February 2019

SOL CAPITAL MANAGEMENT COMPANY

CLIENT INVESTMENT LETTER

Global Economic and Financial Markets Summary

After reaching all-time highs in the third quarter, major U.S. equity indices fell sharply in the fourth quarter of 2018. The S&P 500 Index briefly entered bear market territory[1] in late December and finished the year with its worst annual performance since 2008. International equities and high-yield bonds also suffered losses during the quarter and the year but fared better than U.S. equity in the final months of the year. Volatility, as measured by the VIX Index[2], spiked from 12 at the end of September to over 36 near the end of December. During the turbulent period, investors also flocked to safe havens, such as government debt and gold.

Several catalysts prompted the fourth quarter flight to safety, including slowing global growth, a weaker outlook for corporate earnings, political infighting in Washington, and trade tensions between the United States and China. Investors also began to worry that the U.S. economy might not be strong enough to withstand continued monetary tightening by the Federal Reserve (Fed). Technical factors likely exacerbated the selloff, including high-frequency trading, tax-loss harvesting, and reduced market liquidity during the holiday season.

The new year brought a rapid reversal in investor sentiment. Financial markets rallied in early 2019, boosted by signs of progress on U.S.-China trade talks and renewed optimism about the U.S. economy, especially with the end to the partial government shutdown. Perhaps most significantly, the Fed indicated that it would take a break from raising the federal funds rate and might soon stop trimming its bond portfolio. By the end of January, the S&P 500 Index had recouped its entire 2018 decline and was well into positive territory. Non-U.S. equities also regained substantial ground, and corporate bond returns were generally positive (see Exhibit 1). In contrast to late 2018, volatility so far this year has been subdued, with the VIX closing under 16 on February 8.

As we have mentioned in previous letters, volatility through 2017 had been abnormally low for several years, and we advised investors to prepare for it to return to more normal levels. Volatility has since returned, and it is occurring in acute bursts rather than long, gradual movements. We believe the main contributor to this phenomenon is the near-instant exchange of information, and market participants' almost-immediate reaction (often an overreaction) to it. Furthermore, a large percentage of these participants (e.g. hedge funds) use automated trading systems that amplify volatility because they are programmed to dump equities when prices fall beyond a certain threshold.

The rapid movements (both to the down- and upside) in equities over the past few months are timely reminders of the importance of staying fully invested. Stocks are long-term investments. They offer the potential for more attractive returns than bonds, but to earn those returns, investors must be willing to hold them throughout volatile periods. In this context, it is worth remembering that, while equities were down in 2018, they were coming off a two-year period of exceptional gains.

Inside this issue:

[1] Bear market territory is defined as a decline of 20% or more from a recent peak.
[2] The VIX Index is a measure of market expectations of near-term volatility conveyed by S&P 500 Index option prices.

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Global Economic and Financial Markets Summary Cont.

"As shown in Exhibit 1, all major style and capitalization segments of the U.S. stock market registered losses in the fourth quarter and the year. On a comparative basis, large-cap equities were more resilient than mid- and small-cap equities during both time periods."

Exhibit 1
Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices

	4th Quarter *(9/30/18 to 12/31/18)*	Year to Date *(12/31/17 to 12/31/18)*	Year to Date *(12/31/18 to 01/31/19)*
Major Equity Indices	%	%	%
S&P 500 Index	(13.5)	(4.4)	8.0
Russell 3000 Index (Total U.S. market)	(14.3)	(5.2)	8.6
Russell 2000 Index	(20.2)	(11.0)	11.2
MSCI All Country World Ex-U.S. Index (Net)	(11.5)	(14.2)	7.6
MSCI EAFE International Index (Net)	(12.5)	(13.8)	6.6
MSCI Emerging Markets Index (Net)	(7.5)	(14.6)	8.8
MSCI ACWI Commodity Producers (Net)	(17.2)	(11.8)	9.2
Source: Bloomberg, MSCI			
Major Fixed Income and Hedge Fund Indices			
Bloomberg Barclays Capital U.S. Aggregate Bond Index	1.6	0.0	1.1
Bloomberg Barclays Capital U.S. Government/Credit	1.5	(0.4)	1.2
ICE BofAML 1-3 Year U.S. Broad Market	1.2	1.7	0.4
ICE BofAML U.S. High Yield BB-B Bond Index	(3.8)	(2.0)	4.4
JP Morgan Non-U.S. Global Bond Index (GBI) Hedged	2.4	3.6	1.1
JP Morgan EMBI Global Index in USD (Emerging Markets)	(1.2)	(4.6)	4.4
HFRX Equal Weighted Strategies Index (Hedge Funds)	(3.9)	(5.4)	1.6
Source: Bloomberg			

