Compass Investments LLC

Interim Update - Year-to-Date as of February 14, 2019

As we pass Valentine's Day, six weeks into the new year, markets have staged an impressive recovery from the challenging end of 2018 that culminated in a crescendo of selling on Christmas Eve. US. stocks, as measured by the S&P 500 index, lost 13.5% during the fourth quarter of 2018 but have recovered 10% year-to-date.

Asset Class	Representative Index	Trailing Price-to-Earnings Ratio (stocks)	Year to Date 2019 Return (as of 2/13/19)	1 Year Total Return (2/13/18 – 2/13/19)
US Large Stocks	S&P 500	18.3	10.07%	5.45%
US Small Stocks	Russell 2000	22.7	14.52%	4.56%
Foreign Stocks	MSCI EAFE	14.4	6.75%	-6.37%
Emerging Market Stocks	MSCI EM	12.6	7.95%	-8.03%
U.S. Fixed-Income	Bloomberg BarCap Aggregate Bond	n/a	0.90%	2.99%
Cash Equivalents	Bloomberg BarCap 1-3 Month T-Bills	n/a	0.29%	1.97%

Data as of market close 2/13/2019, source: Morningstar

During the sell-off, we could not find significant evidence that a meaningful economic slowdown was on the horizon. At the time, we believed (and continue to believe) that the downward market movement was driven largely by a re-pricing of risk by investors as they considered higher risk-free interest rates and potentially slower global growth.

What developments have led to this recent rally?
Much of the fear that characterized the fourth quarter has been replaced with cautious optimism. Specifically, the following developments have reduced investor anxiety:

1) **U.S. – China trade negotiations are progressing –** Perhaps the biggest development is the reported progress on trade negotiations between the U.S. and China. The Chinese economy has already been impacted by tariffs that went into place at the end September. U.S. trade delegation including Treasury Secretary Steve Mnuchin is currently in Beijing negotiating with President Xi. While some challenges remain, including dealing with intellectual property rights, the likelihood of a deal has increased.

2) **U.S. Fed has changed its tune on raising interest rates** - January's sharp recovery was driven in large part by comments from Federal Reserve Chairman, Jerome Powell, indicating the Central Bank would likely be more patient with future interest rate hikes than many had previously been communicated. Softening inflation numbers have given the Fed more latitude to pause raising rates.

> *"We're moving to a place where [interest rates] will be neutral. We may go past neutral, but we're a long way from neutral at this point, probably"*
>
> *- Fed Chair Jerome Powell, 10/3/18*
>
> *"With the muted inflation readings that we've seen coming in, we will be patient [raising rates] as we watch to see how the economy evolves… markets are expressing concerns, we are listening carefully"*
>
> *- Fed Chair Jerome Powell, 1/4/19*

3) **The longest government shutdown in history ended** – The shutdown ended in January to allow time for negotiations over the funding of a boarder wall. Impasse appears to have thawed over the last week with an apparent tentative deal to keep the government open and funded. Although things look positive it has not yet been signed into law and if things are not finalized the partial shutdown resumes on February 16.

