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Individual Investor Group Research

Quarterly Research Summary

January 2018

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2018 Market & Economic Outlook

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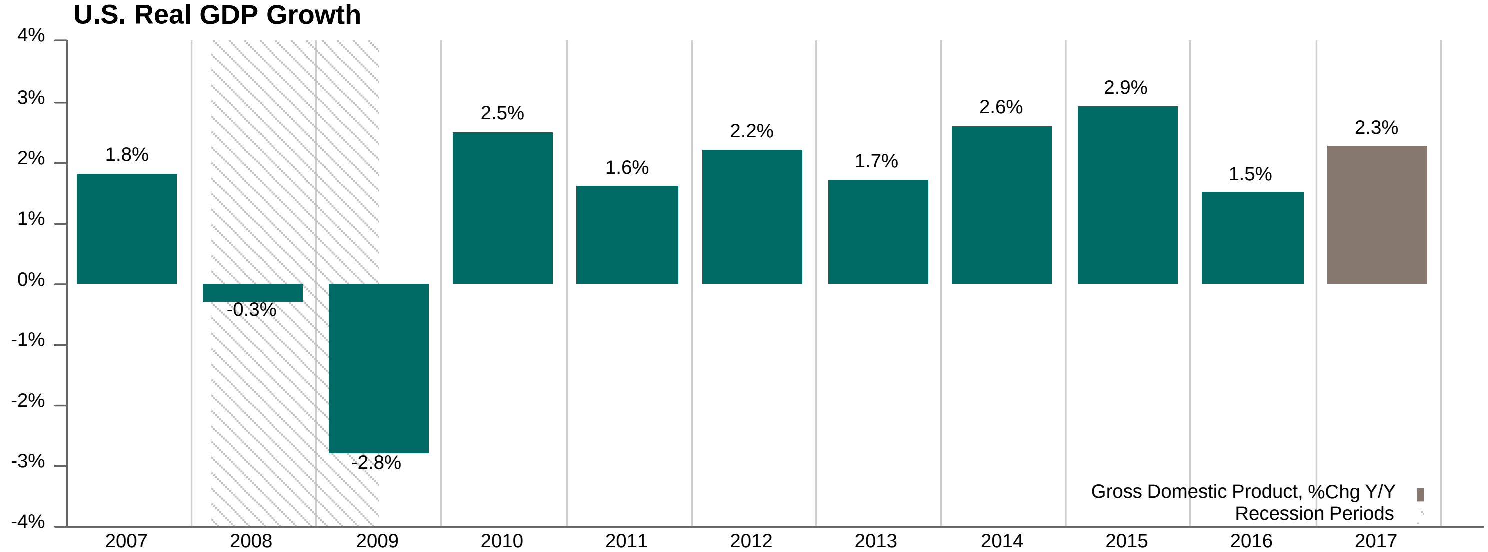
Outlook Summary:

U.S. equity markets surged in 2017 in a powerful and remarkably consistent rally demonstrated by positive S&P 500 gains in every month. Investors experienced limited pull-backs as the largest peak-to-trough decline was just 2.5%. We attribute the strength of the rally to better than expected earnings growth, an increase in business investment driving U.S. GDP higher, a resurgence in global economic growth, and low U.S. interest rates. As we approach the start of 2018, each of these positive factors remain intact, leading us to continue our bullish stance. Investors should expect more modest returns in 2018, as well as increased volatility (i.e., we are due for a pull-back). **Our target for the S&P 500 at year-end 2018 is 2,850, which represents an approximate 6% gain from recent price levels. Adding to that an estimated dividend yield of 2% for the index produces a total return of 8% for 2018.** This follows a strong 2017 gain of over 20% as the bull market completes its ninth consecutive positive year.

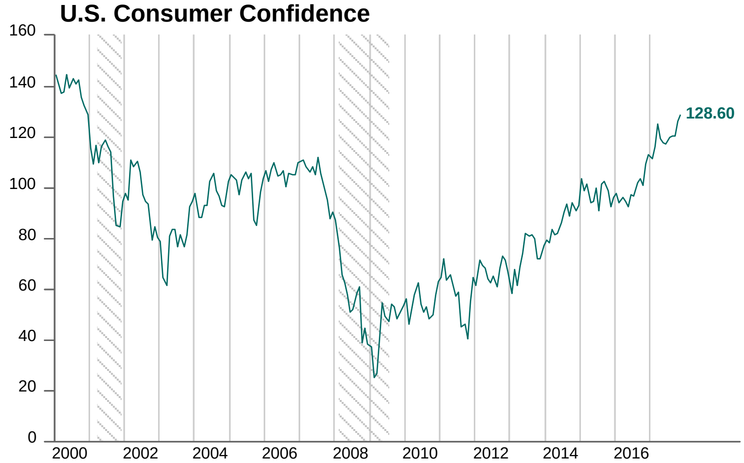
Our price target represents a P/E of 19.5x the current FactSet consensus EPS estimate for the S&P 500 of $146. That estimate reflects a 2018 year-over-year (y/y) increase of 11% from 2017 estimated earnings, which in turn are expected to grow 11% from 2016. Quarterly y/y earnings growth accelerated in 2017 due to solid revenue growth, strong margins, and a rebound in Energy sector earnings, which had been a drag in 2016 and 2015. In addition, the U.S. Dollar index (DXY) declined approximately 8% in 2017; the weaker dollar provides an accounting boost to foreign earnings as those profits are translated back into U.S. dollars. In our view, the recent passage of the Tax Cuts and Jobs Act, which lowers the Federal corporate tax rate to 21% from 35%, will likely lead to higher U.S. corporate earnings. Although 2018 consensus earnings estimates have trended 1% higher in December, we believe that the upside to earnings from the lower tax rates could approximate 7%. Assuming a 5% increase to current estimates, which adjusts for earnings estimates that are typically overly optimistic at the beginning of the year, the 2018 S&P 500 earnings estimate could rise to $154. Our 2,850 S&P 500 target is 18.5x that number.

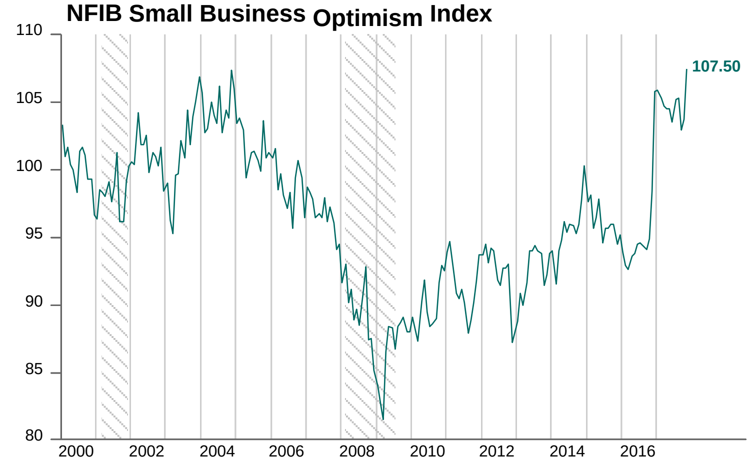
U.S. Real GDP Growth

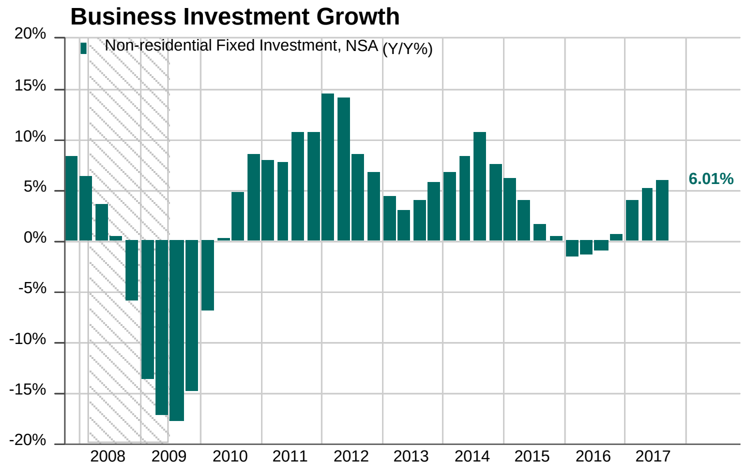


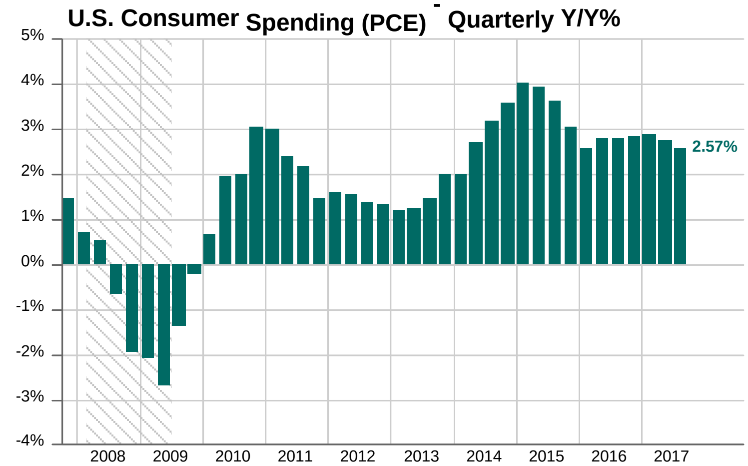
*Data Source: FactSet; *2017 data is the consensus estimate as of 12/28/17*

2017 U.S. GDP growth has exceeded expectations. After a weak first quarter of GDP +1.2%, Q2 and Q3 rebounded to +3.1% and +3.2%, respectively, exceeding expectations. 4Q17 GDP is estimated at +2.4%, bringing the full year to an estimated +2.3%, significantly above +1.5% in 2016, but slightly below our 2.4%-2.6% range we estimated last December. Economic strength this year can be attributed to steady growth in consumer spending, augmented by a rebound in business investment (non-residential fixed investment), which has exceeded expectations in recent quarters and reflects increased business optimism. In 2018, we expect ongoing strength in consumer spending driven by higher wages, along with business investment helped by the new tax law. In our view GDP growth can exceed 2017 levels (2018 GDP FactSet consensus is +2.5%) and could approach +2.8%.









Data Source: FactSet

Economic data is beginning to reflect y/y strength in consumer and business surveys. Throughout 2017, investors have compared economic "soft data," reflecting surveys measuring levels of optimism and purchase intent, to "hard data," reporting actual spending and investment levels. In Q1 there was some concern that actual spending would fail to keep pace with rising optimism. Soft data includes consumer confidence, business optimism, and purchasing managers' index (PMI); hard data includes personal consumption expenditures (PCE), gross private domestic investment, and GDP. Immediately following the November 2016 U.S. presidential election, confidence surveys surged to multi-year highs, but the GDP reports in 4Q16 (+1.8%) and 1Q17 (+1.2%) were below expectations. Both consumer confidence and NIFB small business optimism surveys have continued to move higher in 2017 and were supported by improving economic data beginning in Q2. Consumer spending remains the workhorse of the economy, comprising 69% of GDP for the past several quarters. Since accelerating from post-recession lows in late 2013 through 2015, consumer spending (PCE) has grown y/y at 2.5%-2.8% for each of the past seven quarters. The other major components of GDP, private domestic investment, net exports, and government spending, comprise 31% of GDP and have not consistently added to GDP growth over the past two years. In our view, upside to GDP growth can come from growth in business investment and the potential for a reacceleration in consumer spending helped by a strong labor market.

