GREENLEAF® TRUST

Perspectives

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

Volatility has returned to financial markets and has resulted in reasonable questions from investors and clients. It makes sense to explore some background information and recent data points to gain some perspective.

Newly appointed Federal Reserve Chair Powell stated recently in his testimony to Congress that the "economic outlook remains strong." Further, he added that "the path of monetary policy will depend upon the economic outlook as informed by incoming data." Fed Chair Powell is not new to financial markets; however, his testimony at congressional hearings in his capacity as Fed Chair is new. Analysts, prognosticators, talking heads and investors will need time to assess the language he uses and the relevant actions taken by the Fed to gain either comfort or lack of comfort in what his testimony reveals.

Financial markets respond best when markets understand the direction as well as the velocity of change. Many assumed former Fed Chair Bernanke and Yellen were one and the same with respect to their views on monetary policy. Similarly, many now assume that the current Fed Chair is more "hawkish," or inflation sensitive, than either of the past Fed Chairs. To us, Powell's comments don't reflect a difference in philosophy as much as they reflect a different set of circumstances. What exactly might the data inform Chair Powell and the Federal Reserve Governors of, and what policy shifts might be made as a result of that information? Let's take a look.

The second revisions of real GDP growth for Q4 of 2017 affirmed growth at 2.5%, or very close to the advanced estimate of 2.6%. Consumer spending grew by 3.8% year over year, while business fixed investment increased 6.6% year over year.

Residential fixed investment, or RFI, recovered nicely in January, up 13% year over year, and personal spending as well as private sector wage growth and disposable income continued to advance at 3.8%, 5.0% and 4.0% year over year, respectively.

Given the above, it is not surprising that consumer confidence, as measured by the Conference Board's Nielsen Survey as well as the U of M's measure of consumer sentiment, advanced during the last reporting period. The Conference Board's survey recorded the highest level of confidence since

Commentary, continued

the pre-recession days of 2007. Evidencing a further indication of forward optimism, the ISM survey of purchasing managers came in at 60.8%, the highest recording since 2004.

Auto sales moderated to the expected 17.0 million unit production level, down from the 2016 recorded measure of 17.3 million. New housing sales came in at a very sustainable 593,000 units sold, matching the forecasted need that was in symmetry with population growth. Inventory shrinkage and net exports detracted 1.8% from GDP growth in 2017, and are expected to have about the same impact in 2018. Finally, the Chicago Federal Reserve's index of economic activity, though down slightly for January, still registered an annual run rate equivalent to that of an economy functioning at a moderate sustained activity level.

A summary of the various data points might reasonably suggest to Fed Chair Powell and the Fed Governors that the underlying economy is shifting from a 2.0% growth rate to a 3.0% level, and that while inflation is not yet at the 2.0% benchmark, there are enough signs in indicators of wage rates and purchase price indexes to imply a forward expectation of meeting the 2% inflation goal. It is the forward expectation of inflation that impacts monetary policy decisions, and therefore, the expectation by financial markets of future interest rate hikes. The question yet to be answered is the rate of the hike and the velocity of the timing.

> "It isn't wise to dismiss the increase in volatility as simply short-term investing, but rather focus on understanding the directional change that might be occurring..."

Multiple different scenarios create multiple answers to the above question, and therefore, have multiple impacts on financial markets. In previous columns, I have stated the case of why the bull market in bonds is over. Absent of system wide shocks created by large scale geopolitical instability, interest rates will not go lower. It has been well over ten years since ten-year treasury yields produced 3.5% rates and high quality corporate debt yielded rates in excess of 4.25%. As risk-free yields increase and begin to reward investors at levels 2 – 2.5% above the dividend rate of equity markets, investors will pay close attention, and in doing so, begin to allocate greater amounts to fixed income assets and less to equity allocations. In essence, the expectation of where return is found is beginning to change as does investor behavior. Near-term volatility increases recently observed are almost always indicative of short-term investors attempting to sort out the shifts in policy direction, as well as the velocity of those shifts. It isn't wise to dismiss the increase in volatility as simply short-term investing, but rather focus on understanding the directional change that might be occurring as a result of the change in fundamentals. Interest rates were necessarily kept low to cure our collective balance sheets as well as our economy. That need does not exist now. Demand has increased, the economy is stronger, and we are issuing more US debt into a globe that demands less of it. Rates will rise, but the amount and velocity of the rise is yet unknown. In the environment I have described, valuations will matter. Astronomical valuations will not be rewarded, and sector as well as asset allocation will be more important than they have been in the last decade.

