Investment and Economic Outlook

Jeffrey Mortimer, CFA
Director of Investment Strategy

May 2018
Trade, Tariffs and Politics Causing Volatility

S&P 500 INDEX

As of 4/30/2018. Source: Strategas.
<table>
<thead>
<tr>
<th>S&amp;P 500 Sectors</th>
<th>M/M Chg</th>
<th>YTD Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>-0.62%</td>
<td>-5.61%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2.10%</td>
<td>-1.27%</td>
</tr>
<tr>
<td>Energy</td>
<td>9.36%</td>
<td>2.92%</td>
</tr>
<tr>
<td>Staples</td>
<td>-4.32%</td>
<td>-11.13%</td>
</tr>
<tr>
<td>Telecom</td>
<td>-0.98%</td>
<td>-8.39%</td>
</tr>
<tr>
<td>Discretionary</td>
<td>2.36%</td>
<td>5.53%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-2.79%</td>
<td>-4.31%</td>
</tr>
<tr>
<td>Health Care</td>
<td>1.22%</td>
<td>-0.02%</td>
</tr>
<tr>
<td>Technology</td>
<td>0.09%</td>
<td>3.62%</td>
</tr>
<tr>
<td>Materials</td>
<td>0.15%</td>
<td>-5.37%</td>
</tr>
<tr>
<td>Financials</td>
<td>-0.37%</td>
<td>-1.32%</td>
</tr>
</tbody>
</table>
U.S. Wage Growth Bears Watching

As of 3/31/2018


Y/Y PERCENT CHANGE

All nonfarm employees

10-Year Treasury Searches For New Range

As of 5/2/18. Source: FactSet.
Equities vs. Bonds
S&P EARNINGS YIELD OVER THE 10-YEAR TREASURY YIELD

As of 4/30/2018. Source: Strategas.
Fiscal Policy Outweighs Tariffs

$800BN FISCAL POLICY STIMULUS VS $31.5BN TARIFFS

Source: Strategas.
Upward Earnings Revisions Moving Higher

As of 4/30/2018. Source: Strategas.
Interaction between the Economy and Stock Market

**Sell**
- Rising interest rates (tight $)
- Rising inflation
- Capital expenditures increasing
- Profits accelerating
- Declining inventories
- Rising commodity prices

**Protect**
- Falling commodity prices
- Inventories high
- Profits decreasing
- Falling inflation
- Capital expenditures decreasing
- Falling interest rates (loose $)

**High unemployment**

**Cheaper Capital: Borrow to Buy or Build**
Interaction between the Economy and Stock Market

**Sell**
- Rising interest rates (tight $)
- Rising inflation
- Capital expenditures increasing
- Profits accelerating
- Declining inventories
- Rising commodity prices

**Protect**
- Falling commodity prices
- Inventories high
- Profits decreasing
- Falling inflation
- Capital expenditures decreasing
- Falling interest rates (loose $)

High unemployment

Cheaper Capital: Borrow to Buy or Build
Interaction between the Economy and Stock Market

**Sell**
- Low unemployment
- Rising interest rates (tight $)
- Rising inflation
- Capital expenditures increasing
- Profits accelerating
- Declining inventories
- Rising commodity prices

**Protect**
- Falling commodity prices
- Inventories high
- Profits decreasing
- Falling inflation
- Capital expenditures decreasing
- Falling interest rates (loose $)

**Cheaper Capital: Borrow to Buy or Build**
9:00: Current v. Historical Performance
11/30/2016 – 4/30/2018

Source: Morningstar Direct
Current period is not included in historical average calculations.
## Asset Class Positioning

### INVESTMENT STRATEGY COMMITTEE RECOMMENDATIONS

<table>
<thead>
<tr>
<th>EQUITY</th>
<th>Underweight</th>
<th>Small Underweight</th>
<th>Neutral</th>
<th>Small Overweight</th>
<th>Overweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Developed Large Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Developed Small Cap</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emerging Markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private Equity-Real Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| FIXED INCOME                  |             |                   |         |                  |            |
| Treasuries                    |             |                   |         |                  |            |
| Investment-grade Corporate    |             |                   |         |                  |            |
| Tax-exempt                    |             |                   |         |                  |            |
| High Yield                    |             |                   |         |                  |            |

| DIVERSIFIERS                  |             |                   |         |                  |            |
| Real Estate (REITs)           |             |                   |         |                  |            |
| Long/Short Hedge              |             |                   |         |                  |            |
| Absolute Return Hedge         |             |                   |         |                  |            |
| Managed Futures               |             |                   |         |                  |            |
| Commodities                   |             |                   |         |                  |            |

As of 3/7/18
Our Key Investment Themes

2018

- Global Monetary Normalization Begins
- Fiscal Stimulus
- Market Volatility/Geopolitical Risk
- Synchronized Global Growth
- Upward Drift in Inflation and Rates
- Earnings-Driven Equity Gains
- Increased Dispersion
- Yield Curve Dynamics

Fiscal Stimulus

Earnings-Driven Equity Gains

Global Monetary Normalization Begins

Market Volatility/Geopolitical Risk

SYNCHRONIZED GLOBAL GROWTH

Increased Dispersion

Upward Drift in Inflation and Rates

Yield Curve Dynamics
The information provided is for illustrative/educational purposes only. All investment strategies referenced in this material come with investment risks, including loss of value and/or loss of anticipated income. Past performance does not guarantee future results. No investment strategy or risk management technique can guarantee returns in any market environment.

This material is not intended to constitute legal, tax, investment or financial advice. Effort has been made to ensure that the material presented herein is accurate at the time of publication. However, this material is not intended to be a full and exhaustive explanation of the law in any area or of all of the tax, investment or financial options available. The information discussed herein may not be applicable to or appropriate for every investor and should be used only after consultation with professionals who have reviewed your specific situation.

BNY Mellon Wealth Management may refer clients to certain of its affiliated offering expertise, products and services which may be of interest to the client. Use of an affiliate after such a referral remains the sole decision of the client.

Strategic Architecture is a service mark owned by The Bank of New York Mellon Corporation


©2018 The Bank of New York Mellon Corporation. All rights reserved.