Non-residential fixed investment (shown above as Business Investment) grew strongly beginning in late 2010 but decelerated in 2015, turning negative in 2016. However, business investment spending has recovered post-election, with y/y growth resuming in 4Q16 and accelerating in 2017. Non-residential fixed investment comprised nearly 14% of Q3 GDP (adjusted annually) as all major business investment categories have turned positive (equipment, intellectual property, and structures). While the length of the current economic cycle is unusually long at eight years, the level of post-recession growth has been mild, which provides substantial head room for additional growth. Given positive CEO commentary regarding tax reform we look for continued strength in business investment in 2018. In addition, global economic growth has exceeded expectations in 2017, leading to better than expected revenue and earnings for U.S. multinational companies. In our view, the combination of accelerating U.S. GDP and global economic growth can lead to the strongest GDP growth since the 2008/2009 recession.

2017 Global GDP Growth Estimates

	as of 12/27/17	as of 12/31/16	2017 Revision
Canada	3.0%	1.9%	1.1%
Germany	2.4%	1.5%	0.9%
Japan	1.5%	0.8%	0.7%
Italy	1.5%	0.8%	0.7%
France	1.8%	1.3%	0.5%
China	6.8%	6.4%	0.4%
United Kingdom	1.5%	1.1%	0.4%

Data source: FactSet

Congress Passed a Comprehensive Tax Reform Bill

President Trump signed the Tax Cuts and Jobs Act on December 21st, marking a victory for the GOP-led House and Senate, as well as the President's pro-growth platform that had lacked positive legislative action for most of 2017. The tax bill is the most comprehensive tax reform package since the Reagan administration more than 30 years ago, as it makes sweeping changes to both corporate and individual tax rates, eliminates many deductions, and addresses taxes on foreign profits so that more companies will bring cash back to the U.S. All of the changes will begin in 2018. **In our view, not only is the tax bill very positive for U.S. corporate profits and cash flows, but also will be a driver of U.S. GDP growth through positive implications for consumer spending and business investment.**

The tax reform was a highly partisan bill as the legislation was passed by both the House and Senate with Republican majorities and zero Democrat votes. The debate centered around the distribution of the tax cuts (Democrats wanted to see more cuts for middle income payers and less for corporations) as well as the fact that the individual tax cuts will roll back after eight years, while the corporate tax cuts are permanent. The Congressional Budget Office (CBO) has scored the tax plan estimating a $1.5 trillion increase in the Federal deficit over ten years. The scheduled roll-back of the individual tax cuts addresses that issue as the increase to the projected deficit was limited by rule due to the budget reconciliation process (used to allow passage through the Senate with a simple majority). Supporters of the bill are counting on a boost to economic growth to offset the increase of the deficit, and congressional action to extend the individual tax cuts within the ten-year timeframe. We expect a modest boost to GDP from the tax cuts over the next several years.

The partisanship in the final bill was unfortunate because in past years support for corporate tax reform has been very non-partisan. The existing U.S. statutory Federal tax rate of 35% is the highest among all industrial nations according to the OECD, and harms the global competitiveness of U.S. companies. In addition, the U.S. tax law required tax on repatriated foreign profits, which was another factor harming the competitive position of U.S companies. The new tax law eliminates that disadvantage. While polls have indicated that many consumers do not expect a lower tax bill, the CBO estimates that 90% of tax payers will see lower taxes in 2018, and that the benefits will accrue to all income levels. Gains for the average American taxpayer are estimated to range from $500 to $2,000. The new code will also simplify returns for many taxpayers by increasing the standard deduction to $24,000 from $13.000 (for married filing jointly returns), which will lead to fewer taxpayers who itemize expenses. Some families will pay higher taxes, however, as the new tax law limits deductions of state and local taxes (SALT) to $10,000 and mortgage interest on loan balances above $750,000 (on new mortgages). This is expected to affect taxpayers in areas that have high state income taxes, high property taxes, and high real estate values. Higher income earners in California, New York, New Jersey, Connecticut, and Massachusetts appear to be the most vulnerable to higher Federal tax bills under the new law.

We look for a positive market reaction to the new tax law in late January through February. First, as companies report 4Q17 financial results we expect most to discuss the impact of lower tax rates on 2018 estimated earnings. This will lead to higher earnings estimates for both individual companies and the market as a whole. In February, the tax changes are expected to be updated in the IRS withholding tables and begin to result in higher paychecks for most wage earners. We expect this to have a positive impact on consumer sentiment and spending. We also expect many companies to incur one-time tax charges for repatriated foreign profits and deferred tax assets held on the balance sheet. Because the tax law was signed in 2017, many companies will incur the charges in Q4. We expect the market to look beyond these charges as the net impact of tax reform will be an increase in cash flow.

The Fed Raised Short-Term Interest Rates Three Times in 2017

For the third December in a row, the Fed raised its fed funds target by 25 basis points (bps). The difference in 2017 was that the December increase was the last of three 25 bps hikes during the year, whereas the Fed raised rates just one time in 2016 and 2015. As of the December Federal Open Market Committee (FOMC) meeting the fed funds target stood at 1.25%-1.50%, reflecting five rate increases since tightening began in December 2015. It is also the highest fed funds rate target since December 2008, when the Fed went to a zero interest rate policy. Since mid-2015, U.S. GDP growth has been inconsistent, marked by quarters of strong growth followed by quarters of lower than expected growth. However, the fourth quarter is expected to reflect the third consecutive quarter of above-trend growth and the FOMC expects continued growth at a moderate pace, driven by strong labor market conditions, household spending, and business fixed investment. This supports the Fed's drive to "normalize" interest rates, as rates could be higher given the current level of economic activity. In December the Fed updated its economic projections, known as the "dot plot," which reflects three 25 bps rate hikes in 2018 and two in 2019. The Fed raised its 2017 GDP growth outlook to +2.5% from +2.4%, it's 2019 projection to +2.5% from +2.1%; and estimated an unemployment rate to end 2017 and 2018 of 4.1% and 3.9%, respectively. While economic growth has accelerated for most of 2017, and tax reform is largely stimulative, investors remain skeptical of three rate hikes. As of 12/28/17, the CME Group reports that the futures market is pricing in a 36% chance of two rate hikes and a 28% chance of three hikes. **We estimate above trend GDP growth and rising earnings in 2018, and believe that three rate hikes are likely and will reflect positive investor sentiment**.

In a busy year for the Federal Reserve, Jerome Powell was confirmed to succeed Janet Yellen as Federal Reserve Chairman, in a term that will begin in February 2018. Also, the Fed began its balance sheet reduction program to reverse the easy monetary policy that was a result of quantitative easing. Both moves are expected to be mildly hawkish (Fed tightening, or higher rates). Although Mr. Powell is a current Fed Governor and a known quantity to represent the status quo, he will oversee several changes on the FOMC, with new governors expected to be more supportive of higher rates. In October 2017, the Fed began to reduce its $4.0 trillion balance sheet of treasury and agency securities purchased during its QE programs. The plan is to gradually reduce its owned securities by not reinvesting proceeds upon maturity. The plan is to reduce holdings by $40 billion in 4Q17, $60 billion in 1Q18, $90 billion in 2Q18, etc. until approximately 11% of holdings are reduced by the end of 2018. The normalization plan could place modest upward pressure on interest rates as the Fed will not be reinvesting, removing a large buyer from the market. However, the planned runoff is very gradual and does not appear to have impacted interest rates after the first three months of "quantitative tightening."

Federal Reserve "Dot Plot" **as of 12/13/17 ***

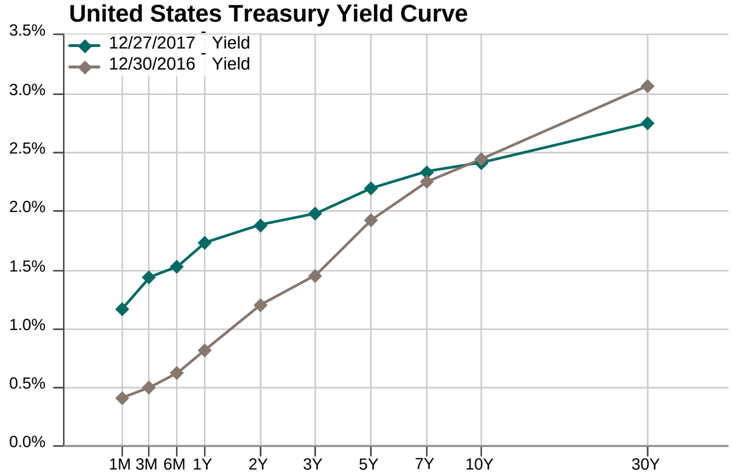
	2017	2018	2019
U.S. GDP Growth	2.5%	2.5%	2.1%
Unemployment Rate	4.1%	3.9%	3.9%
Core PCE Inflation	1.5%	1.9%	2.0%
Year-End fed funds rate	1.4%	2.1%	2.7%

**reflects the median estimates from Federal Reserve Board members and Federal Reserve Bank presidents Data source: U.S. Federal Reserve*

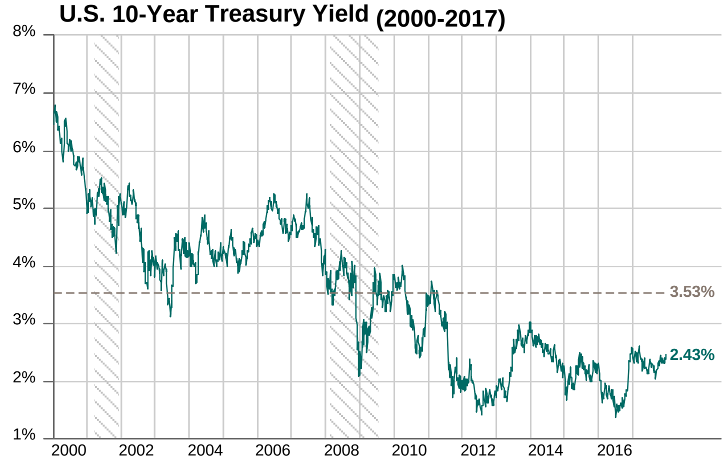
The Treasury Yield Curve Has Flattened

As of 12/28/17, the U.S. 10-year treasury yield was 2.43%. Although the yield has moved substantially higher from the year's low of 2.08% in early December, it is modestly below the year-end 2016 level of 2.48%. In our view, this was among the big surprises of 2017 as economic growth was healthy and the U.S. labor market was strong (unemployment rate 4.1%, average monthly new non-farm payroll jobs 173,000 vs. 187,000 in 2016). However, inflation has remained stubbornly low at approximately 1.5% vs. the Fed's 2.0% target. And wage growth has averaged about 2.5%, which is well below what might be expected in a tight labor market. Although, we see U.S. long-term interest rates that are low vs. historical averages, global investors see U.S. bond yields as comparatively high. This has created continued demand for U.S. 10-year Treasuries, keeping rates lower. Comparative 10-year yields in major global markets include Japan 0.1%, Germany 0.4%, Eurozone 0.4%, U.K. 1.2%, Italy 1.9%, and Canada 2.0%. **While U.S.10-year Treasury yields have dropped 5 bps in 2017, two-year yields have increased 64 bps, and the spread between two-year and ten-year yields has narrowed to just 52 bps from 122 bps.**

United States Treasury Yield Curve



U.S. 10-Year Treasury Yield (2000-2017)



Investors have closely watched the flattening of the yield curve, as an inverted yield curved (when short-term yields exceed long-term yields) has been an accurate leading indicator of past recessions. While the curve is not inverted today, the current 2-year yield of 1.90% is at a post-recession high, and the 2-year/10-year spread of 52 bps is at a post-recession low. Investors have become more comfortable with expectations for continued Fed tightening and the curve could invert after two more fed funds hikes if long rates stay flat. While we see very little evidence to suggest an economic slowdown is on the horizon, we are monitoring the yield curve closely. As mentioned above, global demand for U.S. Treasuries have contributed to lower rates, but we are hesitant to completely discount the information given by the yield curve over time. **We view the slope of the yield curve as a risk to the market in 2018 and believe that if 10-year rates do not move higher from the current level of 2.43%, the Fed may find it difficult to meet its estimate of three interest rate hikes**.

