GREENLEAF® TRUST

Perspectives

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William D. Johnston
Chairman, Greenleaf Trust

Economic Commentary

November's economic data reporting calendar was robust, and thus we have plenty of heartbeats to review with respect to the condition of the economy. Let's start with the all-important consumer. Unemployment was steady at 3.7%. The trend in place for jobless claims as well as non-farm payroll was strong at 220,000 and +185,000, respectively. Employment participation remained constant at 60.1%, as did average weekly hours worked (34.5). Wages rose slightly at +0.3% for the month and +3.1% year-over-year.

The Conference Board Consumer Confidence Survey®, which is completed by Nielsen and often is referred to as the "household survey," declined from the October result of 137.9 to 135.7. The present situation index, which is a result of survey questions on consumers' assessment of current business and labor conditions, improved slightly to 172.7 from 171.9. The questions about short-term expectations decreased for the third straight month to 111.0, which declined from 115.1. Survey respondents, when asked for responses explaining declining expectations, most often referred to trade wars and tariffs as justification for reduced expectations. Perhaps they were heartened by the weekend news of positive dialogue between Presidents Trump and Xi on the eve of the G20 economic summit in Buenos Aires.

Some are confused by the results of the housing data releases and assume that they have gone negative. That is not the case and examination of the latest Case-Schiller National Home Price Index, as well as their 10 City and 20 City composites, showed a deceleration in the rate of growth, but nonetheless, still strong price growth. Existing home sales declined in total number but, once again, this is more reflective of inventory rather than reduced demand.

Auto sales through October were reported at a 17.98 million run rate, which is a slight decline from a year ago but better than industry expectations. Sedan sales declined 14.9%, as did alternative energy, hybrid and electrical vehicle sales. The headline war between the administration and General Motors was focused on political capital and efforts of the president to speak to his voter base in Pennsylvania and Ohio, but has little

Commentary, continued

to do with the rapidity of change in the auto industry. General Motors has too many brands and too many models in segments consumers aren't buying. Any company facing the depth and pace of change that GM is facing would scramble to correct the condition that they are in. Labor laws, labor contracts and state regulations require that companies that are planning job reductions make those plans known to their employees and the communities that they live in. Fourteen thousand jobs will not move the needle with respect to unemployment, but if you are one of the 14,000 that are impacted, the news is not welcome by any measure. Retirements and attrition in the workforce of GM will manage a major share of the job loss announcement; however, until GM can retool and restart production of existing product that is in demand, the communities impacted will face some difficult times.

The ISM Manufacturing index remained steady at 57.4, reflecting continuation of optimism among purchasing managers. For the period, durable goods orders declined 4.4%, and factory orders reflected that change. Inflation remained benign with capacity utilization steady at 78.6%.

> "Leading indicators were a bit softer but continued to reflect a picture of stabilized growth."

Leading indicators were a bit softer but continued to reflect a picture of stabilized growth. We are often asked, "Are we headed for a recession?" As we have been saying for over a year, the consumer is employed, confident and spending. As long as those conditions continue to exist, we will be experiencing real GDP growth. We will, however, watch very closely what the economic data is telling us in real time. Should several key indicators — such as yield spreads, jobless claims, and retail sales — take a collective turn for the worse, a slowdown of some degree will be upon us.

The Federal Reserve certainly is one body that has an important role in shaping the economic landscape. The November FOMC meeting and resulting meeting notes were widely misinterpreted. "Fed Speak" has always been a challenge to interpret, and when direction is unclear, markets get nervous and short-term money behaves somewhat irrationally. Seven-hundred-point swings in the market seem enormous yet are less than a 3% change in either direction. What Fed Chairman Powell actually said in the meeting notes was that "Interest rates are still low by historical standards, and they are just below the broad range of estimates of the level that would be neutral for the economy." He did not say that the Fed would not raise rates in 2019, as some suggested. He did not say the Fed was now at the end of their rate increase plan previously announced. He simply stated what was already known. The Fed has a range of rates on multiple financial debt instruments that banks use to either increase or decrease money available to lend. When the rate level on these instruments is on the lower end of the range, and the economy is growing greater than 2% with little slack in the labor force, the Fed is likely to continue its plan of regular (2–4) rate hikes per year. Conversely, as bank-utilized lending instruments, such as the overnight lending rates for bank reserves, rises toward the middle of the targeted range, the Fed is likely to become more neutral and slow its rate hike responsiveness.

The volatility that was created by the misinterpretation of "Fed Speak" is not uncommon, as markets seek an understanding of what part of the economic cycle we are in. Fed Chair Powell has been considered on the "hawkish" side of the Federal Reserve Board of Governors. His announcement that we were nearing the low end of the range of neutral rates (meaning not stimulative and not restrictive), led some to assume that rate hikes were over. The actions of the Fed, which raised the Fed Funds rate 25 basis points, were confusing and conflicting to some. The president, who has shared through tweets that he would like to see no rate hikes, actually tweeted that perhaps he made a mistake by nominating Chair Powell to the post. Each fed chair has their own vocabulary and market analysts, and has often struggled to get it right when actions and policy statements seem to be not in sync. In this case, I think the fed chair and governors got it about as correct as they could. Rates are historically on the low end of the range. The ten-year treasury is now around 3.0%. There is little slack in the workforce, and although inflation data is low, real wage rates have grown in the last 12 months. The hike was appropriate, as was the statement that we are now in the range of rate stabilization. What this signals to me is that if the economy continues to grow at a rate between 2.3% – 3.3%, we will see 2019 rate hikes at the current pace and rate of hike until the actual level rises to a level that they feel requires a neutral Fed stance. I think we will see that occur when inflation indicators continue to be benign and the ten-year treasury is yielding 3.75%

"... I think the fed chair and governors got it about as correct as they could. Rates are historically on the low end of the range."