** Includes price appreciation plus dividends and/or interest.*

Financial Markets Performance

Equities

Major U.S. equity indices posted significant losses in the fourth quarter. The selloff began in early October, when worries that the U.S. economy might overheat, combined with rising Treasury yields, dampened investor sentiment. Weaker U.S. economic data published in November (regarding jobless claims, retail spending, and mortgage rates), as well as slowing growth in China and Europe, and a sharp drop in oil prices all sent Treasury yields lower, relieving some downward pressure on equities. However, negative momentum in equities resumed in December due to concerns that the yield curve, which partially inverted[3] might be signaling a recession. Investors also

Financial Markets Performance Cont.

reacted negatively to the actions of the Fed, which appeared committed to tightening monetary policy despite evidence of softening growth. The central bank raised its main policy rate another 0.25% in December, continued reducing its balance sheet, and projected two rate increases in 2019 (albeit down from the four it had projected in September).

As shown in Exhibit 1, all major style and capitalization segments of the U.S. stock market registered losses in the fourth quarter and the year. On a comparative basis, large-cap equities were more resilient than mid- and small-cap equities during both time periods.[4] Growth stocks led for the overall year, but during the painful fourth quarter, value stocks outperformed.[5] Within the S&P 500 Index, all sectors except utilities declined during the quarter, and the smallest losses came from other defensive groups, such as consumer staples and health care. Energy was the worst-performing sector due to falling oil prices, while technology stocks were hit hard given their already extended valuations. Since the beginning of the new year, all broad U.S. equity indices have posted strong positive returns, recovering more than the negative returns registered in 2018.

Outside the U.S. in the fourth quarter, the MSCI EAFE Index generated[6] a return similar to that of the S&P 500 Index, and every country within the MSCI EAFE declined. International stocks faced the broad, global headwinds of slowing economic and earnings growth, trade concerns, and monetary tightening, not only from the Fed but also the European Central Bank (ECB), which ended its bond-buying program. Heightened political uncertainty put additional pressure on European shares. U.K. lawmakers still could not agree on "Brexit" terms, Italy clashed with the European Union (EU) over its deficit target, and "yellow vest" protestors in France denounced President Macron's policy agenda. Japanese equities were modestly weaker than their European counterparts amid an exodus of foreign capital. In 2018, Japan's stock markets experienced their largest flight of foreign investment in three decades.[7]

Emerging market equities remained weak in the fourth quarter, although losses were less severe than in developed markets. Asian stocks led the decline, as economic data suggested that China's slowdown was deepening. Performance in emerging Europe, the Middle East, and Africa was mixed, with Russian shares falling with oil prices and Turkish stocks rebounding as tensions with the U.S. eased. Latin America generated a slight gain in the quarter due to strength in Brazil, where equities rallied on the heels of Jair Bolsonaro's victory in the runoff presidential election. International equities (both developed and emerging) have also enjoyed a strong recovery so far in 2019.

"International stocks faced the broad, global headwinds of slowing economic and earnings growth, trade concerns, and monetary tightening, not only from the Fed but also the European Central Bank (ECB), which ended its bond-buying program."

[3] On several days in December, the yield on the two-year Treasury note exceeded the yield on the five-year note, and the yield on the one-year Treasury bill exceeded the yields on the two- and three-year notes.

[4] As measured by the Russell 1000 Index, the Russell Midcap Index, and the Russell 2000 Index, respectively.

[5] As measured by the Russell 3000 Growth Index and the Russell 3000 Value Index, respectively.

[6] The MSCI EAFE Index is a benchmark of large- and mid-cap equities from developed markets in Europe, Australasia, and the Far East.

[7] As measured by Bloomberg

Financial Markets Performance Cont.

"Most sectors of the U.S. investment-grade fixed-income market produced gains during the quarter, led by Treasuries and mortgage-backed securities."

Fixed Income

In early November, the 10-year yield rose to a seven-year high of 3.24% as strong U.S. economic data fueled worries that inflation might heat up, or that the Fed might quicken its pace of interest rate increases to preempt inflation. By quarter-end, the 10-year yield had retreated to 2.69% on signs the U.S. economy was cooling and risk appetites were falling.