Significant geopolitical instability can impact global GDP growth, and so too can domestic policy decisions. While some of our recent increase in volatility has been due to the uncertainty of future rate hikes and the velocity of those hikes, some of the volatility also has to do with the current administration's protectionist economic policies. Yes, it is possible to derail an economy through our own blunders as well. Our economic history is full of tariff blunders, and I won't spend time retracing those attempts to artificially set price and volume activity of global commerce. To be certain, we expect our government not to enter into trade agreements that unilaterally damage specific industries, but we also expect that our government won't create policies that may in the near term seem strong willed, yet in the broader sense, negatively impact the larger economy.

Steel and aluminum are important to our, as well as the global, economy. Far more companies and industry sectors use these commodities-based materials than produce them. Tariffs do not lower prices, they raise prices. When prices of commodity-based material increase, production costs increase as do finished goods, and therefore, prices of consumer purchased goods. There are few, if any, unilateral tariff actions that aren't met with reciprocal actions by trading partners. We could pick countless examples of American companies competing globally for business that would be negatively impacted as a result of higher commodity prices and reciprocal tariff increases. Harley Davidson, an iconic American brand, needs more customers. The demographic of a Harley buyer in the US is declining and they need more global customers to sell and export product to. Being successful in that mission will allow the company to grow and save, even perhaps increase US jobs. A tariff that increases their costs, while simultaneously creating foreign tariff reciprocation, mutes if not damages their opportunities globally. Harley Davidson is only one example of literally thousands of companies in multiple industries that require US economic policy to amplify their opportunities globally. They need it because their reality is that they live, breathe, design, engineer, produce, market and sell to an increasingly global customer. Like almost all American companies, they are quite willing to compete with anyone in the marketplace, they just don't need their own government getting in their way of success. There is a reason that most Presidents have a "Council of Economic Advisors." While economists rarely agree on most cause and effect issues, one area of considerable agreement exists. Tariffs increase prices and reduce GDP growth. In an environment of slightly increasing inflation and interest rates, we probably don't need either of the above.

"... some of our recent increase in volatility... also has to do with the current administration's protectionist economic policies."

Michael F. Odar, CFA
President

The Three Cs of Motivation

Throughout our 20-year history, it has been our philosophy that you find and hire really talented people, engage them in a team culture with development opportunities, and provide them with a mission to make a meaningful impact in our clients' lives. It's that simple, right? Well, actually it takes a lot of hard work. But it's work that we believe is critical to our success because when we ask our teammates what they value most at Greenleaf Trust, they say the same three words every year — team, culture, and clients. They respect and care about their talented teammates. They thrive in a collaborative culture that provides them with career growth opportunities. And, their work is aligned with our mission to make a positive impact in our clients' lives.

So, I found it validating after reading an article on employee engagement in Harvard Business Review that the team at Facebook felt the same way. The article was written by Lori Goler, Janelle Gale, Brynn Harrington, and Adam Grant and titled *The 3 Things Employees Really Want: Career, Community, Cause*. At Facebook, they survey their workforce twice a year and ask them what motivates them at work. According to the article, what their employees value most generally falls into three buckets of motivators: career, community, and cause.

"…when we ask our teammates what they value most at Greenleaf Trust, they say the same three words every year — team, culture, and clients."

Career is about work. Having a job that allows you to make decisions, use your strengths, and promotes learning and development is important. Community is about people. Feeling respected, cared about, and recognized by those you work with creates a sense of belonging. Cause is about purpose. The ability to make an impact and align with a company's mission is a source of pride. The Facebook employees also generally felt that all three motivators were important. In other words, a fulfilling job is not just about career opportunities, or being a part of a team, or alignment with the company's mission. It's about all three.

Interestingly, the level of importance of these motivators was also fairly consistent across age group, geographic location, and job function at Facebook. Sure, Millennials were more concerned about career than Baby Boomers, but the relative difference in importance was not significant.

Finally, the authors suggest that the three motivators are part of a psychological contract or unwritten expectations and obligations between employees and employers. When the contract is fulfilled, people are engaged, committed, contribute more, and perform better.

We agree. That's why we are sternly committed to our "T" and two "Cs" at Greenleaf Trust.

Qualified Charitable Distributions (QCD): Tax Strategy for 2018 RMDs

Melinda P. Shull
Trust Relationship Officer

Under the new tax law, those who take required minimum distributions (RMDs) can get a tax break even without itemizing the deduction by giving to charity directly from their IRA. This isn't about giving more to charity to obtain a better tax deduction. This is about paying less income tax when giving the same amount to charity.

If you have a traditional IRA, you must begin taking required minimum distributions after you reach age 70½, even if you neither need nor want the money at that point in time.

When you take these distributions, they're taxable at ordinary income rates at whatever income tax bracket you are in that particular year.