2017 Was Not a Normal Year for Market Volatility

In 2017, the largest peak-to-trough pullback in the S&P 500 was -2.5% in mid-August. This is not normal as investors should expect declines of 5%-10% as a regular event, even in bull markets. Since the beginning of 2009, there have been ten periods of market pull-backs of at least 5.5% (more than one per year) with an average decline of 10.8%. Despite those ten pullbacks in nine years, the S&P 500 has more than tripled and delivered a compounded annual price return of 13.1%. In 2017, investors were unfazed by weaker than expected Q1 GDP growth, ongoing geopolitical uncertainty (North Korea in particular) and global terrorist attacks, a delayed President Trump agenda due to the inability of a GOP-led congress to pass major legislation until December, and Fed tightening leading to higher short-term interest rates. As the adage goes, "the market climbed a wall of worry," and investors focused on strong earnings and improving global growth. **We caution that investors should expect a market correction (10% or more decline) and to prepare by building diversified portfolios among sectors and asset classes, and focusing on long-term goals. However, in our view investors should stay invested as the bull market can continue and finish 2018 above current levels.**

The Nasdaq Composite Index Led Market Gains in 2017

Although the S&P 500 index posted a strong total return of 22.5% through 12/28/17, this was well below the Nasdaq Composite's market leading 30.3% gain. The Nasdaq's gains were paced by its weighting of Information Technology stocks, the best performing sector of the year, and comprising more than 45% of the index. This also was a strong reversal from 2016 when the Nasdaq Composite was the worst performing U.S. equity index. Similarly, the top two 2016 indices, the small cap Russell 2000 and S&P Mid Cap 400, were the two worst performing in 2017. Market leadership among equity indices is variable from year to year, highlighting the difficulty in market timing and supporting the long-term benefit of supplementing large-cap portfolios with exposure to small and mid-cap stocks as well.

2014	2015	2016	YTD '17
NASDAQ 14.7%	NASDAQ 6.96%	Russell 2000 21.31%	NASDAQ 30.30%
S&P 500 13.69%	S&P 500 1.38%	S&P Mid Cap 400 20.74%	DJIA 28.39%
DJIA 10.04%	DJIA 0.21%	DJIA 16.50%	S&P 500 22.46%
S&P Mid Cap 400 9.77%	S&P Mid Cap 400 -2.18%	S&P 500 11.96%	S&P Mid Cap 400 16.88%
Russell 2000 4.89%	Russell 2000 -4.41%	NASDAQ 8.87%	Russell 2000 15.20%

Data Source: FactSet

The S&P 500 is the most widely referenced U.S. large cap index and captures an estimated 80% of available market capitalization. We attribute the S&P 500's strong 2017 performance, relative to small and mid-caps, to solid growth in S&P 500 earnings (+11%) and improving global economies as large-cap companies generated a large percentage of revenue from foreign sources. According to S&P Dow Jones Indices, S&P 500 companies generated 43% of sales from foreign countries in 2016. This foreign exposure puts large U.S. companies at an advantage relative to smaller companies, which are more leveraged to the domestic economy. However, this could change in 2018 as investors appreciate the positive impact of tax reform on domestic earnings. We estimate that the five-year effective tax rate of the S&P 500 index averaged 29.2%; this compares to an effective tax rate for the Russell 2000 of 33.5% as reported by *CNBC*. **The positive impact of tax reform on Russell 2000 earnings in 2018 can exceed the 7% we estimate for the S&P 500, which can drive increased investor interest in small-cap stocks, in our opinion.**

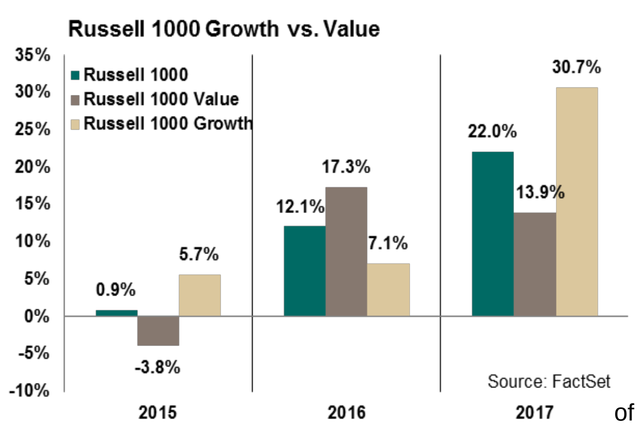
Sector Valuation Relative to S&P 500 (%)	P/E (2017)	P/E (2018)	P/B	P/CF	P/S	EV/EBITDA	6-Factor Average	10yr. Hist. Average	Difference
S&P 500 (SPY): Large-Cap U.S.	1.12	1.12	1.40	1.31	1.39	1.13	1.24	1.15	**0.09**
Russell 2000 (IWM): Small-Cap U.S.	1.77	1.48	1.03	1.11	0.84	1.24	1.25	1.26	**-0.02**
MSCI EAFE (EFA): Developed Int'l	0.89	0.91	0.78	0.82	0.79	0.87	0.84	0.90	**-0.06**
MSCI Emerging Markets (EEM)	0.77	0.76	0.82	0.72	0.91	0.83	0.80	0.89	**-0.09**
Vanguard Total World Stock (VT)	18.27x	16.35x	2.31x	10.50x	1.60x	11.83x			

10% higher than the equivalent valuation metric for the S&P 500
10% lower than the equivalent valuation metric S&P 500

Note: P/E based on 2017 and 2018 consensus EPS Estimates
Data Source: FactSet

According to our model, the Russell 2000 is undervalued compared to the Vanguard Total World Stock index, on a historical basis. In the table above, we compare four widely followed global equity indices vs. the Total World index on six relative valuation measures. While the Russell 2000 trades at a 2018 P/E of 20.9x estimated earnings compared to the S&P 500's 18.4x 2018E P/E, on a relative basis it is cheaper than its average over ten years. Using the six valuation measures the Russell 2000 trades at a 2% relative discount to the Vanguard Total World Stock index, vs. the S&P 500 at a 9% premium. According to *Bloomberg*, Russell 2000 earnings are estimated to grow 21% in 2018, compared to 11% for the S&P 500. This justifies the higher P/E ratio and we believe that Russell 2000 earnings are likely to be revised higher as tax reform becomes more completely factored into estimates. **We are estimating gains for the S&P 500 in 2018, but believe that the Russell 2000 can outperform after lagging the S&P 500 during three of the past four years.**

Growth Stock Performance Trounced Value in 2017



In a year when all major equity indices rallied to all-time highs, there was a wide discrepancy among performance of growth stocks vs. value stocks. In 2017, the Russell 1000 index generated a total return (through 12/28/17) of 23.0%. But the growth component of the index was 30.7% compared to just 13.9% for the value component. This represented nearly 17% of outperformance and was the largest difference between growth and value since 2009. In very general terms, growth indices includes stocks that generate expected above trend revenue and earnings growth, and value stocks trade at a below peer average of book value to price. Although the Russell 1000 Value index outperformed the Russell 1000 Growth index in 2016, growth has outperformed value six of the past nine years beginning in 2009. While growth could continue to outperform based upon expected acceleration in GDP in 2018, we believe that we are in the late stages of the current economic expansion, which should begin to favor value. The outperformance of growth stocks can be attributed to sector weightings as Technology (37.5%) and Consumer Discretionary (17.7%) collectively comprise 55% of the Russell 1000 Growth index compared to only 15% combined in the value index. Conversely, Financials (25.9%) and Energy (11.9%) collectively represent 38% of the Russell 1000 Value index compared to 4% in the growth index. **Given our expectation that Financials and Energy can outperform going forward in 2018, we expect improved relative performance of value stocks in 2018.**

Sector Leadership Changes Year to Year; Technology Performance Was the Story of 2017

In 2017, on a total return basis, nine of 11 S&P 500 GICS sectors were positive (through 12/28/17). However, in 2017 just five sectors beat the total return of the index (S&P 500) compared to seven in 2016 and six in 2015. The range between the top performing sector, Technology (+39.7%), and the bottom performing sector, Energy (-0.6%), exceeded 40 percentage points, but that was only slightly above the differential over the prior three years, which averaged 33 percentage points. Also, among the five outperforming sectors in 2017, Technology was the star, as its 39.7% total return was significantly higher than the second best sector, Materials (+24.2%). In fact, the other three, Consumer Discretionary (+23.8%), Financials (+23.0%), and Health Care (+23.0%) only slightly beat the index, further highlighting the leadership of Technology during the year. In our view, the performance of Technology distorted market gains in 2017 as it is also the largest S&P 500 sector at 24% of the index (the next largest is Financials at 15%). We attribute strong Technology performance to several factors, as earnings growth has led the market (Tech earnings +14.5% y/y, comprising 23% of S&P 500 earnings), the industry is well positioned to benefit from improved global demand, and several very large disruptive market opportunities including cloud computing, wireless communications, artificial intelligence, machine learning, and augmented reality. **Given the strong performance of Technology in 2017, we do not expect the sector to lead the market in 2018, although most of the valuation drivers mentioned above remain in place. Over time, investors should expect sector rotation to occur, favoring underperforming sectors from a contrarian standpoint, when the fundamentals warrant it. In 2018, we look for strong performance from value sectors, which include Financials and Energy, as well as sectors that are positioned to benefit from corporate tax reform. In addition to Financials and Energy, these include Telecommunications and Consumer Discretionary. We also believe that the new tax bill favors Industrials, as many in the group will not only generate more cash flow from lower corporate tax rates, but also should benefit from increased demand for capital equipment as the new tax law provides for 100% expensing of capital investment for five years.**

Best ← S&P 500 Sector Performance (Total Return) → Worst

2014	Real Estate 30.19%	Utilities 28.98%	Health Care 25.34%	Information Technology 20.12%	Consumer Staples 15.98%	Financials 15.20%	S&P 500 13.69%	Industrials 9.83%	Consumer Discretionary 9.68%	Materials 6.91%	Telecom Services 2.99%	Energy -7.78%
2015	Consumer Discretionary 10.11%	Health Care 6.89%	Consumer Staples 6.60%	Information Technology 5.92%	Real Estate 4.68%	Telecom Services 3.40%	S&P 500 1.38%	Financials -1.53%	Industrials -2.53%	Utilities -4.85%	Materials -8.38%	Energy -21.12%
2016	Energy 27.36%	Financials 22.80%	Telecom Services 23.49%	Industrials 18.86%	Materials 16.69%	Utilities 16.29%	Information Technology 13.85%	S&P 500 11.96%	Consumer Discretionary 6.03%	Consumer Staples 5.38%	Real Estate 3.39%	Health Care -2.69%
2017*	Information Technology 39.69%	Materials 24.20%	Consumer Discretionary 23.80%	Financials 23.03%	Health Care 22.96%	S&P 500 22.46%	Industrials 21.38%	Consumer Staples 13.54%	Utilities 12.11%	Real Estate 10.82%	Telecom Services -0.35%	Energy -0.62%

As of 12/28/2017; Real Estate sector performance is hypothetical before 9/19/16, when it was broken out from Financials into its own sector

Data Source: FactSet

Additional Sector Commentary:

Consumer Discretionary – We remain favorable on consumer stocks, due to ongoing strength in jobs, personal income, and household balance sheets. Consumer spending continues as the workhorse of GDP growth and that is expected to continue in 2018, as consumer confidence reached multi-year highs in the fourth quarter. We also expect a spending boost from tax reform as most Americans will benefit from the new tax law. The housing market accelerated in Q4 from a mid-year lull and should create investment opportunities in 2018. In addition, we are favorable on the travel and entertainment industries; and look for better performance from quality retailers who are adapting to consumer preference for mobile shopping and customized service.

