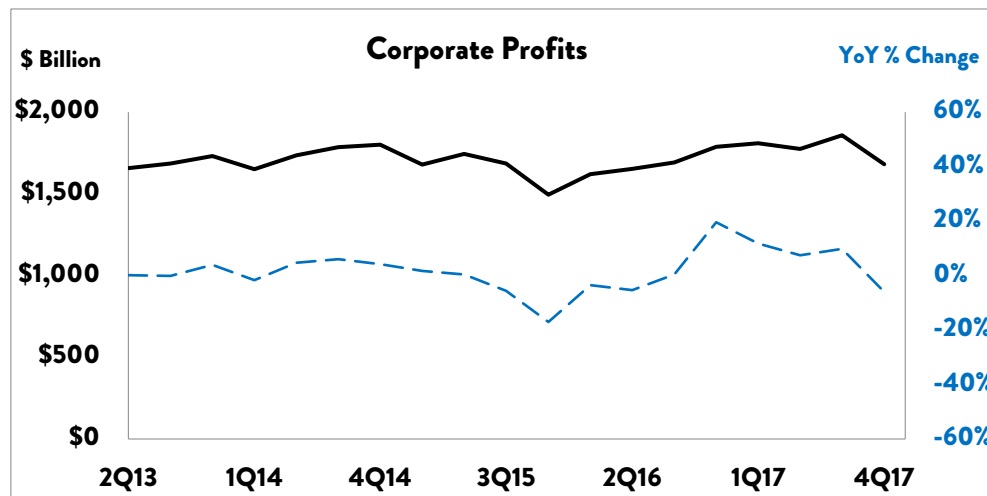
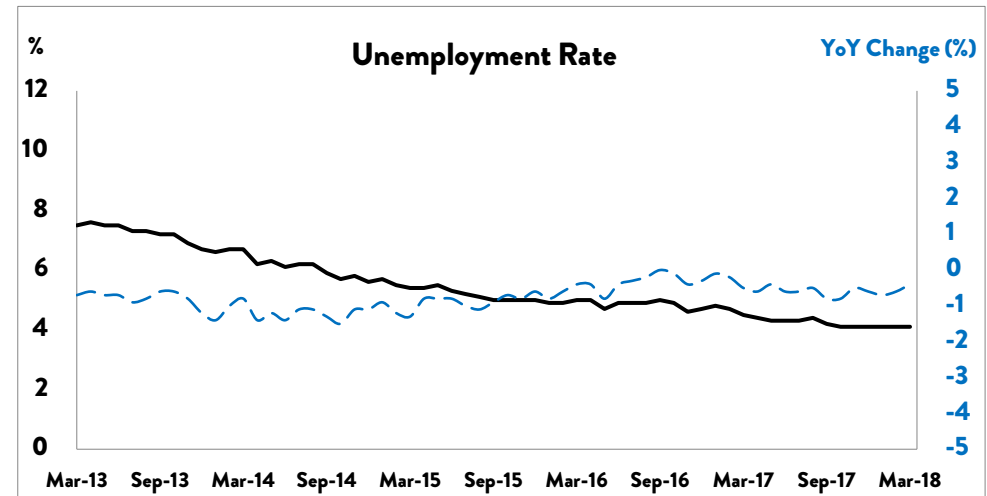
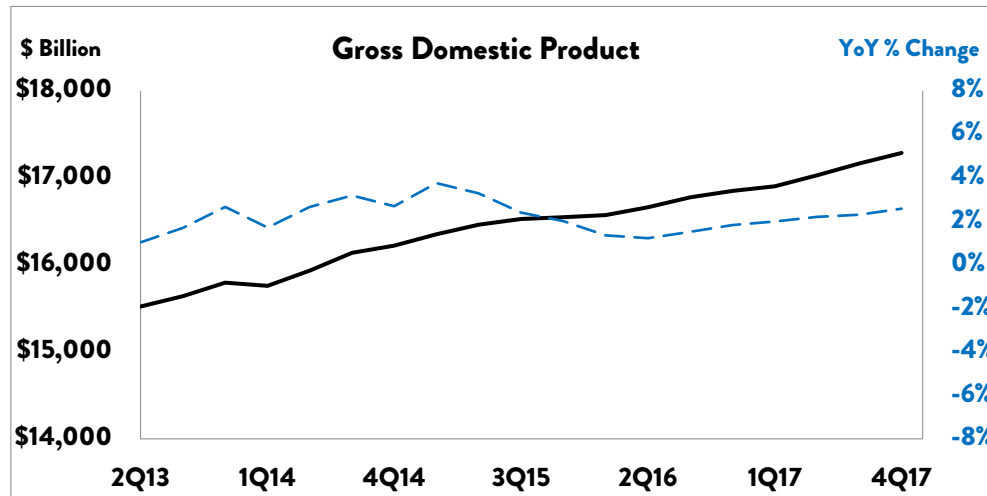
- Trade sanctions dominated global headlines in the first quarter of 2018. The US announced import tariffs of 25 percent on steel and 10 percent on aluminum. Initial US sanctions included restrictions on investment and tariffs on steel and aluminum imports directed at China. The US announcement follows a recent investigation into tactics China has used to challenge America's technology advantage.
- The World Bank is forecasting global economic growth at 3.1 percent in 2018 after a much stronger-than-expected 2017. Growth in developed economies is forecast at 2.2 percent while developing economies are projected to grow at 4.5 percent.
- The Fed hiked short-term borrowing rates by 0.25 percent toward the end of the first quarter. Forecasts indicate policymakers are split on whether to tighten two or three more times in 2018. Forecasts also indicate the Fed expects inflation to rise above their 2 percent target next year, after more than five years below target.
- It is estimated that 8.8M domestic jobs were lost in the great recession (2008-2010). Post the recession, 18.6M jobs have been created, pushing unemployment rates to near all-time lows of 4.1 percent. Despite the extensive job creation, wage growth remains well below historical averages.
- US corporate profit margins (S&P 500 Index) continued to show strength, ending the most recent quarter at 10.3%. This is the highest margin in over 20 years.
- Global growth continues to show improvement. Shifts away from accommodative global central bank policies and the possibility of a broad-based trade war pose significant risks to this upward trend.