Yields on all but the shortest-maturity Treasury securities finished the quarter lower than where they had started. In addition, the yield curve continued to flatten, with the difference between two- and 10-year rates narrowing to as little as 0.11% in December. As mentioned earlier, certain parts of the yield curve inverted, meaning shorter yields rose above longer yields. An inverted yield curve has historically been an indicator of a future recession. However, the time between the inversion and the beginning of a recession has ranged from months to years.

Most sectors of the U.S. investment-grade fixed-income market produced gains during the quarter, led by Treasuries and mortgage-backed securities. The performance of investment-grade corporate bonds was slightly negative amid limited liquidity and decreasing demand from foreign investors. High-yield corporate bonds suffered larger declines, consistent with their sensitivity to the performance of equities. The drop in oil prices was an additional headwind for high-yield fixed income, since energy bonds make up a significant percentage of the market. Although high-yield credit spreads[8] widened to levels unseen since 2016, a lack of new issuance helped limit the downside in returns.

Overseas, government bond markets in developed countries advanced during the quarter, lifted by demand for high-quality assets. For some markets, including Japan and Germany, this meant that yields on securities with relatively short maturities (which were negative at the start of the quarter) fell deeper into negative territory.[9]In late December, the yield on the 10-year Japanese government bond even dipped below 0%. Corporate bonds in developed international markets mirrored the performance of U.S. corporates, with investment-grade indices down slightly and high-yield indices posting more substantial losses. Emerging market debt, both sovereign and corporate, performed relatively well in the fourth quarter compared to other higher-yielding asset classes.

[8]A credit spread is the difference in yield between a debt security and a government bond of the same maturity.
[9] Bond Prices and Yields move in opposite directions.

Global Economic Outlook

The global economy grew at nearly 4% in 2018, and growth is expected to remain positive across developed and emerging markets going forward (see Exhibit 2). However, global growth will likely moderate in 2019 because many economies have entered more mature phases of the business cycle. Among major economies, China is the furthest along in the cycle, as evidenced by three consecutive quarters of declining GDP growth. This slowdown, or "growth recession," is creating headwinds for countries that export to China, including commodity producers.

Trade tariffs are also affecting the global economy and have contributed to weaker manufacturing activity in many countries and more subdued growth in world trade volumes (see Appendix A). At the same time, global monetary policy continues to tighten, with growth in central bank balance sheets turning negative in late 2018, removing a source of liquidity that global markets have grown accustomed to over the last decade (see Appendix B).

Political uncertainty in Europe remains an additional concern. The March 29th deadline for the U.K. to leave the EU is approaching, but the terms of its departure remain unclear. In Italy, the fragile state of the economy and banking system has left little room for the new government to implement its populist agenda.

While the global economy appears to be losing some of its upward momentum, the expansion is poised to continue. Growth in the U.S. should remain solid, low unemployment and strong credit growth are bolstering the eurozone economy, and the Bank of Japan has maintained its ultra-loose monetary policies. China and India are still on track to grow at healthy rates, and emerging economies as a whole are expected to perform well.

United States

Forecasts suggest that the U.S. economic growth will slow in 2019, but that the risk of recession this year is low. Nonetheless, after nine years of expansion, the economy continues to exhibit signs of being in the later stages of the business cycle. The unemployment rate is hovering near a 50-year low, and wage growth, which was absent throughout much of the recovery, is now accelerating (see Appendix C). Rising labor costs are squeezing corporate profits, as are higher costs for credit, transportation, and goods. Tariffs on a wide range of U.S. imports,