Consumer Staples –The Consumer Staples sector includes many of the best managed, most stable companies and should remain a key element of investor portfolios. However, valuations remain elevated on a P/E basis both relative to the market and historical averages. Most Staples, due to heavy international sales, already pay lower effective tax rates than 35% and thus will benefit less from corporate tax reform than U.S.-focused companies. However, international sales will benefit from improved global growth, which we expect to continue in 2018.

Energy – The sector was the worst performer in 2017 and is positioned for a rebound, in our opinion. Although the sector led the market in 2016, it has been the worst performer for three of the past four years. In 2017, the sector was lower despite a 12% increase in crude oil prices, as investors worried about the global supply/demand imbalance and a recovery in U.S. production; though that recovery has not slowed the price recovery. The U.S. Energy Information Administration estimates a 2018 U.S. oil (WTI) price of $53 per barrel, which is below the current price of $60, but above the 2017 average of $50.50. We believe that prices between $50 to $60 per barrel will drive solid oil and gas activity, and support healthy profits and cash flow. The sector should also benefit from lower corporate tax rates, favoring companies with domestic operations.

Financials – The sector recovered in the second half (H2) of 2017, after lagging in H1. Although the flattening of the yield curve is considered a negative for bank net interest margins, other fundamentals are highly positive in our view. This includes improving U.S. GDP growth, reduced regulation under the Trump administration, and lower corporate tax rates and tax incentives for corporations to invest in the U.S. We are favorable on financial institutions including both regional and money-center banks.

Health Care – The sector has underperformed in H2, but ultimately beat the market return as H1 gains were very strong. The sector continues to benefit from favorable demographics, and the GOP's inability to repeal and replace the Affordable Care Act is a positive for the group. While we expect renewed pressure regarding health care costs and drug prices, the sector trades at a reasonable valuation (below market multiples). We advocate diversification among pharmaceuticals, services, medical devices, and care providers.

Industrials – We look for Industrials' outperformance in 2018 due to exposure to improving global economic growth and the new tax law, which incentivizes capital investment. This can be positive for equipment makers, producers of manufacturing equipment and providers of industrial technology. A potential wild card is congressional action on an infrastructure bill. While this is likely to be difficult to ultimately pass, an infrastructure spending bill would be a positive for engineering and construction firms.

Information Technology – Technology is well positioned to lead the market over the next several years. However, after market-crushing gains in 2017, we look for performance more in-line with the broad market in 2018 as other sectors attract investor attention. We advocate a market weight in Technology, which would still reflect 24% exposure in most portfolios. Attractive areas include semiconductors, mobile technology and digital advertising, artificial intelligence, and cloud computing.

Materials – The sector was the #2 performer in 2017 due to a strong H2 rally, propelled by improving global demand. Lumber prices, copper, gold and cotton have all traded higher in 2017, although the range of agricultural commodity performance has been mixed. We view Materials as a market performer in 2018 as the sector could struggle to sustain 2017 gains. We recommend investors focus on materials companies that provide value-added products such as paints and packaging and thus have some pricing power in the global economy.

Real Estate Investment Trusts (REITs) – The performance of the REIT industry lagged in 2017 as growth stocks rallied and investors feared the impact of rising interest rates. However, the yield component of REITs remains an important contributor to total return, and REITs can offer higher than average income in an era of low bond yields. The sector lagged the index as investors worried about dividend tax treatment debated in tax reform, but the final tax bill was beneficial for REIT investors as a percentage of income will be exempt from taxes under new "pass through" laws. On a historical relative valuation basis, D. A. Davidson Institutional REIT analysts see Industrial REITs as expensive, shopping center REITs as attractive, and mixed valuations among apartment, housing, office, and single tenant REITs. A modest allocation to REITs remains appropriate for investors seeking income.

Telecom – We expect strong performance from the sector in 2018, as a beneficiary of tax reform and lower regulation. This has been an unusual sector for the S&P 500 as it comprises just 2% of the index and two companies provide the majority of the market capitalization. In late 2017, S&P Dow Jones said that beginning in October 2018, the Telecom sector will be renamed Communications Services, which will add media and entertainment, cable, and interactive home entertainment companies. Most of the new companies are currently in the Consumer Discretionary sector, so the composition of that sector will change as well.

Utilities – We believe that Utilities could underperform in 2018 as valuations are elevated and savings from lower corporate tax rates will not flow to investors in a highly regulated industry. However, Utilities should benefit from economic and population growth and companies that invest in new technologies, particularly renewables, should do well over time.

Focus List Philosophy

Quality Value Portfolio

The Focus List portfolio seeks long-term outperformance versus the S&P 500 through investment in stocks of quality companies trading at a discount to our estimate of fair value

We identify quality companies by evaluating potential candidates for each of the following traits:

1) *Industry Leadership:* companies with durable competitive advantages and a track record of strong financial performance

2) *Resilient Profitability:* ability to maintain or increase margins, revealing competitive advantages through pricing power, a lower cost structure, and/or scale

3) *Skilled Management:* successful history of execution on near-term initiatives with a focus on enhancing shareholder value over the long-term

4) *Balance Sheet Strength:* provides stability and flexibility throughout the economic and industry business cycle

Those that meet criteria must also offer compelling risk/reward (value): Discounted price relative to peers and/or the broad market, or trades at a reasonable price given our view of strong competitive position or growth potential

Portfolio constructed through equal-weighted investment in about 20 stocks. Large-cap focus, but mid-cap companies considered. Diversified by business sector, while maintaining flexibility to overweight or underweight where we see opportunity

Long-term investment horizon: seeking 3+ year holding period in each position. Stocks are removed from the Focus List if there is a detrimental or significant change in company or industry fundamentals, and/or if a stock exceeds our view of fair value

Quarterly Portfolio Letter

Focus List Fourth Quarter 2017 Recap

The Focus List recorded a total return (including dividends) of +7.7% in the fourth quarter. The portfolio ended the year on a high note as it outperformed the +6.6% total return of the S&P 500 in Q4, even as growth-oriented stocks and sectors (Information Technology in particular) continued to lead equity markets higher. For the full year of 2017, the Focus List total return of +14.1% lagged the +21.8% return of the S&P 500. The Focus List modestly outperformed the total return of the Russell 1000 Value index (+13.8%) during 2017. Looking forward, we continue to believe an eventual rotation of buying into value-oriented stocks will represent a meaningful tailwind for Focus List performance.

Although our portfolio is underweight to Information Technology (IT) relative to the 24% weighting in the S&P 500, our IT stock selection was a large driver of Focus List outperformance in the fourth quarter. **Qualcomm (QCOM)** returned +24.5% in Q4, with most of the gain occurring in just a few days in early November after receiving a buyout offer from chip competitor Broadcom (AVGO). QCOM shares have underperformed in recent years as it manages through several lengthy regulatory and legal disputes. While AVGO's $70 per share offer is below our estimate of fair value for QCOM, we are pleased that a strategic buyer sees value in its important chip and technology licensing businesses. The QCOM situation is also an example of the difficulty in timing market events; we chose to stay invested where we see value. Our other IT holdings, **Intel (INTC)** +21.9% and **Apple (AAPL)** +10.2%, both continued their recent ascents during the quarter. **Deere (DE)** +25.1% was the Focus List's top performer in Q4, helping to offset weakness in fellow Industrials sector holding, **General Electric (GE)** -27.3%.

GE stock experienced consistent selling pressure in Q4 following a weak earnings report and mid-November analyst meeting, at which new CEO John Flannery presented an initial deep-dive review of GE's businesses. The upcoming year shapes up to be another challenging one, especially within its Power segment, as earnings are expected to decline (but cash flow should begin to improve). GE Power is plagued by weak end-market demand and order activity, but we believe its leadership position in this segment, as well as in both Aviation and Health Care, are underappreciated by investors. From here, we see margin of safety in GE as its valuation is significantly discounted relative to industrial conglomerate peers, despite having earnings near a trough that can we expect to rebound. **Expedia (EXPE)** -16.6% gave back its initial 2017 gains as investors punished the online travel leader for guiding to lower profits in 2017 and 2018, as it invests more in its global growth opportunities. We believe long-term investors will be rewarded by these investments with a stronger and better-positioned company over time.

We added one stock in Q4, **Nike (NKE)**, and removed **KBR, Inc. (KBR)** after strong 2017 performance, as investors began to fully appreciate its improved earnings results. NKE offers investors the ability to own a leading global athletic apparel company in transition, as it moves its North America business further online and toward direct customer sales, and away from selling its product at low-quality, "undifferentiated" retailers. NKE's brand health and its product development pipeline remains as strong as ever. Early in 2018, we added shares of **Walt Disney Co. (DIS)** and **General Dynamics (GD)** to the portfolio. These high quality companies hold unique assets in media (film, TV, sports) and aerospace/defense, respectively, and can be purchased at reasonable valuations. Accounting for the addition of DIS and GD, the average current holding period for the Focus List is two and a half years. We expect the average length of ownership in the Focus List to continue moving higher.

We continuously evaluate the investment landscape for possible new additions that meet our Focus List criteria, while closely monitoring developments affecting our current holdings. **In our view, the Focus List's ownership of attractively valued, high quality companies will lead to outperformance versus the market over the long term.**

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Focus List Portfolio

Quality Value Portfolio

Focus List Portfolio	12/29 Price	Total Return YTD	3 Mo.	1 Mo.	EPS Estimates FY1	FY2	P/Earnings Ratios FY1	FY2	Yield %
Focus List	—	**14.1%**	7.7%	1.5%	—	—	20.3x	17.1x	1.9%
S&P 500	2,673.61	**21.8%**	6.6%	1.1%	$131.43	$146.66	20.3x	18.2x	1.9%

Focus List Stocks	Ticker	'16 Year-End or '17 Add Price Date	Price	12/29 Price	Total Return YTD	3 Mo.	1 Mo.	EPS Estimates FY1	FY2	P/Earnings Ratios FY1	FY2	Yield %
Consumer Discretionary												
Chipotle Mexican Grill, Inc.	CMG	12/31	$377.32	**$289.03**	**-23.4%**	-6.1%	-5.0%	$7.66	$9.61	37.7x	30.1x	0.0%
Walt Disney Company	DIS	1/11*	--	**--**	**--**	--	--	$7.02	$7.66	15.3x	14.0x	1.6%
Expedia, Inc.	EXPE	3/23	$127.04	**$119.77**	**-5.1%**	-16.6%	-2.2%	$4.86	$5.58	24.6x	21.5x	1.0%
NIKE, Inc. Class B	NKE(A)	11/7	$55.15	**$62.55**	**13.8%**	--	3.9%	$2.29	$2.70	27.3x	23.2x	1.3%
Nordstrom, Inc.	JWN	12/31	$47.93	**$47.38**	**2.3%**	1.4%	4.2%	$2.95	$3.07	16.1x	15.4x	3.1%
Energy												
Schlumberger NV	SLB	12/31	$83.95	**$67.39**	**-17.4%**	-2.6%	8.1%	$1.45	$2.84	46.5x	23.7x	3.0%
Financials												
PNC Financial Services Group, Inc.	PNC	12/31	$116.96	**$144.29**	**26.0%**	7.7%	2.7%	$8.37	$9.06	17.2x	15.9x	2.1%
Synchrony Financial	SYF(A)	12/31	$36.27	**$38.61**	**8.4%**	24.9%	7.6%	$2.62	$3.18	14.7x	12.1x	1.6%
Umpqua Holdings Corporation	UMPQ(A)	12/31	$18.78	**$20.80**	**14.8%**	7.5%	-5.1%	$1.04	$1.25	20.0x	16.6x	3.5%
Health Care												
Express Scripts Holding Company	ESRX	12/31	$68.79	**$74.64**	**8.5%**	17.9%	14.5%	$7.01	$7.73	10.6x	9.7x	0.0%
Merck & Co., Inc.	MRK	12/31	$58.87	**$56.27**	**-1.5%**	-11.4%	2.7%	$3.91	$3.96	14.4x	14.2x	3.4%
Stryker Corporation	SYK	12/31	$119.81	**$154.84**	**30.8%**	9.4%	-0.4%	$6.48	$7.16	23.9x	21.6x	1.2%
Zoetis, Inc. Class A	ZTS	12/31	$53.53	**$72.04**	**35.5%**	13.2%	-0.3%	$2.39	$2.64	30.1x	27.3x	0.7%
Industrials												
Deere & Company	DE	12/31	$103.04	**$156.51**	**54.8%**	25.1%	4.8%	$7.97	$9.42	19.6x	16.6x	1.5%
General Dynamics Corporation	GD	1/11*	--	**--**	**--**	--	--	$9.77	$10.45	20.8x	19.5x	1.7%
General Electric Company	GE	12/31	$31.60	**$17.45**	**-42.9%**	-27.3%	-3.9%	$1.10	$1.10	15.9x	15.9x	2.8%
Information Technology												
Apple Inc.	AAPL	12/31	$115.82	**$169.23**	**48.5%**	10.2%	-1.5%	$11.43	$12.20	14.8x	13.9x	1.5%
Intel Corporation	INTC(A)	12/31	$36.27	**$46.16**	**30.8%**	21.9%	2.9%	$3.25	$3.35	14.2x	13.8x	2.4%
QUALCOMM Incorporated	QCOM(A)	12/31	$65.20	**$64.02**	**2.0%**	24.5%	-3.5%	$3.55	$3.81	18.0x	16.8x	3.6%
Materials												
Avery Dennison Corporation	AVY	3/2	$81.77	**$114.86**	**42.5%**	17.3%	1.0%	$4.86	$5.58	23.6x	20.6x	1.6%
PPG Industries, Inc.	PPG	7/31	$105.25	**$116.82**	**11.9%**	7.9%	-0.0%	$6.03	$6.82	19.4x	17.1x	1.5%

