The Compass

Second Quarter 2018

Executive Summary

- ❑ Volatility is back, powered by fears of valuations, recession, and trade wars.
- ❑ Synchronized global growth supports rising interest rates.
- ❑ The March rate hike brought the Fed Funds rate to the 1.50-1.75% range.
- ❑ The S&P 500 posted its first negative return since September 2015. Consumer Staples, Energy, and Materials lagged, while Consumer Discretionary and Technology posted positive returns.
- ❑ US companies continue to post strong revenue growth, led by Energy, Materials, and Technology.
- ❑ The 10 year U.S. Treasury yield closed the quarter at 2.76%, a modest 35 basis point increase over the previous quarter.
- ❑ The 2-10 spread narrowed to 47 basis points.

In this issue:

- ❑ Diminished Capacity
- ❑ Data Breaches

Cypress Trust Company Investment Committee

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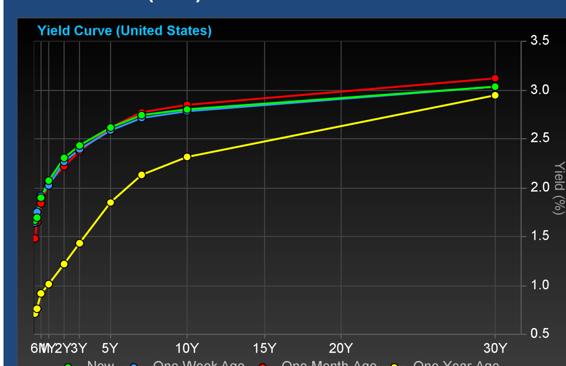
S&P 500 Year to Date Price Chart

Source: FactSet

Yield Curve (U.S.)



Source: FactSet

Overview

The 1st quarter of 2018 was much different than the previous 7 quarters. For a variety of reasons volatility was reintroduced into the markets as investors questioned valuations even though the economy and Corporate America continue to deliver solid results. The rest of the world continues to participate in the recovery, albeit a protracted one, soon becoming one of the longest in history. Tighter monetary policy appears to be one of the main concerns all while rates are still historically low. Other world central banks are joining the US in reducing asset purchases, but are starting to raise their own rates. Throw in discussions of tariffs and geopolitical issues as further headwinds that served to offset the fiscal policies (reduced regulation and tax cuts) that propelled the markets higher at the start of the year.

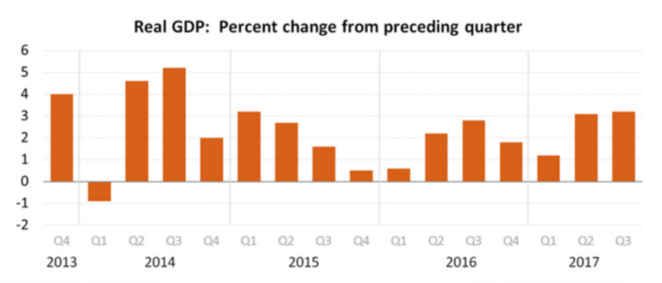
2018 is still expected to deliver positive returns when we ring in 2019. But, as we have seen over the last 2 months of the quarter, volatility is here to stay. As we head to mid-term elections later in the year, the political environment will also be "exciting."

Economic Backdrop

The Federal Reserve continues to telegraph their moves as they again raised rates in the most recent quarter. This is the 6th hike in this cycle, bringing the Fed Funds rate to the 1.50%-1.75% range. The Fed continues to have the ammunition to raise rates further, although at a slow and measured pace.

Inflation and unemployment numbers continue to give evidence of an improving and growing economy, while still having room to move further without overheating. The most recent inflation report came in at 2.4% thanks to reduced drag from mobile phone service costs. The number has now been above 2% for 12 of the last 16 reports. This is in addition to the unemployment rate hovering just above the 4% level, along with the number of discouraged workers decreasing as well (sign of healthy job market).

4Q2017 GDP came in at 2.9%, which was higher than expectations but slower than the 3% number reported the 2 previous quarters. A combination of higher consumer spending and a small drag from private inventories contributed to the higher revision from the mid 2% original release.



Equities

In the most recent quarter the S&P 500 posted the first negative return in some time with a loss of 1.22%. Drag in the quarter was led by Consumer Staples, Energy, and Materials. The Consumer Discretionary and Technology sectors were the only two to report positive returns.

U.S. companies continue to post strong revenue growth. They posted 8.3% growth which is also an improvement on last quarter's 6.8% number. All sectors reported revenue growth led by Energy, Materials, and Technology all delivering double digit growth.

S&P 500 earnings improved on last quarter's 12.3% report with an improving 14.8% growth led by the Energy sector with a 120.4% improvement due to very easy comparisons. The new sector Real Estate was the only group to print a red number (-4.1%).

Expectations are for continued strong growth in both revenue and earnings. The outlook and commentary from companies will give investors a better idea on the duration and pace.