If you fail to take them, there is a penalty. The income tax rate jumps to 50 percent (an excise tax) of the amount you were supposed to take as an RMD, but did not, even though you did not have the use of that money.

A qualified charitable distribution (QCD) is a distribution from an IRA directly to a qualified charity that bypasses the owner of the account so the owner is not taxed on the distribution. QCDs count toward the owner's required minimum distribution for the calendar year. If the owner has to take RMDs but does not really want or need the money, a QCD is a good way to distribute the minimum required amount out of the IRA and avoid the penalty.

This rule applies to traditional IRAs. Roth IRAs have no RMDs during your lifetime and only taxable funds can be used for QCDs.

The key benefit of a QCD is that the distribution amount is not included on the owner's Form 1040 as income. That's a good thing. QCDs can be used to help keep the reported adjusted gross income and taxable income within a desired range.

QCDs can benefit those over age 70½ who take the standard deduction rather than itemize because there's no income tax benefit when making a donation to charity when a standard deduction is claimed. You do not lose anything by making the QCD. For non-itemizers of income tax deductions, donating to charity via a direct transfer out of an IRA is the only way to derive a tangible tax benefit from their donation.

The maximum amount that can be donated through a qualified charitable distribution is $100,000 per calendar year per IRA owner.

> "If you have a traditional IRA, you must begin taking required minimum distributions after you reach age 70½…"

Qualifying Rules for QCDs

The owner must be over the age of 70½ to be eligible to use a qualified charitable distribution.

QCDs, continued

The QCD distribution must transfer directly from the IRA to a qualified charity. “Qualified charity” is an official IRS designation. The list of qualified charities includes all 501(c)(3) organizations, but notably not a donor-advised fund. In addition, you may verify an organization’s tax-exempt status and eligibility to receive tax-deductible charitable contributions by asking to see an organization’s IRS letter recognizing it as tax-exempt.

It is important to note that you cannot take the cash out of your IRA and put it in the bank and then write a check to your charity. It has to be transferred directly from your IRA to the charity.

So how do you do this? Simply call our office and we complete the paperwork for you. Your charity of choice will receive a check and gift letter with your name on it. You will receive a copy of the letter for your tax records.

“The QCD distribution must transfer directly from the IRA to a qualified charity.”

Currently, it is not a requirement to identify the qualified charitable distribution on your annual 1099-R form. Because of that, Greenleaf Trust will inform your tax preparer on record of any qualified charitable distributions processed.

If you automatically receive monthly distributions from your IRA, you may want to consider reducing this amount by what you intend to give to charity to preserve the QCD strategy. For example, if you receive $2,000 per month from your IRA ($24,000 RMD) you may want to adjust the monthly payment down to $1,750 (so that would add up to $21,000 for the year). Then $3,000 is available for the qualified charitable distribution.

During a recent meeting with clients, we shared with them that we would be happy to issue the checks from their IRA to their church and local charities. We discussed issuing one check to the church in a summer month, when attendance may be low and contributions needed, versus weekly tithing. They liked the idea and see the tax benefit from their IRAs versus writing a check directly.

Disclosure: The information contained in this article is not intended as tax advice and it is not a substitute for tax advice.

Portfolio Perspective: Aligning Wealth and Life

Dan J. Rinzema, CFA, CFP®
Chief Client Officer

Socrates is attributed with the quote, “Man pursues a great variety of goals, but the one he seeks as his ultimate end is a life worth living — everything else is a means not an end.” Traditional asset management, however, would have us believe that its end is simply growing one’s assets. Instead, we find that truly successful investors, whose lives are aligned with their wealth, never lose sight of the fact that money is a wonderful servant, but a poor master - a means not an end. They appreciate that spending money, and not just growing it, may be appropriate. They realize that giving it away to charity or heirs may be what provides them with happiness and fulfillment. And they recognize that growth for the sake of growth is what causes many investors to lose sleep over daily market fluctuations. It’s at this intersection of life and wealth where goals-based wealth management shines by reorienting the focus from the portfolio to the person, allowing investors to be confident that their wealth is helping them achieve what they want most out of life.

Goals-based wealth management is the essential process of taking a step back to look at the big picture. Digging deeper and assessing financial hopes, fears, expectations, and resources to realistically align investment portfolios with actual life goals such as sustainably supporting a desired lifestyle, funding retirement, paying for grandchildren’s education, or leaving a legacy. By pursuing what matters most, whether it be personal, dynastic, philanthropic, or a combination thereof, this approach helps investors reduce financial anxiety and find financial peace of mind. Goals-based wealth management encourages an open dialogue resulting in a comprehensive plan customized to the investor’s situation in which success is defined as meeting the investor’s personal and unique goals.

