Market Snapshot

ASPIRIANT

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MARKET SNAPSHOT
First Quarter 2018

Welcome to your first 2018 Market Snapshot. In your hands is our high-level review of today's investment landscape, with our take on the volatile stock market, rising interest rates and the challenges facing real assets, and how these market forces affected investment returns. We also shine some light on why you should review your estate plan as a result of the new tax act.

Performance of Major Benchmarks
Periods Ending March 31, 2018

			Annualized Trailing Return		
FIXED INCOME	**Q1**	**1YR**	**3YR**	**5YR**	**10YR**
Bloomberg Barclays US Agg Bond TR	(1.46)	1.20	1.20	1.82	3.63
Bloomberg Barclays Municipal TR	(1.11)	2.66	2.25	2.73	4.40
Bloomberg Barclays HY Muni TR	0.59	6.03	4.59	4.06	5.61
DIVERSIFIERS					
HFRI Fund of Funds Composite Index	1.08	6.42	2.13	3.54	1.63
REAL ASSETS					
S&P GS Commodity Index TR	2.19	13.83	(4.15)	(11.88)	(10.82)
Wilshire Global Real Estate Securities Index TR	(5.19)	2.07	2.33	5.50	5.13
Alerian MLP TR	(11.12)	(20.07)	(11.24)	(5.85)	5.60
DEFENSIVE EQUITIES					
MSCI All Country World NR	(0.96)	14.85	8.12	9.20	5.57
GLOBAL EQUITIES					
S&P 500 TR	(0.76)	13.99	10.78	13.31	9.49
Russell 2000 TR	(0.08)	11.79	8.39	11.47	9.84
MSCI EAFE NR	(1.53)	14.80	5.55	6.50	2.74
MSCI Emerging Markets NR	1.42	24.93	8.81	4.99	3.02

Source: Morningstar. Indices are unmanaged and have no fees. An investment may not be made directly in an index. Index returns shown are based in U.S. dollars.

WADING INTO 2018 — IT'S (PROBABLY) A NEW BALL GAME

The first three months of 2018 are in the books, and well, it felt a bit like a 13-inning baseball game. The serene and leisurely market advance of the prior 15 months transformed into a bumpy ride in this year's first quarter. The S&P 500's steady advance of about 6% in January was quickly followed by a 10% decline in early February. Since that time, markets have generally see-sawed, gyrating up or down on news surrounding trade spats, Federal Reserve forecasts, or perhaps the latest political or business scandal. In fact, Bloomberg reports that during the first quarter of 2018, there were 22 days when the S&P 500 index closed up or down 1% or more. For all of 2017, that happened only eight times!

Market swings aside, the economic backdrop for investors could hardly be better. The strong tailwinds of fiscal stimulus and tax reform are likely to accelerate U.S. economic growth during a period of synchronized global expansion. Jobs are plentiful, inflation remains quiescent and corporate tax rates, now slightly below the average of the 35 OECD* countries, are at levels not seen since the 1930s. By most measures, the outlook for the U.S. economy in the near term remains quite positive.

