

Strategy Quarterly

First Quarter 2017

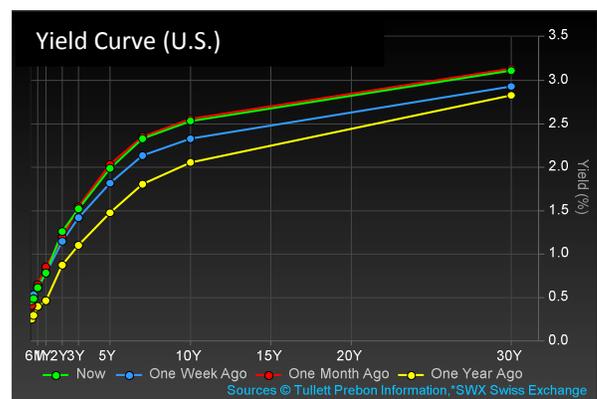
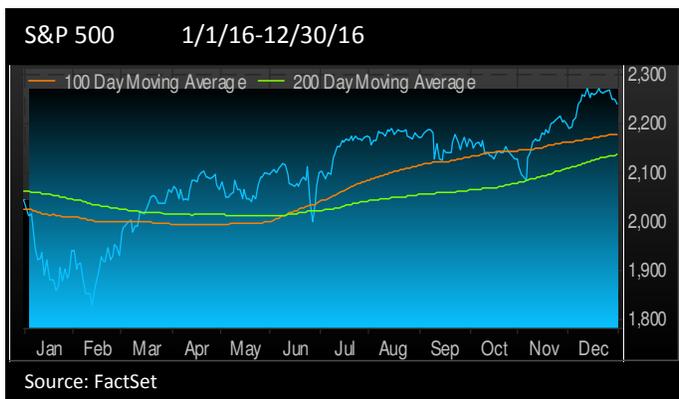
Executive Summary

- ❑ Over the last 12 months we faced concerns over a Chinese hard landing, the Brexit vote, and the U.S. election season. Some outcomes were as anticipated while others came as a complete surprise.
- ❑ Markets rebounded from periods of volatility, closing out the year with strong results.
- ❑ The economy continued its upward momentum, producing job growth and wage growth at the highest levels since June 2009, giving way to rising inflation.
- ❑ Increased optimism allowed the Fed to increase short term rates for the second time in 10 years. Three increases are anticipated in 2017.
- ❑ During the 3rd quarter we saw the beginning of a rotation away from defensive sectors in favor of cyclicals, indicating continued expansion.
- ❑ The fixed income markets continue to move higher as the 10 year U.S. Treasury finished the year at 2.45%, up from a low of around 1.40% just last quarter and 2.24% a year earlier.



Cypress Trust Investment Committee

Brian Skarbek, Chief Investment Officer
Norton V. "Cap" Coyle, Jr.
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Economic Backdrop

Why does the unknown often feel worse than the known?

The current economic, political, and market environment, with its multitude of variables, seems more challenging than those events through which we have already navigated.

2017 brings challenges of political transition, social tensions, reaction to policy changes, and stale monetary policy in the U.S.

Over the last 12 months we faced concerns over a Chinese hard landing, the Brexit vote, and the U.S. election season. Some outcomes turned out as expected while others were a complete surprise. We survived the events. Markets rebounded from periods of volatility, closing out the year with strong results. The S&P 500 closed at 2238, up 11% for the year and trading well above its 100-day and 200-day moving averages.

Interest rates backed up to 2.45% on the 10 year Treasury, as some of the uncertainties were addressed while expectations for the expanding economy took the lead.

The economy continued its upward momentum, producing job growth and wage growth at the highest levels since June 2009, giving way to rising inflation. There were upgrades to GDP, with 3Q16 GDP revised upward to 3.5%. The 4Q16 GDP estimate is scheduled to be released on January 27.

Solid numbers combined with increased optimism allowed the Fed to raise short term rates for the second time in 10 years, with 3 more rate increases anticipated in 2017. The December hike of 25 bps brought the Fed funds rate to the 0.50%-0.75% level. In response, many U.S. lenders raised their prime rates to 3.75%, pushing interest rates on consumer loans higher.

