LCP LAKEVIEW CAPITAL PARTNERS

Economic and Market Overview

Fourth Quarter 2018

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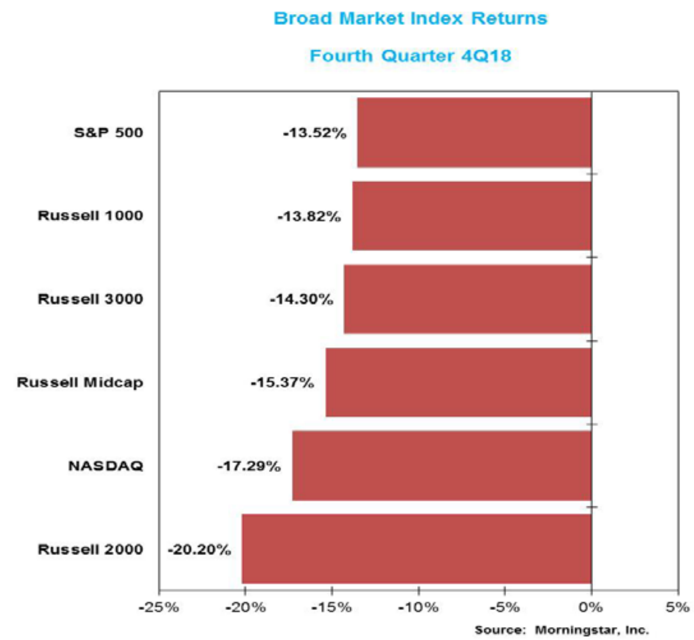
*The following commentary summarizes prior financial market activity, and uses data obtained from public sources. This commentary is intended for **one-on-one use with a client's financial advisor only,** as a resource to manage assets and evaluate investment portfolio performance.*

The Economy

The US economy continued to deliver robust gains in the third quarter. The Bureau of Economic Analysis reported its third estimate of third quarter 2018 gross domestic product (GDP) of 3.4%, in line with the prior estimate of 3.5%, but lower than the second quarter's 4.2% reading. The employment situation slowed somewhat, but continued to deliver gains, with an average of approximately 170,000 jobs added each month. At the same time, the unemployment declined to 3.7%. The Federal Open Market Committee (FOMC) continued its interest rate policy by raising the federal funds rate target 25 basis points to a range of 2.25% to 2.50%. Economists expect there may be at least two additional increases in 2019 as economic growth continues to be strong, and inflation and wage pressures increase.



The global economic environment has weakened slightly, and remains volatile in the emerging economies. The reasons for the slowing are attributed to the US's trade war with China and the tightening of monetary conditions domestically. The Eurozone economy suffered somewhat due to trade effects, but also as a result of a greater-than-expected slowdown in consumer spending. Japan also slowed during the quarter, with economists pointing to slow wage growth as the culprit. China's growth declined to about 6.6% (from 6.8% in 2017) as a result of policymakers' attempts to deleverage, as well as the trade war with the US.

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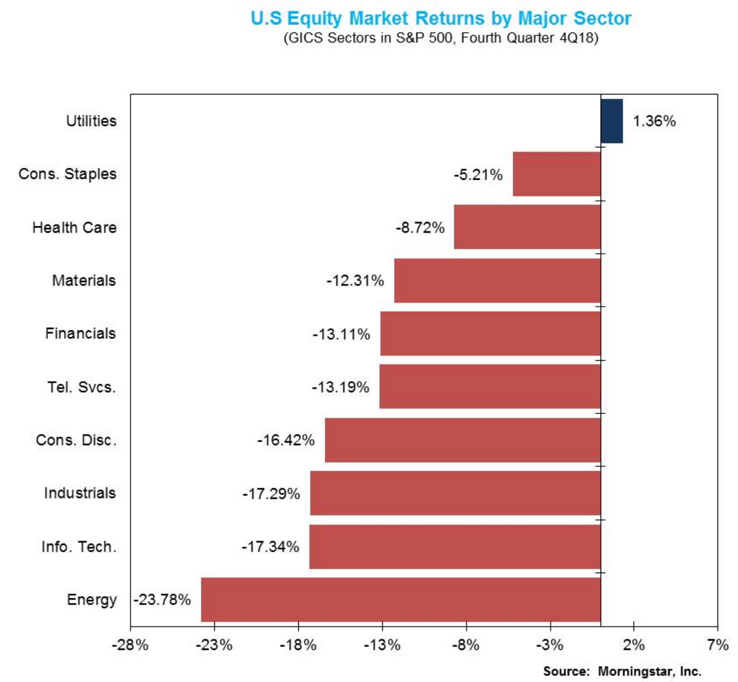
Highlights and Perspectives