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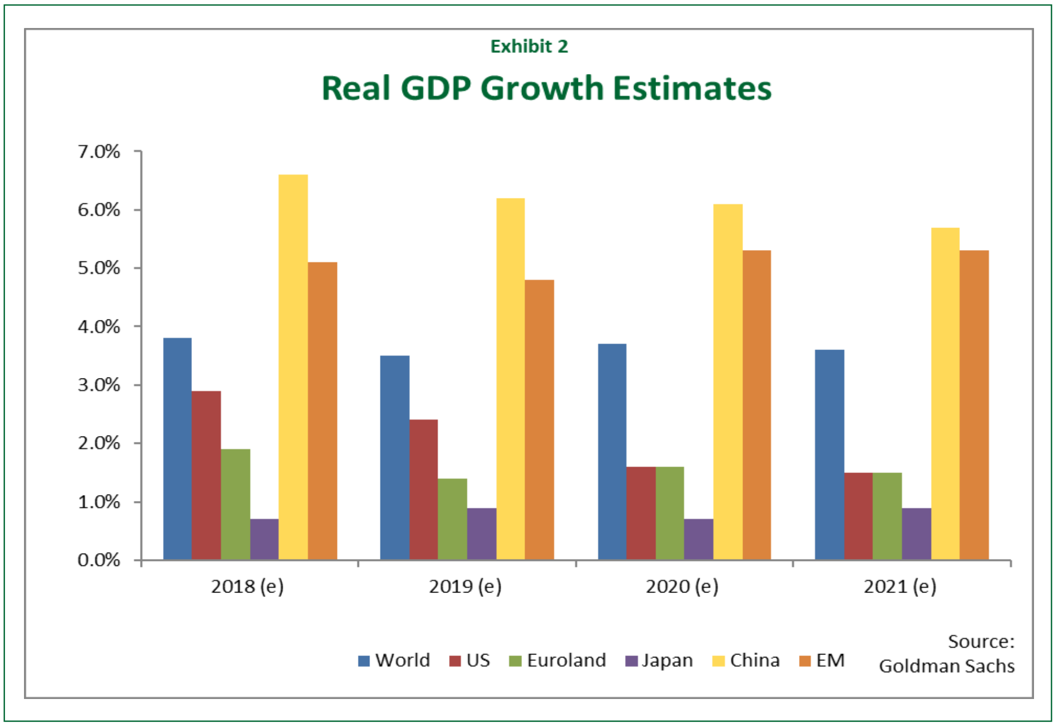
Global Economic Outlook Cont.



> **"Economic and geopolitical developments are taking a toll on U.S. business sentiment, with surveys of CEOs, homebuilders, and small business owners all showing declining confidence."**

(Continued from page 5)

including $250 billion of Chinese products, are also contributing to goods inflation.

Economic and geopolitical developments are taking a toll on U.S. business sentiment, with surveys of CEOs, homebuilders, and small business owners all showing declining confidence. Furthermore, the full cost of the prolonged government shutdown is still unknown. Meanwhile, the benefits of fiscal stimulus are starting to fade.

On the other hand, measures of consumer sentiment remain at high levels, a reflection of the robust job market and strong household finances, including low debt obligations relative to incomes (see Appendix D). The financial health of the consumer bodes well for the U.S. economy, as consumer spending accounts for nearly 70% of domestic GDP.

In the months ahead, we believe trade concerns will continue to impact the economy as the United States and China work to negotiate an agreement. However, achieving the structural reforms that the United States wants China to make, such as improving intellectual property protection for U.S. firms (which should be a must) poses a greater challenge, and take a long

Global Economic Outlook Cont.

time to achieve. Implementation deadlines need to be reformulated and made more realistic.

China

China's economy started strong in 2018, with solid exports and robust domestic demand. Growth subsequently began to ease, particularly in the second half of the year, as weaker growth abroad dampened external demand and trade relations with the United States deteriorated. Internally, the delayed effects of the government's previous attempt to control unregulated non-bank lending (known as "shadow banking") began to be felt.

Over the past several months, Chinese officials have been easing policy in an effort to boost the economy. However, policymakers are trying to be less aggressive than they were in reacting to the country's 2015-16 slowdown, which triggered sharp volatility in global financial markets. In addition, China has less room to maneuver than a few years ago since public and private debt levels are higher, the country's fiscal deficit is wider, and central bank policy rates are lower.

Thus far, China has proposed tax cuts for individuals, lowered bank reserve requirements, and injected liquidity into its financial system, among other measures. Interest rates have fallen as a result, the shadow banking industry has continued to shrink, and overall credit growth has stabilized (see Appendix E). More stimulus is expected, including possible incentives for purchases of cars and household appliances.

"Over the past several months, Chinese officials have been easing policy in an effort to boost the economy."

Investment Strategy

Equities

U.S. equities appeared fairly-valued at the start of the fourth quarter, and the quarter's volatility pushed valuations below their long-term averages. However, earnings growth for U.S. companies may have peaked, as the short-term benefits of the tax cuts dissipate, global growth slows, labor and input costs rise, and supply-chain disruptions continue due to the U.S.-China trade conflict. That said, we believe the economic

Investment Strategy Cont.

“...we continue to increase exposure to fixed income, where appropriate, to help reduce overall portfolio volatility and provide for liquidity needs.”

and earnings environment remains supportive of U.S. equities, as demonstrated by stocks’ strong performance in early 2019.