Commodities are coming off their lows in addition to the wage increases. The risk may be inflation moving faster than anticipated. The pace of globalization appears to be reaching a plateau and may even be at risk with the rise of protectionist, anti-trade sentiment across the globe. The questions for the market and the economy will be many, but simply stated, *“Can reality live up to the expectations?”*

Equities

In 3Q16, S&P 500 earnings increased by 4.3% led by Technology, Materials, and Utilities, all of which posted double digit increases. Telecom and Energy were the only 2 sectors to report contracting earnings. S&P 500 revenues posted an increase of 2.6% in the quarter. The lone negative report came from the Energy sector with a double-digit negative number.

During the 3rd quarter we saw the beginning of a rotation away from defensive sectors in favor of cyclicals which tend to perform better when the economy is expanding. As 4Q16 earnings numbers are just being released they are anticipated to increase by 6.2% which would be the strongest in 2 years and the 2nd quarter of positive year over year earnings growth, solidifying that the earnings recession that started in 3Q15 is over.

Fixed Income

The fixed income markets continue to move higher as the 10 year U.S. Treasury finished the year at 2.45%, up from a low of around 1.40% last quarter and 2.24% a year earlier. Rates have been more volatile in the short term as the markets digest the fact that the 30 year bond bull market may be over. Interest rates on the long bond have now closed higher 2 years in a row. The Fed forecasted 3 rate increases in 2017, while delivering 2 over the last 10 years. Economic strength and long rates may give the Fed the all-clear signal they have been waiting for.

Outlook

Uncertainty surrounds the markets and the economy. Will campaign promises translate into policy, and what does that mean for the economy and the markets? The likely outcome is that some but not all policy changes get approved in their original form, if at all. In either case, implementation takes time and we will gain better clarity as changes work through the economy.

The earnings recession looks to be behind us and rates will continue to move higher. The prolonged recovery has finally gained traction.

Our commitment to you is that we will continue to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.



Two Decades of Keeping Up With Change

By Joseph C. Pauldine
Cypress Trust Company

When Cypress Trust Company received its trust charter in 1996, little did its founders realize what the next twenty years was going to bring in terms of administration and estate planning. Looking back on the key developments, we've seen some pretty considerable changes take place. Business practices, policy and regulation, the economy – they've all played a significant part in shaping how individuals at any level of wealth plan for their future and legacies.

"A million dollars isn't what it used to be." This somewhat light-hearted idiom carries a few different sentiments. People approaching retirement levels in the 1990's felt much more comfortable with the prospects of a million dollars being enough to last the rest of their lives. The average life expectancy for today's "near-retirees" is about eight to ten years longer than the generation before them. So even without inflationary factors, the need to accumulate and preserve wealth has increased. No surprise, the average retirement age has moved upward by about five years in the same time period.

We have also seen business practices change when it comes to defining "wealth," particularly in the form of rising account minimums. Several trust companies have set the bar at \$3 million, \$5 million or in some cases \$10 million. Even families with a well-crafted estate plan could face challenges with finding a trust company willing and able to provide local, personal service if the assets are below these levels. The founders of Cypress Trust Company saw the growing need to service these families, even twenty years ago.

There have been a number of changes in the regulatory environment area as well. The highest estate tax brackets went from 55% above \$3 million in 1996, to a repeal in 2010, and now to 40% above \$5.45 million. The Terri Schiavo case brought increased awareness to the importance of advanced health directives beyond the right-to-die cases that preceded it. The Defense of Marriage Act was enacted as federal law in 1996 and then ruled unconstitutional in 2013, thus paving the way for recognition of same-sex marriage throughout the United States in 2015. These are but three examples of some of the more highly publicized regulatory changes in the past two decades that have reshaped the planning environment.

There is one area in particular, however, that hasn't garnered the same level of awareness. Directed Trusts have grown in popularity in recent years, fueled in part by grantors' desires to split trustee responsibilities and duties among different entities, especially in irrevocable trusts. For example, with a Directed Trust, a grantor may appoint one entity to perform administrative functions while assigning the duties of investment management to another.

