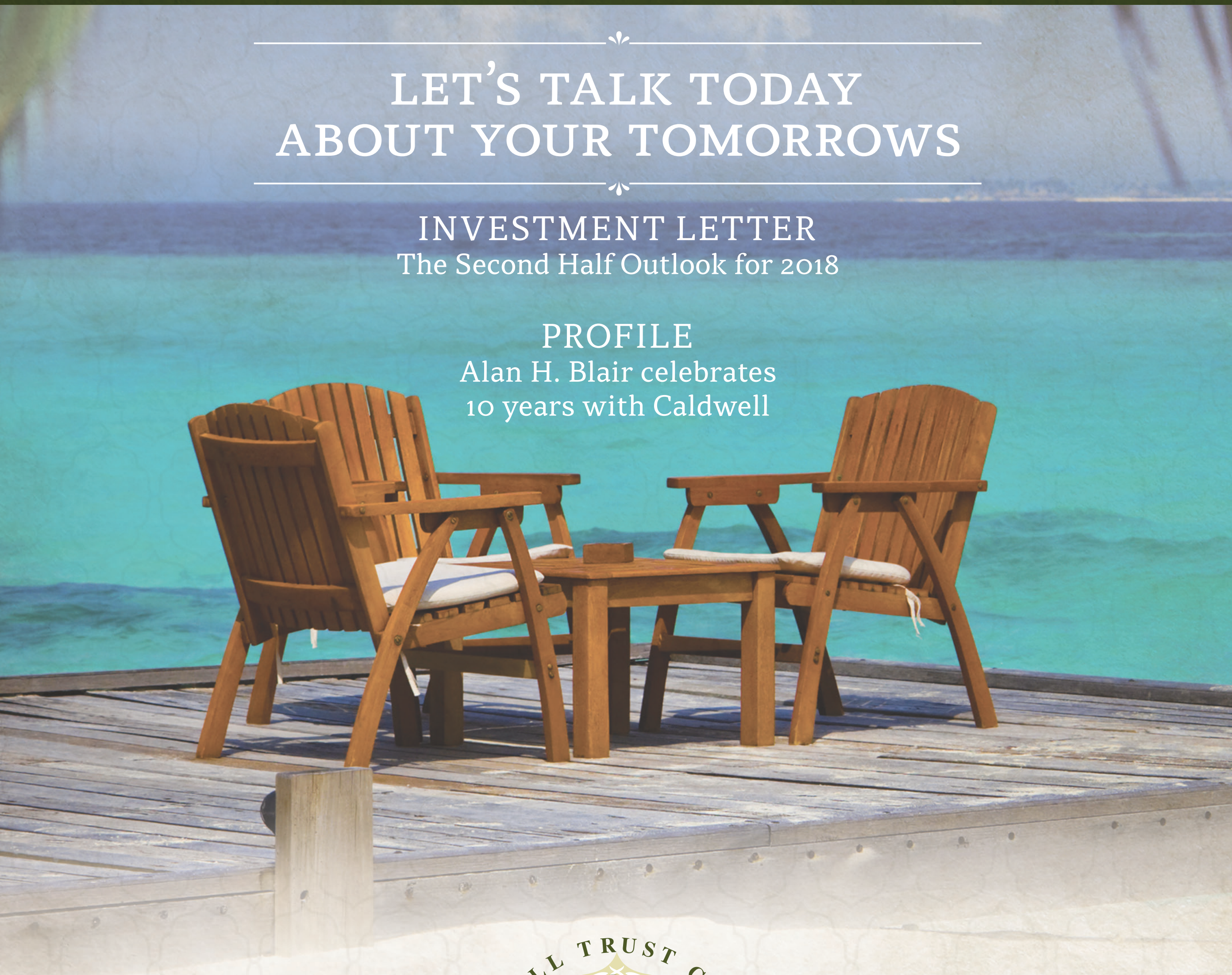
CALDWELL TRUST COMPANY

Investment Letter | PERSONAL · TRADITIONAL · INDEPENDENT | August 2018



LET'S TALK TODAY ABOUT YOUR TOMORROWS

INVESTMENT LETTER
The Second Half Outlook for 2018

PROFILE
Alan H. Blair celebrates 10 years with Caldwell

CALDWELL TRUST COMPANY 25th ANNIVERSARY

Investment Letter

The Second Half Outlook for 2018

Uncertainty in the capital markets is accelerating as we move into the back half of the year. We are entering the tenth year of an economic expansion domestically, though economic growth has been sluggish within a historical context, and until recently inflation has been sub-par at best. The consensus view is that we are in the later stages of the current bull market. Entering Q3 a pick-up in growth and inflation continues to be anticipated, earnings look to be strong once again, the yield curve is flattening, volatility has risen off of historically low levels, mid-term elections loom, and the implementation of trade tariffs has commenced.

S&P 500 earnings for the second quarter will be strong increasing over 20% on a year-over-year basis. For the remaining two quarters of '18 earnings are anticipated to increase 15% - 20% on a year-over-year basis. Earnings estimates for 2019 are currently anticipated to be in the high single to low double-digit range versus close to 20% for all of 2018. In other words, we are in the midst of peak earnings. A slowdown in earnings growth next year doesn't necessarily portend an equity market decline; it does signal that the underpinning market fundamentals won't be as strong moving forward as they have been. Earnings growth is moving from spectacular to good.

The domestic economy continues to grow slowly and steadily with estimates for GDP to pick up in the latter part of the year. Since coming out of the Great Recession in 2009, annual GDP growth has averaged around 2.2%. Q1 GDP for 2018 came in at 2%. Consensus estimates are for GDP growth for the full year to be around 3% with growth accelerating into yearend. Recent economic releases including payroll growth, private durable and capital goods orders, and the Fed's Labor Market Conditions Index all point to an acceleration in economic growth. On a global level the synchronized economic recovery theme espoused late last year and into this year has run into challenges especially in Europe. That said, forecasts here are promising though trade tariffs throw uncertainty into the equation.