GLOBAL FINANCIAL MARKETS

- Market volatility returned with a vengeance in 1Q2018. The Dow Jones Index racked up 41 triple digit trading days in the quarter, compared to 58 for all of 2017. The Russell 2000 Index, representative of small cap stocks, moved 1 percent or more in 33 percent of trading days this quarter versus only 18 percent in all of 2017.
- Domestic small cap stocks outperformed large cap stocks for the quarter. The Russell Microcap Index, representing the smallest of public companies, returned a positive 0.7 percent during the quarter, outpacing larger cap stocks. It is fairly unusual for small cap stocks to outperform large cap stocks in declining markets.
- Domestic stocks (as represented by the S&P 500 Index) currently trade at a forward price/earnings (P/E) multiple of 16.4x. This is nearly identical to the 25-year historical average indicating the market is fairly valued. International stocks (as represented by the ACWI ex-US) currently trade at 13.3x forward P/E vs. a historical average of 14.5x indicating stocks are moderately undervalued.
- Global currencies continued to strengthen relative to the US dollar this quarter. On a trailing 1-year basis the Euro has gained 15 percent vs. the US dollar while the Pound Sterling and Chinese Yuan have gained 12 percent and 10 percent respectively.

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1Q2018 Economic Data



Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	103,000	351,000	14,000	208,783	Mar-18
Unemployment Rate	4.1%	7.6%	4.1%	5.5%	Mar-18
Median Unemployment Length (Weeks)	10.2	20.0	7.6	12.3	Mar-18
Average Hourly Earnings	\$26.82	\$26.82	\$23.87	\$25.23	Mar-18

