May 2019

SOL CAPITAL MANAGEMENT COMPANY

Client Investment Letter

Global Economic and Financial Markets Summary

Inside this issue:

Global equity markets started this year on a positive note, generating broad gains in the first quarter, rebounding off a difficult end to 2018. Major investment-grade bond indices delivered a solid performance, and returns were even stronger for higher-yielding fixed income. Interest rates fell globally, and government bonds rallied alongside riskier asset classes.[1]

During the quarter, an unexpected about-face from policymakers, most notably the Federal Reserve, reassured investors. The Fed held short-term interest rates steady, signaled no rate increases for 2019, and announced an earlier-than-expected end to the unwinding of its balance sheet. Overseas, the European Central Bank (ECB), Bank of Japan (BoJ), and Bank of England (BoE) all shifted to a more accommodative stance, and China increased monetary and fiscal stimulus. Near quarter-end, Japanese lawmakers passed spending programs designed to boost household consumption.

After the volatile end to 2018, the first quarter's strength in equities was a welcome development, as well as a fitting reminder of the importance of staying invested through short-term corrections. Gains continued into the second quarter, with the S&P 500 and Nasdaq Composite indices climbing to all-time highs in April. In the days and months ahead, equities may continue to set new records, but will do so with increased volatility. We are adhering to our discipline of regular portfolio rebalancing, which we believe is especially prudent now given the protracted bull market and U.S. economic expansion.

Consequently, we have been decreasing equity exposure to more closely align client portfolio asset allocations with their long-term strategic targets. As we reduce exposure to equities, we are reinvesting in fixed income, cash equivalents, and/or relatively undervalued equities (e.g., U.S. value, international, and emerging markets), where appropriate. Should the strong upward momentum in stocks continue, such rebalancing may limit portfolio gains in the near term. However, experience tells us that disciplined rebalancing is an essential component of a successful, long-term investment program.

[1] Bond prices and yields move in opposite directions.

Financial Markets Performance

Exhibit 1

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

	Year to Date (12/31/18 to 3/31/2019)
Major Equity Indices	%
S&P 500 Index	13.6
Russell 3000 Index (Total U.S. market)	14.0
Russell 2000 Index	14.6
MSCI All Country World Ex-U.S. Index (Net)	10.3
MSCI EAFE International Index (Net)	10.0
MSCI Emerging Markets Index (Net)	9.9
MSCI ACWI Commodity Producers (Net)	13.2
Source: Bloomberg, MSCI	
Major Fixed Income and Hedge Fund Indices	%
Bloomberg Barclays Capital U.S. Aggregate Bond Index	2.9
Bloomberg Barclays Capital U.S. Government/Credit	3.3
ICE BofAML 1-3 Year U.S. Broad Market	1.2
ICE BofAML U.S. High Yield BB-B Bond Index	7.3
JP Morgan Non-U.S. Global Bond Index (GBI) Hedged	3.1
JP Morgan EMBI Global Index in USD (Emerging Markets)	6.6
HFRX Equal Weighted Strategies Index (Hedge Funds)	1.0
Source: Bloomberg	

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

"Stock markets around the world posted robust gains in the first quarter of the year (see Exhibit 1)."

Equities

Stock markets around the world posted robust gains in the first quarter of the year (see Exhibit 1). U.S. equities performed especially well, with the S&P 500 Index generating its strongest return since the third quarter of 2009. Investors welcomed reports of progress on U.S.-China trade talks and the end of the partial U.S. government shutdown. In addition, while earnings growth moderated as the benefits of the tax cuts faded, the decline was less than anticipated. S&P 500 companies announced quarterly profit growth of 13.3%, year-over-year, marking the fifth straight quarter of double-digit gains.[2]

[2]According to FactSet, a provider of financial information and analytics to the investment management industry.

Financial Markets Performance Cont.

The Fed's surprisingly accommodative stance further lifted investor sentiment. Over the course of the quarter it became clear the Fed would hold rates steady for the time being, subject to economic data. The central bank also said that it would start slowing the pace of balance sheet redemptions of Treasury securities in May and conclude its balance sheet runoff in September, earlier than anticipated.

