PRW WEALTH MANAGEMENT, LLC

Clarity for the Present ♦ Vision for the Future

January 17, 2018

Dear Valued Client:

In a year full of political and social sound and fury, the markets reacted with renewed vigor and enthusiasm. Investors waiting for a "pullback" were disappointed as December completed a year of zero down months. It was a good year to be an investor.

Fourth Quarter Market Review

Global equity markets finished 2017 on a sustained uptrend as several market indices hit record highs. The MSCI ACWI Index rose 5.8% during the fourth quarter and outperformed the 1.1% return for the Bloomberg Barclays Global Aggregate Bond index.[1] Stock market gains were supported by several key factors, including broad-based economic growth, strength in corporate earnings, and accommodative central bank policy. For the full year 2017, global stocks advanced 24.6% - the best year since 2009.

The S&P 500® Index of large-cap U.S. stocks returned 6.6% during the quarter, boosted by expectations for lower taxes, as the corporate tax rate was reduced from 35% to 21% for 2018. Growth-oriented stocks continued to post strong returns with the Consumer Discretionary (+9.9%) and Technology (+9.0%) sectors leading the way. Small-cap stocks (+3.3%) trailed larger caps, while defensive and higher dividend sectors such as Real Estate (+3.2%) and Utilities (+0.2%) recorded more modest gains. Overall, U.S. stocks turned in a strong year for 2017, as the S&P 500 gained 21.8% and rose every month for the first time in its 60-year history.

The MSCI ACWI ex-U.S. Index of international stocks returned 5.1% during the fourth quarter, lifted by gains in Asia and emerging market regions. Japan returned 8.5% on continued support from its central bank, as the economy recorded its seventh straight quarter of expansion. Emerging markets benefited from exposure to the technology sector and rose 7.5%, with India (+11.8%) and South Korea (+11.6%) among the top performers. Europe saw a smaller 2.3% gain during the quarter, with better than expected economic data suggesting a potential pullback in stimulus from the European Central Bank.

In fixed income, the Bloomberg Barclays US Aggregate Bond Index returned 0.4% for the quarter and 3.5% for all of 2017. Corporate bonds benefited from their higher yields, supported by a favorable economic backdrop, and outperformed government bonds. Long-term bonds outperformed shorter maturities with the Federal Reserve expected to continue raising short-term rates. International bonds were lifted by exposure to foreign currencies, particularly the euro and its appreciation versus the U.S. dollar. Emerging market bonds also saw positive returns, benefiting from coordinated growth across global economies.

[1] Unless otherwise indicated, all index returns are from FactSet

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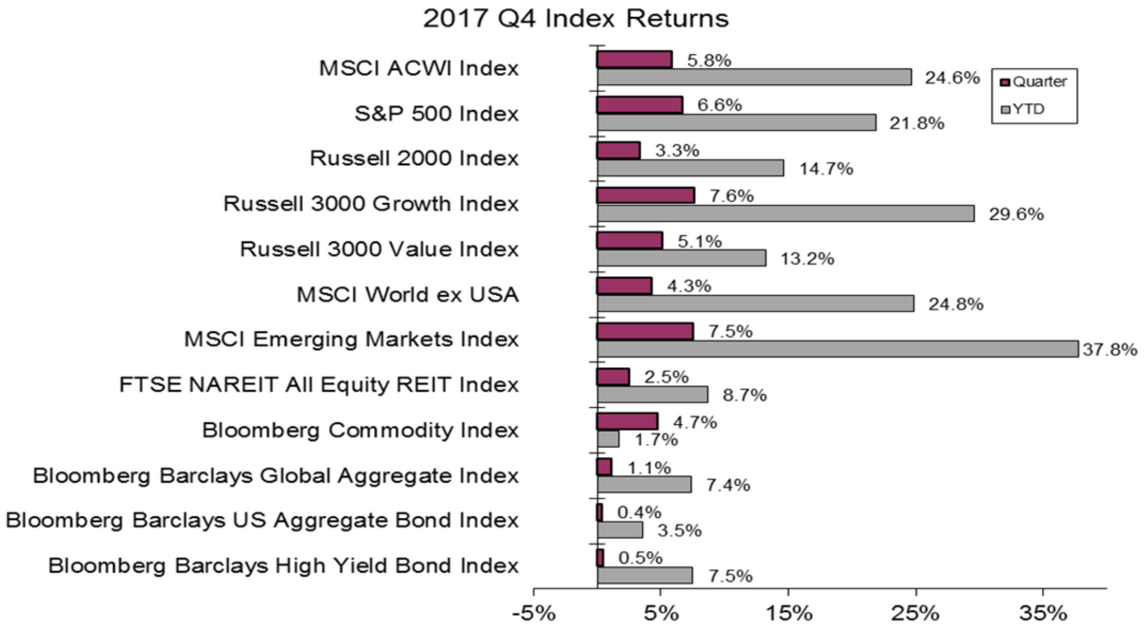