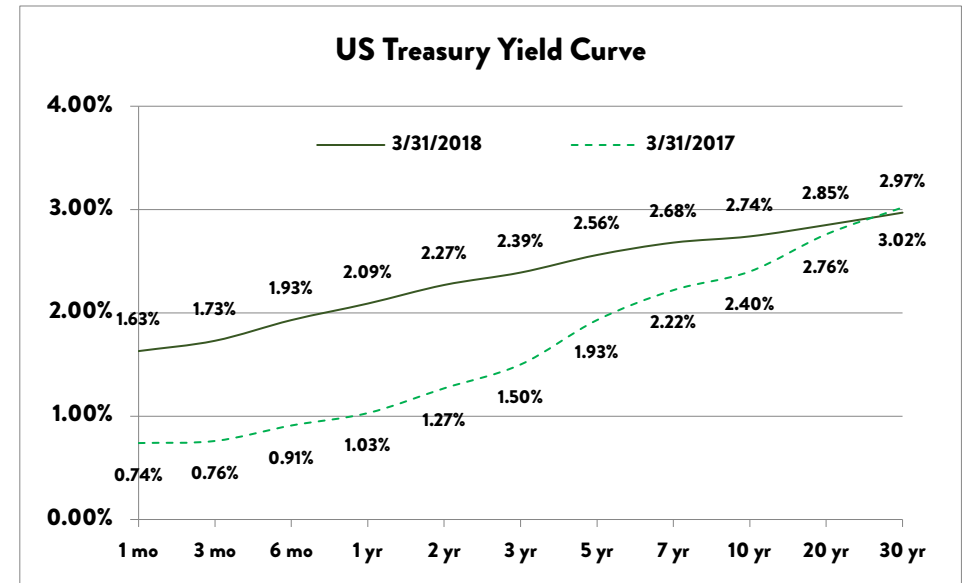
Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.61	\$3.70	\$1.79	-29.5%	Mar-18
Spot Oil	\$62.73	\$106.57	\$30.32	-41.1%	Mar-18
Case-Shiller Home Price Index	209.3	209.3	151.4	38.2%*	Feb-18
Medical Care CPI	482.9	482.9	422.3	14.3%*	Mar-18

Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

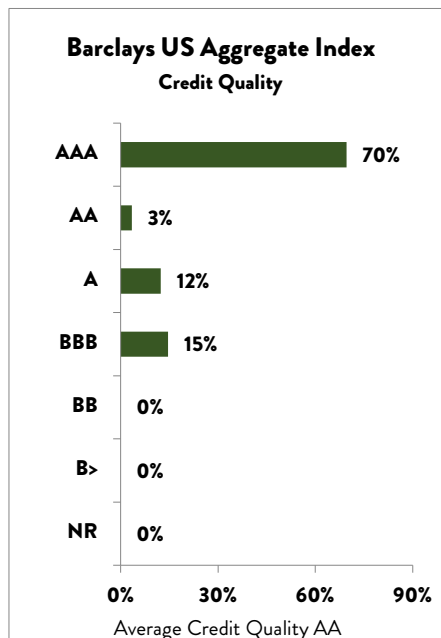
*% Off Low

1Q2018 Bond Market Data

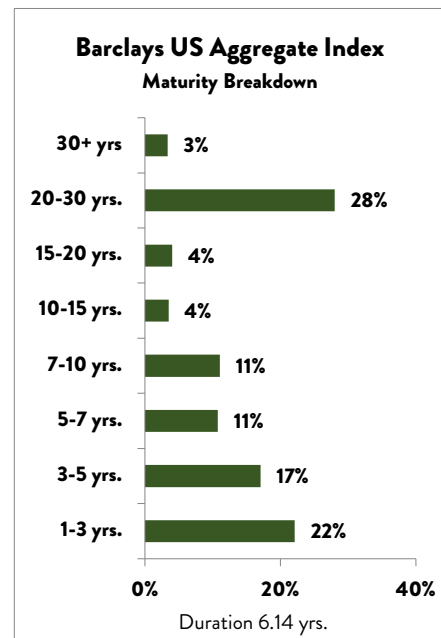
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.31%	0.31%	0.93%	0.43%	0.28%	0.31%
Barclays US Aggregate	-1.46%	-1.46%	1.20%	1.20%	1.82%	3.63%
Barclays Short US Treasury	0.32%	0.32%	1.02%	0.58%	0.39%	0.47%
Barclays Int. US Treasury	-0.75%	-0.75%	-0.16%	0.45%	0.73%	2.21%
Barclays Long US Treasury	-3.29%	-3.29%	3.51%	0.35%	3.29%	5.78%
Barclays US TIPS	-0.79%	-0.79%	0.92%	1.30%	0.05%	2.93%
Barclays US Credit	-2.13%	-2.13%	2.59%	2.16%	2.83%	5.15%
Barclays US Mortgage-Backed	-1.19%	-1.19%	0.77%	1.12%	1.80%	3.46%
Barclays US Asset-Backed	-0.39%	-0.39%	0.62%	1.18%	1.20%	3.12%
Barclays US 20-Yr Municipal	-1.52%	-1.52%	4.28%	3.05%	3.62%	5.49%
Barclays US High Yield	-0.86%	-0.86%	3.78%	5.17%	4.99%	8.27%
Barclays Global	1.36%	1.36%	6.97%	3.14%	1.49%	2.57%
Barclays International	3.62%	3.62%	11.75%	4.63%	1.23%	1.85%
Barclays Emerging Market	-1.48%	-1.48%	3.18%	5.05%	3.87%	6.83%



