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Investment Letter

Market Fundamentals to Stay Solid

By J. Chris McGee, CFA, CAIA

As we head towards year-end we expect market fundamentals to remain solid. The year has been stellar for corporate earnings. S&P 500 earnings growth for Q2 was up 25% over the comparable period last year. 80% of companies beat earnings estimates, which were meaningfully above average. Revenues for the quarter grew over 10%.

Q3 earnings reports for the S&P 500 will commence in mid-October. Earnings per share (EPS) growth is anticipated to be 20%, another phenomenal quarter. Revenue growth is also expected to come in strong at approximately 7.5%. For the balance of the year (Q4), EPS and revenues are expected to grow 17% and 6% respectively. If these predictions play out EPS will exceed 20% for the year with revenue growth of 8%. In a word, from an earnings and sales perspective, 2018 will be outstanding. Current forward valuations on the domestic equity market remain elevated but not stretched. The current forward price/earnings ratio on the S&P 500 is around 17X.

Looking towards 2019, we expect another good year for S&P 500 companies, but clearly the current pace cannot be sustained. However, we expect earnings growth and revenue to be above normal within a historical context.

If Congress splits between the two parties, in theory it's a positive.

Outside the U.S., equities have struggled for most of the year with aggregate returns slightly below 0%. In particular, Emerging Market shares have struggled, and performance has deteriorated further as of late. The downturn is a result of myriad country-specific issues. The ongoing trade war and tariffs with China as well as currency fluctuations play into the decline. We believe that the domestic market will continue to outperform the broad Developed and Emerging market indices through year-end.

While too much time is spent analyzing every monetary policy move by the Federal Reserve Board, year-to-date policy has been very consistent, and we believe no surprises are in store through year-end. As we write this piece, we anticipate a better than 50/50 chance the Federal Open Market Committee (FOMC) will hike short-term rates 0.25% again in December. Economic releases have continued to be benign. Growth continues to accelerate from subnormal levels; inflation is picking up but not excessively. A bigger monetary policy issue that is discussed less often is the monetary tightening and its ultimate impact on rates and the economy. Given the unprecedented quantitative easing after the subprime crisis ten years ago, the impact and consequences of its reversal are unknown. All said, in our view monetary policy and the rate environment will continue to be constructive. We do not anticipate a shift to a more hawkish or dovish stance by the Federal Reserve between now and year-end.

After the last presidential election please forgive us for not predicting the outcome of the mid-term elections. The consensus view from our research providers is that the most likely outcome is that the House of Representatives goes Democratic and the Senate stays Republican. The news flow and outcome will affect trading around the election but will probably be short-lived. The longer-term impact may lie in the fact that historically, the capital markets have performed better when a party split exists within Congress or between Congress and the president. If Congress splits among the two parties, in theory it's a positive.





The biggest wild cards are the ongoing trade wars, tariff talks and media news flow.

From a seasonality perspective, year-end tends to be a positive for domestic equity performance, especially recently. Given the strong underlying market fundamentals, we believe the bias is for equities to be higher by year-end. The biggest wild cards are the ongoing trade wars, tariff talks and media news flow.

Finally, we do not anticipate any material shift in fixed income performance domestically or globally for Q4. Returns at home for the broad domestic market have been slightly negative for the year, global markets in aggregate a wee bit worse. Given that rates are in a trading range with an upward bias it is difficult to foresee bond issues returning much more than their coupon for the balance of the year. As pointed out elsewhere, there are asset classes within fixed income that have better relative performance. Examples are high-yield bonds and money market instruments whose returns have benefitted from the rise in short-term rates. We expect this trend to continue.

Accomplishments

Luis Morales finishes first year of FBA Trust School



Luis Morales

Luis Morales has completed the first year of the Florida Bankers Association's three-year Trust & Wealth Management School, which provides an intensive, in-depth program focusing on trust matters. Luis joined Caldwell earlier this year as a trust associate and is based in the Sarasota office.

A native of Havana, Cuba, he came to the United States in 2003 and settled on Florida's Gulf Coast a year later. Luis began his financial career in 2006 as a teller at Regions Bank. In 2008 he moved to Northern Trust, where he remained for ten years. He was a member of the banking platform there until 2012, when he was promoted to investment associate. He became a senior investment associate in 2014, working with a team of multidisciplinary investment professionals.

While with Northern Trust, Luis earned a bachelor's degree in finance from the University of South Florida, became a U.S. citizen, and began classes towards his MBA at USF. The Bradenton resident is continuing his classes while working at Caldwell. To contact him call 941.926.9336 or email lmorales@ctrust.com.