We continue to rebalance portfolios, where appropriate, from U.S. growth strategies to U.S. value strategies, in order to equally-weight the two investment styles, or even allow for a slight overweight to value. Within U.S. growth, we are favoring strategies that emphasize the quality and profitability of companies rather than momentum in stock prices. We also continue to prudently overweight international strategies, where appropriate. Valuations are still more attractive overseas (see Appendix F), and we believe the end of the dollar strengthening cycle is near.

Furthermore, in the final months of 2018, we carefully reviewed portfolios to identify any tax loss harvesting opportunities. Mutual fund distributions were higher than normal in 2018, which is allowing us to further rebalance portfolios.

Fixed Income

We see the potential for additional spikes in volatility, especially if U.S.-China trade tensions deteriorate, or the United Kingdom has a chaotic exit from the EU. As a result, we continue to increase exposure to fixed income, where appropriate, to help reduce overall portfolio volatility and provide for liquidity needs. We also continue to emphasize shorter-duration and flexible, unconstrained strategies, particularly where we assume credit risk. The Fed has struck a more accommodative tone in 2019, but the need for the United States to finance its growing budget deficit should continue to put upward pressure on interest rates.

In Closing

After a volatile and negative fourth quarter, markets started 2019 on a very positive note. However, there are several potential catalysts for further volatility, including U.S.-China relations, China’s economic slowdown, and populist politics in Europe. Although volatility is difficult to tolerate, it is

In Closing Cont.

important that investors stay the course, focus on their long-term objectives, and benefit from a well-diversified portfolio.

As such, we continue to diversify portfolios by asset class, geographic market, asset size, and investment style. This not only helps protect against the risk of permanent loss of capital, but also mitigates volatility.

Please call us at +1 (301) 881-3727 with any questions about your portfolio, or to notify us of any changes in your circumstances. As volatility returns to normal levels, it is even more important that we have your liquidity needs identified as far in advance as possible, and that we are aware of any changes in your risk tolerance, so we may adjust your portfolio as necessary.

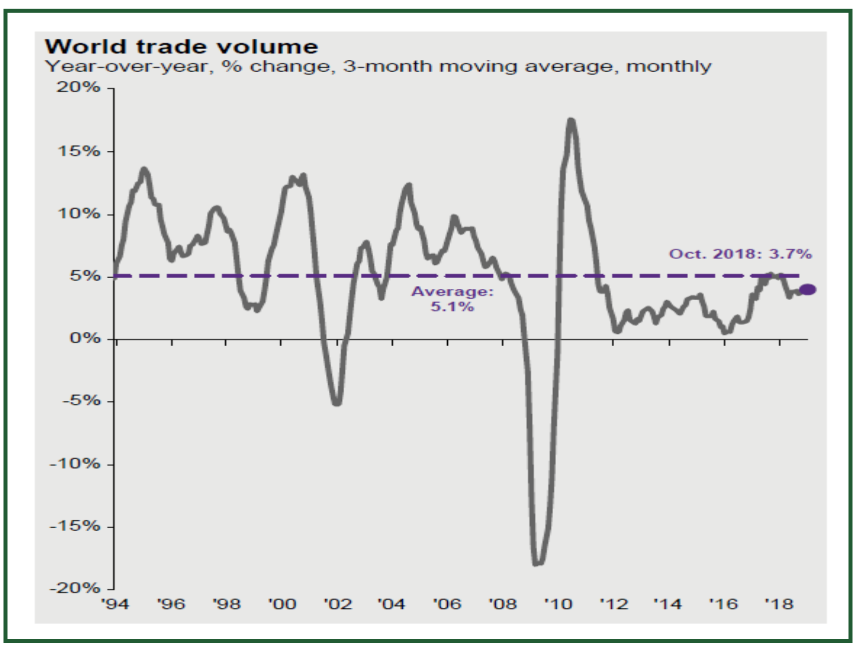
Sincerely,
The SOL Capital Management Team

"Although volatility is difficult to tolerate, it is important that investors stay the course, focus on their long-term objectives, and benefit from a well-diversified portfolio."