This definition of success intuitively makes sense. Yet in traditional asset management, a successful portfolio is defined as an efficient portfolio - one that yields the greatest possible return given the level of risk an investor is willing to assume. Efficiency is commonly measured by comparing a portfolio’s returns to those of a standard benchmark and by gauging the level of risk using statistics like standard deviation, alpha, and the Sharpe ratio. While these measures are certainly valuable to portfolio managers, the average investor doesn’t find them particularly helpful without proper context. More common are

> “Goals-based wealth management is the essential process of taking a step back to look at the big picture.”

Aligning Wealth and Life, continued

"Fortunately, one of the most valuable services that investment professionals provide can also be the least difficult: uncovering and prioritizing client goals by listening, guiding, educating, and serving …"

real life concerns that investors face like, "Am I going to be able to retire on my own terms?" "Will I run out of money?" "Will my legacy be one worth leaving?" Or more generally, "Am I going to meet my short, mid, and long term goals?" In other words, they are more concerned with the reasons they're investing in the first place.

The lens of goals-based wealth management can prevent investors from falling into the trap of making a purely financial decision when a quality of life decision is more appropriate. After all, not all financial decisions are just financial. When clients ask if it would be prudent to pay off their low rate mortgage, we ask them to ponder what would make them feel more comfortable or secure – being free from debt with less money in their portfolio or maintaining the additional debt and the additional money. In many cases, they are merely looking for approval to do something they feel is right and which someone who is considered "money savvy" may have told them was not financially optimal. To paraphrase Oscar Wilde, some people know the cost of everything, but the value of nothing.

Goals-based wealth management reinforces the fact that difficulty is not proportional to importance. In the practice of medicine, it's said that simply washing one's hands has proven second only to penicillin in saving lives. Fortunately, one of the most valuable services that investment professionals provide can also be the least difficult: uncovering and prioritizing client goals by listening, guiding, educating, and serving in a way that is meaningful on a personal level. Galileo wrote, "All truths are easy to understand once they are discovered; the point is to discover them." We believe asking the right questions is a good place to start. Taking the time to understand who investors are and what they value allows for the development of a customized goals-based wealth management plan. Advisors can facilitate this process as a translator – listening to the investor express goals in his or her own words then translating them into financial and investment language. Building on this dialogue allows for the construction of corresponding portfolios tailored to the investor's unique goals.

A military adage holds that amateurs talk strategy while professionals talk logistics. In the context of this article, the equivalent saying might be, "amateurs talk the next hot stock while professionals talk long term planning." After all, equal economic value exists from a dollar earned or a dollar not lost. The concept of "not losing a dollar" holds little allure to most traditional asset management professionals and investors alike. Whereas, goals-based wealth management that focuses on the big picture, understands that proper planning has the potential to preserve more wealth than some investments can create. A dollar that outperforms the market has the same economic consequence as (1) a dollar saved from taxes through asset location, loss harvesting, or proper estate planning, (2) a dollar invested that would have otherwise been spent, and (3) losses minimized through insurance protection against an unexpected outflow or a mitigated concentrated position.

By reorienting the entire process around discovering and satisfying an investor's multiple life goals, this approach combines behavioral finance with traditional investment practices. When success is defined as meeting goals, and not just beating markets, a tremendous sense of clarity about objectives, priorities, and resources can result. This helps maintain perspective and discipline especially during market volatility like we saw in the first part of February, thereby combating the emotions that all too often distract investors from the best laid financial plans. Goals-based wealth management certainly requires solid portfolio performance, but it first considers an investor's complete financial picture in a well-integrated fashion that incorporates the dynamic nature of assets and liabilities, the complexity of a tax and estate profile, and the nuances of behavioral biases.

As Harvard Business School professor Theodore Levit said, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole." Too many traditional asset managers are selling the drill (proprietary products and hot investment opportunities without context) and not the hole (prudent planning resulting in financial peace of mind). So, if money is a means, what is an end? At Greenleaf Trust, it is serving our clients in a way that aligns their wealth with their lives to reach goals and reduce anxiety about money. Our holistic approach to goals-based wealth management provides comprehensive and customized solutions tailored to each client's unique financial objectives. Our client-centric teams value personal relationships and take a highly consultative approach to provide our clients with more clarity and a sense of purpose to their financial and investment decisions, empowering them with portfolio perspective to align wealth and life.

"Goals-based wealth management certainly requires solid portfolio performance, but it first considers an investor's complete financial picture in a well-integrated fashion..."

Chris A. Middleton, CTFA
Executive Vice President
Director of Retirement Plan Division

The End of Social Security and Medicare

"What defines PAYGO systems is individuals currently employed transferring part of their current earnings to those who cannot, or no longer, work."