An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indices are unmanaged, with no associated expenses, and investors cannot invest directly in an index. All index returns shown in the table represent total return figures in US dollars, with dividends reinvested, which means the returns include not only the change in prices for the securities in the index, but any income generated by those securities.
Sources: Bloomberg, Barclays, Dow Jones, Morningstar, MSCI Barra, Russell, Zephyr Associates.

Economic Highlights

U.S. economic growth was 3.2% for the third quarter, up from the 3.1% gross domestic product (GDP) reading in the second quarter.[2] The Federal Reserve Bank of Atlanta forecast that GDP also rose 3.2% in the fourth quarter, lifted by better than expected retail sales and manufacturing data. This would make three straight quarters of growth above 3% -- the first time this has occurred since 2005. Analysts estimate that corporate earnings rose 10.9% (year-over-year) in the fourth quarter and 9.6% for the full year 2017. Earnings are projected to grow 11.8% in 2018, lifted by a rebound in the energy sector, with double-digit earnings growth expected for the materials, financials, and technology sectors.[3]

The Federal Reserve (Fed) increased short-term interest rates by 0.25% at the December FOMC meeting, raising the new target range for federal funds to 1.25%-1.50%. This was the third rate hike of 2017, but only the fifth increase since 2006. The unemployment rate was 4.1% in December, below the Fed's longer-run projection of 4.6%. The Consumer Price Index (CPI) inflation rate rose 2.2% for the 12-month period through November, driven by higher energy prices. Core inflation (excluding food and energy) increased 1.7% over the same period, while other Fed measures also remained below the 2% policy target.[4] In view of the low inflation readings, the Fed expects to remain accommodative with only gradual changes in monetary policy.

Service Sector and Manufacturing Sector readings have been in the high 50's for most of the last 12 months signaling strong expansion[5]. Stimulus on the way seems poised to keep things expanded at least near-term. In

[2] Source: Bureau of Economic Analysis
[3] Source: FactSet
[4] Source: Bureau of Labor Statistics
[5] Source: ISM

addition, we have the lowest number of countries in recession ever according to DB Global Market Research and Haver Analytics.

Outlook

The improving global economy helped drive strong 2017 gains for both U.S. and international stocks. The MSCI ACWI ex-U.S. Index of international stocks returned +27.8% for the year and beat U.S. stocks (+21.8%) for the first time since 2012. Notably, 44 of the 46 countries in the international index were in positive territory, and 40 had double-digit gains. A key driver to international returns was the strength in foreign currencies versus the U.S. dollar. The U.S. dollar declined -8.5% in 2017 and portfolio exposure to international stocks (and foreign currencies) provided a lift to returns for U.S. investors.[5] Our decision to increase exposure to international stocks last year paid big dividends.

An important concern for investors, given the extended run for stocks, is when the next market correction will arrive. The last time the S&P 500 declined 10% from its peak was over two years ago in November 2015, whereas this typically occurs about once per year. Interestingly, the U.S. stock market has gone over a year without even a 3% pullback -- the longest run in its history.[6] Nonetheless, stocks continue to be supported by economic momentum with corporate earnings expected to accelerate in 2018.