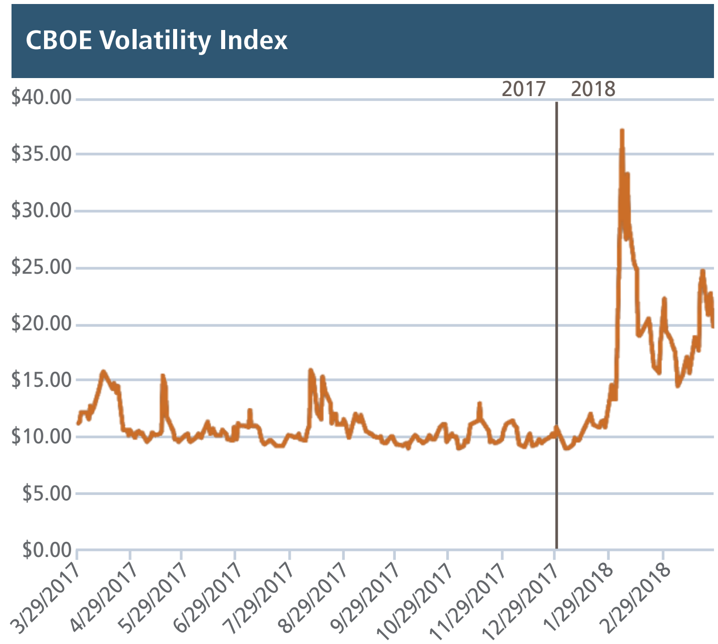
But it's never all good news, and some emerging concerns seem to be on the minds of investors. Interest rates have begun to rise, and the Federal Reserve Board has indicated that rate hikes are likely to continue. At some point, higher rates may serve as a brake on the current nine-year-old economic expansion, the second longest on record, but also the weakest recovery since World War II. In addition, concerns about the White House's proposed tariffs and changes to trade agreements have added to recent volatility. Let's have a closer look at the major asset classes for the quarter just ended and see what might be going on beneath the headlines.

GLOBAL EQUITIES JAG

For those of you who only check on the markets when you open your quarterly report, the first quarter appears to have been uneventful for most stocks. Global equities, as defined by the MSCI All Country World Index, declined just 1%. Emerging market stocks were the best performers, gaining 1.4%, whereas U.S. stocks (the S&P 500) declined a modest 0.8%, resulting in a relatively unexciting quarter compared to last year, when global equities rose every single month of the year.

We've suggested many times in previous communications that last year's very unique market environment of uninterrupted gains and historically low volatility couldn't last. As U.S. and global equities became more expensive and many of the drivers of stock prices (e.g. low and falling interest rates, rising valuations, rising corporate profit margins, rising investor confidence, etc.) reached their historic upper limits, the fundamental math of investing suggested lower returns and higher volatility ahead. This quarter was the first shift in that direction we've seen in some time, and we expect more of the same, generally speaking, as we move forward.

We continue to believe now is the time for prudent management of your investments and we seek to balance two separate objectives. The first is seeking the highest potential long-term return in pursuit of one's goals. The second is to manage risk in a way that seeks to avoid the significant loss that could occur from today's elevated valuation levels. Global equities' volatile behavior in the first quarter (see chart) only serves to confirm our concerns and affirm our efforts to manage risk across our client's portfolios.



Source: CBOE, Federal Reserve Bank of St. Louis.

FIXED INCOME SLIPS

As the world's economy benefits from broad economic expansion, it would be perfectly normal to become concerned about a commensurate rise in interest rates. When overall demand grows in a period of low unemployment, competition for resources places upward pressure on wages, materials and other manufacturing components, producing higher inflation and rising borrowing costs. And this is just what has happened so far in 2018, as U.S. bond market prices declined about 1.5% overall. Other key interest rate indicators confirm this trend as well. At 2.3%, the London Interbank (LIBOR) rate doesn't seem excessive, but it's now back to 2008 levels, having been well below 0.5% as recently as the beginning of 2016. Here in the U.S., the Fed expects to continue a series of small rate hikes in anticipation of more rapid economic growth.

Reflecting these trends, U.S. Treasury rates have risen, with the benchmark 10-year Treasury yield leaping from 2.4% to 2.94% this year, before settling recently around 2.75%. The greatest percentage increase in bond yields, however, has been at the shorter end of the maturity spectrum. The 2-year Treasury note now yields 2.28% — capturing most of what

*Organisation for Economic Co-operation and Development.

an investor gets from owning the 10-year note but with much less potential price volatility. And the long-dated 30-year Treasury yields just over 3% — seemingly very little additional recompense for adding another 20 years of uncertainty. What is this telling us?