GROSS DOMESTIC PRODUCT (GDP)

The Bureau of Economic Analysis released the third estimate of the third quarter 2018 real GDP, a seasonally adjusted annualized rate of 3.4%, down slightly from the second quarter's 4.2% annualized growth, and in line with the 3.5% prior estimate. The economy is growing at the fastest rate since the expansion began in 2009. While growth has been impressive, some analysts are beginning to warn that it is not sustainable, since the recent strength has been driven by deficit-financed tax cuts and an increase in government spending. These drivers provide a boost to growth, but economists believe that increased capital spending and productivity are necessary for sustained growth at that level. However, because of the strength of the past two quarters, the economy is on a solid trajectory, and its short-term prospects are favorable. Positive inputs such as improved incomes, benign inflation, steady home prices and the highest consumer confidence in years support the notion that the economy has more growth runway. Analysts note that an increase in the intensity of trade skirmishes, a misstep by the Federal Open Market Committee (FOMC), or a significant decline in confidence could change the trend.



HOUSING

The housing segment has stabilized at levels off of their highs in recent months, as the increase in mortgage rates continues to dampen demand. Existing-home sales for November (the latest monthly data available) grew at an annualized rate of 5.3 million units, slightly higher than the results from October, but down about 7% from year-ago levels. The inventory of existing homes was slightly less than four months of supply, up somewhat from the prior year. Existing-home prices in November have increased 4.9% from November 2017. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at 56, below October's level of 60, and much lower than the levels experienced earlier in the year. In general, homebuilders have reason to remain optimistic, particularly if the pace of interest rate increases subsides and consumer confidence remains elevated.

EMPLOYMENT

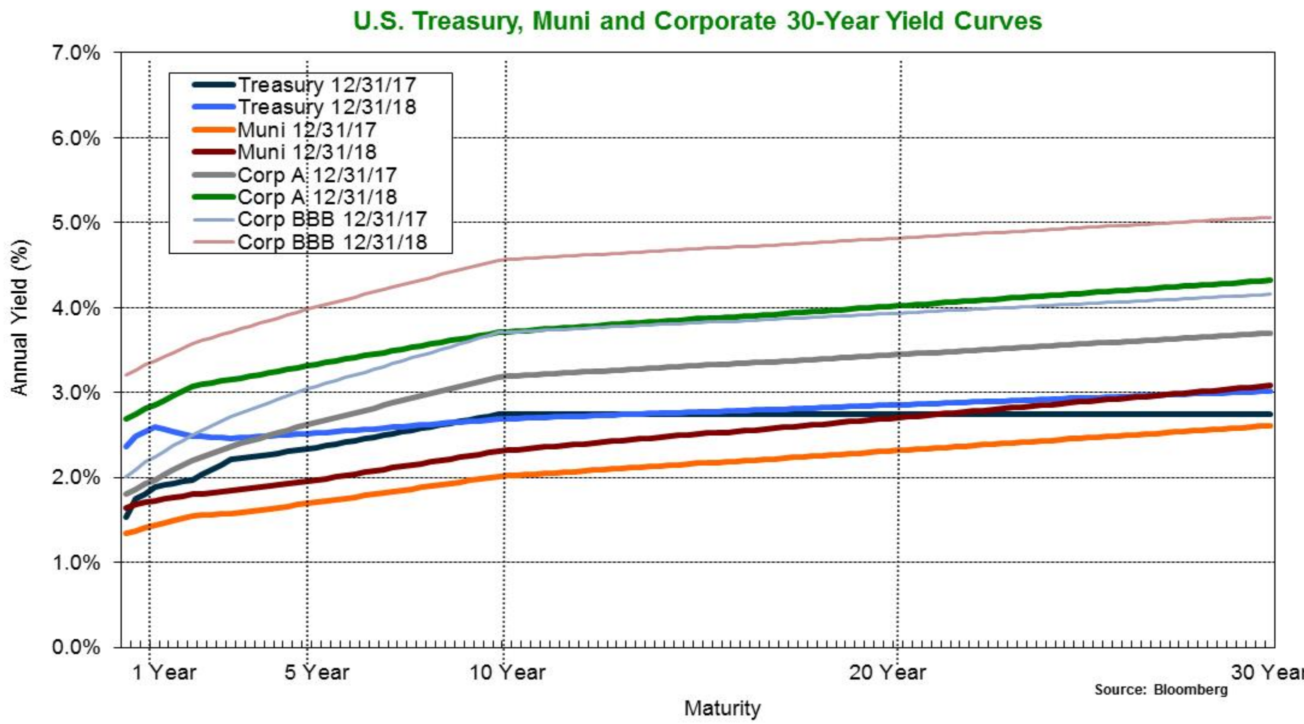
The employment situation slowed somewhat in November, but in general remains strong. Employers added 155,000 jobs during the month, well below the consensus expectations of 200,000 new jobs, and far below the prior month's gain of 237,000. The three-month moving average fell quite a bit due to the lackluster gains in November and September, coming in at 170,000. The unemployment rate in November remained at the prior month's level of 3.7%, and economists believe it will go even lower in 2019. Average hourly earnings increased by a bit more than 3% in the month.