The love/hate relationship between presidents and fed chairs is usually defined in election cycles, during which time the Fed tries desperately to be neutral with rate activity. An independent Fed is essential to the sustainability of our economy. Voters often vote with their wallet, and thus presidents prefer a Fed that stimulates rather than retards the economy. Our current president is in election mode 365 days a year, and is not prone to do a thorough study of facts; thus, if the markets misinterpret future "Fed Speak" and that is followed by market volatility, our current fed chair will probably be the subject of future tweets as well.

George F. Bearup
Senior Trust Advisor

Equal or Equitable? That is the Question

The question that parents often agonize over when creating their estate plan is whether to leave their estates in shares of equal value to their children, or in unequal, but nonetheless equitable, shares for their children. There is no easy answer to this question. The decision often depends in large measure on how the parents view the role of an inheritance and its impact on their child's life.

Some parents feel obligated to leave an inheritance to their children. Since they love their children all the same, or so they say, they feel compelled to treat their children equally when it comes to distributing their estates at the time of their deaths. Other parents instead look at their accumulated wealth as a reflection of the values that guided them through life, e.g. self-discipline, frugality, hard work, etc., and they thus view leaving their wealth, a product of those lifetime values, to their children based upon who are most likely to emulate and perpetuate those lifetime values, in short as a reward for their apparent adoption of their parents' values.

"Some parents feel obligated to leave an inheritance to their children."

Then there are parents who consider their accumulation of lifetime wealth as a mere reflection of their good fortune, not so much earned wealth as much as a happy coincidence; consequently, they hope to pass along that wealth in a manner that addresses, at least to some extent, the misfortune of their children. If that wealth is distributed on their deaths in unequal, but in their minds an equitable manner, then their final goal to have that accumulated wealth be most impactful will be achieved.

Often the decision turns on the financial security enjoyed by the children, and thus their perceived "need" for an inheritance. This "need" appears when the discussion frequently turns to the question "how much is too much?" Some parents favor equal distributions from their estates, despite the large disparity in income or estates their children then have available to them. Those parents who choose to ignore the fact that some of their children may not "need" an inheritance, while other children's quality of life will be dramatically enhanced with an inheritance, point out that the wealthier child ought not be "punished" for being frugal, working hard, or spending more time obtaining an educational degree than their siblings, that the child's financial success is often the product of those hard choices a child makes throughout life. Other parents focus less on what is fair, and more on how they can best impact the quality of life of their children, by redirecting more of the inheritable wealth to the child or children who are less financially secure.

The equal vs. equitable debate can also take the form of the manner of distribution, rather than the amount of the distributed inheritance. For example, a deceased parent's trust could leave their estate to his or her children in separate shares of equal value, but one child is entitled to withdraw their share from their late parent's trust at any time, while the other child's equal share is to continue to be held in trust until a specific age is attained, or some other identified event occurs. The children are treated equally under the trust as to the amount of their inheritance, but not in the manner in which the inheritance becomes available to them. This situation is often the case when parents hope to change the behavior of a child through incentives (although more often than not the child will view the performance conditions imposed on their receipt of the inheritance as a form of parental "punishment from the grave").

Sometimes the equal vs. equitable decision can be blended into the same estate distribution approach. The parent's trust can direct that the deceased parent's estate is to be divided by the trustee into separate shares of equal value and distributed to their children as soon as practicable. But buried in the trust is also a "however" limitation. Such a clause gives the trustee charged with making the distributions to the children the discretionary authority to nonetheless withhold an immediate distribution from the trust if that child was in the middle of a divorce, nearing bankruptcy, afflicted with addictions, a defendant in a lawsuit, or facing sizeable tax liens, all unfortunate events that would divert the inheritance away from the child. A however clause works reasonably well when the trustee is independent, but it tends to create real bitterness if one child serves as trustee, and he or she decides to trigger the however clause to withhold a distribution of the inheritance to their sibling.

> "[sometimes] children are treated equally under the trust as to the amount of their inheritance, but not in the manner in which the inheritance becomes available to them. This situation is often the case when parents hope to change the behavior of a child…"

Other factors that might impact an equal division of the parent's estate is the age and education of their children. If the parent dies with three children, one of whom is age 27 who had his college and graduate school education paid for by their now deceased parent, another child is age 23 who had her college education paid for by the parent, and the youngest child age 20, who is a sophomore in college, a directive to the trustee to divide the deceased parent's estate into shares of equal value will not produce an equal result. The older two children will have had their educations paid for by their parent, while the youngest child will have to use part of their inheritance to finance the last two years of college. To address this possible inequity sometimes the distribution formula used in the trust directs that the trustee set-aside an amount "off the top" of the trust estate to finance the education of the youngest child, with the balance then divided into shares of equal value, one share for each child. Arguably, in this situation, the youngest child will receive more than his or her siblings, but the receipt of that additional amount was nonetheless equitable since the older siblings had their education paid for by their deceased parent, who is no longer available to assist their younger sibling.