Accolades

Florida Public Relations Association honors Sheryl Vieira

The Central West Coast Chapter of the Florida Public Relations Association [CWC-FPRA] surprised Sheryl Vieira, Caldwell's vice president of marketing and public relations, with its highest honor, the Ginnie Duffey Troyer Award of Professionalism, at its annual meeting at Sarasota Yacht Club. The award is named in honor of former Central West Coast Chapter member and FPRA state association president Ginnie Duffey Troyer, APR, CPRC.

Tara Poulton, outgoing FPRA president, read comments of praise for Sheryl from those who submitted nominations. They described Sheryl as "a great asset to the Board ... always positive and professional ... the highest level of professionalism in everything they do ... a communications gem who has elevated the presence for their company ... cares so much for people ... is always speaking highly of our chapter and our profession."

Others commended Sheryl as a "team player ... always eager to help ... an enthusiastic participant in numerous programs and events ... a consummate professional." Overall, FPRA members said she is "highly deserving of this award ... and is a wonderful representative for our chapter and our profession."

R. G. "Kelly" Caldwell Jr., CEO and president, agreed. "We're delighted that others have recognized what a wonderful asset we have in Sheryl. We join in congratulating her for this, just the latest of her many accomplishments."



Sheryl Vieira

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Back To School

Caldwell's future leaders begin a new school year



For some kids, "school" is a four-letter word. For the Caldwell boys, it's a reason for smiles. Kelly and Melissa Caldwell's three sons are ready to conquer whatever challenges the school year brings. Pictured from left are Brooks, 13, eighth grade; Chase, turning 10 in October, fourth grade; and Zachary, 12, seventh grade.





Caldwell Cares

Board presents \$5,000 scholarship to “Take Stock in Children”

For the fifth consecutive year, Caldwell’s board of directors has continued its support of worthy community organizations through its Board Giving Project according to J. Mack Reid, committee chair. The beneficiary this year is again Take Stock in Children, Sarasota County, which will receive a \$5,000 college scholarship for a deserving student. Caldwell’s generous donation will be matched dollar-for-dollar by the State of Florida, thereby increasing the impact for the scholarship recipient.

Lisa Bechtold, executive director of Take Stock in Children, Sarasota County, said Ashley Millet has been selected for the scholarship. A senior at Booker High School, Ashley is an only child. She lives with her mother, Teresa, who she credits for always encouraging her to reach her goals.

“Our entire board met with Ashley,” Mack said. “We were so impressed with her character and her drive to become the first person in her family to attend college. The Caldwell Trust Company family is honored to be able to support Ashley and Take Stock in Children.”

“Ashley will receive her official scholarship in May and several board members will attend the award ceremony,” Reid said. She plans to attend State College of Florida, then hopefully Ringling College of Art and Design, where she wants to major in digital and graphic design.

Ashley loves to sing and create art and her design was selected and featured on the BHS graduation program. She is a member of the National Honor Society and secretary of the Key Club. Her honors include Girl Scout Bronze/Silver Awards and prizes from the County Art Fair. Ashley has donated more than 200 hours of community service to organizations including Star Leadership, Blaze of Hope, and Girl Scouts. She is a member of Renaissance, which rewards students for academic merit.



Even More Caldwell Cares

Caldwell and Tidewell Hospice honor retiring CEO, welcomes new top executive at Tidewell board retreat

Stratum Health System, parent of Tidewell Hospice, honored Gerry Radford, its retiring CEO, and welcomed Jonathan Fleece, the incoming top executive, at its board retreat at the Longboat Key Club on September 14.

Gerry Radford retires on December 31 after twenty years with Tidewell, eight of them as CEO. Jonathan Fleece assumes the role of president/CEO on October 1.

Jonathan Fleece has served as the CEO and managing partner of Blalock Walters. He has also been a member of either the Tidewell or Stratum boards since 2009, has been instrumental in contributing to Stratum's and Tidewell's success, and has provided leadership to many community organizations.



Gerry Radford, Jan Miller, and Jonathan Fleece pause for a photo at the Tidewell Hospice board retreat.

Caldwell executive vice president and trust officer Jan Miller chaired the search committee, as she did decades ago when Marge Maisto, a Caldwell board member, resigned from Tidewell Hospice after two decades as CEO. Jan has been a longtime member of the Tidewell Hospice board, which is chaired by Caldwell board member Tom Stuhley.

"Tidewell has been blessed with outstanding CEOs," Jan said. "We began our current search eight months ago, looking for a visionary leader and strategist who could grow and guide our role as the leader in the aging continuum and end-of-life care. We've found him in Jonathan."

Caldwell showcases work by area artist



Caldwell invites members of the community to enjoy "Myakka Present," a collection of paintings by local artist Linda J. Greaves. The art, on display in Caldwell's Venice office from October 23 through November 20, depicts images of the Myakka River basin and its preserved natural resources.





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