Astute bond investors will notice this narrowing difference between short and long maturity bond yields with a raised eyebrow. As the difference in bond yields across these maturities flattens, the markets suggest that a rapid acceleration in economic growth or much higher inflation is not in the cards. The relationship between yields for different maturity bonds defines what is called the shape of the yield curve, and it's been a pretty good indicator over time. Consequently, we plan to continue monitoring it carefully in the months ahead.

What is perhaps equally interesting, at least to bond aficionados (admittedly a small group), is that high-yield or "junk" bonds have continued to hold up so far in 2018, outperforming safer Treasury and municipal issues. Investors are perhaps counting on the fact that the higher income associated with such bonds will more than compensate them for their riskier underlying businesses. Overall, though, investors are reducing their holdings in some of the largest junk bond funds as the additional yield spread above Treasuries fell to 3.11%, a level last seen in 2007. This is another area that merits continued close scrutiny.

Tax-free municipal bonds also declined slightly for the quarter, as lower corporate tax rates make muni bonds marginally less attractive for large buyers of these issues, such as insurance companies and banks.

Meanwhile, back in the real world, we are all beginning to experience the effects of rising interest rates. The 30-year mortgage rate is now around 4.5%, and mortgage brokers tell us that most new home refinancing is being used to either withdraw cash from higher home values or to get out from under the need for mortgage insurance. Today, the Prime Rate (does anyone still use this?) is 4.75% and — lo and behold — money market funds and bank deposits are finally beginning to pay interest again, though still at levels barely enough to buy a stick of gum.

REAL ASSETS STRUGGLE

Real assets struggled in the first quarter. Global Real Estate Investment Trusts (REITs) declined 5.2% and Master Limited Partnerships (MLPs) fell 11.1%. These investments are referred to as Real Assets because they own "real," or tangible, assets that generate a significant portion of their return via the rents or royalties they charge customers for using those assets. In the case of REITs, income earned and passed through to shareholders typically comes from the rent charged to their tenants. For MLPs, it's largely the result of royalties charged on commodities (oil & natural gas) flowing through their pipelines.

Expectations for higher interest rates is one explanation for the recent underperformance of these investments. After all, the higher the interest rate on lower-risk bonds, the less demand there is for riskier, even if higher-yielding, securities like REITs and MLPs. But interest rates remain historically low, so there must be other reasons for underperformance. REITs, in our estimation, have been historically expensive investments for some time now. And there's a growing expectation that rental growth will slow going forward and that some of their costs (e.g. debt interest rates) are rising. MLPs are struggling with a number of headwinds. Most recently, proposed changes to MLP taxation have created significant uncertainty across the industry. In addition, rising interest rates are forcing these companies, at the margin, to internally fund their pipeline expansion and other capital investments. Both of these developments reduce or slow the cash flow growth investors can expect to receive in the future, resulting in their recent underperformance.

As prices of these securities fall, investors should find more value relative to their fairly stable long-term future cash flows, or yields. Presently, our exposure to this sector is intentionally limited, less than 5% for our average portfolio, but we view real assets as an important asset class that provides us with diversification and inflation protection. As always, we'll be monitoring these investments closely and assessing their long-term prospects relative to both their risks and how they stack up to other competing investment opportunities.

TAXES AND YOUR ESTATE PLANNING

You probably remember the headline news with respect to estate planning in the Tax Cuts and Jobs Act that became effective on January 1. The legislation increased the federal estate tax exemption to nearly $11.2 million per person and nearly $22.4 million for a married couple. For many of us, our initial reaction was, "Great. That's really going to simplify estate planning."

To be sure, there definitely *will* be far fewer estate tax returns filed. In 2016, for example, there were only about 12,000 federal estate tax returns filed — a rate of less than one half of one percent of deaths in the U.S. Of these, roughly 4,000 were for estates exceeding $10 million. With the higher exemption, planners are now forecasting that the number of estate tax returns filed in the coming years might fall to just 2,000 to 3,000 per year.