Annual Performance (total returns)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Focus List Model Portfolio	44.3%	21.8%	0.9%	9.4%	33.6%	5.7%	-17.3%	25.0%	14.1%
S&P 500	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%
Relative Performance	17.8%	6.7%	-1.2%	-6.6%	1.2%	-8.0%	-18.7%	13.0%	-7.8%

Rolling Returns (annualized) and Since Inception	1-year	3-year	5-year	Since Inception Cumulative	Annualized
Focus List Model Portfolio	14.1%	5.6%	10.7%	223.3%	13.9%
S&P 500	21.8%	11.4%	15.8%	258.8%	15.3%
Relative Performance	-7.8%	-5.8%	-5.1%	-35.4%	-1.3%

Notes:

- For stocks added to the Focus List Model Portfolio in 2018, YTD total return is calculated from the date it was added through 12/29/2017. All prices and return information reflect closing prices.
- **2017 Additions:** Church & Dwight (CHD) added 2/15/17; Avery Dennison (AVY) added 3/2/17; Expedia (EXPE) added 3/23/17, PPG Industries (PPG) added 7/31/2017, Nike, Inc. (NKE) added 11/7/2017
- **2017 Removals:** International Paper (IP) removed 1/31/17; United Natural Foods (UNFI) removed 2/15/17; Harley Davidson (HOG) removed 3/23/17, Church & Dwight (CHD) removed 7/31/2017, Dollar General (DG) removed 9/7/2017, KBR, Inc. (KBR) removed 11/1/2017

***2018 Additions:** General Dynamics Corp. (GD) added 1/11/18; Walt Disney Company (DIS) added 1/11/18
Portfolio additions/removals by calendar year: **2009** 8/4; **2010** 7/8; **2011** 8/5; **2012** 5/8; **2013** 6/7; **2014** 7/4; **2015** 6/5; **2016** 8/5; **2017** 5/6; **2018** 2/0

(A) D. A. Davidson & Co. makes a market in this security.

Model Portfolio inception date for the Focus List is 12/31/2008.
The Focus List is currently prepared by James Ragan, CFA & Brent Williams, CFA.
Sources: D.A. Davidson & Co., FactSet, Morningstar Equity Research

Dividend Achievers Philosophy

High Quality Growth & Income Strategy

The D.A. Davidson & Co. Dividend Achievers Model Portfolio is made up of stocks that have a minimum 10-year history of consecutive dividend increases and have a positive outlook for future growth. We expect the overall dividend yield for the portfolio to be above the average market yield. The goal of the portfolio is to emphasize consistent income with a growth component while minimizing risk.

Although we may not have holdings in all sectors at all times, we maintain diversity across most economic sectors. While this can at times reduce the amount of the dividend yield, it will also reduce the overall risk profile to investors. We endeavor to minimize portfolio turnover in order to minimize potential capital gains liability.

We believe that companies with a long history of increasing their dividends have proven themselves able to successfully manage through changes in the economy and within their individual industries. Companies that have gained Dividend Achiever status tend to be large-cap, multi-national firms, and are generally leaders in their industries with strong, consistent management teams.

Increased market volatility has had a significant impact on investors' portfolios over the past few years. We have found that the focus on rising income and low portfolio turnover taken by the D.A. Davidson Dividend Achievers Model Portfolio has enabled the portfolio to significantly outperform the market during down years, yet still provide reasonable returns during periods of higher market performance.

The stocks included in the portfolio are selected and supervised by members of D.A. Davidson's Individual Investor Group Research and it is actively managed.

Quarterly Portfolio Letter
Dividend Achievers Fourth Quarter 2017 Recap

Dividend Achievers increased by 5.8% (total return including dividends) during the fourth quarter, relative to a positive 6.6% total return for the S&P 500 over the same time period. For the full year period, Dividend Achievers earned a total return of 16.0% compared to 21.8% for the S&P 500.

The Industrials sector contributed the most to this quarter's relative performance, with both of our holdings – **Emerson Electric (EMR, +11.8% in Q4 – all returns specified as total returns including dividends)** and **United Technologies (UTX, +10.6%)** – outperforming the sector, which returned +6.1%. Other outperformers for the quarter were **VF Corp (VFC, +17.2%)** and **Microsoft (MSFT, +7.3%)**, while **CVS Health (CVS, -10.3%)** and **Novartis (NVS, -2.2%)** were the only stocks with a negative total return.

EMR is a stock that has recently demanded patience. We have held the stock since the inception of Dividend Achievers in 2005, and through 12/31/2013 it returned +11.9% annually versus +7.7% for the S&P 500. Several years of negative business conditions, including turmoil in the energy markets and a weak U.S. dollar, have led to year-over-year underlying sales declines in its Automation Solutions business since FY2014 and underperformance of the stock. We continue to hold it because we believe EMR operates several high-quality businesses and investors will be rewarded when the cycle turns back in its favor. During these difficult past three fiscal years, EMR has maintained an average trailing-twelve month return on invested capital from continuing operations of 16.5%. Gross margins over this same period averaged 41.3%, above its ten-year average of 39.0% despite the sales decline, indicating that customers continued to find value in EMR's product suite. Finally, the Company generated $5.7 billion (B) of free cash flow, while paying $3.7B in dividends and maintaining a net-debt-to-total capital ratio below 0.25. This past quarter, trailing-three month underlying sales have turned positive, increasing by 11%. If the company can sustain this sales growth across its repositioned portfolio of businesses over an extended period, we believe the stock could continue to outperform the market over the next several quarters.

In December, CVS announced an agreement to acquire health insurer **Aetna (AET)**. We have received many questions from investors expressing concern about CVS' entrance into a new, non-retail focused business, but this vertical integration actually began many years ago. Since its acquisition of Caremark in 2007 for $21B, CVS Pharmacy Services segment has been highly profitable, generating a cumulative $30B of operating profit. Additionally it appears that volume from its Pharmacy Services business has also helped the Retail Pharmacy segment operate more profitably, with 13.1% annualized growth in operating income versus only a 7.9% annualized increase in store count and same store sales combined. While we have a positive view of CVS' long-term prospects, CVS is financing the acquisition with an additional $45B of debt, which brings the Company well above its targeted leverage ratio of near three times debt-to-adjusted EBITDA. In order to maintain its credit profile, CVS has indicated it will hold its dividend steady until its leverage is back to target. Given our strategy's focus on annual dividend growth, if CVS does not increase its dividend prior to Q3 2018, we unfortunately would need to look for alternative positions within our universe of dividend growers. The stock remains in the portfolio and we foresee this continuing until either it is no longer eligible or the stock's price more closely reflects our estimate of its underlying value.

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Dividend Achievers Portfolio

High Quality Growth & Income Strategy

Dividend Achievers Portfolio	12/29 Price	Total Return YTD	Total Return 3 Mo.	Total Return 1 Mo.	EPS Estimates FY1	EPS Estimates FY2	P/Earnings Ratios FY1	P/Earnings Ratios FY2	Yield %
Dividend Achievers	—	**16.0%**	5.8%	1.4%	—	—	—	—	2.9%
S&P 500	2,673.61	**21.8%**	6.6%	1.1%	$131.43	$146.66	20.3x	18.2x	1.9%

Dividend Achievers Stocks	Ticker	'17 Year-End or '17 Add Price Date	'17 Year-End or '17 Add Price Price	12/29 Price	Total Return YTD	Total Return 3 Mo.	Total Return 1 Mo.	Dividend Statistics Payout Ratio	Dividend Statistics 10-Year CAGR	Dividend Statistics # of Years Increases	Dividend Statistics Paid Since	Yield %
Consumer Discretionary												
V.F. Corporation	VFC[(A)]	12/31	$53.35	**$74.00**	**42.8%**	17.2%	2.1%	59.2%	11.9%	44	1973	2.5%
Consumer Staples												
Kimberly-Clark Corporation	KMB	12/31	$114.12	**$120.66**	**9.0%**	3.4%	1.6%	64.3%	6.3%	44	1935	3.2%
Procter & Gamble Company	PG	12/31	$84.08	**$91.88**	**12.7%**	1.7%	2.1%	70.4%	7.2%	61	1890	3.0%
Energy												
Exxon Mobil Corporation	XOM	12/31	$90.26	**$83.64**	**-3.8%**	3.0%	0.4%	130.2%	8.4%	34	1882	3.7%
Financials												
Chubb Limited	CB	12/31	$132.12	**$146.13**	**12.8%**	3.0%	-3.5%	28.1%	10.4%	23	1993	1.9%
Health Care												
CVS Health Corporation	CVS	12/31	$78.91	**$72.50**	**-5.7%**	-10.3%	-5.4%	34.2%	24.2%	14	1995	2.8%
Johnson & Johnson	JNJ	12/31	$115.21	**$139.72**	**24.4%**	8.1%	0.3%	49.9%	7.4%	54	1944	2.4%
Novartis AG	NVS	12/31	$72.84	**$83.96**	**18.8%**	-2.2%	-2.1%	48.5%	7.4%	20	1996	3.3%
Industrials												
Emerson Electric Co.	EMR	12/31	$55.75	**$69.69**	**29.0%**	11.8%	7.5%	73.5%	5.9%	62	1947	2.8%
United Technologies Corporation	UTX	12/31	$109.62	**$127.57**	**19.1%**	10.6%	5.0%	42.4%	8.8%	23	1936	2.2%
Information Technology												
Automatic Data Processing, Inc.	ADP	12/31	$102.78	**$117.19**	**16.5%**	7.8%	2.9%	68.1%	9.5%	43	1974	2.2%
International Business Machines Corporation	IBM	12/31	$165.99	**$153.42**	**-4.0%**	6.8%	-0.4%	44.2%	14.7%	22	1913	3.9%
Microsoft Corporation	MSFT[(A)]	12/31	$62.14	**$85.54**	**40.7%**	15.4%	1.6%	50.8%	14.5%	15	2003	2.0%
Telecommunication Services												
AT&T Inc.	T[(A)]	12/31	$42.53	**$38.88**	**-3.9%**	0.5%	6.9%	70.4%	3.3%	33	1881	5.1%
Utilities												
NextEra Energy, Inc.	NEE	12/31	$119.46	**$156.19**	**34.4%**	7.3%	-1.2%	63.5%	9.1%	21	1945	2.5%

Annual Performance (total returns)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Dividend Achievers Model Portfolio	-18.6%	13.8%	17.3%	12.9%	13.7%	24.6%	10.3%	2.6%	12.1%	16.0%
S&P 500	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%
Relative Performance	18.4%	-12.7%	2.2%	10.8%	-2.3%	-7.8%	-3.4%	1.2%	0.1%	-5.8%

Rolling Returns (annualized) and Since Inception	1-year	3-year	5-year	10-year	Since Inception Cumulative	Since Inception Annualized
Dividend Achievers Model Portfolio	16.0%	10.1%	12.9%	9.8%	223.9%	10.1%
S&P 500	21.8%	11.4%	15.8%	8.5%	190.6%	9.1%
Relative Performance	-5.8%	-1.3%	-2.9%	1.3%	33.4%	1.0%

Notes:
- For stocks added to the Dividend Achievers Model Portfolio in 2017, YTD total return is calculated from the date it was added through 12/29/2017. All prices and return information reflect closing prices.
- Portfolio additions/removals by calendar year: **2009** 2/2; **2010** 1/1; **2011** 0/0; **2012** 1/1; **2013** 1/1; **2014** 1/1; **2015** 2/2; **2016** 2/2; **2017** 0/0

[(A)] D. A. Davidson & Co. makes a market in this security.