The rally in U.S. equities was broad-based, with all major style and capitalization segments finishing the quarter with strong gains. Small- and mid-cap stocks performed slightly better than large-caps, while growth stocks substantially led value across capitalization ranges. Sector returns were also broadly positive, although the dispersion of returns was wide. Technology was the best-performing sector in the S&P 500 Index, rising 19.9% on a better-than-expected earnings outlook. Real estate and energy were other top performers, with gains of 17.5% and 16.4%, respectively. The real estate sector benefited from a decline in long-term interest rates, and energy advanced as global production cuts contributed to a rebound in oil prices. Health care and financials were the weakest sectors. Health care, which rose 6.6%, was impacted by political rhetoric about regulatory reform, as well as prominent failures of drug trials. Financials, despite macro improvement, gained 8.6% on concerns that a flattening yield curve would squeeze margins and increase reinvestment risk.

International stocks trailed U.S. equities during the quarter, but still registered sizeable gains. In developed markets, both the ECB and BoJ signaled a dovish stance, sending stock markets higher on hopes of a revival in economic growth. The ECB pushed out its timetable for potential interest rate increases from later this year to 2020 at the earliest. Additionally, the ECB announced a third round of its stimulus program designed to spur business activity by providing inexpensive loans to banks. The BoJ maintained its ultra-loose policies and debated the feasibility of ramping up stimulus if necessary. Gains in Japan, where stocks rose nearly 7%, were subdued compared to other developed markets, as slowing global growth continued to affect the country's production and exports.

"In developed markets, both the ECB and BoJ signaled a dovish stance, sending stock markets higher on hopes of a revival in economic growth."

Financial Markets Performance Cont.

> *"Emerging market equities benefited from the Fed's accommodative posture and positive developments in U.S.-China trade talks during the quarter."*

Emerging market equities benefited from the Fed's accommodative posture and positive developments in U.S.-China trade talks during the quarter. Chinese stocks were especially strong, with U.S. dollar-denominated shares and yuan-denominated A-shares[3] rallying approximately 18% and 33%, respectively, during the quarter. This impressive performance was bolstered by domestic stimulus and foreign investment ahead of MSCI's widely-expected decision to increase the weighting of Chinese equities in its global indices. Latin American stocks gained on optimism about new political leadership in Brazil, along with rising oil and copper prices, which boosted markets such as Chile and Colombia. Turkey was among the few equity markets that declined, depreciating approximately 3% due to currency weakness. The Lira tumbled against the U.S. dollar on speculation that the Turkish central bank was using reserves to support the local currency ahead of March 31 elections.

Fixed Income

Total returns in the global fixed income markets were positive during the quarter. Bond yields declined around the world as major central banks turned increasingly dovish and trimmed their forecasts for growth and inflation. In addition, credit spreads[4] on both investment-grade and high-yield securities recovered after having widened throughout the fourth quarter of 2018.

In the United States, interest rates moved lower across the yield curve, and the curve continued to flatten, albeit very modestly. The 10-year Treasury yield finished the quarter at 2.41%, close to a 14-month low. Overseas, Japanese government bond yields fell further into negative territory, and yields on 10-year German debt dipped below zero for the first time since October 2016. As interest rates fell, developed market government bonds generated solid gains.

In the credit markets, both U.S. and European investment-grade corporate bonds posted strong quarterly returns, lifted by expectations of easier financial conditions and improving global growth in the months ahead. The market environment was even more favorable for lower-quality credits, as global high-yield bonds outperformed their investment-grade counterparts.

[3] A-shares are the shares of mainland China-based companies that trade on the Shanghai and Shenzhen Stock Exchanges.
[4] A credit spread is the difference in yield between a debt security and a government bond of the same maturity.

Financial Markets Performance Cont.

The view that interest rates would remain lower for longer in the developed world fueled robust demand for emerging market debt and its relatively attractive yields. Against this backdrop, both local currency and U.S. dollar-denominated securities produced healthy gains. U.S. dollar-denominated emerging market debt performed especially well, as the Fed's cautious approach on further monetary tightening put pressure on the dollar.