It is not hard to find cynics of the long term sustainability of Social Security and Medicare — our country's two most explicit Pay As You Go (PAYGO) retirement systems. It is, however, hard to find the groups of people willing to do what it takes to make the much needed changes to these systems. People throw around a lot of numbers to support their case, and there is politics to all of that. Regardless of which side of the aisle you stand, the unfunded PAYGO liability is now in the tens of trillions of dollars. Real money by any standards.

What defines PAYGO systems is individuals currently employed transferring part of their current earnings to those who cannot, or no longer, work. As a result, in a PAYGO system, savings across time is not needed. What is needed is a generation productive enough to support itself and its parents.

PAYGO was the ideal way to finance retirement until around the year 2000, when a convergence of demographic factors reached a tipping point. First, population growth needed to mint a large number of "current workers" continued to dwindle significantly (along with real wage growth). Second, benefit recipient life expectancies kept climbing well beyond original system assumptions. Third, child raising costs continued to march upward placing heavier burdens on the current workers.

With each passing year, the two great flaws of the PAYGO retirement systems become more and more exacerbated. First, we have a basic math problem. If the working generation becomes smaller than the retired generation, and it is, this system will no longer work. The second issue is a social one. PAYGO relies on an understood compact between generations—the younger generations provide a portion of their pay to the older generations. This approach is fine until the working generation determines the demands are too onerous or won't continue to work for their benefit in the future.

It seems obvious to almost everybody that we are facing a demographic crisis that is going to kill PAYGO systems as we know them. In the meantime, we, as the people represented by our government officials, appear content to saddle future elected officials with a burgeoning liability that keeps these programs artificially afloat. At some point in the not too distant future, some working generation is going to demand a change as the unfunded liability reaches unrecoverable levels.

The problem with this scenario is if we simply wait for the PAYGO systems to completely collapse, we are faced with some of the worst case scenarios. On one hand, the working generation will have been left to pay for both their parent's retirement and their own. On the other hand, current system beneficiaries will experience dramatic cuts to their main, and sometimes only, source of retirement income. Both of these scenarios are quite painful, and that pain will extend to the politicians.

Despite the ominous future of these systems, there is a silver lining for those of us in the United States. Our government-mediated PAYGO systems are small relative to the rest of the first world. We also have a robust corporate retirement plan system. Sure, it is often cited that most retirement plan participants have not saved enough, but many American workers have saved something to augment the unknowns of Social Security and Medicare. As of September 30, 2017 there were $27.2 trillion in the US retirement system. This is a good start toward propping up the shaky PAYGO systems we have all come to rely on.

As a society, we need to reasonably consider all interests and points of view about how to handle this dilemma. We then have to be willing to force tough decisions about how these programs can be partially salvaged. No groups will exit the battle unscathed. but the longer we wait, the more painful the ending will be for everybody.

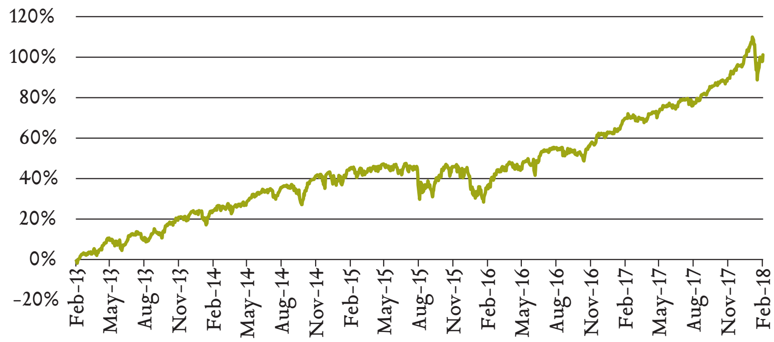
> "Despite the ominous future of these systems there is a silver lining for those of us in the United States."

Christopher D. Burns, CFA, CPA
Senior Fixed Income Analyst

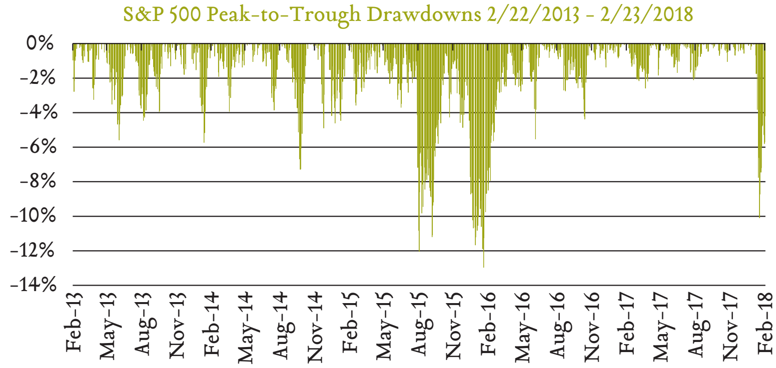
Inflation: Cause for Alarm?