Appendices

Appendix A

Global Trade

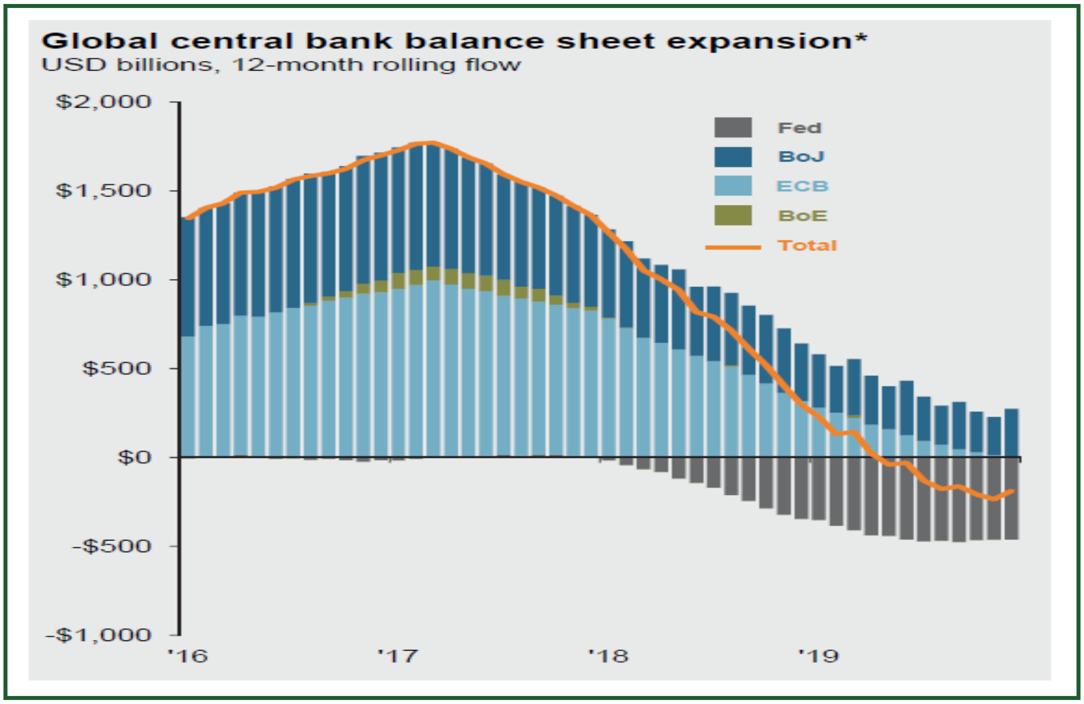


*Source: Guide to the Markets 1Q 2019, **J.P. Morgan Asset Management**, page 49*

Appendices

Appendix B

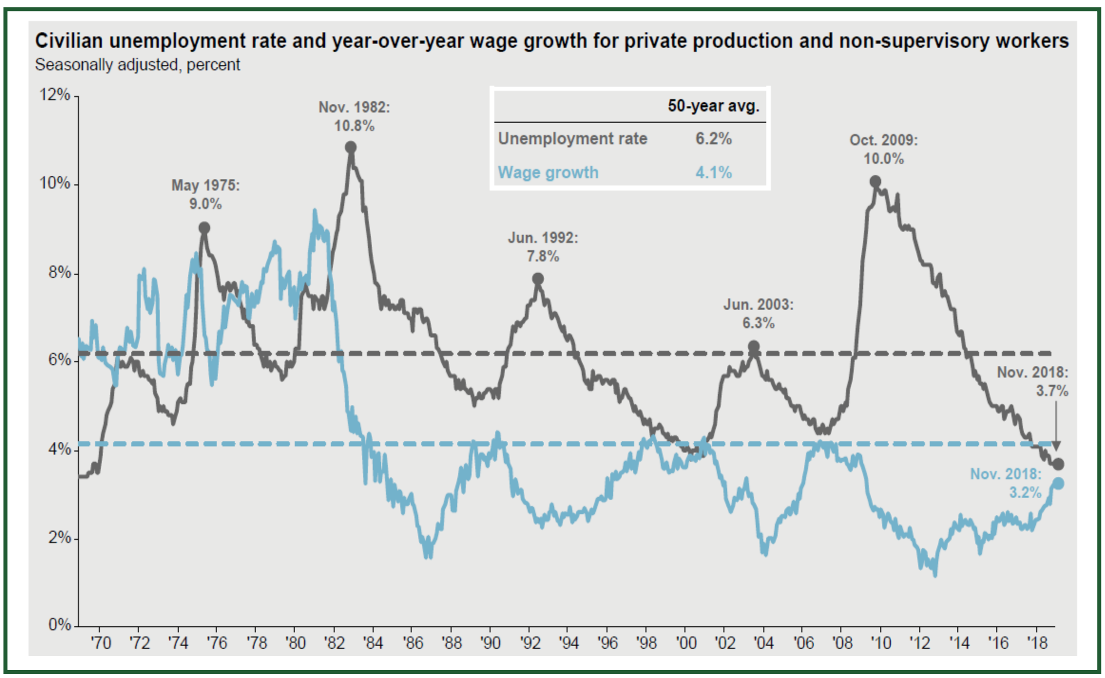
Growth in Major Central Bank Balance Sheets