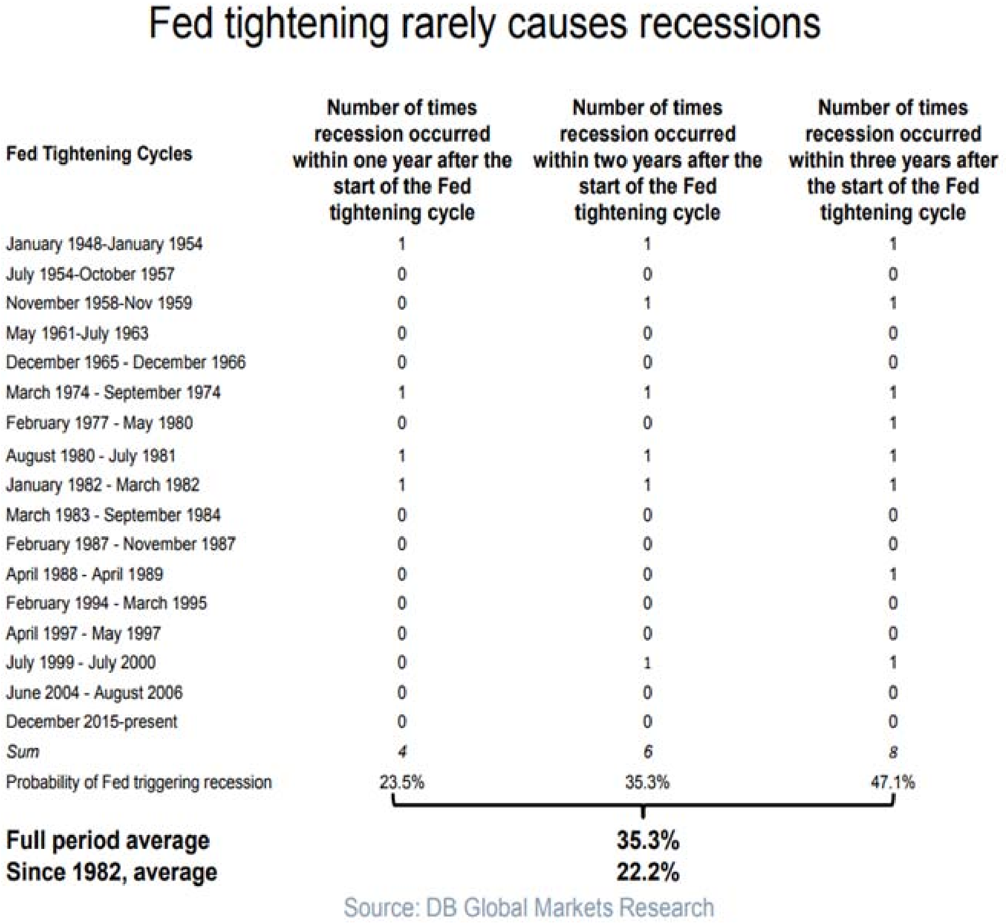
Global central banks also remain broadly supportive, while taking a cautious approach to reducing stimulus. Bloomberg noted in a January 2, 2018 article that global manufacturer's will strain to keep up with a faster economy. The Global Factory Index hit its highest level in almost seven years. This suggests that the uptrend could continue with market conditions being favorable for stocks but that inflationary pressures bear watching.

Looking ahead into 2018, despite much good news, there are potential risks on the horizon. U.S. stock valuations remain above historical norms while consumer and investor confidence hit seven-year highs - often times a contrarian signal for the markets. Bullish sentiment is at 60% vs an historical average of 38.5%. Ignored for most of last year, geopolitical tensions could eventually spillover, impacting financial markets. In their list of top risks for 2018, Eurasia Group – a leader in global political risk research and consulting - cites specific geopolitical issues including protectionism driven policies in the U.S. and a commensurate decline in U.S. influence in the world as key issues to watch.

Near term, we will be watching to see how the government deals with a looming shutdown. The issue has been addressed with short-term fixes so far but this Friday's deadline seems more of a defining time. We are hopeful that a meaningful compromise can be reached.

It will also be important to monitor how global central banks manage a transition from ultra-loose monetary policies. The good news from an historical perspective is that Central Banks usually do not spark recession when they start "taking away the punch bowl" as shown below.