Or consider a situation where some of the children are leading healthy and productive lives, but one of their siblings suffers from a serious health

Advance Directives, continued

condition or debilitating disease that prevents that child from becoming fully employed or their wealth is depleted due to excessive medical expenses. More of a parent's wealth could be directed to that one child who has far greater health related needs than his or her siblings, thus departing from the equal shares approach. But how much "more" should that one disabled child receive than his or her siblings? That additional amount might be insufficient to meet all of the medical expenses incurred by that child, or it might with hindsight be too much "more" if the child does not live long enough to justify his or her receipt of that excess amount. Similar to the education expense disparity, a trustee could be directed to take a specified dollar amount "off the top" of a trust estate, or a percent of the entire estate, e.g. 10%, to be held in trust for the medical expenses of all children, with the balance of the decedent's estate then divided in equal shares among all the children. The child with the greater medical needs could then seek a distribution from this "medical expense fund" in the trustee's sole discretion to meet those extraordinary medical needs. Distributions would not be made from the "medical expense fund" because of the disparity in the children's earned income, but only to meet their medical expenses not covered by health insurance, with priority given to the children who have chronic diseases or medical conditions. While the healthy children might never receive a distribution from this separate "medical expense fund" because they had no extraordinary medical needs, if their health deteriorated in the future, then they too could seek a distribution from the fund. This separate fund could continue until all children attained a specified age, or until all of the children became eligible for Medicare. On the death of the last living child, the remaining assets in the "medical expense fund" could be distributed among the parent's then living grandchildren in shares of equal value.

"A trust should never be a 'one size fits all' device..."

Struggling with the equal vs. equitable division of an estate is always a challenge for a parent. Most are misguided when they worry about a departure from an equal division as somehow implying that they did not love that one child as much as they loved their other children. More time should be taken looking at children as human beings with unique talents, successes, and needs, and less as nameless descendants in a family tree diagram who view the amount of their inheritance as a measure of their parents' love. Trusts can and should be tailored to anticipate the needs of all children, and alternate distribution provisions can be built into a trust instrument to accommodate changing circumstances of all trust beneficiaries. A trust should never be a "one size fits all" device; nor is it required that a trust must provide for a distribution of a deceased parent's estate in equal shares.

Dual Mandate Update

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

This time last year we considered the prospects for Federal Reserve policy under the new leadership of Jerome Powell. At the time, Mr. Powell was undergoing Senate confirmation hearings. He was confirmed and has been leading the Fed throughout 2018.

At the end of 2017, we communicated our expectation that Powell would continue down the path of raising the federal funds rate. We also expected him to keep Fed policy responsive to economic conditions. This article will look back to see if our expectation was met in 2018 and look forward to our expectations for Fed policy in 2019 and beyond.

What is the current state of the economy and monetary policy?

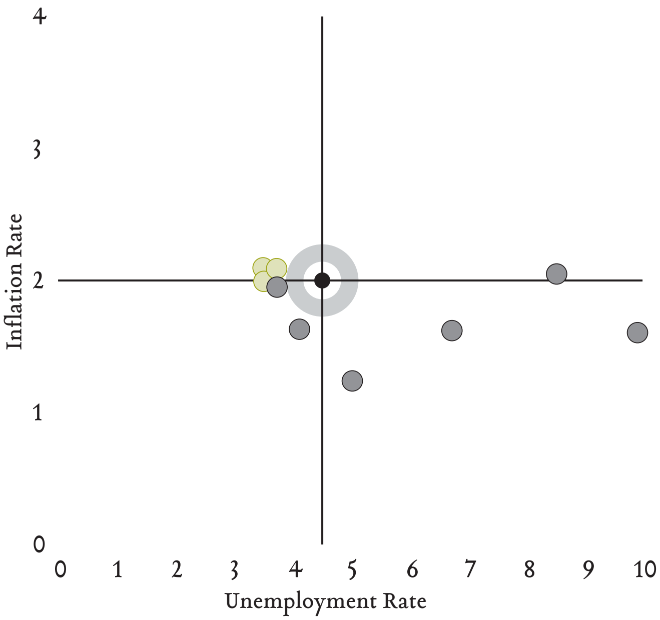
The Federal Reserve has two goals when conducting monetary policy:

1) Maximum employment, and
2) Price stability.

Objective	Target	Q4 2017	Current	Current Deviation
Maximum employment	4.0% - 4.6% unemployment	4.1% unemployment	3.7% unemployment	Above full employment
Price stability	2.0% PCE inflation	1.6% PCE change	2.0% PCE change	At target

Powell stepped in after a period of modest, but sustained, economic expansion, low inflation, and stability in the banking system. Those dynamics continued throughout 2018. The unemployment rate stands at 3.7%, its lowest reading since 1969. The latest core inflation numbers are at the Fed's 2.0% target.

Federal Reserve Bullseye Chart

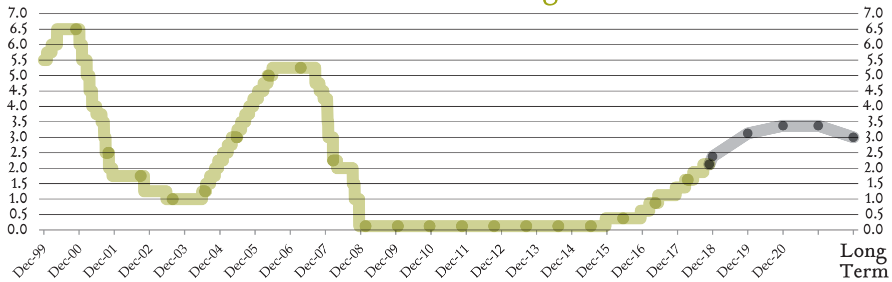


"At the end of 2017, we communicated our expectation that Powell would continue down the path of raising the federal funds rate. We also expected him to keep Fed policy responsive to economic conditions."