*Source: Guide to the Markets 1Q 2019, **J.P. Morgan Asset Management**, page 38*

Appendix C

Unemployment and Wages

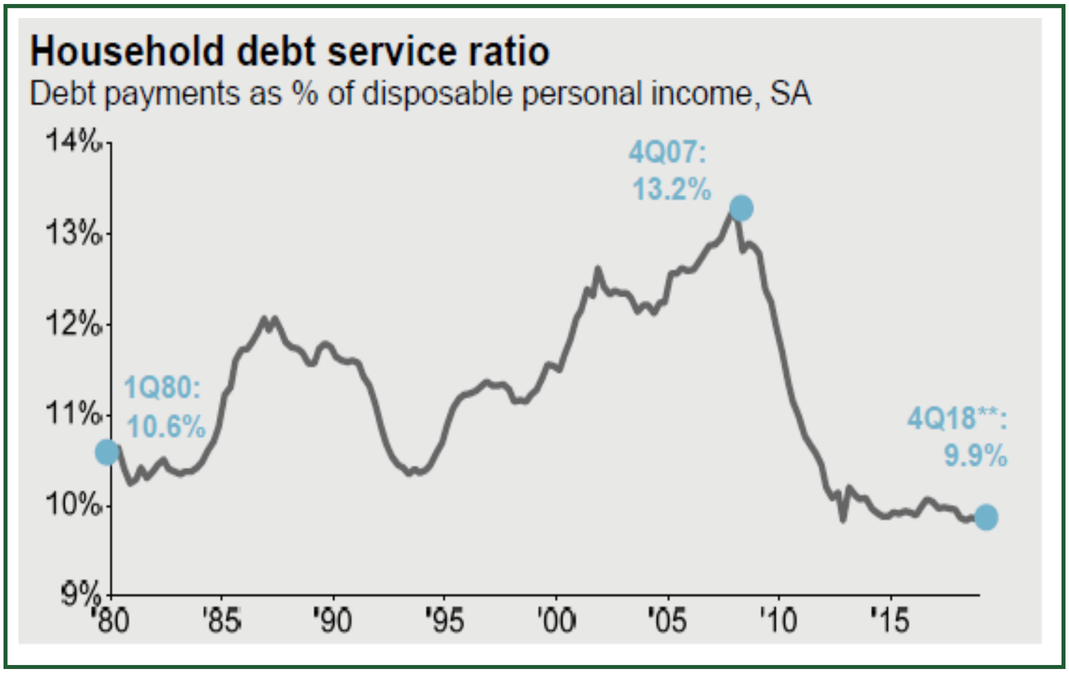


*Source: Guide to the Markets 1Q 2019, **J.P. Morgan Asset Management**, page 25*

Appendices Cont.