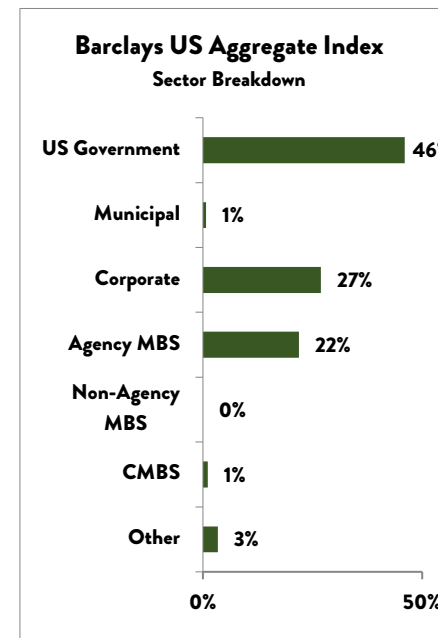
Source: Department of US Treasury



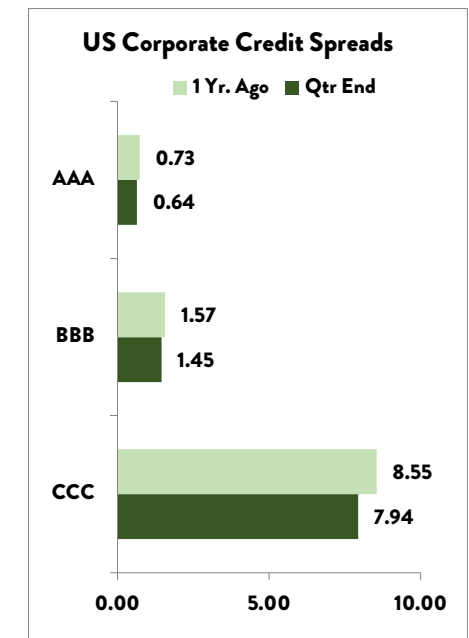
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

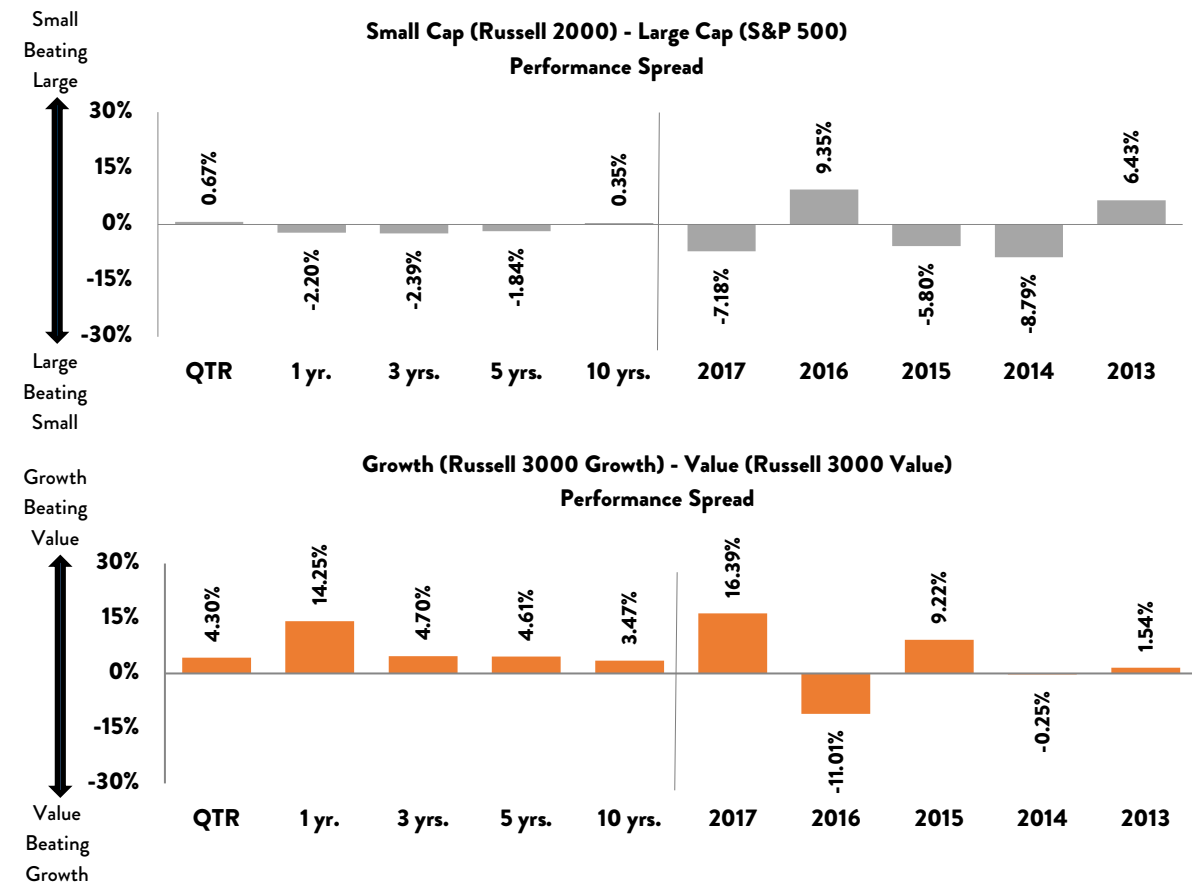
1Q2018 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