Dual Mandate Update, continued

These dynamics allowed the Fed to continue interest rate hikes in 2018.

Federal Funds Range

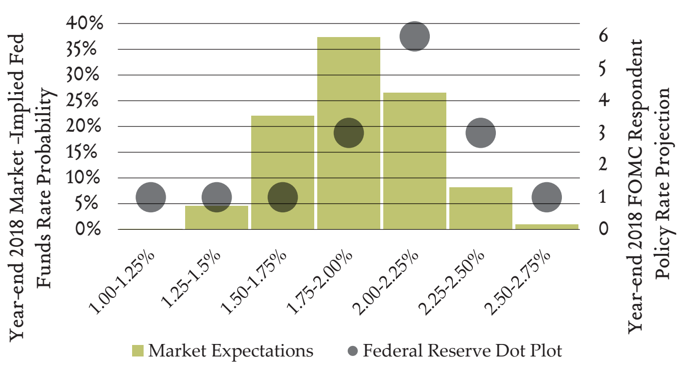


It is likely that the Federal Reserve will raise rates again at its December 19, 2018 meeting. A hike would be the 4th increase in 2018. This pace is ahead of the Fed's projections from December, 2017, when the median expectation was for a 2018 year-end rate range of 2.00-2.25%. Instead, it looks like we will finish at 2.25%-2.50%.

"The faster pace of rate hikes surprised market participants. ... This surprise has contributed to disappointing fixed income returns throughout the year..."

The faster pace of rate hikes surprised market participants. At the end of 2017, Fed Funds futures were pricing in only an 8% probability that the Fed would raise rates four or more times. This surprise has contributed to disappointing fixed income returns throughout the year as yields rose across the curve.

Fed Funds Futures Entering 2018



Looking into 2019 and beyond

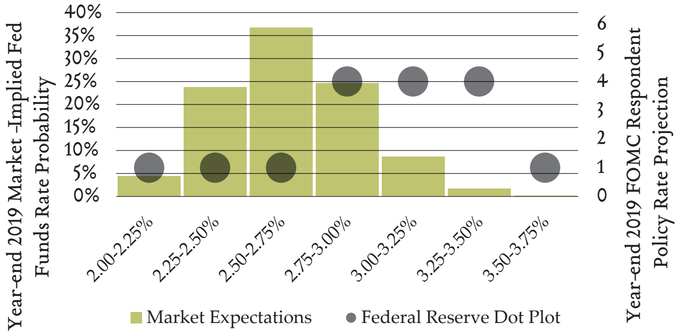
The median Federal Reserve projections for 2019 are for continued modest economic growth, target-level inflation, and low unemployment. The Fed's latest forecasts are from the September 26, 2018 meeting, prior to the most recent bout of market volatility. The median expectation for 2019 was:

- Unemployment of 3.5%,
- Core PCE inflation of 2.0%, and
- 3 hikes in 2019, bringing the target federal funds range to 3.00-3.25%, and
- Only one more hike in this cycle, with the maximum median rate range at 3.25%-3.50%.

Investors will be watching the December meeting to see if 2019 projections have changed in response to volatile investment markets. If not, we will enter 2019 with a similar dynamic to 2018, with market expectations of rate hikes significantly below the Fed's projections.

Current Fed Funds Futures

as of 11/27/18



The median projection from the Fed is for a year-end 2019 rate range of 3.00-3.25%. That would represent 3 hikes in 2019. The market is pricing in only a 10% chance that the Fed hikes 3 times or more in 2019. Instead, market prices imply a 65% probability that the Fed will hike 1 time or fewer next year. If the Fed's projections are correct, it could mean more hawkish surprises for fixed income investors next year.

Beyond 2019, the Fed sees only one additional hike. In the long-term, the median expectation for the federal funds rate is 3.00%. This aligns with our view that we may be closer to the end of this hiking cycle than to the beginning. We have already seen eight quarter-point hikes. Another in December will make nine. There may only be three or four additional hikes to come.

"Economic conditions in 2018 were surprisingly strong. Policymakers at the Fed used the opportunity to continue normalizing policy rates."

Summing up

Economic conditions in 2018 were surprisingly strong. Policymakers at the Fed used the opportunity to continue normalizing policy rates. It is likely this policy will continue in 2019, but Chairman Powell has been careful to communicate that the Fed will be data dependent. As long as unemployment remains low and inflation remains near the Fed's target, we expect additional rate hikes, consistent with the dual mandate. Please contact a member of your cient centric team if you are interested in discussing our expectations for Federal Reserve policy.

Sources:
Bureau of Labor Statistics. Unemployment Rate = U3 Unemployment
Inflation = Personal Consumption Expenditures Less Food & Energy
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Bloomberg, Federal Funds Rate Futures, accessed 11/27/2018

Lorey L. Matties
Participant Services Specialist

You Can Contribute More to Your 401(k) and IRA in 2019

The Internal Revenue Service (IRS) recently announced that the maximum retirement plan benefit and contribution limits for 2019 have increased. The limit increased by $500 to $19,000 for 401(k) and 403(b) plans, most 457 plans and the federal government's Thrift Savings Plan. The catch-up contribution limit for employees 50 and older remains unchanged at $6,000, which means an employee age 50 or older will be able to put as much as $25,000 in their retirement account. For the first time in six years, the limit for individual retirement accounts (IRAs) has also increased from $5,500 to $6,000.