Global Economic Outlook

As discussed in our last letter, the global economy lost some of its positive momentum in the second half of 2018. Currently, leading economic indicators point to continued headwinds (see Appendix A). The U.S. appears to be in the later stages of a long business cycle, and consumer and business sentiment have been trending downward. China experienced three consecutive quarters of declining GDP growth, which was also creating headwinds for countries that export to China, including commodity producers. Additionally, trade disputes have added pressure to the global manufacturing sector (see Appendix B). Europe has experienced lower GDP growth, in part, due to slower growth in two of its major trading partners, China and Turkey. Political developments in Italy, regulatory changes in the German auto sector, and "yellow vest" protests in France also contributed to lower GDP growth. In Japan, GDP is barely growing, but the unemployment rate continues to tick downward, and wage inflation is somewhat increasing.

Despite these headwinds, the global economy is expected to grow approximately 3.5% this year (see Exhibit 2). The service sector of the global economy appears to be trending upward (see Appendix C). Preliminary estimates of first quarter GDP growth for the U.S. and China were stronger than expected. In addition, as previously mentioned, policymakers are taking steps to boost their respective economies. The Fed and ECB have backed away from plans to raise interest rates in 2019,

"...the global economy is expected to grow approximately 3.5% this year (see Exhibit 2). The service sector of the global economy appears to be trending upward (see Appendix C)."

Global Economic Outlook Cont.

"Overall, GDP in emerging countries is expected to increase at a healthy rate of nearly 5% in 2019, led by China and India."

Japan recently approved $18 billion in stimulus measures, and China has lowered bank reserve requirements and cut taxes. Although it is unclear if China's policy response will be enough to reaccelerate growth, the economy appears to have stabilized. Overall, GDP in emerging countries is expected to increase at a healthy rate of nearly 5% in 2019, led by China and India.

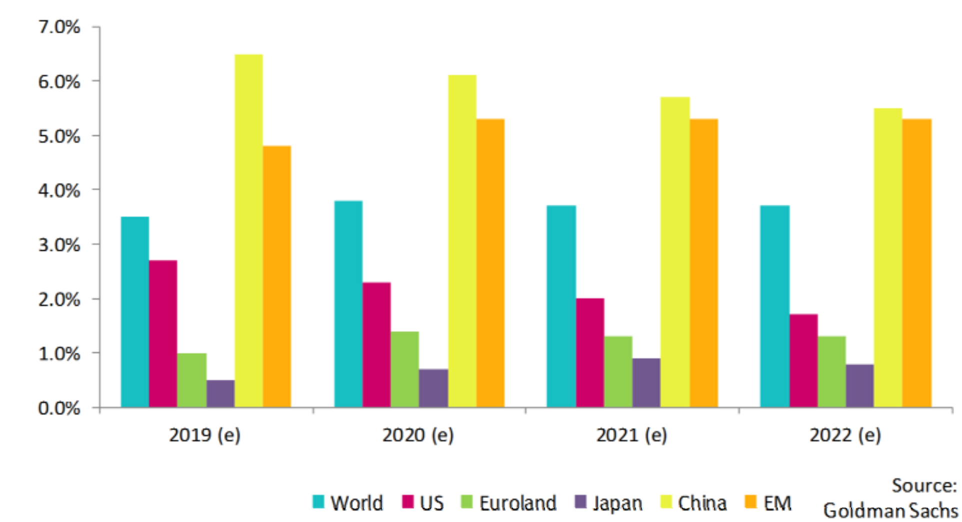
United States

Although the partial government shutdown trimmed an estimated 0.3% from growth, the U.S. economy expanded at an unexpectedly robust 3.2% annual rate in the first quarter. A large portion of the growth came from net exports and higher inventories. Concerns over higher tariffs in 2019 led many companies to increase orders at the end of last year, leading to lower imports in the first quarter. If companies decide to source new sales from these stockpiles rather than new orders, these inventories may weigh on future growth.