Model Portfolio inception date for the Dividend Achievers Model Portfolio is 10/6/2005.
Dividend Achievers is currently prepared by James Ragan, CFA, and Matthew Griffith, CFA.
Sources: D.A. Davidson & Co., FactSet, Morningstar Equity Research

Income Opportunities

A Select List of Attractive Income Securities

The Income Opportunities List highlights recommended income securities from D.A. Davidson & Co.'s research universe for investors seeking traditional, alternative, and special situation securities that, in our view, offer a healthy level of sustainable income as a defining attribute. Due to the list's opportunistic nature and potential sector concentration, it is important to note that this list is not constrained by market cap, sector weightings, or market indices, and is not intended to represent a model portfolio. The price target and fair value estimates included for each security are sourced from D.A. Davidson & Co.'s Individual Investor Group Research, Institutional Research, or Morningstar Equity Research, a third-party source.

Dividend/distribution yields for selected securities will generally be above that of the S&P 500 index. Securities on the list are expected to be backed by strong balance sheets, seasoned management teams, and solid cash flow generation that supports debt service and stable or increasing dividend/distribution payments.

The Income Opportunities list may include the following types of securities: common stocks; limited partnership (LP and MLP) units; real estate investment trust (REIT) shares, and closed-end funds. We may consider additional security types in the future, dependent upon market conditions and available research resources. Selections may be made from all market capitalization classes.

We view potential List selections as representing these general categories: core holdings (established leaders with proven records); short-term opportunities (due to general market, sector, or company-specific price corrections or inefficiencies); alternative investments; and special situations (viable turnarounds, deep value, and cyclical companies with explainable recovery strategies).

A note on the potential impact of rising interest rates: higher-yielding securities may be vulnerable in a rising interest rate environment, as the security price will often move inversely with rates; i.e. as interest rates rise, the security price may fall. In some instances, we may mitigate this risk by identifying securities with cash flow and growth characteristics that may be more favorable in a rising rate environment.

Quarterly Portfolio Letter

Income Opportunities Fourth Quarter 2017 Recap

The Income Opportunities List posted a +4.3% total return in 2017 versus +15.9% for our benchmark, the Guggenheim Multi-Asset Income ETF (CVY), and +21.8% for the S&P 500 Index. The List matched the CVY return through six months, but disappointed in the second half, including negative 1.5% in Q4, which compared to +4.3% for CVY and +6.6% for the S&P 500. **However, we are optimistic for 2018 as List constituents delivered generally improved results and outlooks during October and November conference calls.** At September 30, List dividend yields ranged from 2.8% on **Hanesbrands (HBI)** to 9.5% on **TCP Capital (TCPC**). The List's average yield is 5.6%.

Weak results versus the CVY benchmark can be attributed to List member underperformance versus Financials, Consumer Discretionary, Healthcare, and REIT sectors, and the Materials sector, to which the List had no exposure. Surprisingly, the worst second half returns came from companies that had the top List returns through June, and had been solidly positive through September. The Income Opportunities List began 2017 with 14 names and ended the year with 13. We added **WP Carey (WPC)** on 1/30 as a leading diversified REIT**.** We held **Enbridge (ENB)** following its 2/27 merger with Spectra. On 3/15, we added **Hanesbrands (HBI)** based on valuation and dividend growth potential, to replace **Kinder Morgan (KMI).** We removed **Plains All American (PAA)** ahead of its distribution cut, and on 8/14 we added **Target (TGT**) on its valuation, attractive yield, and long record of dividend growth. Finally, on 11/17 we removed **Oaktree Capital Group (OAK)**, as our research source (Morningstar) discontinued coverage. During Q4, six holdings had positive Q4 returns, while eight (including OAK) were negative. Although the Income Opportunities list is concentrated, there is sector diversification, including Real Estate 27%, Energy 22%, Utilities 15%, Consumer Discretionary 16%, Health Care 7%, and Financials 7%. Cash was a high 8% of total assets at year-end. In Q4, the top five total returns were: **TGT (+18.1%), Occidental Petroleum (OXY, +15.9%), NorthWestern (NWE, +5.6%), WPC (+3.7%),** and **Enterprise Products Partners (EPD, +3.3%).** The bottom five Q4 returns were **HBI (-14.5%)**, **Glaxo (GSK, -11.4%)**, **LTC Properties (LTC, -6.1%)**, **ENB (-5.4%)**, and **TCP Capital (TCPC, -5.2%)**.

If forced to highlight one List name it would be basic apparel leader HBI, which has integrated acquisitions, improved cash flow, and increased online and international sales. HBI's P/E and yield valuations appear low, and we expect a dividend increase in early 2018. We are most surprised by ongoing weakness of midstream energy companies despite improved Energy Sector fundamentals and reigned-in growth targets. EPD and ENB represent large, fee-based, essential pipelines. REITS, LTC and HCP appear to have remedied Q2 challenges and increased guidance in Q4. We view LTC and HCP as well positioned in a growth industry as the U.S. population ages. GSK realized FDA approvals for its Shingles vaccine and a 3-in-1 respiratory therapy. We are impressed with GSK's new CEO who has cut clutter to emphasize key programs, which should drive improved stock price performance in 2018. GSK also reiterated its dividend commitment. We view TGT as a leading retailer that is addressing industry changes and consumer preferences. We view TGT competitive advantages as well-located stores (owns > 90% of stores), a growing digital delivery and replenishment model, smaller stores (50,000 sq. ft.), high quality at value prices, and deep partner and supplier relationships. Target has >10 exclusive partner brands and last year 1/3 of revenue ($23 billion) was from owned or exclusive brands, and its revenue mix is highly diversified across: Food, Beverage, Pet (22% of sales), Household Essentials (22%), Apparel and Accessories (20%), Home Furnishings (19%), and Hardlines (17%).

The Income Opportunities List (the List) seeks securities where a healthy level of income is a primary attribute and where there is a strong perceived commitment to the dividend/distribution. The List is not a portfolio or diversified in a traditional sense. At the end of the first quarter of 2016, Income Opportunities included representation from five sectors, including Energy, REITs, Financials, Healthcare, and Utilities. Industry variety currently includes traditional equities, Master Limited Partnerships, Business Development Companies, REITs, and American Depository Shares. In our view, securities with perceived stable income should provide relative stability during periods of uncertainty.

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Income Opportunities
A Select List of Attractive Income Securities

Income Opportunities List	12/29 Price	Total Return YTD	3 Mo.	1 Mo.	Yield %
Income Opportunities	—	**5.8%**	-0.3%	1.1%	5.3%
Guggenheim Multi-Asset Income ETF (CVY)	$21.70	**11.1%**	4.7%	4.0%	4.1%

Income Opportunities Stocks	Ticker	'16 Year-End or '17 Add Price Date	Price	12/29 Price	Total Return YTD	3 Mo.	1 Mo.	Yield %
Consumer Discretionary								
Hanesbrands Inc.	HBI[(A)]	3/15	$20.33	**$20.91**	**5.0%**	-14.5%	0.1%	2.9%
Target Corporation	TGT	8/14	$55.79	**$65.25**	**18.2%**	11.7%	8.9%	3.8%
Energy								
Enbridge Inc.	ENB	2/27	$41.59	**$39.11**	**-2.4%**	-5.2%	3.7%	5.3%
Enterprise Products Partners L.P.	EPD[(A)]	12/31	$27.04	**$26.51**	**4.2%**	3.4%	7.6%	6.4%
Occidental Petroleum Corporation	OXY	12/31	$71.23	**$73.66**	**8.6%**	16.0%	5.7%	4.2%
Financials								
TCP Capital Corp.	TCPC[(A)]	12/31	$16.90	**$15.28**	**-1.3%**	-5.2%	-1.3%	9.4%
Health Care								
GlaxoSmithKline plc	GSK	12/31	$38.51	**$35.47**	**-3.0%**	-11.4%	1.2%	5.8%
Real Estate Investment Trust								
City Office REIT, Inc.	CIO[(A)]	12/31	$13.17	**$13.01**	**6.4%**	-3.9%	-1.7%	7.2%
HCP, Inc.	HCP	12/31	$29.72	**$26.08**	**-7.7%**	-5.0%	-1.4%	5.7%
LTC Properties, Inc.	LTC	12/31	$43.14	**$43.55**	**10.9%**	-6.1%	-4.6%	5.2%
W. P. Carey Inc.	WPC	1/30	$61.05	**$68.90**	**19.9%**	3.7%	-1.8%	5.9%
Utilities								
Duke Energy Corporation	DUK	12/31	$77.62	**$84.11**	**13.0%**	1.2%	-5.7%	4.2%
NorthWestern Corporation	NWE[(A)]	12/31	$56.87	**$59.70**	**8.7%**	5.8%	-6.3%	3.5%

Annual Performance (total returns)	2015	2016	2017
Income Opportunities	-17.1%	25.6%	4.3%
Guggenheim Multi-Asset Income ETF (CVY)	-16.4%	10.6%	15.9%
Relative Performance	-0.7%	15.0%	-11.6%

Rolling Returns (annualized) and Since Inception	1-year	Since Inception Cumulative	Since Inception Annualized
Income Opportunities	4.3%	5.3%	1.9%
Guggenheim Multi-Asset Income ETF (CVY)	15.9%	12.6%	4.5%
Relative Performance	-11.6%	-7.4%	-2.6%

Notes:

- For stocks added to Income Opportunities in 2017, YTD total return is calculated from the date it was added through 12/29/2017. All prices and return information reflect closing prices.
- **2017 Additions:** W.P. Carey (WPC) added on 1/30/17; Enbridge (ENB) added on 2/27/17; Hanesbrands, Inc. (HBI) added on 3/15/17, Target Corp. (TGT) added on 8/14/2017
- **2017 Removals:** Spectra Energy (SE) removed on 2/27/17 due to acquisition; Kinder Morgan (KMI) removed on 3/15/17, Plains All American (PAA) removed on 8/10/2017, Oaktree Capital Group, LLC (OAK) removed on 11/17/17
- Portfolio additions/removals by calendar year: **2016** 3/2; **2017** 4/4

[(A)] D. A. Davidson & Co. makes a market in this security.
Shareholders receive K-1 statements for tax purposes from the following companies: EPD and OAK.