Fixed Income

The 10 year US Treasury closed the quarter at 2.76%, which is higher than the 2.41% at the end of the year. Yields continue to rise and almost touched 3%, with the most recent high of 2.95% in the quarter. The 2-10 Treasury yield spread finished the quarter at 47 basis points, which is the lowest in some time and has been decreasing for most of the quarter. The metric is an indicator of stable conditions and is widely used to help predict recessions. The lower the number, the closer to predicting a recession.

Outlook

The outlook for the remainder of the year is for positive returns in the equity markets and higher interest rates with the backdrop of continued volatility. Monetary tightening, not only domestically, but the potential for additional countries around the world, will serve as a headwind as liquidity is being reduced. Politics both domestically and internationally will add to these challenges. As reduced regulation and the effects of tax cuts begin to benefit corporations and consumers, the overall long term impact on the economy remains uncertain. The yield curve will continue to be one of the biggest wild cards. Most investors expect rates to continue to rise, but the absolute number and more importantly the velocity of that move will keep all on edge.

Always vigilant, our commitment to you is to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.

Diminished Capacity:
It is Better to be Prepared

By Anita D. Calabro
Cypress Trust Company

We live in an ever-changing world of scams and constant threats to our personal information. No one is immune to these threats and in some cases certain individuals are more likely to be targeted. The vulnerable, or those with diminished capacity, are at higher risk for fraud attempts and financial exploitation. According to the Alzheimer’s Association, persons with dementia will triple by 2050.

There is no hard rule for what constitutes diminished capacity. Forgetfulness, along with varying levels of awareness and emotional responses, are included within the symptoms, but each one comes with a wide range of interpretation. For some, forgetfulness could be just moments of “fuzziness,” and for others it may be an indication of something more advanced. Those with more severe cases may not even be aware of their memory loss. Regardless of the characteristics demonstrated, these individuals can potentially become susceptible to the loss of their financial resources.

Another aspect of diminished capacity is its impact on the family. For those caregivers who are taking care of a loved one with cognitive demands it’s important that they be supported as well as they most likely are putting their needs and to some degree their health issues to the side to provide for another. As well intentioned as the caregiver may be, family and friends can help assist the caregiver and hopefully alleviate some of the stress associated with caring for an ailing loved one.

It is recommended that families begin taking steps in advance of any progression of symptoms in order to minimize discomfort. Diminished capacity is not a comfortable conversation – but having a family discussion on the topic is important to developing a strategy in advance. Watching a family member lose their cognitive abilities is difficult enough emotionally but can also raise serious threats financially if they execute documents and do not realize the impact of doing so. Families should also review other estate planning documents to be sure the appointed agents stepping into the shoes of a diminished capacity loved one has the legal and financial authority to carry out their duties.

There is no easy way to deal with all the changes that come along when a family has to protect a loved one with declining memory issues but with a little planning and a lot of communication as a team, your loved one can continue to be the person who deserves to be the best version of themselves and live everyday more protected and hopefully, ultimately reduced stress for the entire family.

Anita D. Calabro is a Vice President and Trust Officer of Cypress Trust Company. Ms. Calabro assists successful individuals and their families with custom investment management solutions and trust administration services.

Avoid Being a Victim of Data Breaches

By Jim Parry, Vice President IT Services
Cypress Trust Company

With news of the recent data breaches at Panera Bread, Saks 5th Avenue, and Lord & Taylor it is now more important than ever to make sure you are using your digital equipment as safely as possible. When these breaches occur, it's not unusual for more than just the username and password to be stolen. In the Panera Bread incident, names, e-mail addresses, dates of birth, and phone numbers were also part of the stolen information. "The data available from Panera's site appears to include records for any customer who has signed up to order food online via PaneraBread.com," according to security expert Brian Krebs (KrebsOnSecurity.com). Armed with this information, hackers can attack in several different ways. They can:

1. Use your personal information to open bank accounts and sign up for credit cards.
2. Target you with phishing e-mails using the information they harvested from Panera Bread.
3. Send malicious text messages to your phone.

The precautions remain the same:

1. Monitor your credit report to make sure new accounts haven't been opened.
2. Monitor your bank and credit card statements to make sure fraudulent charges haven't been applied.
3. In addition, don't click on pictures or links in e-mail messages or texts unless you know the sender and you're expecting the message.
4. Don't use an unsecured Wi-Fi network to do anything that requires you to exchange sensitive information with a website, financial or otherwise.
5. Other good practices are to turn off Bluetooth and Wi-Fi on your phone unless you are using them. Leaving them enabled exposes you to unnecessary risk.
6. Above all, enjoy using your devices – a little bit of awareness and caution go a long way.

As part of our commitment to help you stay cyber-aware, look for tips and recommendations in each issue of The Compass newsletter that you can use to keep your personal information safe.

CYPRESS TRUST COMPANY

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