Appendix D

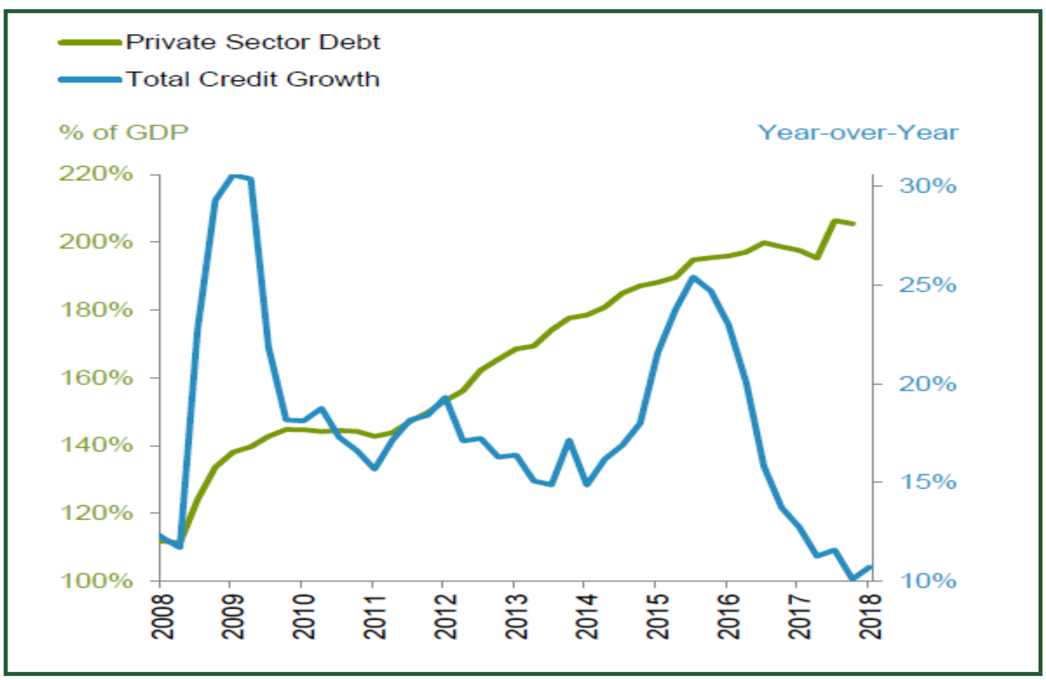
Consumer Finances



*Source: Guide to the Markets 1Q 2019, **J.P. Morgan Asset Management**, page 21*

Appendix E

China Credit Growth



*Source: First Quarter 2019 Quarterly Market Update, **Fidelity Investments**, page 12*

Appendices Cont.

Appendix F

Global Equity Valuations

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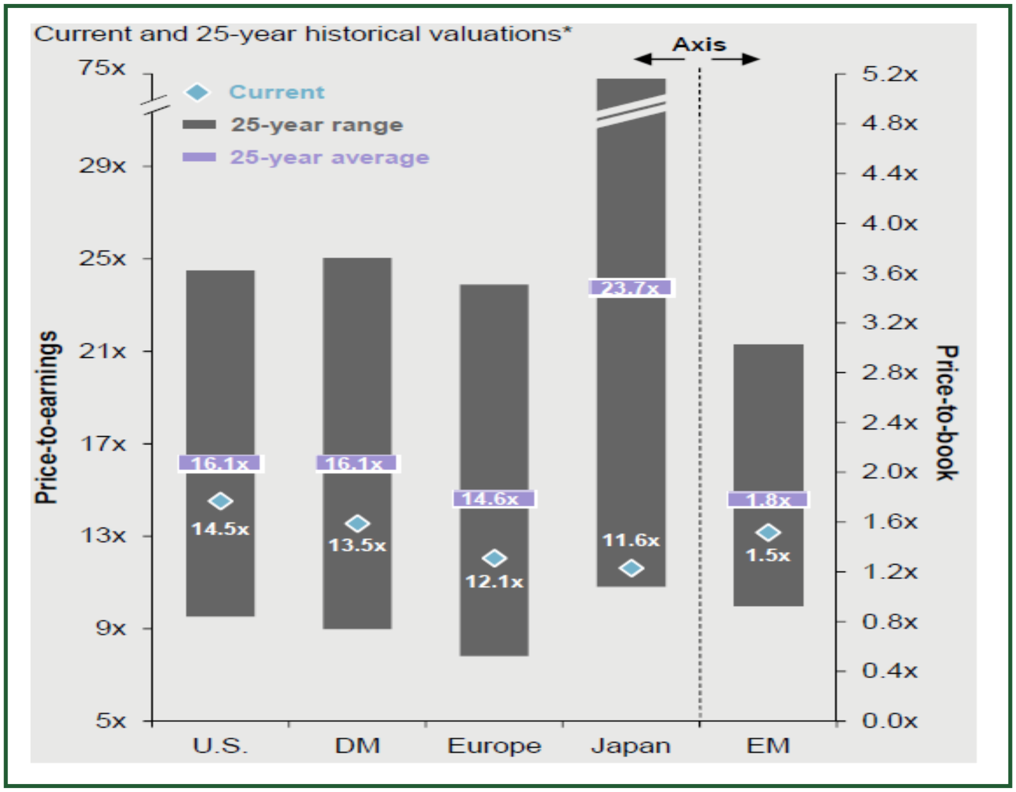

*Source: Guide to the Markets 1Q 2019, **J.P. Morgan Asset Management**, page 45*

Disclosures

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by SOL Capital Management Company), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from SOL Capital Management Company. Please remember to contact SOL Capital Management Company, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. SOL Capital Management Company is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the SOL Capital Management Company's current written disclosure statement discussing our advisory services and fees continues to remain available upon request.*

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