Inception date for Income Opportunities is 4/22/2015.
Income Opportunities is currently prepared by James Ragan, CFA & Doug Christopher, CFA.
Sources: D.A. Davidson & Co., FactSet, Morningstar Equity Research

IIG Research – Primary Coverage Summary

		Price (1/11/18)	Market Cap (MM)	Rating	Price Target	Sector	Style	Yield
Douglas A. Christopher, CFA • dchristopher@dadco.com • (213) 244-9338								
Amgen Inc.	AMGN	$181.96	$132,087	BUY/ADD	$207.00	Health Care	Large-Cap Blend	2.9%
Duke Energy Corporation	DUK	$79.28	$55,487	BUY/ADD	$90.00	Utilities	Large-Cap Value	4.5%
Healthcare Trust of America, Inc. Class A	HTA	$27.59	$5,653	BUY/ADD	$33.00	Real Estate	Income/Total Return	4.4%
Kinder Morgan Inc Class P	KMI	$19.20	$42,878	BUY/ADD	$26.00	Energy	Income/Total Return	2.6%
LTC Properties, Inc.	LTC	$41.04	$1,624	BUY/ADD	$52.00	Real Estate	Income/Total Return	5.6%
NorthWestern Corporation	NWE[(A)]	$56.08	$2,725	BUY/ADD	$65.00	Utilities	Income/Total Return	3.7%
Occidental Petroleum Corporation	OXY	$75.82	$58,021	BUY/ADD	$87.00	Energy	Large-Cap Growth	4.1%
Plains All American Pipeline, L.P.	PAA	$23.58	$17,100	NEUTRAL	$20.00	Energy	Income/Total Return	5.1%
Target Corporation	TGT	$74.00	$40,224	BUY/ADD	$84.00	Consumer Discretionary	Large-Cap Value	3.4%
TCP Capital Corp.	TCPC[(A)]	$15.40	$905	BUY/ADD	$18.00	Financials	Small-Cap Value	9.4%
W. P. Carey Inc.	WPC	$65.43	$6,995	BUY/ADD	$75.00	Real Estate	Mid-Cap Value	6.2%
James D. Ragan, CFA • jragan@dadco.com • (206) 389-4070								
Alphabet Inc. Class A	GOOGL	$1,112.05	$331,441	BUY/ADD	$750.00	Information Technology	Large-Cap Growth	0.0%
Apple Inc.	AAPL	$175.28	$891,659	BUY/ADD	$195.00	Information Technology	Large-Cap Growth	1.4%
Caterpillar Inc.	CAT	$169.20	$100,663	NEUTRAL	$140.00	Industrials	Large-Cap Growth	1.8%
General Electric Company	GE	$19.02	$164,943	BUY/ADD	$24.00	Industrials	Large-Cap Growth	2.5%
Harley-Davidson, Inc.	HOG	$53.63	$9,026	NEUTRAL	$62.00	Consumer Discretionary	Large-Cap Growth	2.7%
Home Depot, Inc.	HD	$194.68	$227,337	NEUTRAL	$157.00	Consumer Discretionary	Large-Cap Growth	1.8%
Intel Corporation	INTC[(A)]	$43.41	$203,159	BUY/ADD	$49.00	Information Technology	Large-Cap Value	2.5%
Microsoft Corporation	MSFT[(A)]	$88.08	$679,501	BUY/ADD	$88.00	Information Technology	Large-Cap Value	1.9%
Nordstrom, Inc.	JWN	$50.09	$8,344	BUY/ADD	$53.00	Consumer Discretionary	Large-Cap Growth	3.0%
QUALCOMM Incorporated	QCOM[(A)]	$65.43	$96,862	BUY/ADD	$75.00	Information Technology	Large-Cap Growth	3.5%
United Rentals, Inc.	URI	$179.99	$15,212	NEUTRAL	$114.00	Industrials	Mid-Cap Growth	0.0%
Matt G. Griffith, CFA • magriffith@dadco.com • (206) 389-4011								
Avery Dennison Corporation	AVY	$119.57	$10,569	BUY/ADD	$118.00	Materials	Mid-Cap Value	1.5%
Deere & Company	DE	$167.46	$54,022	BUY/ADD	$171.00	Industrials	Large-Cap Value	1.4%
Walt Disney Company	DIS	$110.99	$167,293	BUY/ADD	$128.00	Consumer Discretionary	Large-Cap Value	1.5%
PNC Financial Services Group, Inc.	PNC	$151.49	$72,079	BUY/ADD	$144.00	Financials	Large-Cap Value	2.0%
Brent P. Williams, CFA • brentwilliams@dadco.com • (206) 389-4076								
Costco Wholesale Corporation	COST	$189.38	$83,158	NEUTRAL	$190.00	Consumer Staples	Large-Cap Growth	1.1%
Expedia, Inc.	EXPE	$129.41	$18,078	BUY/ADD	$171.00	Consumer Discretionary	Large-Cap Growth	0.9%
General Dynamics Corporation	GD	$205.51	$61,362	BUY/ADD	$233.00	Industrials	Large-Cap Value	1.6%
PPG Industries, Inc.	PPG	$117.57	$29,919	BUY/ADD	$136.00	Materials	Large-Cap Value	1.5%
Stryker Corporation	SYK	$158.60	$59,354.15	BUY/ADD	$165.00	Health Care	Large-Cap Growth	1.2%
Zoetis, Inc. Class A	ZTS	$74.59	$36,346.81	BUY/ADD	$72.00	Health Care	Large-Cap Growth	0.7%

[(A)] D. A. Davidson & Co. makes a market in this security.

Rating and pricing information as of January 11, 2018.

For a copy of the full referenced report for companies mentioned, please contact your D.A. Davidson & Co. representative or call 206-389-8000.

U.S. Equities Performance Report

U.S. Equity Markets	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
S&P 500	2,673.61	1.1%	6.6%	21.8%	21.8%	15.8%	8.5%	0.6%	19.4%
DJ Industrial Average	24,719.22	1.9%	11.0%	28.1%	28.1%	16.4%	9.3%	0.5%	25.3%
NASDAQ Composite Index	6,903.39	0.5%	6.5%	29.6%	29.6%	19.4%	11.3%	1.3%	28.2%
Russell 2000	1,535.51	-0.4%	3.3%	14.6%	14.6%	14.1%	8.7%	0.9%	14.1%
Russell 2500	606.08	0.3%	5.2%	16.8%	16.8%	14.3%	9.2%	0.7%	15.1%

S&P 500 Sectors	Sector Weight %	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
Consumer Discretionary	12.2%	2.4%	9.9%	23.0%	23.0%	17.7%	13.5%	0.7%	21.2%
Consumer Staples	8.2%	2.2%	6.5%	13.5%	13.5%	13.3%	10.1%	0.3%	11.2%
Energy	6.1%	4.9%	6.0%	-1.0%	-1.0%	2.8%	1.2%	4.9%	17.4%
Financials	14.8%	2.0%	8.6%	22.2%	22.2%	18.2%	3.8%	0.8%	22.0%
Health Care	13.8%	-0.6%	1.5%	22.1%	22.1%	17.6%	11.0%	1.5%	20.0%
Industrials	10.3%	1.9%	6.1%	21.0%	21.0%	16.7%	8.6%	0.3%	18.5%
Information Technology	23.8%	0.0%	9.0%	38.8%	38.8%	20.9%	11.9%	2.0%	36.9%
Materials	3.0%	1.9%	6.9%	23.8%	23.8%	12.2%	6.2%	0.3%	21.4%
Real Estate	2.9%	-0.5%	3.2%	10.8%	10.8%	9.7%	7.5%	2.5%	8.5%
Telecommunications Services	2.1%	5.8%	3.6%	-1.3%	-1.3%	7.7%	5.1%	7.7%	17.3%
Utilities	2.9%	-6.1%	0.2%	12.1%	12.1%	12.6%	6.3%	7.1%	9.6%

Growth & Value	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
Russell 1000 Growth	1,352.37	0.8%	7.9%	30.2%	30.2%	17.3%	10.0%	0.9%	28.4%
S&P Mid Cap 400 Growth	876.32	-0.1%	7.1%	19.9%	19.9%	14.9%	10.3%	0.6%	18.4%
Russell 2000 Growth	946.66	0.1%	4.6%	22.2%	22.2%	15.2%	9.2%	0.9%	21.3%
Russell 1000 Value	1,222.64	1.5%	5.3%	13.7%	13.7%	14.0%	7.1%	0.5%	11.0%
S&P Mid Cap 400 Value	640.43	0.6%	5.4%	12.3%	12.3%	14.8%	9.5%	0.5%	11.9%
Russell 2000 Value	1,883.34	-1.0%	2.0%	7.8%	7.8%	13.0%	8.2%	1.5%	11.7%

Commodity Markets	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
Bloomberg Commodity Index	88.17	3.0%	4.7%	1.7%	1.7%	-8.5%	-6.8%	1.3%	11.1%
S&P GSCI Spot Index	442.44	4.4%	9.9%	5.8%	5.8%	-12.2%	-10.2%	0.0%	25.5%
Crude Oil ($/bbl)	60.42	5.3%	16.9%	12.5%	12.5%	-8.0%	-4.5%	0.0%	42.1%
Natural Gas ($/btu)	2.95	-2.4%	-1.8%	-19.8%	-19.8%	-2.6%	-8.9%	19.8%	13.7%
Gasoline RBOB ($/gal)	1.80	3.8%	12.9%	7.5%	7.5%	-8.3%	-3.2%	1.9%	27.3%
Gold ($/ozt)	1,309.30	2.6%	1.9%	13.7%	13.7%	-4.8%	4.6%	3.1%	13.7%
Silver ($/ozt)	17.15	4.1%	2.8%	7.2%	7.2%	-10.7%	1.5%	7.4%	11.5%
High Grade Copper ($/lbs)	3.30	7.7%	11.7%	31.7%	31.7%	-2.0%	0.9%	0.2%	32.6%
Corn (CBT $/bu)	3.51	-1.4%	-1.3%	-0.4%	-0.4%	-12.9%	-2.6%	10.6%	4.2%
Wheat ($/bu)	4.27	-1.4%	-4.7%	4.7%	4.7%	-11.3%	-7.0%	20.8%	5.0%

Currency Markets	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
EU Euro (€/$)	1.201	0.7%	1.6%	13.8%	13.8%	-1.9%	-2.0%	0.1%	15.6%
Japanese Yen ($/¥)	112.650	0.7%	0.1%	-3.4%	-3.4%	5.4%	0.1%	4.6%	4.4%
UK Sterling (£/$)	1.353	-0.1%	0.8%	9.5%	9.5%	-3.6%	-3.8%	0.5%	12.1%
Australian Dollar (AUD/$)	0.782	3.0%	-0.3%	8.0%	8.0%	-5.5%	-1.2%	3.1%	8.3%
Canadian Dollar ($/CAD)	1.253	-2.7%	0.2%	-6.6%	-6.6%	4.7%	2.4%	8.8%	3.2%
Swiss Franc ($/CHF)	0.975	-0.8%	0.7%	-4.1%	-4.1%	1.3%	-1.5%	5.3%	3.0%

Notes: Data as reported through December 29, 2017. Returns include dividends re-invested. 5-year and 10-year returns annualized.
Sources: FactSet Prices, Standard & Poor's, Russell Investments