Alas, however, your work may not be done. Nearly all of us drafted our estate planning documents — wills, trusts, powers of attorney, etc. — before the new tax law took effect. As a result, you may have provisions in your current plan that are no longer optimal. Equally important, there are new planning opportunities created by the law that you may wish to take advantage of. Here are some examples of what we are encountering with our clients:

• **Bypass trusts** — Some individuals have documents which compel the creation of a bypass or credit shelter trust when one may no longer be necessary. So where an "A" trust will now do, assets may need to be split between an "A" and a "B" trust. This may create an unnecessary burden and reduce flexibility for a surviving spouse.

• **Spousal portability** — Many trusts also have spousal portability provisions — the ability for each spouse to share any unused portion of their exemption with a surviving spouse. With the larger estate exemption under the new law, these provisions may become less important or need to be revisited, though we would hesitate to remove any such option without due consideration.

• **Intergenerational wealth transfers** — New opportunities are now arising for families to plan intergenerational wealth transfers. An individual can now make tax-exempt lifetime gifts totaling $11.2 million ($22.4 million for a married couple). This can be used, for example, to set up a dynasty trust to leave assets to grandchildren, with the provisions you choose to establish for its use.

• **Gifting to 529 plans** — Another useful reminder is that 529 plans you have set up, in most cases, will not be included in your estate. You can fund $15,000 per year for each beneficiary ($30,000 for married couples). In addition, you can elect to pre-fund five years in advance without incurring gift taxes.

Beyond changes in tax laws, our lives and the people in them often naturally evolve. Sometimes new circumstances in our lives outgrow what was once a very good estate plan. Today, some of the provisions you have in your existing plan may no longer be necessary, while in other cases you may wish to make changes to reflect new desires. Spend a few minutes looking over the main provisions in your trust and see if this is true for you.

Finally, a really important reminder. The new estate tax laws expire after 2025, reverting to what they were in 2017 (although the exemption will continue to be adjusted for inflation). And who knows what some future Congress might do in the interim. What to make of all this? We can provide overall context for how the tax law changes might specifically affect you, your plans and your family. If changes seem to make sense, then consult with your estate planning or tax attorney to revise your plans accordingly.

THANK YOU

We love what we do — helping you, with your family, friends and favorite institutions all achieve your dreams. We take care of the important financial work that makes all this possible, so you can spend life's precious time on those things most important to you. Thank you for your trust and the opportunity to be your financial partner in life's wonderful journey.

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Important disclosures

Past performance is no guarantee of future performance. *All investments can lose value. Indices are unmanaged and you cannot invest directly in an index. The volatility of any index may be materially different than that of a model.*

Equities. *The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The MSCI EAFE Index (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of 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. Defensive Equities are investments in a portfolio of securities that has a similar return profile of an equity benchmark but with lower volatility or risk. Defensive Equities tend to be characterized as (residual interests in) companies with stable profitability, leading market shares, high returns on capital, and low leverage. Defensive Equities exposure can be gained through actively managed mutual funds and separately managed accounts, as well as factor-based passively managed ETFs.*

Fixed Income. *The Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds,revenue bonds, insured bonds and pre-refunded bonds. The Barclays High Yield Municipal Bond Index is an unmanaged index composed of municipal bonds rated below BBB/Baa.*

Real Assets. *The S&P GSCI® is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities. The returns are calculated on a fully collateralized basis with full reinvestment. Wilshire Global RESI is a broad measure of the performance of publicly traded global real estate securities, such as Real Estate Investment Trusts (REITs) and Real Estate Operating Companies (REOCs). The index is capitalization-weighted. The Alerian MLP Index is a gauge of large and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index includes 50 prominent companies and captures approximately 75% of the available market capitalization.*

Diversifiers. *The HFRI Fund of Funds Composite Index invests with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The minimum investment in a Fund of Funds may be lower than an investment in an individual hedge fund or managed account. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers. PLEASE NOTE: The HFRI Fund of Funds Index is not included in the HFRI Fund Weighted Composite Index.*