In February, US stock prices fell by 10% from their January highs. This was the first 10% drawdown in two years. The sell-off interrupted a period of stock market calm in which the VIX Index (a measure of volatility in US stocks) reached all-time lows, and the S&P 500 had doubled in value over the last 5 years.[1]

S&P 500 Total Return 2/22/2013 – 2/23/2018



S&P 500 Peak-to-Trough Drawdowns 2/22/2013 - 2/23/2018



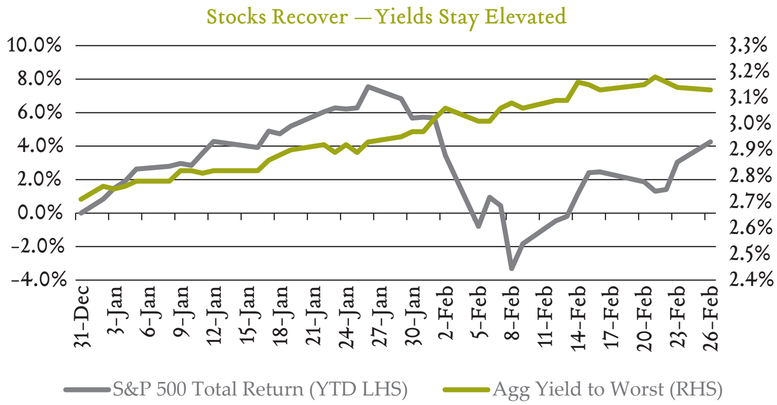
"Without any obvious catalysts, a narrative developed citing concerns about inflation and rising bond yields."

Without any obvious catalysts, a narrative developed citing concerns about inflation and rising bond yields. As an example, consider this headline from CNBC on February 8th, the YTD low point for stocks:

The Cause Of This Brutal Market Sell-Off Was A Piece Of Good News

- The latest market downturn began shortly after the government Friday [February 2nd] reported a sharp rise in average hourly earnings of 2.9 percent annualized.
- Investors have been fearing that inflation will push the Fed into raising rates more quickly than anticipated.[2]

As of this writing, stocks have recovered the majority of their losses. In addition, stock prices recovered even though bond yields remained elevated. This challenges the notion that rising bond yields were indeed the cause of the stock market sell-off.[3]



So, with that puzzling dynamic in mind, this seems an opportune time to examine the prospects for inflation in the future, and to consider the impact of inflation on financial markets and investing. This article will be partially a primer on inflation and partially a description of how we might react to the prospect of inflation in the future.

What is inflation?

The Federal Reserve defines inflation as the general increase in the overall price level of goods and services in the economy.[4] The Fed uses an index of household expenditures, typically focusing on core (excluding volatile food and energy prices) personal consumption expenditures (PCE). The Fed believes that a low, but positive level of inflation is healthy for the economy and targets 2% price growth when determining monetary policy.

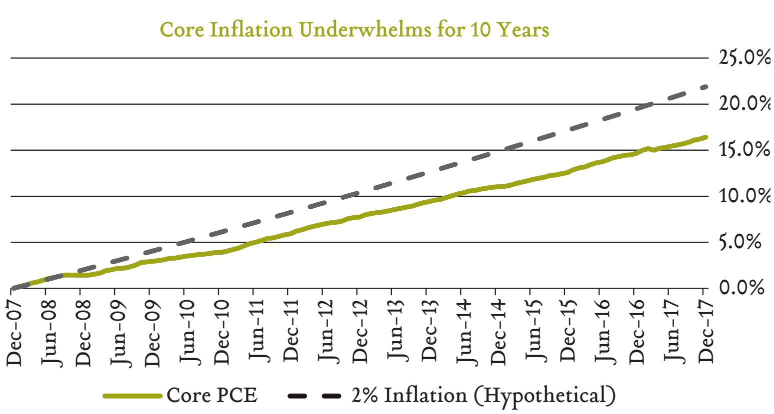
“The Federal Reserve defines inflation as the general increase in the overall price level of goods and services in the economy.”

How has inflation trended recently?

Since the financial crisis in 2008, inflation has been undershooting the Fed’s 2% target. Core PCE has averaged just 1.57% in the 10 years ended 2017.

The latest reading, from December, 2017 showed year-over-year inflation of 1.5% and quarter-over-quarter annualized inflation of 1.9%.[5]

This is quite different than the disruptive levels of inflation experienced in the 1970s and 1980s, when inflation measured double-digit increases. Nevertheless, investors remain concerned.