S&P 500 Index	Wgt.	Sector	QTR	YTD	1 Yr.
	25%	Information Technology	3.53%	3.53%	27.68%
	13%	Consumer Discretionary	3.09%	3.09%	16.91%
	15%	Financials	-0.95%	-0.95%	18.04%
	14%	Health Care	-1.22%	-1.22%	11.27%
	10%	Industrials	-1.56%	-1.56%	13.95%
	3%	Utilities	-3.30%	-3.30%	1.89%
	3%	Real Estate	-5.02%	-5.02%	1.69%
	3%	Materials	-5.52%	-5.52%	10.54%
	6%	Energy	-5.88%	-5.88%	-0.16%
S&P Midcap 400 Index	Wgt.	Sector	QTR	YTD	1 Yr.
	8%	Health Care	6.11%	6.11%	18.76%
	18%	Information Technology	4.04%	4.04%	21.26%
	18%	Financials	2.14%	2.14%	13.94%
	0%	Telecom Services	1.40%	1.40%	-30.18%
	16%	Industrials	-2.57%	-2.57%	16.46%
	3%	Consumer Staples	-3.43%	-3.43%	-2.50%
	5%	Utilities	-3.49%	-3.49%	1.47%
	12%	Consumer Discretionary	-3.52%	-3.52%	10.28%
	7%	Materials	-4.24%	-4.24%	7.82%
S&P Smallcap 600 Index	Wgt.	Sector	QTR	YTD	1 Yr.
	13%	Health Care	13.03%	13.03%	39.14%
	17%	Financials	2.00%	2.00%	12.12%
	16%	Information Technology	1.43%	1.43%	6.60%
	19%	Industrials	0.06%	0.06%	16.52%
	15%	Consumer Discretionary	-1.71%	-1.71%	14.50%
	5%	Materials	-2.08%	-2.08%	9.78%
	1%	Telecom Services	-4.16%	-4.16%	0.96%
	2%	Utilities	-5.52%	-5.52%	8.10%
	3%	Consumer Staples	-5.88%	-5.88%	3.32%
3%	Energy	-10.06%	-10.06%	-23.58%	
6%	Real Estate	-10.25%	-10.25%	-6.08%	

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	-0.76%	-0.76%	13.99%	10.78%	13.31%	9.49%
Russell 1000 Value	-2.83%	-2.83%	6.95%	7.88%	10.78%	7.78%
Russell 1000 Growth	1.42%	1.42%	21.25%	12.90%	15.53%	11.34%
Russell Mid Cap	-0.46%	-0.46%	12.20%	8.01%	12.09%	10.21%
Russell Mid Cap Value	-2.50%	-2.50%	6.50%	7.23%	11.11%	9.81%
Russell Mid Cap Growth	2.17%	2.17%	19.74%	9.17%	13.31%	10.61%
Russell 2000	-0.08%	-0.08%	11.79%	8.39%	11.47%	9.84%
Russell 2000 Value	-2.64%	-2.64%	5.13%	7.87%	9.96%	8.61%
Russell 2000 Growth	2.30%	2.30%	18.63%	8.77%	12.90%	10.95%
Russell 3000	-0.64%	-0.64%	13.81%	10.22%	13.03%	9.62%
DJ US Select REIT	-7.43%	-7.43%	-3.68%	0.74%	5.97%	6.02%