International Equities Performance Report

Regions	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
MSCI BRIC	335.58	2.9%	6.6%	42.0%	42.0%	5.5%	0.0%	1.3%	39.6%
MSCI EAFE	2,050.79	1.6%	4.3%	25.6%	25.6%	8.4%	2.4%	0.0%	22.4%
MSCI EMEA	296.08	7.0%	11.8%	25.2%	25.2%	-0.3%	-1.2%	0.0%	21.2%
MSCI Emerging Markets	1,158.45	3.6%	7.5%	37.8%	37.8%	4.7%	2.0%	0.0%	34.9%
MSCI Euro	1,216.86	-0.4%	0.5%	27.4%	27.4%	8.8%	0.7%	1.2%	24.8%
MSCI Europe	1,796.64	1.5%	2.3%	26.2%	26.2%	8.0%	2.0%	0.0%	23.2%
MSCI Far East	3,672.98	1.0%	8.4%	26.2%	26.2%	10.8%	3.6%	0.0%	24.4%
MSCI Frontier Markets	637.60	3.1%	5.6%	32.3%	32.3%	9.7%	-1.0%	0.0%	28.5%
MSCI G7 Index	1,901.99	1.3%	6.1%	22.7%	22.7%	13.0%	6.1%	0.2%	19.9%
MSCI North America	2,702.78	1.2%	6.4%	21.6%	21.6%	14.9%	8.0%	0.5%	19.2%
MSCI Pacific	2,855.71	1.7%	8.0%	25.0%	25.0%	9.2%	3.6%	0.0%	22.2%
MSCI Pan-Euro	1,241.31	1.4%	2.1%	25.1%	25.1%	7.4%	1.6%	0.0%	22.0%
MSCI The World Index	2,103.45	1.4%	5.6%	23.1%	23.1%	12.3%	5.6%	0.2%	20.1%

Countries	Current Level	December % Return	Q4 2017 % Return	2017 % Return	1 Year % Return	5 Year % Return	10 Year % Return	% Off 52 Week High	% Off 52 Week Low
Argentina	4,253.46	6.7%	7.4%	73.6%	73.6%	29.2%	6.2%	3.2%	74.2%
Australia	851.81	4.8%	6.8%	20.2%	20.2%	4.1%	3.1%	0.0%	14.9%
Austria	1,521.61	1.0%	5.8%	59.0%	59.0%	8.3%	-4.7%	0.3%	55.0%
Belgium	1,815.57	-0.9%	-1.2%	19.8%	19.8%	11.3%	1.5%	5.6%	16.8%
Brazil	2,022.89	4.7%	-1.9%	24.5%	24.5%	-2.4%	-2.9%	6.7%	23.4%
Canada	1,791.59	3.9%	4.5%	16.9%	16.9%	4.1%	2.1%	0.0%	15.9%
China	88.48	1.9%	7.6%	54.3%	54.3%	10.2%	3.2%	3.2%	52.2%
Finland	528.12	-0.3%	-2.6%	24.0%	24.0%	13.0%	-1.7%	5.4%	20.4%
France	1,939.40	-0.2%	1.6%	29.9%	29.9%	10.0%	2.1%	0.6%	27.3%
Germany	2,369.98	0.0%	2.8%	28.5%	28.5%	9.4%	2.6%	1.1%	26.1%
Greece	29.56	16.6%	13.6%	29.1%	29.1%	-16.6%	-28.0%	6.8%	41.7%
Hong Kong	12,357.20	2.7%	6.6%	36.2%	36.2%	10.1%	5.3%	0.0%	33.4%
India	611.11	4.9%	11.8%	38.8%	38.8%	8.9%	0.5%	0.0%	38.8%
Indonesia	914.31	8.6%	8.3%	24.8%	24.8%	3.0%	5.7%	0.0%	22.9%
Ireland	212.40	4.7%	3.5%	18.5%	18.5%	13.4%	-5.0%	0.0%	18.3%
Israel	192.16	8.8%	4.2%	2.6%	2.6%	3.6%	-0.4%	11.2%	15.5%
Italy	287.00	-1.5%	-2.3%	29.6%	29.6%	5.9%	-4.1%	3.2%	32.1%
Japan	3,435.12	0.7%	8.5%	24.4%	24.4%	11.5%	3.4%	0.4%	23.2%
Korea	554.16	3.0%	11.6%	47.8%	47.8%	7.1%	4.0%	1.9%	45.5%
Mexico	5,333.58	0.0%	-8.0%	16.3%	16.3%	-3.8%	0.7%	13.2%	20.0%
Netherlands	3,213.82	0.7%	0.9%	32.7%	32.7%	12.6%	4.0%	0.9%	30.3%
New Zealand	144.68	8.0%	1.6%	12.7%	12.7%	9.1%	5.2%	5.5%	10.6%
Norway	2,599.10	3.0%	2.2%	29.6%	29.6%	2.1%	-0.9%	0.9%	26.6%
Portugal	70.44	-1.8%	-2.0%	25.2%	25.2%	-1.4%	-7.3%	3.2%	21.7%
Russia	604.23	3.0%	4.5%	6.1%	6.1%	-1.0%	-5.6%	2.9%	21.5%
Singapore	4,149.05	0.9%	10.1%	35.6%	35.6%	3.5%	3.6%	0.5%	31.1%
South Africa	605.06	8.8%	21.5%	36.8%	36.8%	3.9%	4.9%	0.0%	33.1%
Spain	486.07	-1.0%	-1.5%	27.7%	27.7%	6.4%	-1.4%	4.4%	25.5%
Sweden	7,857.79	-0.3%	-3.7%	21.8%	21.8%	7.0%	5.3%	5.8%	18.5%
Switzerland	5,503.28	1.4%	1.8%	23.6%	23.6%	9.0%	5.8%	0.0%	20.3%
United Kingdom	1,255.81	5.0%	5.7%	22.4%	22.4%	5.3%	1.6%	0.0%	19.0%
USA	2,544.58	1.1%	6.5%	21.9%	21.9%	15.7%	8.5%	0.6%	19.5%

Notes: Data as reported through December 29, 2017. Returns include dividends re-invested. 5-year and 10-year returns annualized. Returns are in U.S. dollars.
Sources: FactSet Prices, MSCI Barra

U.S. Economic Report

Interest Rates	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Fed Funds Target Rate (%)	1.500	1.500	1.250	1.250	1.000	0.750
10-Year Treasury Yield (%)	2.41	2.41	2.33	2.30	2.39	2.44
10-Year – 2-Year U.S. Treasury Spread (bps)	52.62	52.62	85.58	91.51	112.96	124.23
3-Month USD LIBOR (%)	1.69	1.69	1.33	1.30	1.15	1.00
TED Spread (bps)	30.72	30.72	28.75	29.61	40.26	50.04
S&P 500 Consensus Next 12 Months EPS	146.58	146.58	141.90	139.16	135.14	133.21

Government Finance	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Current Account Balance (bil. $)	-100.57	-	-100.57	-124.40	-113.53	-114.01
Current Account Balance as % of GDP	-2.06	-	-2.06	-2.58	-2.38	-2.41
Federal Government Debt (bil. $, AR)	16,463.24	-	16,463.24	16,049.31	15,904.88	16,008.29
Federal Governmentt Debt (Y/Y %)	3.76	-	3.76	2.76	3.27	5.56

Employment	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Average Hourly Earnings (Y/Y %)	2.50	2.50	2.79	2.54	2.63	2.85
Average Hourly Earnings – inflation adjusted (Y/Y %)	0.03	-	0.26	0.68	-0.05	0.45
Change in Nonfarm Employment (M/M, thousands of persons)	148.00	148.00	38.00	210.00	0.00	155.00
Civilian Unemployment Rate (%)	4.10	4.10	4.20	4.30	4.50	4.70
Initial Unemployment Claims (thousands of claims)	250.00	250.00	258.00	250.00	235.00	241.00

Housing & Construction	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Building Permits (millions of units, SAAR)	1.303	-	1.225	1.275	1.260	1.266
Housing Starts (millions of units, SAAR)	1.297	-	1.159	1.217	1.189	1.268
New Home Sales (millions of units, SAAR)	0.733	-	0.635	0.619	0.638	0.548
Private Residential Construction Put in Place (Y/Y %)	7.89	-	11.37	12.44	8.88	5.56
S&P/Case-Shiller Home Price Index (20 City, Y/Y %)	6.38	-	6.16	5.63	5.90	5.44

Inflation	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Consumer Price Index (Y/Y %, SA)	2.23	-	2.23	1.65	2.38	2.09
Core CPI (Y/Y %, SA)	1.71	-	1.69	1.71	2.00	2.22
Producer Price Index (Y/Y %, SA)	-	-	-	-	-	-
Core PPI (Y/Y %, SA)	-	-	-	-	-	-
Personal Consumption Expenditures (Y/Y %, SA)	1.76	-	1.66	1.42	1.83	1.77
Core PCE (Y/Y %, SA)	1.48	-	1.35	1.50	1.61	1.87

Personal Income & Spending	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Household Net Worth (bil. $)	96,939	-	96,939	95,197	93,921	91,692
Household Net Worth (Y/Y %)	8.03	-	8.03	8.77	7.69	5.37
Personal Income (Y/Y %, SAAR)	3.84	-	2.94	2.45	3.37	1.57
Personal Savings Rate (%)	2.90	-	3.00	3.60	3.90	3.20

Production	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Capacity Utilization (%)	77.14	-	76.18	76.64	75.91	76.03
Industrial Production (Y/Y %, SA)	3.35	-	1.87	2.06	1.36	0.83
Real GDP Growth (Q/Q %, SAAR)	3.20	-	3.20	3.10	1.20	1.80

Retail Sales	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Consumer Credit (bil. $, Q/Q change)	42.67	-	42.67	43.17	47.67	57.24
Retail Sales (Y/Y %, SA)	6.29	-	5.46	3.07	4.94	4.23
Retail Sales ex. Motor Vehicles (Y/Y %, SA)	6.30	-	5.44	2.33	5.03	3.35
Total Unit Vehicle Sales (millions of units)	17.76	17.76	18.49	16.61	16.72	18.05

Survey Data	Last Reported	Q4 2017 Level	Q3 2017 Level	Q2 2017 Level	Q1 2017 Level	Q4 2016 Level
Consumer Confidence (Conference Board, 1985=100)	122.10	122.10	120.60	117.30	124.90	113.30
ISM Manufacturing Report (%)	59.70	59.70	60.80	57.80	57.20	54.50
ISM Non-Manufacturing Report (%)	55.90	55.90	59.80	57.40	55.20	55.90
Leading Economic Indicators Index (M/M %)	0.38	-	0.08	0.63	0.00	0.48

Notes: Data as reported through December 29, 2017. BPS is basis points. AR is annual rate. SA is seasonally adjusted rate. SAAR is seasonally adjusted annual rate.
Sources: FactSet

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Rating Distribution (as of 12/31/2017)	Coverage Universe Distribution			Investment Banking Distribution		
	IR	IIG	Combined	IR	IIG	Combined
BUY/ADD (Buy)	52%	77%	55%	16%	3%	14%
NEUTRAL (Hold)	47%	23%	44%	7%	0%	7%
SELL/REDUCE (Sell)	1%	0%	1%	0%	0%	0%

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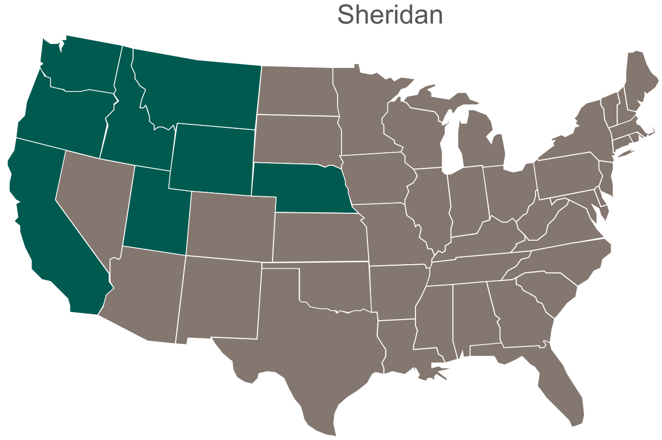

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