The Social Security Administration (SSA) also published cost-of-living adjustments to the maximum amount of earnings that are subject to the Social Security tax, as well as a 2.8% increase to monthly Social Security and Supplemental Security Income benefits. This is the largest cost-of-living adjustment (COLA) in seven years. The Social Security Wage Base will increase in 2019 from $128,400 to $132,900.

"The Internal Revenue Service (IRS) recently announced that the maximum retirement plan benefit and contribution limits for 2019 have increased."

The Social Security tax functions very much like a flat tax. The taxable wage base caps the amount of employee compensation subject to the 6.20% Social Security tax rate imposed on both employers and employees. In 2019, employers must withhold Social Security tax on each employee's first $132,900 of compensation. This means that the employer and employee must each pay $8,240. Compensation above the $132,900 is not subject to Social Security taxes.

Following is a table highlighting some common retirement plan limitations:

Retirement Plan Limitations	2019	2018
Annual 401(k), 403(b) and 457 deferral limit	$19,000	$18,500
401(k), 403(b) and 457 contribution catch up limit	$6,000	$6,000
Annual contribution limit "415 limit"	$56,000	$55,000
Annual compensation limit	$280,000	$275,000
Highly Compensated employee definition	$125,000	$120,000
Key employee definition for top-heavy plan	$180,000	$175,000
Income subject to Social Security (wage base)	$132,900	$128,400
Annual IRA contribution limit	$6,000	$5,500
Annual IRA catch up contribution limit	$1,000	$1,000

The Saver's Tax Credit for low- and moderate-income workers will reflect modest adjustments as well. The credit is between 10-50% of the individual's eligible contribution up to $2,000. The limit for 2019 is $32,000 for singles; $48,000 for head of household; and $64,000 for married couples filing jointly.

Should you have any questions regarding the various limitations that apply to retirement plans, including some that are not included in the above table, please contact our retirement plan services team.

Investing in the Middle East

As a long-time friend of Greenleaf Trust specializing in foreign economic and financial markets, John Graham shares his global investment perspective as a guest contributor in this month's *Perspectives*. John is a founding member of Rogge Global Partners headquartered in Great Britain and former head of JP Morgan's Multicurrency Asset Management Practice in London.

John Graham
Guest Contributor

I must confess that when this topic was suggested to me to look at, I was a bit concerned. Clearly, the first blush response for a US investor would understandably be: Why? Or, perhaps: Are you crazy? Yet, thinking about how to invest in an area known for its political and social volatility can yield not just investment ideas but a verification of investing principals applicable in many places and at many times.

The clear motivation for considering investing in the Middle East and North Africa is a possible outsize return. While it has not been the case the Middle East has outperformed the US in the past three years (few places have), current and coming headwinds for North American assets combined with and undervaluation in assets elsewhere, make the case for Emerging Markets stocks including the Middle East look appealing at this point. The key is how to get comfortable with looking at assets in an area that constantly provides negative headlines.

"The clear motivation for considering investing in the Middle East and North Africa is a possible outsize return."

If one looks at the types of investment possible in the Middle East and North Africa, there are really two categories which stand out. The most obvious is extractive industries and their upstream activities. However, these industries are, for the most part, controlled by the elites of the various countries involved. This makes them vulnerable to political volatility. The delay in the IPO for Saudi Aramco is a case in point. As the Saudi regime's problems mount, the launch of this IPO, already in problems over regulatory issues, gets farther and farther away.

A better approach is to look for those countries which have large and growing middle classes to whom goods and services can be provided by local and overseas companies. While political volatility will remain a feature for the foreseeable future, the middle classes in countries like Turkey, Egypt and Morocco will continue to grow and consume everything from mobile phones to automobiles. In fact, we can widen this thought to include all of the emerging markets. In all markets, the growth of the middle class does, after a certain point, determine the extent of growth.

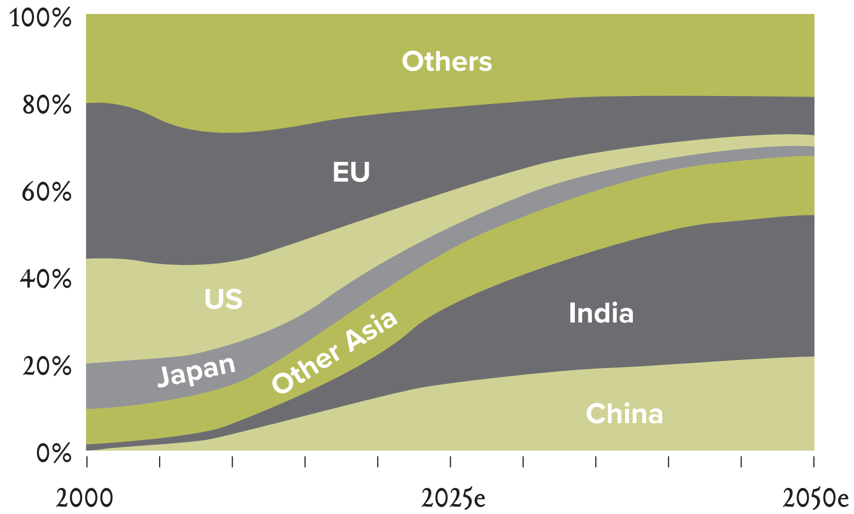
Investing in the Middle East, continued

While the definition of "middle class" varies among analysts and can be based on things like income/expenditure, education, career influence or asset ownership, the term is overall used to refer to those who are neither extremely rich nor extremely poor. The term implies that those within this class enjoy some level of economic security, comfort and access to food, health care, education, and social services.[1] On a global basis, this equates to between USD 10 and 100 per day of income. In a given country, as GDP per capita rises, that country crosses a threshold at which domestic demand becomes the predominant source of growth which, in turn, enables more and more people to enter the middle classes. The significance of this for an investor is that the combination of demographics and growth in the middle class can be relied on to provide investment opportunities across time without regard to domestic and international political volatility. Simply put, trade wars will come and go, political regimes will rise and fall, but for countries which cross the GDP threshold where the middle class drives growth, longer term investments based around their consumption desires will bear fruit.