FEDERAL RESERVE POLICY

The FOMC ended its recent December meeting by announcing an increase of 25 basis points in the federal funds rate target range to 2.25% to 2.50%. The rate increase was widely expected, and was the ninth time since 2015 that the committee has raised rates. The committee modified the language in the statement accompanying the increase, indicating that there would be "further gradual increases in the target range," replacing the previous language that was more hawkish. The committee also noted that it expects to increase short-term rates twice in 2019.

INTEREST RATES

Fixed income securities' prices and yields were affected by numerous factors during the quarter, some of which were holdovers from prior quarters, but others which arose during the quarter. Questions about the future health of the economy, the FOMC's decision to raise short-term interest rates once again at its recent September meeting, and President Trump's public displeasure with FOMC Chairman Jay Powell were a few of the drivers impacting the bond market. In addition, even though job growth tailed off somewhat in November, it still remains robust, with unemployment at historically low levels. Wages have also been trending higher, which is usually a precursor to higher inflation, something the FOMC is willing to accept, but only up to a point. Most analysts, and the FOMC itself, expect there will be two more rate increases in 2019.



As with the prior quarter, the Treasury yield curve flattened somewhat during the third quarter, with yields on short-term maturities rising and those on intermediate-term maturities climbing. By the end of the quarter, the yield on the benchmark 10-year US Treasury note was lower, ending the quarter at 2.69%, compared to 3.06% on September 30.

As mentioned above, interest rates in the quarter moved to the competing drivers of an economy still growing robustly, the unwinding of the Federal Reserve's balance sheet, and the steady normalizing of short-term rates by the FOMC. Fixed income market movements were muted in December in the face of a partial government shutdown due to wrangling over funding of the border wall. Yields were stable to slightly higher from the beginning of the quarter until election day in November, at which time they started to decline steadily as equity investors began to re-allocate assets. Yields at the short end of the yield curve (up to three years) ended the quarter generally about 20 basis points higher than in September, while those on the longer end were *lower* by as much as 35 basis points. The yield on the 3-month Treasury Bill settled at 2.36% at the end of the quarter, up about 16 basis points from the end of the previous quarter. The yield on the 5-year Treasury Note ended the quarter at 2.51%, compared to 2.95% on September 30, and as mentioned above, the yield on the 10-year Treasury Note fell to 2.69% from 3.06% over the same period. At the same time, the yield on the 30-year Treasury Bond eased a bit, ending the period at 3.02%, compared to its beginning level of 3.21%. Inflation expectations rose modestly, with the Fed's gauge of five-year forward inflation expectations declining sharply to 1.82% from 2.13% on September 30.