On the other hand, the recent tax cuts created higher consumer spending in 2018, which accounts for almost 70% of GDP. While there has been little growth in consumer spending so far this year (and

Exhibit 2

Real GDP Growth Estimates



Source: Goldman Sachs

sentiment has been trending lower), it should remain a stable element in GDP this year. Low unemployment, strong job creation, and stabilizing housing markets should also be supportive of U.S. consumers (see Appendix D).

Core PCE[5], the Fed's preferred inflation gauge, has softened in recent months and, at 1.6% in March, is below the central bank's 2% target. Estimates of future inflation remain low, which should allow the Fed to maintain its patient approach on raising interest rates.

China

First quarter Chinese GDP estimates also came in higher than expected at an annualized 6.4%. Although it is still early, China's economy appears to be stabilizing and may be exiting its latest growth recession. Industrial production recovered in the first quarter, while business sentiment improved, and incomes rose. The strength in wages helped stabilize consumer spending on goods and services, although domestic demand has yet to fully recover.

Trade negotiations with the United States continue to dominate headlines into the second quarter and remain an overhang on China's economic outlook. The impacts should be tempered by the fact that the U.S. accounts for less than one-fifth of Chinese exports. Chinese policymakers meanwhile have continued their program of fiscal and monetary stimulus. Notably, China is taking a more targeted and restrained approach to stimulus and policy easing than it has in past downturns because the government is comfortable with the state of the economy and is focused on de-risking.

Instead of ramping up massive public infrastructure spending, as we saw during the financial crisis, President Xi Jinping has instead directed state-owned banks to increase lending to private businesses, which are now the country's main job creators. Chinese banking authorities also increased the flow of credit during the first quarter. Offsetting this, one of its key objectives has been to control unregulated non-bank lending known as "shadow banking," and shadow banking credit declined in the first quarter. The government also has eased taxes, reducing import taxes and revising the Individual Income Tax Law to exempt more than 100 million workers this year.

"Trade negotiations with the United States continue to dominate headlines into the second quarter and remain an overhang on China's economic outlook."

[5]Core PCE refers to the core personal consumption expenditure price index, which measures the prices consumers pay for purchases of goods and services, excluding food and energy.

Global Economic Outlook Cont.

China's central bank has indicated that it is comfortable with the near-term growth outlook for the Chinese economy, making the prospect of additional stimulus less likely. We are cautiously optimistic that existing policy measures will be enough to support China's long-term growth objectives. However, it may take a few more quarters to confirm if China's slowdown, or "growth recession," has ended and establish the level of its new long-term growth trajectory.

"Within the equity allocation of portfolios, where appropriate, we continue to rebalance from U.S. growth to U.S. value, with the goal of equal-weighting the two investment styles, or even allowing for a slight bias toward value."

Investment Strategy

Equities

The U.S. stock market looks fairly-valued relative to long-term averages, despite the strong rebound in equities so far this year. However, earnings growth for U.S. companies appears to have peaked now that the benefits of the tax cuts have faded, the costs of labor and other inputs are rising, and disputes with various trading partners continue to disrupt global supply chains. Nonetheless, the potential for steady U.S. economic growth accompanied by low inflation could allow the Fed to maintain its accommodative position, which would be supportive of domestic equities.

Within the equity allocation of portfolios, where appropriate, we continue to rebalance from U.S. growth to U.S. value, with the goal of equal-weighting the two investment styles, or even allowing for a slight bias toward value. Within U.S. growth, we are emphasizing strategies that focus on the quality and profitability of companies rather than momentum in stock prices. Also, where appropriate, we also continue to prudently overweight international equity. Valuations remain more attractive outside the United States (see Appendix E), and we think the end of the dollar strengthening cycle may be approaching.

Fixed Income

Given our expectations for higher levels of market volatility, we continue to increase exposure to fixed income, where appropriate, to better anchor portfolios. While we expect U.S. and global growth to remain positive, several major economies have entered more mature phases of the business

Investment Strategy

cycle, when volatility tends to be higher. Furthermore, U.S.-China trade negotiations may fall short of investors' expectations, and there is still the risk that the U.K. suffers a disorderly exit from the European Union.