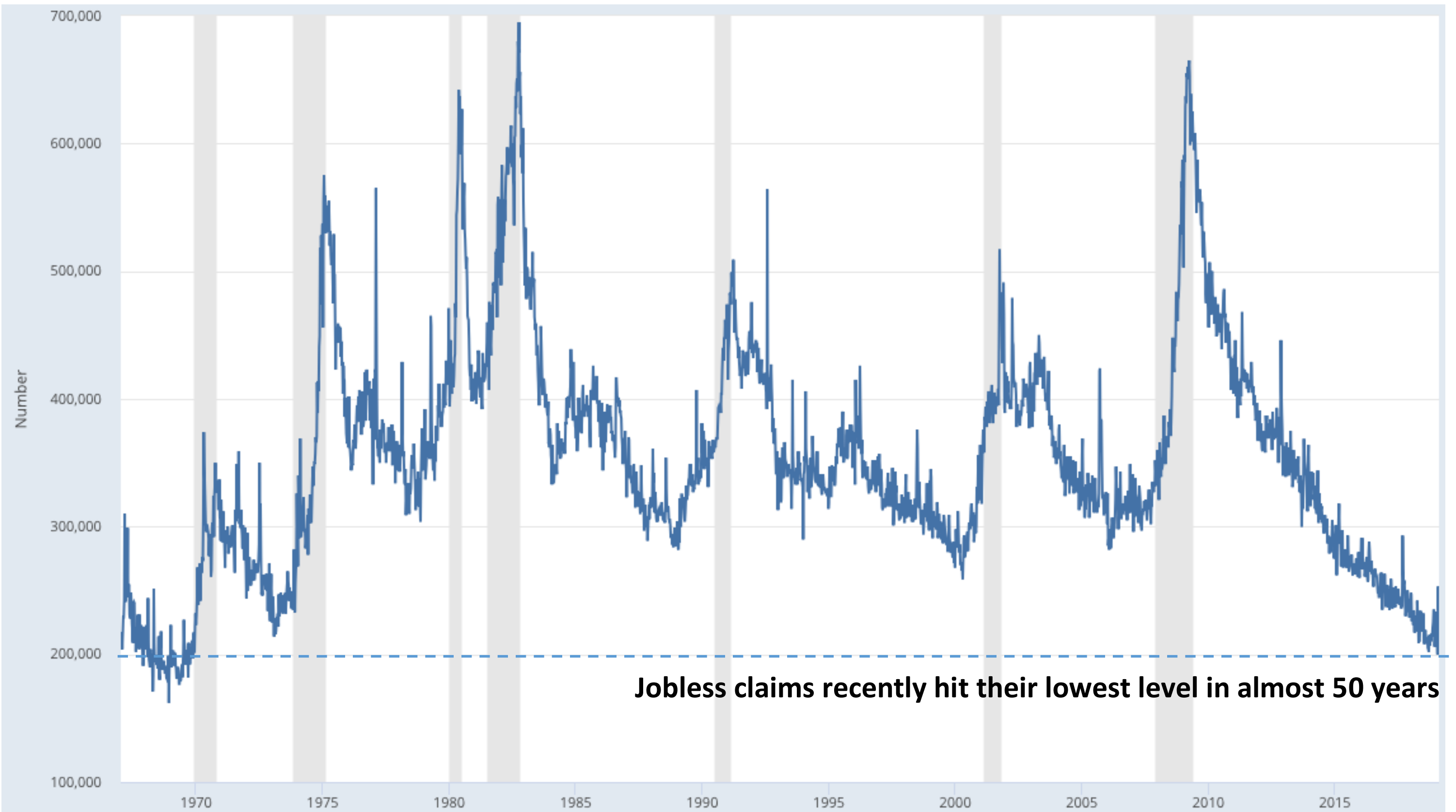
4) **Corporate earnings are better than feared –** With over two thirds of the companies in the S&P 500 having reported earnings almost 60% of companies have surpassed analyst estimates at the beginning of earnings season. Outlooks have been mixed but earnings season can best be characterized as having been better than feared given the uncertainties caused by trade tensions.

Where do we see opportunities and risks today?

U.S. Economy

We were certainly happy to see the recent recovery take hold, but we remain cognizant that uncertainties remain and there is the possibility that trade talks between the U.S. and China could break down and that the government re-enters a partial shutdown. We still maintain that the overall health of the economy is intact and do not see indications of a pending recession. This outlook could shift however if we fail to see a resolution of the U.S. – China tariffs and softness in China begins to impact economic activity more broadly. That said, currently the U.S. economy remains robust particularly with regards to labor markets as evidenced by unemployment and jobless claims numbers that hover near historical lows (reference chart).

U.S. Weekly Unemployment Claims
(1967 – Present)
Source: U.S. Employment Administration



Equity Valuations
Given the market recovery, US equities again appear near fair valuation (close to historical average valuation levels). Therefore, we've been pursuing opportunities in lower valued sectors such as energy infrastructure. We also note that valuations are more attractive in foreign and emerging market stocks where we continue to find opportunities to buy at discounts to historical average valuations.

Fixed-Income Valuations
Within the fixed-income component of the portfolios, we've taken a defensive positioning designed to reduce interest rate risk. With interest rates again at lower levels, there appears to be limited or no compensation for investing in longer-maturity securities and investment-grade corporate debt.

Summary
We believe tilting the portfolio towards areas of the market we view as undervalued (such as foreign equity) while controlling for interest rate risk is the appropriate positioning. The balanced portfolio approach provides exposure to growth assets but will also help smooth out any episodes of volatility we may experience if there are setbacks to the progress being made with the factors previously

discussed. Please reach out if you have any questions or if anything has changed in your financial life that may necessitate a revisiting of your plan and target portfolio allocation.

Past performance may not be representative of future results. All investments are subject to loss. Forecasts regarding the market or economy are subject to a wide range of possible outcomes. The views presented in this market update may prove to be inaccurate for a variety of factors. These views are as of February 14, 2019 and are subject to change based on changes in fundamental economic or market related data. Please contact your Financial Advisor to do an updated risk assessment to ensure you have the appropriate target portfolio allocation.