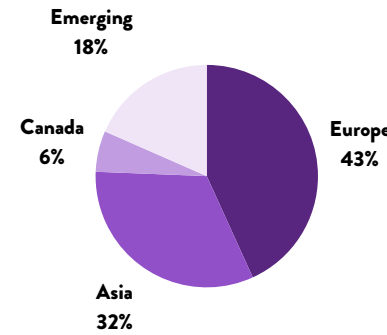
1Q2018 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	-1.18%	-1.18%	16.53%	6.18%	5.89%	2.70%
MSCI EAFE	-1.53%	-1.53%	14.80%	5.55%	6.50%	2.74%
Europe	-1.98%	-1.98%	14.49%	4.79%	6.37%	2.06%
United Kingdom	-3.88%	-3.88%	11.92%	3.10%	3.87%	2.28%
Germany	-3.58%	-3.58%	13.62%	4.66%	7.85%	2.70%
France	0.34%	0.34%	20.41%	8.93%	8.90%	1.97%
Pacific	-0.68%	-0.68%	15.78%	7.26%	6.84%	4.32%
Japan	0.83%	0.83%	19.64%	8.36%	8.92%	4.10%
Hong Kong	-1.37%	-1.37%	18.43%	8.82%	9.03%	7.39%
Australia	-6.15%	-6.15%	1.42%	3.09%	0.83%	3.38%
Canada	-7.35%	-7.35%	4.91%	2.64%	1.55%	1.25%
MSCI EM	1.42%	1.42%	24.93%	8.81%	4.99%	3.02%
MSCI EM Latin America	8.02%	8.02%	19.29%	10.13%	-1.87%	-0.76%
MSCI EM Asia	0.84%	0.84%	27.03%	9.43%	8.38%	5.24%
MSCI EM Eur/Mid East	1.81%	1.81%	16.20%	6.64%	-3.10%	-3.61%
MSCI ACWI Value ex-US	-1.50%	-1.50%	13.26%	5.04%	4.88%	2.09%
MSCI ACWI Growth ex-US	-0.87%	-0.87%	19.92%	7.28%	6.84%	3.25%
MSCI ACWI Sm Cap ex-US	-0.35%	-0.35%	20.60%	10.40%	8.57%	5.51%

Regional Exposure

MSCI ACWI ex-USA

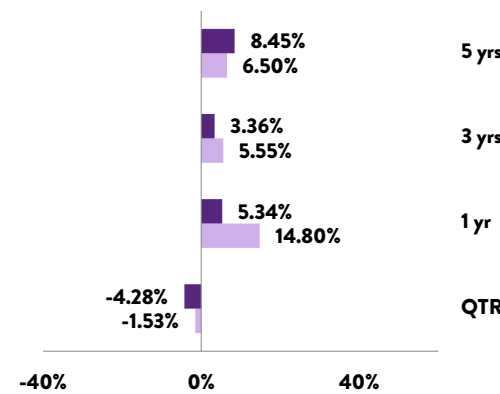


Top 10 Countries (MSCI AC World ex-USA)

Japan	17%
UK	12%
China	8%
France	8%
Germany	7%
Canada	6%
Switzerland	5%
Australia	5%
South Korea	4%
Taiwan	3%