Total returns on fixed income securities were generally positive across the various market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index jumped by +3.2% for the quarter. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index edged higher by +0.3% during the three months. High yield securities, which often follow the performance of equities, sank, delivering a negative return of -4.5%. Municipals fared well, as the Bloomberg Barclays Municipal Bond Index climbed by +1.7% during the quarter. Prices of non-US fixed income securities were also higher in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced +0.9%. Emerging markets bonds lost ground, with the JPM EMBI Global Index shedding -1.2%.

EQUITIES

Equity markets took it on the chin during the quarter, posting the largest quarterly decline since the fourth quarter of 2008. There was no "Santa Claus rally" this year, as stocks also suffered their worst month of December on record, despite also generating the largest single-day point gain in history on December 26. Analysts point to a number of factors causing the volatility and lower prices, including fears of a recession in 2019; FOMC aggressiveness in raising interest rates; Democrats taking back the House of Representatives in the mid-term elections; and President Trump's publicly expressing displeasure with FOMC Chairman Jay Powell. All of these conspired to spook investors into taking profits earned as part of the longest bull market in history. During the quarter several broad-based indexes declined more than 20% from their respective peaks, a widely cited threshold indicating those indexes are in a bear market. Within this landscape, the S&P 500 Index finished the quarter with a decline of -13.5%, and posted a total return of -4.4% for 2018.

The ten primary economic sectors produced performance results that were extremely weak during the quarter. Utilities, Consumer Staples and Health Care were the strongest performers on a relative basis, generating returns of +1.4%, -5.2%, and -8.7%, respectively. The Energy,

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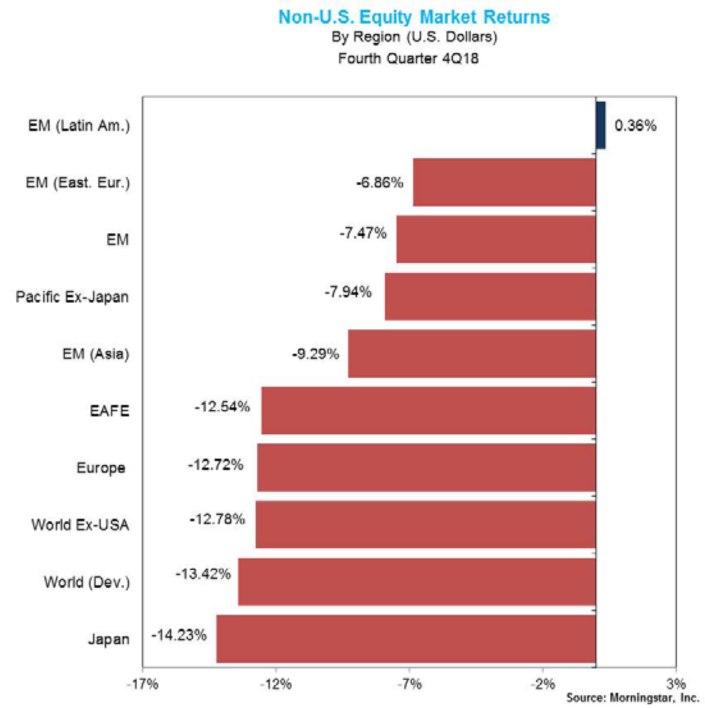
Industrials and Information Technology sectors were the poorest relative performers, posting returns of -23.8%,-17.3%, and -17.3%, respectively.

The Russell 1000 Index of large capitalization stocks generated a -13.8% total return. Within the large cap segment, growth stocks underperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, again far underperformed large caps, and finished the quarter with a total return of -20.2%. Small cap value outperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a loss of -17.3%. The Dow Jones Industrial Average of 30 large industrial companies shed -11.3%.

Real Estate Investment Trusts (REITs) also lost ground during the quarter, with the DJ US Select REIT Index giving up -6.6%. Commodities were also lower, with the Bloomberg Commodity Index declining -9.4% for the quarter.