Recent amendments to Florida statutes have furthered this approach by beginning to define the level of oversight required of the trustee. Prior to the new amendment, using the above example of a grantor appointing separate entities for administration and investment management, there was concern as to the responsibility of ultimate oversight. A number of trust companies, including Cypress Trust Company, have developed service offerings in support of Directed Trusts. In these cases, families have the ability to maintain, perhaps, a long-standing investment relationship while a corporate trustee handles the administration.

Economic changes have played more than just a passing role in the past twenty years – the technology and housing bubbles being two of the more noteworthy events. The struggle to find income has been particularly difficult with interest rates at near zero levels for the last seven years, making the challenge to replace income in retirement that much more difficult. Investors have opened up to options beyond traditional fixed income instruments, such as U.S. high-yield debt or Foreign Debt, as well as taking additional risk and/or extending duration. Working with individual clients to customize an investment strategy is one of the founding principles of Cypress Trust Company.

We are very proud to be celebrating twenty years of providing local, personal service in our communities and look forward to navigating both expected and unexpected change in the years to come.

Joseph C. Pauldine is a Senior Vice President of Cypress Trust Company. Mr. Pauldine assists successful individuals and their families with custom investment management solutions and trust administration services. He received his B.S. in Business Administration from Old Dominion University.

Cypress Trust Company is a boutique corporate fiduciary that focuses exclusively on creating customized investment strategies, serving as a corporate trustee, personal representative or agent during estate settlement, and as an administrative trustee for clients already committed to an investment plan.

Be Cyber-Aware. Stay Cyber-Safe.

By Jim Parry, Vice President IT Services
Cypress Trust Company

At Cypress Trust Company, protecting our clients' privacy is a top priority. We take precautions to protect your information and believe that such protection is vital to our business. We maintain physical, electronic, and procedural safeguards to store and secure client information to protect against unauthorized access. It is important for clients to implement similar precautions when using their personal computers. As part of our commitment to help you stay cyber-aware, we will begin publishing tips and recommendations that you can implement to help keep your personal information safe. Look for them in the next Quarterly Strategy newsletter.

Event Calendar - 1Q2017

U.S. Markets Closed	1/2	PPI/Core PPI	2/14
FOMC Minutes Release	1/4	CPI/Core CPI	2/15
Continuing Claims/Initial Claims	1/5	Industrial Mfg/Production	2/15
Private/Nonfarm Payrolls	1/6	Retail Sales	2/15
Continuing Claims/Initial Claims	1/12	Continuing Claims/Initial Claims	2/16
PPI/Core PPI	1/13	U.S. Markets Closed	2/20
Retail Sales	1/13	Continuing Claims/Initial Claims	2/23
U.S. Markets Closed	1/16	Continuing Claims/Initial Claims	3/2
CPI/Core CPI	1/18	Continuing Claims/Initial Claims	3/9
Industrial Mfg/Production	1/18	Private/Nonfarm Payrolls	3/10
Continuing Claims/Initial Claims	1/19	PPI/Core PPI	3/14
Inauguration Day - U.S.	1/20	CPI/Core CPI	3/15
Continuing Claims/Initial Claims	1/26	Retail Sales	3/15
GDP (first preliminary)	1/27	Continuing Claims/Initial Claims	3/16
Consumer Confidence	1/31	Industrial Mfg/Production	3/17
Continuing Claims/Initial Claims	2/2	Continuing Claims/Initial Claims	3/23
Private/Nonfarm Payrolls	2/3	Continuing Claims/Initial Claims	3/30
Continuing Claims/Initial Claims	2/9	FOMC Meeting	1/31-2/1



Cypress Trust Company is a boutique corporate fiduciary that focuses exclusively on providing customized trust and investment management services for successful individuals and their families, non-profit organizations, foundations and endowments. As an independent Florida-chartered trust company, we are governed by an elected board of directors and regulated by the Florida Office of Financial Regulation. Cypress Trust Company maintains full-service offices in Palm Beach, Naples, Vero Beach, and Winter Haven, with additional representation in Sarasota and The Villages.

Important Notes

This does not constitute an offer or solicitation. Opinions expressed are current opinions as of the date appearing in this material only. This information should not be considered investment advice or a recommendation to buy or sell any particular security. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy. The information in this material and specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings will vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities. Past performance does not predict future results.

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