As we allocate to fixed income, our focus continues to be on shorter-duration and flexible, unconstrained strategies, especially where we assume credit risk. Longer-term interest rates are significantly lower than they were six months ago, and we do not believe investors are being adequately compensated for taking increased term risk. Therefore, we are not comfortable making a strategic decision to increase overall portfolio duration[6] at this time. In addition, while the Fed has paused interest rate increases for the time being, it could begin raising rates again if the U.S. economy improves and/or inflation accelerates.

In Closing

Financial markets have performed well so far this year, generating positive returns across asset classes and geographies. Over the remainder of 2019, supportive monetary and fiscal policies may drive global economic and earnings growth higher, creating a favorable backdrop for markets to add to existing gains. That being said, we do not expect the remaining quarters to post as robust returns as the first quarter. Several potential risks could limit future returns, chief among these are deterioration in U.S.-China trade relations, a chaotic Brexit, and signs the U.S. economy is starting to overheat. Full- to over-valuations in certain areas of the market are an additional concern.

Of course, it is impossible to accurately predict the direction of economies and markets. That is why we stay focused on meeting your long-term investment goals by rebalancing portfolios and maintaining broad diversification by asset class, geographic region, asset size, and investment style. Our disciplined, diversified approach may limit short-term gains from time to time. However, we believe it is the optimal path to achieving your long-term investment objectives.

As always, please call us at +1 (301) 881-3727 if you have questions about your portfolio, or to notify us of any changes in your circumstances, including your liquidity needs.

Sincerely,

The SOL Capital Management Team

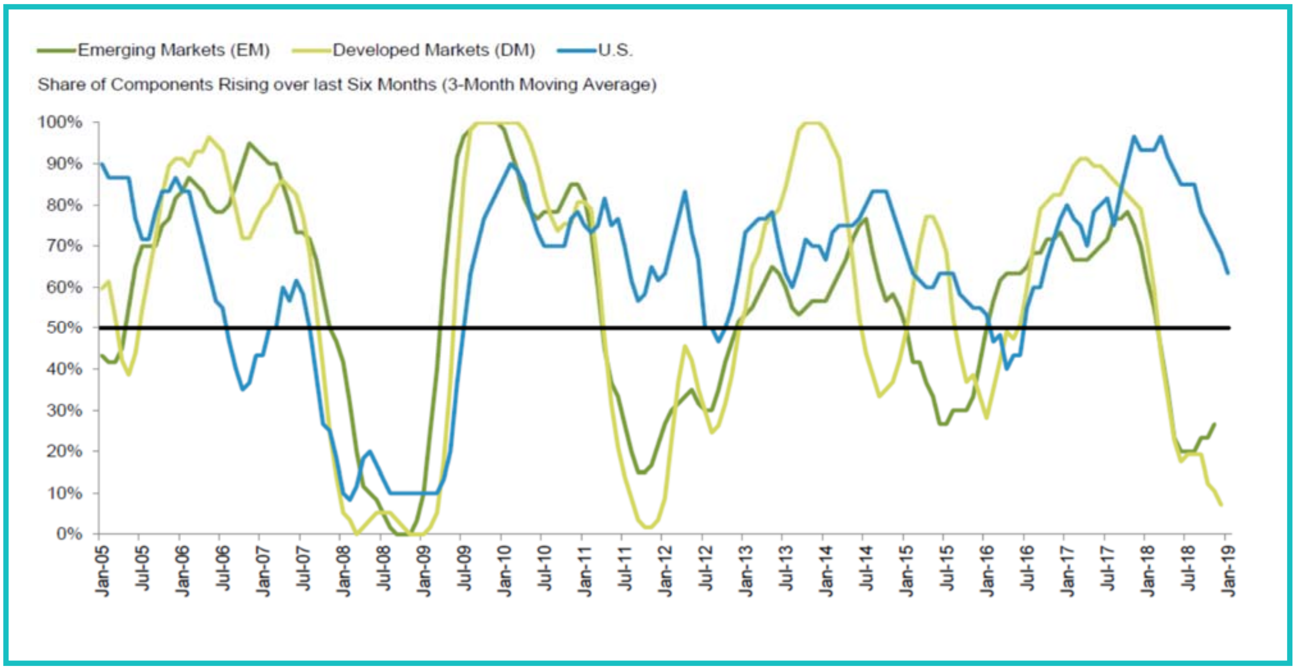
"…it is impossible to accurately predict the direction of economies and markets. That is why we stay focused on meeting your long-term investment goals by rebalancing portfolios and maintaining broad diversification by asset class, geographic region, asset size, and investment style."