"The term [middle class] implies that those within this class enjoy some level of economic security, comfort and access to food, health care, education, and social services."

The chart below shows the size of this growth in the global consuming class. By 2050, the middle class in the US will be a very small part of the global middle class and the most significant opportunities for investing will over the next three decades lie in tapping into emerging growth via investments in financial services, communications, manufacturing and consumer durables and non-durables in the rapidly growing areas of the world.

A Great Expansion in the Global Middle Class
2000 – 2050e



Source: Kharas, "The Emerging Middle Class in Developing Countries} OECD Development Center, January 2010
Note: "Other Asia" reflects all Asian countries excluding Japan, India and China, which are differentiated in the graph.

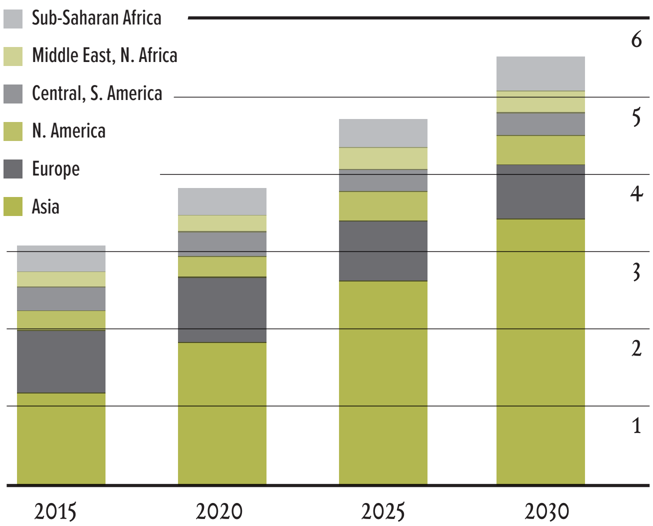
The next chart shows the number of people involved in this process. One can quickly see that while most of the growth will happen in Asia, the Middle East and Africa will also benefit from the middle-class consumption effect. In fact, the second chart below shows that Egypt has already passed this threshold.

When thinking about investing in the Middle East then, the thought is then that one should focus on the parts of the region where large, young, middle-class populations can absorb the shocks which may come from geopolitical and commodity volatility. Given this, three countries come to mind: Turkey, Egypt and Morocco.

Turkey is a country of 80 million people with a 31-million-person workforce strategically and economically linked to Europe with a GDP

> "… while most of the growth will happen in Asia, the Middle East and Africa will also benefit from the middle-class consumption effect."

Number of Middle Class people (billion)



Source: Foreign Policy White Paper

Economic Tipping Point and Middle Class Effect

The combined economic power of the global middle class within countries with rapidly growing middle class can drive dramatic increases in domestic demand and consumption, creating a middle class effect, where economic growth is proportional to the size of the middle class.

Based on projected economic growth, the year individual countries will cross the economic tipping point and begin experiencing the middle class effect were estimated by Wilson (2013) as shown at right.

Projected Year Select Countries Cross the Economic Tipping Point

Country	Year
Egypt	2011
Indonesia	2015
India	2017
Phillippines	2019
Vietnam	2019
Pakistan	2024
Nigeria	2025
Bangladesh	2029

Source: Economist Intelligence Unit (EIU)

Investing in the Middle East, continued

per capita of USD 27,000 far excess of threshold rates for middle class driven growth. The middle class in Turkey is between 35 to 41% of the population.[2,3] Education levels are high with math, reading and science scores ahead of most emerging markets, but behind wealthier OECD members. Like many countries in the region, Turkey is subject to significant political volatility, hence a focus away from financial institutions, extractive industries and their infrastructure (e.g. pipelines) will allow and investor the best chance of participating in the growth of middle-class prosperity in Turkey.

Egypt is a country of 92 million people with per capita GDP of USD 7,200. Over half of the population is under 25 which, if economic conditions can be improved, provide a strong impetus for economic growth. The middle class is around 10% of the population but was as high as 14.5% some years before the Egyptian Revolution. Life has been hard for this part of the population over the past decade as high rates of inflation, poor fiscal management followed by severe austerity under the Sisi government have meant that the middle class struggles to grow. Nonetheless, if the current economic improvement under the IMF loan program continues, the re-expansion of the middle class will be a strong driver of economic growth.

"…the key to understanding long term growth trends… is the health and growth of a country's middle class."