Consensus expectations are for at least one more short-term interest rate hike this year if not two. The FOMC has already raised short rates twice. Long term rates (as measured by the 10-year Treasury bond yield) while rising this year have not risen as much as anticipated and the yield curve has flattened. A flattening yield curve (and potentially an inverted yield curve) has historically signaled slower economic growth or recession. While we don't believe that this is the case we are monitoring the situation. Recent economic data suggests inflation is on the uptick, and with the acceleration of balance sheet normalization by the Federal Reserve into yearend, we believe long term interest rates will rise further this year. That said, low rates globally continue to serve as headwinds to higher rates domestically.

Valuation on the S&P 500 continues to run around 16x forward earnings which is high within a historic context but by no means stretched. Given continued solid earnings growth, we believe the equity market has room to move higher through yearend. We believe that companies and sectors able to generate meaningful earnings growth will continue to perform well and continues to favor the Technology and Consumer Discretionary sectors through yearend. While more defensive sectors (Utilities, Consumer Staples etc.) have rallied of late, we believe the environment will get increasingly challenging as interest rates continue to rise into next year. Further, if long term rates rise meaningfully the Financial sector's long anticipated rally should be realized. Given the rising rate environment, we believe that domestic fixed income returns will continue to struggle and end the year with flat to negative returns with the exception of money market type investments.

The majority of the uncertainty in the capital markets currently revolves around the yield curve, monetary policy, and the specter of a major trade war. While worrisome, we believe that an accelerating economy and continued strong corporate earnings bode well for equities through the balance of 2018.

Profile

Alan H. Blair celebrates 10 years with Caldwell

ALAN H. BLAIR Ph. D., CTFA

Vice president and trust officer Alan H. Blair joined Caldwell Trust Company in October 2008, just as Caldwell was marking its 15th anniversary. It was a landmark year for Alan as well—the continuation of nine previous years as a trust officer, following on a highly successful 34-year career in higher education. Before joining Caldwell, he had been with Sun Trust Bank in Sarasota since 1999, where he was a senior regional trust officer and first vice president. In 2004 he also became major gifts officer at Wagner College, Staten Island, New York.

Throughout his career, Alan has combined his backgrounds in education and finance, providing institutional advancement services to colleges and trust administration services to banks and individuals. His extensive background has made it easy for him to straddle both worlds. He holds a B.A. from Hobart College and a Ph.D. from Michigan State University with a major in higher education administration and a minor in organizational development.

In 2003 he earned the designation of Certified Trust and Financial Advisor from the American Bankers Association. He is also a graduate of the Cannon Financial Institute Trust School and holds certifications from the Executive Leadership Institute of Indiana University and the Management Institute for Senior Administrators of Stanford University.

Alan sees the blending of his two backgrounds as a natural fit. “As I reflect on the occasion of my 10-year anniversary at Caldwell Trust, I am reminded that the way in which I interact with clients is not unlike that of a teacher, a career I began 50 years ago,” he said. “As trust officers we listen, suggest, guide, encourage and support our clients as each make individual plans for their tomorrows.”

Blair had moved to Bradenton, Florida, from Ohio in 1989 to serve as executive director and CEO of then-Manatee Community College Foundation, now State College of Florida Foundation. His duties there included high-level management and leadership skills—and an unexpected stint as a theatrical producer. In 1992 he drew on MCC’s theater department, grants from the National Endowment for the Arts, Sarasota’s Tourist Development Commission, and community resources to produce the historical play The Fabulous Mrs. Palmer. The musical dramatized the life of Sarasota founder Bertha Honore Palmer. Under Alan’s guidance The Fabulous Mrs. Palmer played to 5,000 area residents on MCC’s Bradenton and Venice campuses and even generated a profit—a rare occurrence in the world of theater.

Alan makes a full commitment to every venture, certainly including his position with Caldwell. He said, “I have delayed retirement well beyond the accustomed age to remain a member of the Caldwell Trust family of employees and clients. The work environment, coupled with caring management, creates a culture far exceeding any I have either encountered or observed in more than 50 years as a professional.”

When not at work, Alan and his wife Cynthia enjoy cooking, travel and family.

To contact Alan, email alan@ctrust.com or call 941.926.9336.

Caldwell Trust Company

Personal • Traditional • Independent

CHARTERED PRIVATE TRUSTEE PROUDLY SERVING OUR COMMUNIT Y SINCE 1993

Contacts

Scott Antritt, scott@ctrust.com
Alan H. Blair, alan@ctrust.com
Tony Blasini, tblasini@ctrust.com
R. G. "Kelly" Caldwell Jr., kelly@ctrust.com
Kimberly Evener, kevener@ctrust.com
Gina B. Jordan, gjordan@ctrust.com
Sonya Kristie, sonya@ctrust.com
Wendy Fishman, wendy@ctrust.com
Chris McGee, cmcgee@ctrust.com
Jan Miller, jan@ctrust.com
Leonard Nagel, leonard@ctrust.com
Sandra L. Pepper, sandy@ctrust.com
Marci Sweat, msweat@crtust.com
H. Lee Thacker Jr., thacker@ctrust.com
Sheryl Vieira, sheryl@ctrust.com

Venice Office: 1400 Center Road, Venice, FL 34292 · 941.493.3600 · Toll Free: 800.338.9476 · Fax 941.496.4660
Sarasota Office: 1561 Main Street, Sarasota, FL 34236 · 941.926.9336 · Toll Free: 877.926.9336 · Fax 941.926.9335
www.ctrust.com · info@ctrust.com