[6]Duration measures a security's (or portfolio's) sensitivity to interest rate movements.

Appendices

Appendix A

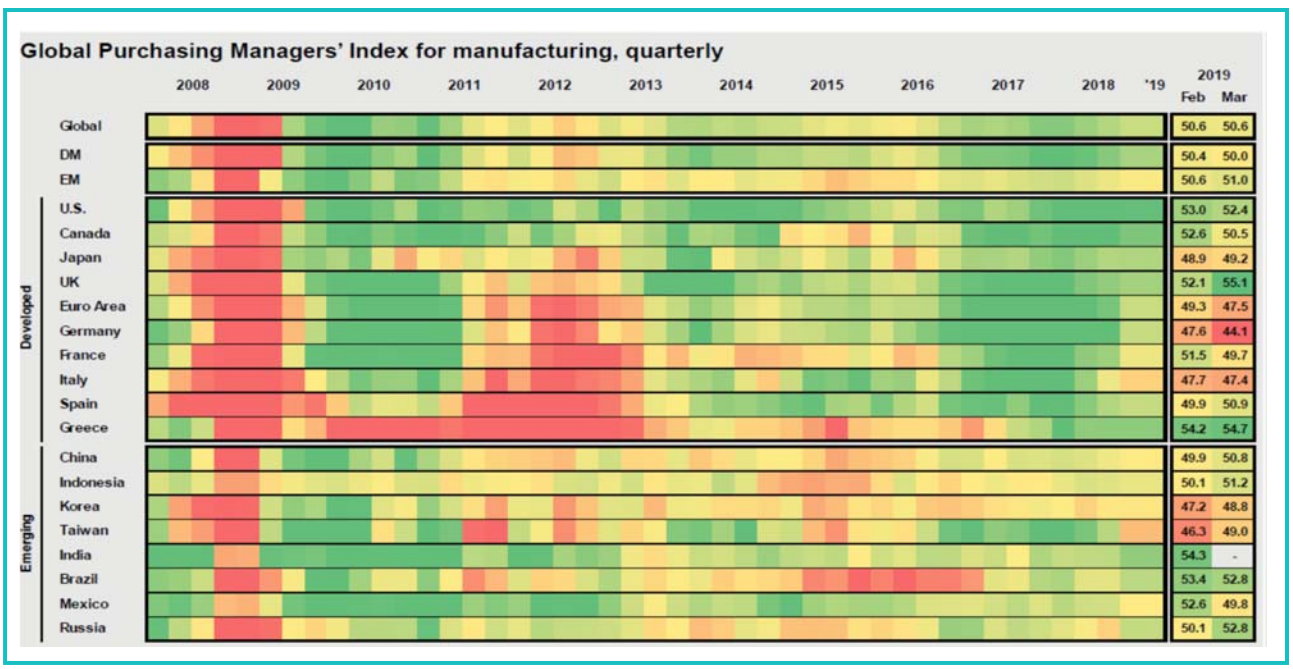
Global Leading Economic Indicators



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

Appendix B

Manufacturing Momentum

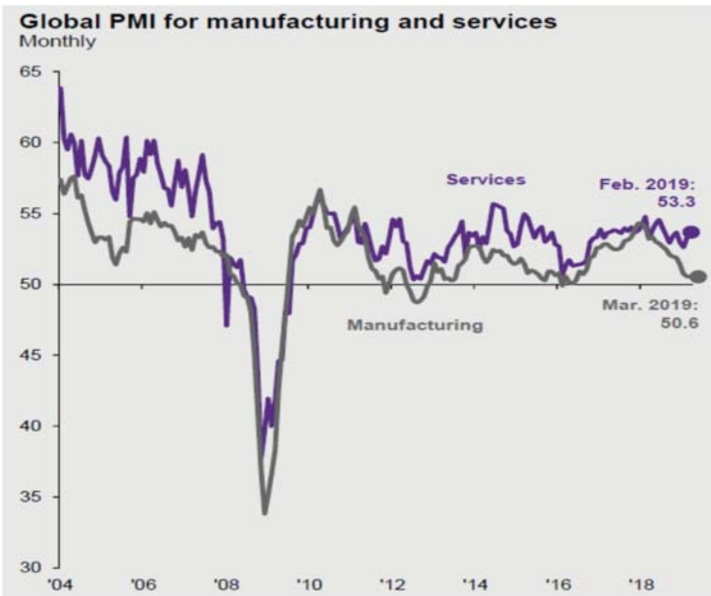