[5] Source: Bloomberg, US Dollar Spot Index
[5] Source: Ned Davis Research



Fed tightening rarely causes recessions

Fed Tightening Cycles	Number of times recession occurred within one year after the start of the Fed tightening cycle	Number of times recession occurred within two years after the start of the Fed tightening cycle	Number of times recession occurred within three years after the start of the Fed tightening cycle
January 1948-January 1954	1	1	1
July 1954-October 1957	0	0	0
November 1958-Nov 1959	0	1	1
May 1961-July 1963	0	0	0
December 1965 - December 1966	0	0	0
March 1974 - September 1974	1	1	1
February 1977 - May 1980	0	0	1
August 1980 - July 1981	1	1	1
January 1982 - March 1982	1	1	1
March 1983 - September 1984	0	0	0
February 1987 - November 1987	0	0	0
April 1988 - April 1989	0	0	1
February 1994 - March 1995	0	0	0
April 1997 - May 1997	0	0	0
July 1999 - July 2000	0	1	1
June 2004 - August 2006	0	0	0
December 2015-present	0	0	0
Sum	*4*	*6*	*8*
Probability of Fed triggering recession	23.5%	35.3%	47.1%

Full period average	**35.3%**
Since 1982, average	**22.2%**

Source: DB Global Markets Research

Our focus last year on the technology sector paid dividends and is an area we continue to like as a near-term overweight. People often compare last year’s development with their experience during the tech bubble of the late 1990’s. We don’t subscribe to this analogy. For one thing, today's tech companies are highly profitable. By contrast, many of them hardly made any money in the 1990’s. Business models have matured. What’s more, looking at the dispersion of sector performance within the U.S. market, last year’s tech performance does not seem that unusual compared to historical experience. In 2017, tech stocks outperformed the median of all S&P 500 sectors by 20%. On average, the top performing sector did 22.8% better compared to the median since 1990, i.e. a sector outperforming by a wide margin is not unusual or cause for bubble talk.

In 2018, we will be looking to expand portfolio exposure to disruptive technologies including robotics, genomes, and cryptocurrencies. Prior year allocations were certainly accretive. Much has been written on the topic of Bitcoin and other related currency as well as the emergence of blockchain and its ecosystem. We continue to deepen our understanding of these areas and how they may fit into portfolios going forward.

PRW Wealth Management News

Just over a year ago, we embarked on a new phase in our firm’s growth. Our move to become a Registered Investment Advisor with Charles Schwab as our custodian has been a time of learning new systems, interacting with new people, and growing our business with the addition of many new faces to the PRW family of clients. We expect to be busy in 2018 with efforts to grow our team and our depth of services. Stay tuned.

During the quarter, Elliot was interviewed by Investment News about his main concerns heading into the New Year. He suggested that the market has been ignoring geopolitical news and that this may not continue. We shall see…

2017 was a year that surprised many. Dramatic tax reform, the broad stream arrival of Bitcoin, a global double digit return stock market, a historically polarized electorate, and a nuclear inspired totalitarian regime on the other side of the world that has everyone paying attention. In the midst of all the change and chaos, we remain focused. What matters most to us are your priorities, and how we best engage your financial resources to accomplish all that you desire. On that mission we will never compromise. We are most grateful for the trust and confidence you extend in allowing us to come alongside you.

As always, please contact us if there have been any changes to your financial situation, your investment objectives, or your instructions concerning your account(s).

Sincerely,

Bill

William A. Payne Richard A. Renwick Elliot B. Herman

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Index Definitions

Bloomberg Commodity: A broadly diversified index that allows investors to track futures contracts of physical commodities traded on US exchanges. The component weightings are determined by several rules designed to ensure diversified commodity exposure.

Bloomberg Barclays Global Aggregate: An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A Index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays US Aggregate Bond: An index covering the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to this index on April 1, 2007.

Bloomberg Barclays High Yield Bond: An index measuring the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

FTSE NAREIT All Equity REIT: A broad measure of the performance of publicly traded real estate securities, such as real estate investment trusts (REITs) and real estate operating companies.

MSCI ACWI (All Country World Index): A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI World ex USA: An index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries – excluding the United States. With 1,020 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI Emerging Markets: A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

Russell 2000: An unmanaged index that measures the performance of the small cap segment of the US equity universe. It is a subset of the Russell 3000 Index based on market capitalization.

Russell 3000 Growth: An index that measures the performance of the growth segment of the US equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 3000 Value: An index that measures the performance of the value segment of the US equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower expected growth rates.

S&P 500®: An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large cap companies) representing approximately 75% of the investable US equity market.

The information in this report has been drawn from sources AssetMark believes to be reliable, but its accuracy is not guaranteed, and is subject to change. **Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results.**