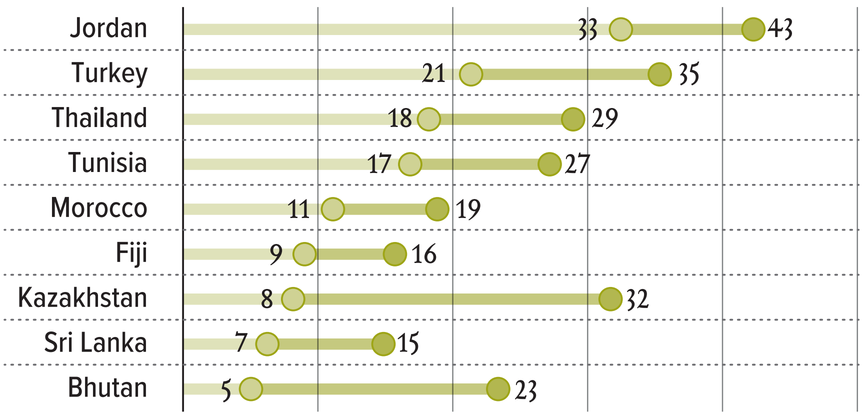
Egypt exports oil and other mineral products, chemicals, agricultural products, livestock and others fats, and textiles (mainly cotton). Other exports include: base metals, machinery and electrical appliances and foodstuff, beverages and tobacco. The country runs a current account deficit and this what the government and the IMF are working hard to reduce. To the extent that they are successful, domestic Egyptian enterprise should benefit.

Morocco has a population of 36 million people. As in Egypt, over half of this population is under 25. The GDP per capita is USD 8,600. Its middle class is 19% of the population. Morocco enjoys proximity to Europe and close economic ties with Europe, particularly with France. In the chart below, we see that the middle class in Morocco continues to grow.

Morocco has a strong export sector providing aircraft, electronics, autos, textiles and agricultural goods to the world in addition to its key extractive industry: phosphates (18% of exports). Moreover, Morocco has undergone a recent tourist boom with the closing of other North African and Middle East countries. With Egypt and Tunisia regarded as unsafe by Europeans, Morocco has become the more popular destination for guaranteed sun and a near exotic experience. Witness the two-hour queue at the immigration desk in Marrakesh!

Morocco's strong challenges to date have been fighting endemic corruption and remaining off the list of terrorist targets. Recently, the government has begun to attack the corruption issue, though time will tell how successful they will be. On the terrorist front, the population is almost totally Sunni Muslim which eliminates the possibility of

Tunisia, Morocco and Seven Countries from Asia and South Pacific are Among the Top 30 Gainers in Shares of Middle-Income Populations



Note: Middle-income people live on $10.01 – $20.00 daily; figures expressed in 2011 purchasing power parities in 2011 prices.

Source: Pew Research Center analysis of data from the World Bank PovcalNet database (Center for Global Development version available on the Harvard Dataverse Network).

friction between Sunnis and Shia in the country. In addition, the government has been stricter than other places about letting in African migrants in an attempt to avoid the kind of issues which plague Tunisia and Libya.

In sum, we can take from the general and address the specific. Globally, the key to understanding long term growth trends from which an investor can benefit with lower exposure to global and domestic political volatility is the health and growth of a country's middle class. A favourable mix of demographics and middle-class growth is a powerful driver of growth, but also an indicator of future issues. That is, the US and the rest of the developed world are suffering from aging populations and a declining middle class share of their economies, limiting potential growth to lower levels than seen in previous decades. By contrast, we saw in the charts above that, globally, middle classes are growing rapidly and that these populations are much younger than in the developed world (except China, which has an aging population due to its former one-child policy).

"… globally, middle-classes are growing rapidly and that these populations are much younger than in the developed world…"

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Investing in the Middle East, continued

“Most important in considering such opportunities is to work with specialist managers and investors who know the area...”

Moving to the specific we can say that targeting investments at the middle-classes in the Middle East is perhaps the best way to exploit opportunities in this region either as a direct investment or as part of a diversified portfolio. These opportunities may be in one of the countries identified or on a regional basis.[4]

Most important in considering such opportunities is to work with specialist managers and investors who know the area and can help disaggregate consumer oriented investments from other types of investments, either by carving out portions of global/regional indices or by locating direct investment in the region.

1. The Center for Homeland Defence and Security, HSX: GROWTH OF GLOBAL MIDDLE CLASS, 2017
2. World Bank, New World Bank Report Looks at Turkey's Rise to the Threshold of High-Income Status and the Challenges Remaining, 2014
3. Pew Research Center
4. Not considered here due to the current sanctions is Iran a country with a population of 82 million people and middle class equalling 32% of that. Should sanctions be lifted there will be clear investment opportunities in Iran.

Financial Basics for the Next Generation

Carlene R. Korchak, CTFA
Vice President
Senior Trust Relationship Officer

As someone who has been working on behalf of clients at Greenleaf Trust for almost 20 years, I find myself working with the children and even grandchildren of my clients more frequently. One of the things we love to do at Greenleaf Trust is provide financial education to the next generation. Following are some of the basic concepts we try to convey to those just beginning their lifetime financial journey.

Congratulations on that first paycheck! I'll never forget when my then 16-year-old daughter received her first paycheck and asked, "Who is FICA and why I am paying him or her?" FICA stands for Federal Insurance Contributions Act, and is a payroll tax that funds Social Security and Medicare. 6.2% of earned income is automatically paid to FICA, and your employer pays another 6.2%. There is also an additional Medicare payroll tax of 1.45% paid by you and matched by your employer. So if you are making $10 per hour, you will be bringing home $9.235 per hour after payroll taxes. Plan for these and other deductions, like income tax withholding and retirement savings, to come out of each paycheck.

"One of the things we love to do at Greenleaf Trust is provide financial education to the next generation."

Create a budget. Finances can be stressful, but knowledge is power. Tracking income and spending and then analyzing that information can help identify a workable cash flow plan. Having a plan increases the opportunity for success. If things go awry (and they do eventually), you will have the details you need to re-align and determine how to best proceed forward.