*Source: Guide to the Markets 2Q 2019, **J.P. Morgan Asset Management**, page 48*

Appendices Cont.

Appendix C

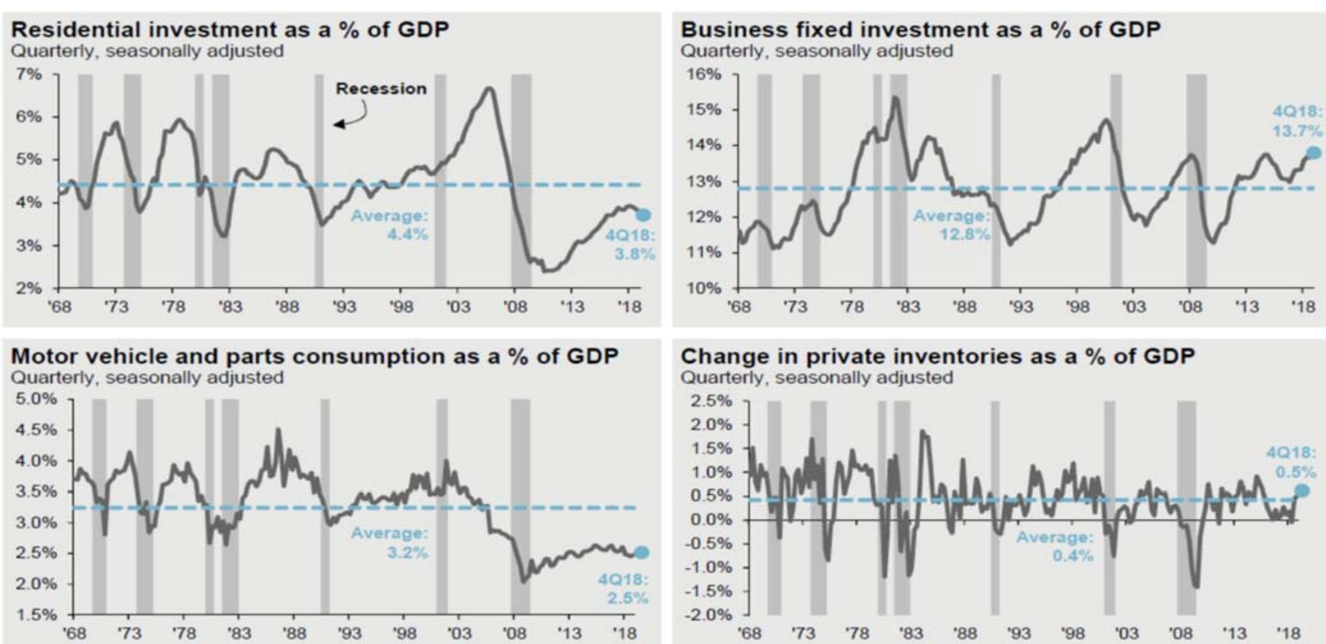
Manufacturing and Services



*Source: Guide to the Markets 2Q 2019, **J.P. Morgan Asset Management**, page 47*

Appendix D

Cyclical Sectors



*Source: Guide to the Markets 2Q 2019, **J.P. Morgan Asset Management**, page 21*

Appendices Cont.