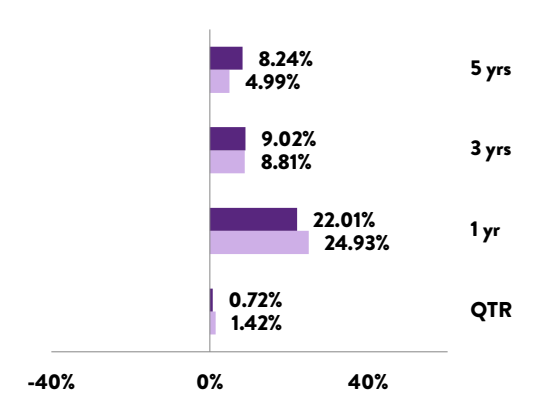
MSCI EAFE Index Return

Local US\$

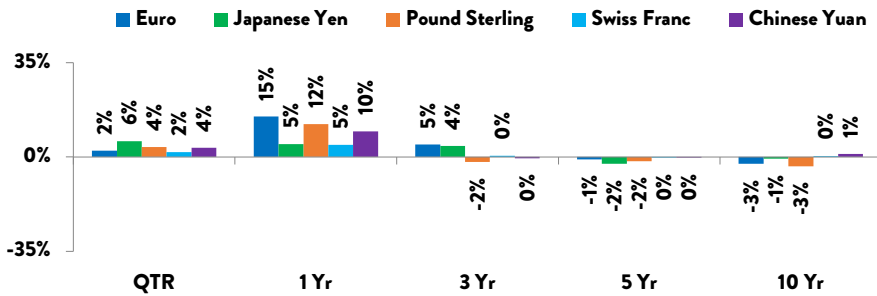


MSCI Emerging Index Return

Local US\$

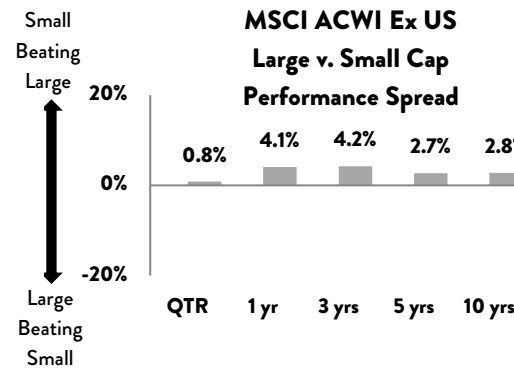


Foreign Currency v. US\$ Returns

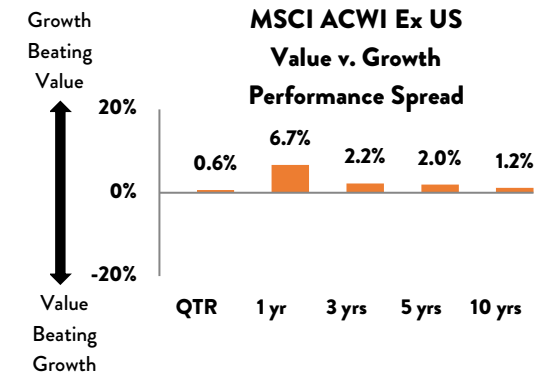


Exchange Rates	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16
Japanese Yen	106.20	112.69	112.64	112.40	111.41	116.80
Euro	0.81	0.83	0.85	0.88	0.93	0.95
British Pound	0.71	0.74	0.75	0.77	0.80	0.81
Swiss Franc	0.95	0.97	0.97	0.96	1.00	1.02
Chinese Yuan	6.27	6.51	6.65	6.78	6.88	6.94

MSCI ACWI Ex US Large v. Small Cap Performance Spread



MSCI ACWI Ex US Value v. Growth Performance Spread



Historical Market Returns

Ranked by Performance

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1Q18
Emerging Markets 55.82%	Emerging Markets 25.55%	Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 37.28%	Core Real Estate 1.97%
Small Cap 47.25%	Intl 20.91%	Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 27.19%	Emerging Markets 1.42%
Intl 40.83%	Mid Cap 20.22%	Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 21.83%	Global Bonds 1.36%
Mid Cap 40.06%	Small Cap 18.33%	Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Mid Cap 18.52%	Cash 0.31%
High Yield 28.97%	Global Balanced 12.18%	Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Global Balanced 15.87%	Small Cap -0.08%
Large Cap 28.68%	Core Real Estate 12.00%	Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 14.65%	Global Balanced -0.28%
Global Balanced 24.27%	High Yield 11.13%	Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.50%	Commod. -0.40%
Commod. 23.93%	Large Cap 10.88%	Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 7.39%	Mid Cap -0.46%
Global Bonds 12.51%	Global Bonds 9.27%	Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 6.66%	Large Cap -0.76%
TIPS 8.40%	Commod. 9.15%	TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.54%	TIPS -0.79%
Core Real Estate 8.28%	TIPS 8.46%	High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 3.01%	High Yield -0.86%
US Bonds 4.10%	US Bonds 4.34%	US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Commod. 1.70%	Intl -1.18%
Cash 1.03%	Cash 1.44%	Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Cash 0.71%	US Bonds -1.46%

Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills.