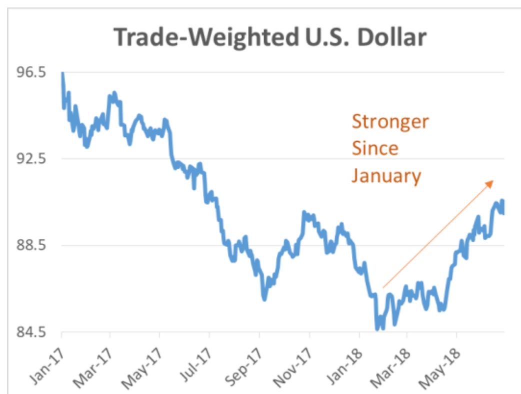
Quarterly Letter

July 2018

Review. The first six months of 2018 have been marked by several surprises, including an inflation surprise, a growth surprise, and a trade policy surprise. In early February, U.S. inflation numbers came in higher than expected, and this seemed to be the catalyst for a pronounced drop in equities. U.S. stocks have still not fully recovered from the bout of springtime volatility, and today sit at levels below their late-January peaks. The growth surprise came from outside the U.S., and in particular from Europe, where economic activity was somewhat weaker than expected during 2Q. Finally, trade policy has been a bit of a rolling surprise, with no one really sure how high U.S. tariffs will go, how broadly they will be applied, or how U.S. trading partners will respond.

One by-product of these surprises has been U.S. dollar strength. The greenback declined in a fairly steady fashion from the end of 2016 into late January 2018, following a multi-year period of strength. Dollar weakness gave a lift to the performance of international assets for U.S. investors last year. These dynamics reversed in January and the dollar has appreciated by more than 5%, turning the dollar-weakness tailwind into a dollar strength-headwind for the performance of foreign assets during 1H18.



Asset Class Returns %	2018 YTD	2018 ER	2017 ACT	10Y AVE
U.S. Stocks	2.7	8.0	21.8	10.2
High Yield Bonds	0.1	1.5	7.5	8.0
U.S. Treasuries	-0.7	-2.0	1.1	2.4
Investment Grade Bonds	-1.6	-3.0	3.5	3.7
Non-U.S. Stocks	-2.8	10.0	25.0	2.6
Emerging Markets Stocks	-6.7	12.0	37.3	2.3

Market performance has been characterized by weakness in non-U.S. stocks, and particularly in emerging markets equities. U.S. stocks have held up relatively well, supported in part by the performance of small caps (+7.7% YTD) and the technology sector (+9.5% YTD). Our asset class return table shows that bond returns have been more or less in line with our expectations.

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Outlook. At the halfway point of 2018, equity returns have generally fallen short of our expectations. The three surprises mentioned above – inflation, growth and trade – warrant close attention, but thus far are not sources of deep concern. We acknowledge that the bull market in U.S. equities is now the second longest on record, and at some point it must end. Also, we recognize that political tensions, rising short-term interest rates, and dollar strength all pose risks for U.S. investors.

For the time being, however, we do not expect market risks to translate to deep and sustained declines in asset prices. The swings in prices we have seen so far this year, while at times uncomfortable, are indeed normal. The bottom line is that there are enough constructive trends in the U.S. and abroad to keep us committed to our positions in U.S., international and emerging markets stocks. Over the long term, we believe a well-diversified, actively-managed portfolio designed to meet clear objectives serves our clients best.

Sincerely,

Rob Kania John Kirby

Asset Class Returns Table: Table Header Definitions: YTD = Year to Date. ER = Expected Return (Laurentide forecast). ACT = Actual Return. AVE = Average Return for the 10 Year Period. Emerging Market Stocks is the MSCI Emerging Markets Index, which represents 23 countries and 10% of world market capitalization. Non-U.S. Stocks is the MSCI EAFE Index, which represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Global Stocks is the MSCI World Index, a market capitalization weighted index that is designed to measure the equity market performance of developed markets. U.S. Stocks is the S&P 500 index, a market capitalization weighted index consisting of a basket of 500 stocks that are widely held. High Yield Bonds is the Banc of America/Merrill US Master HY Index total return of high yield US corporate bonds. Investment Grade Bonds is the Bloomberg Barclays US Aggregate Bond Index, which measures the total return of the investment grade, U.S. dollar, fixed-rate taxable bond market. U.S. Treasuries is the Bloomberg Barclays US Treasury Intermediate Index, which measures the total return of USD denominated, fixed rate 1-10-year nominal debt. Small caps references Russell 2000 and technology sector references the Technology Select Sector Index, a sub-component of the S&P 500 Index. **Trade Weighted Dollar Chart:** Source is Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, January 3, 2017 through June 29, 2019. **Website:** please visit us here www.LaurentideAdvisory.com for important disclosures.