What causes inflation?

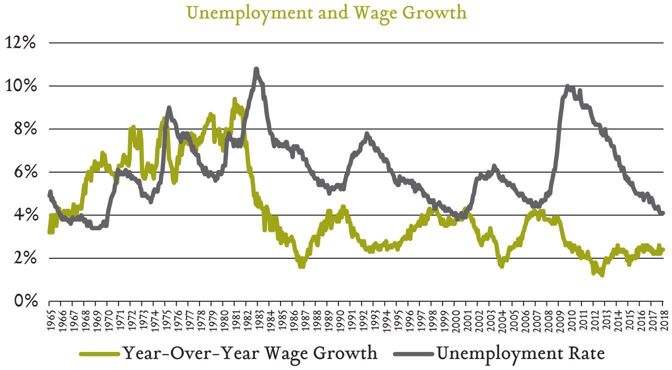
Economists contemplate two potential inflationary scenarios:

	Demand-Pull	Cost-Push
Description	Occurs when demand rises more rapidly than an economy's productive capacity.	Occurs when prices of production process inputs increase.
Example	Milton Friedman's reference to "too much money chasing too few goods". 2004-2007 could be considered an example.	Rising prices for imported oil during the 1 970s.

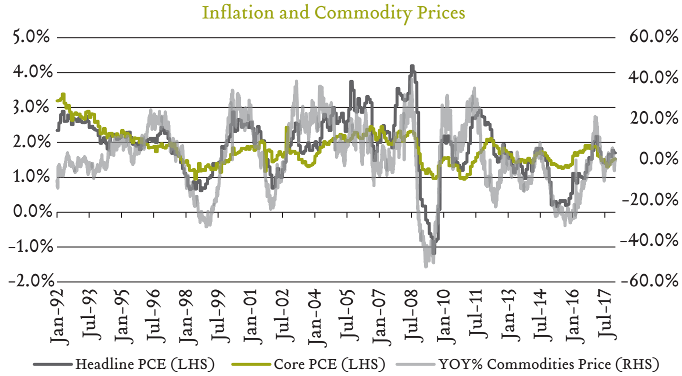
In the current context, cost-push inflation could arise from commodity supply shocks, or from unexpected wage increases due to tight labor markets. However, commodity prices have been subdued, up just 2% over the last year. Likewise, even though unemployment has reached 4.1%, wage growth for private, non-supervisory workers was only 2.4% in 2017.[6]

Demand-pull inflation might arise from deficit-financed tax cuts. These effects may affect the economy with a lag, but fiscal stimulus is thought to increase inflationary pressures by increasing aggregate demand.

Unemployment and Wage Growth



Inflation and Commodity Prices



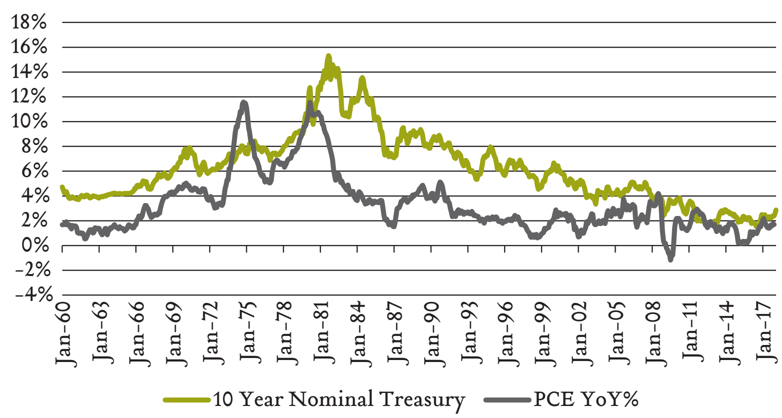
How does inflation impact investors?

Rising inflation reduces the purchasing power of investment portfolios. Periods of rising inflation have also coincided with lower real returns to traditional asset classes.