SOL CAPITAL MANAGEMENT
111 Rockville Pike, Suite 750
Rockville, MD 20850
Phone: 301.881.3727

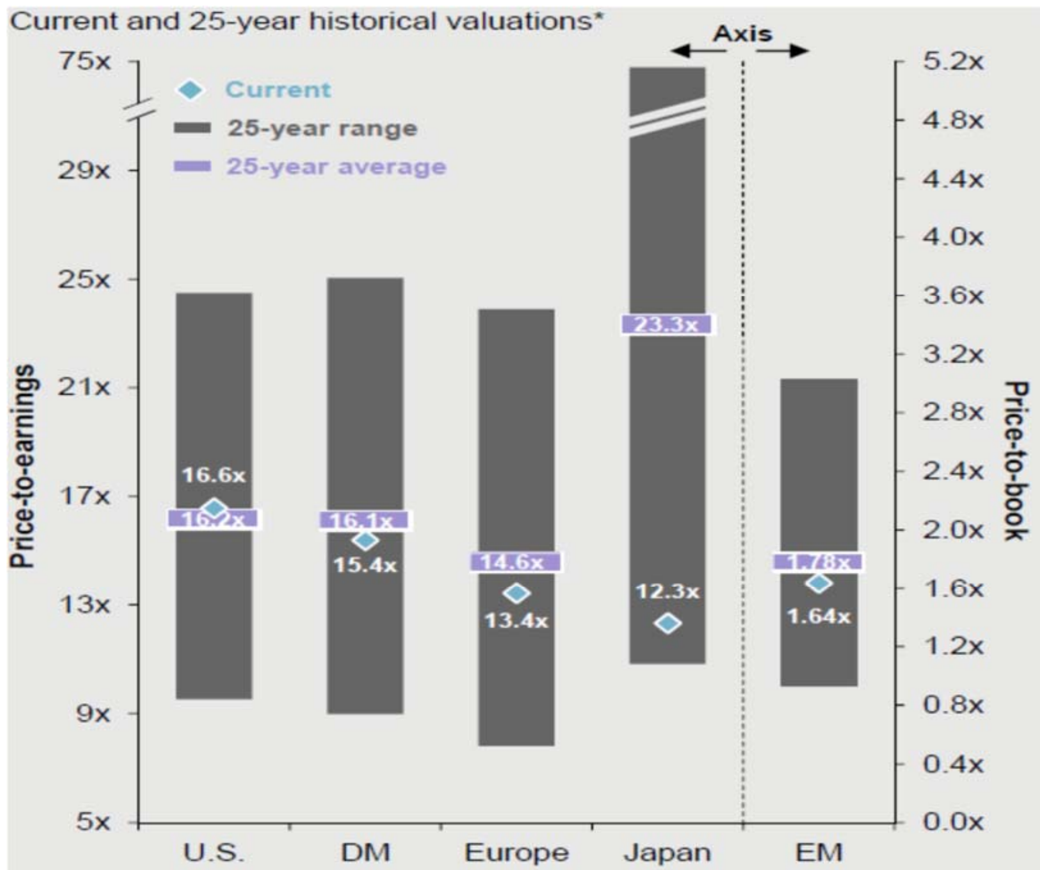
3 Columbus Circle, Suite 2120
New York, NY 10019
Phone: 212.710.4698

www.sol-capital.com

E-mail: sol@sol-capital.com

Appendix E

Global Equity Valuations



*Source: Guide to the Markets 4Q 2018, **J.P. Morgan Asset Management**, page 44*

Disclaimer

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.*

SOL®

CAPITAL MANAGEMENT

SOL®

CAPITAL MANAGEMENT