Take care of things in the right order. Once you have your budget, prioritize paying down debt first and avoid incurring further debt by saving for planned large purchases. Once debt is paid, begin to create a savings "cushion" for emergencies.

Pay your bills on time. Find a method that works for you to pay your bills timely so you begin building a good credit history. That credit score affects more than your ability to borrow; it can also impact things like phone and car insurance rates.

Keep an eye on your checking account. Watch your transactions and account balance regularly, monitoring for unknown transactions or bank errors. (Yes, they happen.) Bank overdraft fees can cost $25 -$35 per item, and sometimes recipients also charge a returned check charge on top of that…probably not in your budget. Consider overdraft protection for your account; the interest charged for this protection can be much less than all of the fees.

Beware of credit cards. Plastic is the most convenient form of credit, but also the most expensive, and can destroy financial plans quickly if not used carefully and wisely. Have the mindset that a credit card is a convenient way to

Financial Basics, continued

pay for something; the account should not be considered as a way to support or enhance your lifestyle. Interest rates can range from 15% - 25%, and late fees average $35 per month. Plan to pay off the entire balance of monthly charges within the 30-day grace period, before interest is charged. Monitor your account closely and report any unknown charges immediately so you are not held financially responsible for them.

Save for retirement. If your employer offers a retirement plan, begin saving to it as soon as possible, even if the amount seems small. The effect of compounding over many years is substantial. You will also receive a break on your income taxes. If your employer offers a match to your retirement plan contributions, find a way to contribute at least enough to receive the match; otherwise, you are leaving free money on the table. You should also consider a separate Roth or Traditional IRA account, especially if your employer does not offer a retirement plan.

"If your employer offers a retirement plan, begin saving to it as soon as possible, even if the amount seems small."

Buying a car. As much as you may love your car, it is a depreciating asset. Plan ahead by saving as much as possible for your purchase. If you borrow, do some independent research ahead of time to find the best interest rates and terms for your situation. A "0% down payment" offer may seem appealing, but can have unforeseen implications-- if your car is totaled in an accident, insurance will probably not cover the entire amount owed, and you will owe the bank the difference for a car you cannot drive. Also, be sure to plan ahead in your budget for the cost of insurance and gas, as well as for repairs and regular maintenance.

Investing for the future. Once you are managing your cash flow, have paid off any debt, have your emergency fund in place, and are saving for retirement, you can consider investing for the future. There is risk involved and no guarantees that you will make money, especially in the short term. Understanding your goals and time horizon, risks, and costs are crucial before you begin. Setting the appropriate asset allocation (how much you invest in risky versus more stable assets) may provide over 90% of the results you achieve, rather than picking the "right stocks." At Greenleaf Trust, we recommend taking a long-term view (versus timing the market) and making sure your portfolio is well-diversified. To get started, there are low cost online accounts with reputable, low-fee mutual funds available. You might consider "dollar cost averaging" which is adding to your investment account on a regular basis over time.

Charitable giving. Sharing one's blessings with others is important, but needs to be balanced with affordability. If giving is important to you, build this in to your budget. On another note, under the new tax law in 2018 and going forward, you may no longer receive a charitable deduction on your income taxes. For those who have had a banner year for income and excess cash flow, there are some strategies and techniques for "bundling" gifts in one year to receive the charitable deduction.

Identity theft protection. With the convenience of online access to everything, prevalent use of social media, and phones regularly used to transact all types of business comes the bane of those who do harm by hacking and stealing identities for financial gain. Like health insurance, identity theft protection is a kind of insurance that does not prevent the problem, but can help identify an issue early on and help support its resolution. As we learned last year, even credit reporting agencies can be hacked for vital personal information; this affected millions of people who may not have used social media, had online access, or borrowed money. We are recommending this type of protection to all of our clients.

Much more could be written about any one of these topics, as well as income tax planning, financial planning for marriage, buying a home, having children, or what it means to be a beneficiary of a trust. Any of us on the client centric team is happy to provide more information, assistance, and customized recommendations to meet our clients' families' individual needs. This is an important part of our goal to provide financial security from generation to generation.

"Any of us on the client centric team is happy to provide more information, assistance, and customized recommendations…"

Stock Market Pulse

Index	11/30/18	Total Return Since 12/31/2017
S&P 1500	637.11	4.74%
Dow Jones Industrials	25,538.46	5.59%
NASDAQ	7,330.54	7.26%
S&P 500	2,760.17	5.10%
S&P 400	1,878.65	0.25%
S&P 600	962.95	4.06%
NYSE Composite	12,457.55	-0.34%
Dow Jones Utilities	741.92	5.92%
Barclays Aggregate Bond	104.88	-1.85%

P/E Multiples	11/30/18
S&P 1500	19.0x
Dow Jones Industrials	17.0x
NASDAQ	21.5x
S&P 500	18.9x
S&P 400	19.1x
S&P 600	22.9x

Key Rates

Fed Funds Rate	2.00% to 2.25%
Tbill 90 Days	2.34%
T Bond 30 Yr	3.29%
Prime Rate	5.25%

Current Valuations

Index	Aggregate	P/E	Div. Yield
S&P 1500	637.11	19.0x	1.91%
S&P 500	2,760.17	18.9x	1.93%
Dow Jones Industrials	25,538.46	17.0x	2.21%
Dow Jones Utilities	741.92	17.9x	3.24%

Spread Between 30 Year Government Yields and Market Dividend Yields: 1.38%

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