International stocks generally posted results in line with US equities. Economic growth is behind that of the US, and the Eurozone is still grappling with how the UK's departure from the European Community ("Brexit") will finally play out. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, declined by -11.5%. The MSCI EAFE Index of developed markets stocks dropped by -12.5%. Regional performance was also poor for the quarter. Latin America was the strongest performer on a relative basis, with a return of +0.4%. Japan was the poorest performer, falling -14.2%. Emerging markets performance was again negative, as the MSCI Emerging Markets Index was lower by -7.5%.

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INDEX OVERVIEW

The **Dow or DJIA** (Dow Jones Industrial Average) is an unmanaged index of 30 common stocks comprising 30 actively traded blue chip stocks, primarily industrials, and assumes reinvestment of dividends. The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **S&P 500 Index** is an unmanaged index comprising 500 widely held securities considered to be representative of the stock market in general. The **DJ U.S. Select REIT Index** is a subset of the Dow Jones Americas Select RESI and includes only REITs and REIT-like securities (The Dow Jones U.S. Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the US). The **Bloomberg Commodity Index** is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity market, and is designed to minimize concentration in any one commodity or sector. The **MSCI EAFE Index** is recognized as the preeminent benchmark in the US to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East. The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. The **MSCI ACWI Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indices comprising 23 developed and 23 emerging markets country indices. The **MSCI Emerging Markets (EM) Eastern Europe Index** captures large and mid cap representation across four emerging markets (the Czech Republic, Hungary, Poland, and Russia) countries in Eastern Europe. With 52 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI EM (Emerging Markets) Latin America Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The **MSCI ACWI Ex-U.S. Index** is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies. The **MSCI China Index** captures large and mid cap representation across China H shares, B shares, Red chips, and P chips covering about 85% of this China equity universe. The **Bloomberg Barclays Municipal Bond Index** is an unmanaged index comprising investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The **Bloomberg Barclays Global Aggregate ex-U.S. Index** is a market-capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most US-traded investment-grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The Index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the US. The **Bloomberg Barclays U.S. 5-10 Year Corporate Bond Index** measures the investment return of US dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between 5 and 10 years. Treasury securities, mortgage-backed securities (MBS), foreign bonds, government agency bonds, and corporate bonds are some of the categories included in the Index. The **Bloomberg Barclays Capital US 5-7 Year Treasury Bond Index** is a market-capitalization-weighted index, and includes Treasury bonds issued by the US with a time to maturity of at least 5 years, but no more than 7 years. The **Russell 1000 Index** is a market-capitalization-weighted benchmark index made up of the 1000 largest US companies in the Russell 3000 Index (which comprises the 3000 largest US companies). The **Russell 2000 Index** is an unmanaged index considered representative of small cap stocks. The **Russell 3000 Index** is an unmanaged index considered to be representative of the US stock market, and measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The **Russell Midcap Index** is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The **Housing Market Index** (HMI) is based on a monthly survey of **NAHB** members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months, as well as the traffic of prospective buyers of new homes. The **JPMorgan Emerging Market Bond Index** (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. The **CBOE Volatility Index** (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.

DEFINITIONS

The **Federal Open Market Committee** (FOMC) is the monetary policymaking body of the Federal Reserve System. The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The **European Central Bank** (ECB) is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power, and thus price stability, in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999. The **Gross Domestic Product** (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The **Bureau of Labor Statistics** (BLS) is a unit of the United States Department of Labor. It is the principal fact-finding agency for the US government in the broad field of labor economics and statistics, and serves as a principal agency of the US Federal Statistical System. The **Bureau of Economic Analysis** (BEA) is an agency in the US Department of Commerce that provides important economic statistics, including the gross domestic product of the US. It is a governmental statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, state and local governments, business, and labor representatives. The **PCE (Personal Consumption Expenditure) Index of Prices** is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data, including US Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures, and is essentially a measure of goods and services targeted towards and consumed by individuals. Sector performance is represented by the **Global Industry Classification Standard (GICS)** sectors, developed by Standard & Poor's and MSCI Barra.