For fixed income investors, rising inflation tends to coincide with periods of rising interest rates as bondholders demand more yield to lend money.[7]

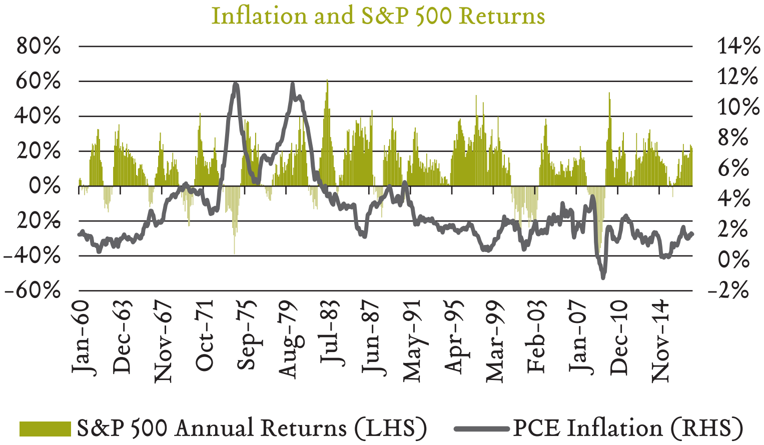
For equity investors, rising inflation can cause short-term concerns about profit margins. If companies are unable to raise sales prices to offset increasing wage, commodity, and interest costs, then profit margins will fall.

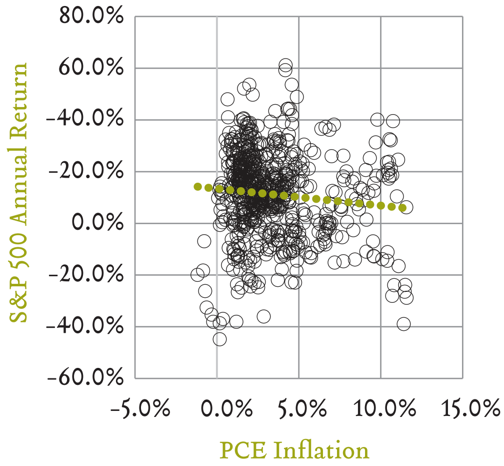
Inflation and Interest Rates



This dynamic affects individual companies differently. Certain businesses may actually benefit from rising price levels. For example, credit card companies earn transaction fees based on nominal dollars, while many of their costs are fixed in nature.

Over the long run, many businesses are able to adjust prices to compensate for inflation. As a result, equity investments have been a reasonable hedge against inflation over the long term. In the short-term, however, rising inflation can pressure profitability.[8]





Greenleaf's Outlook

We expected modest inflationary pressures heading into 2018. Accelerating wage growth is typical at this point in the business cycle. That is one of the reasons we positioned fixed income portfolios defensively heading into the year. If inflation continues to accelerate, we may look to asset classes such as TIPS, commodities, and the equity of commodity-producing companies to mute the impact of inflation on client portfolios.

The events of early February did not materially impact our long-term investment outlook. In addition, we are somewhat skeptical of the idea that inflation will be the catalyst that drives equity prices lower.

Instead, we consider this sell-off as a normal instance of equity market volatility. Valuations are elevated and future expected returns are lower-than-average. During periods like this, we advise clients to focus on their long-term financial goals and to contact their dedicated client centric team if they are feeling uncomfortable with the level of risk in their portfolios.

References:

1 Source: Bloomberg; author's calculations. VIX Index reached all-time low of 9.14 on 11/03/17.

2 www.cnbc.com/2018/02/08/the-cause-of-this-brutal-market-sell-off-was-a-piece-of-good-news.html; accessed 2/26/2018.

3 Source: Bloomberg; author's calculations. Agg = Bloomberg Barclays Aggregate Bond Index

4 www.federalreserve.gov/faqs/economy_14419.htm; accessed 2/16/18.

5 Source: Bloomberg, Bureau of Economic Analysis, dated 12/31/17.

6 Source: Bloomberg, Bureau of Labor Statistics, dated 1/31/18.

7 Source: Bloomberg, Bureau of Economic Analysis, dated 2/26/18.

8 Source: Bloomberg, author's calculations, dated 12/31/17.

Stock Market Pulse

Index	2/28/18	Total Return Since 12/31/2017
S&P 1500	626.24	1.48%
Dow Jones Industrials	25,029.20	1.69%
NASDAQ	7,273.01	5.54%
S&P 500	2,713.83	1.83%
S&P 400	1,864.61	-1.69%
S&P 600	921.34	-1.46%
NYSE Composite	12,652.55	-0.87%
Dow Jones Utilities	668.81	-6.93%
Barclays Aggregate Bond	106.77	-2.12%

P/E Multiples	2/28/18
S&P 1500	22.1x
Dow Jones Industrials	20.2x
NASDAQ	22.2x
S&P 500	21.9x
S&P 400	23.2x
S&P 600	27.6x

Key Rates

Fed Funds Rate	1.25% to 1.50%
T Bill 90 Days	1.61%
T Bond 30 Yr	3.12%
Prime Rate	4.50%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	626.24	22.1x	1.93%
S&P 500	2,713.83	21.9x	1.98%
Dow Jones Industrials	25,029.20	20.2x	2.29%
Dow Jones Utilities	668.81	NA	3.84%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.19%

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