VIEWPOINT2019

PORTFOLIO ASSUMPTIONS

WASHINGTON CROSSING ADVISORS

Washington Crossing Advisors, LLC ("WCA") is an SEC registered investment advisor and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $2 billion in assets under advisement for individuals and institutions.

The team is managed by Kevin R. Caron, CFA and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors' views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro economy with fundamentally rooted, bottom-up security analysis.

Asset Allocation Strategies

Conquest Portfolios

Asset allocation portfolios seek to balance risk and reward by apportioning portfolio assets according to the investor's goals, risk tolerance, and investment horizon. Portfolios seek strong returns relative to underlying risk and are constructed with a forward-looking view of financial markets.

For quarterly reports that highlight key macroeconomic insights and market observations, please visit: www.washingtoncrossingadvisors.com.

Published December 20, 2018.

Executive Summary

Against a backdrop of worry over trade and rising interest rates, the United States economy continues to perform well. While equity markets generally declined in 2018, investors in the United States generally fared better than overseas. Moreover, most companies saw revenue, profits, and dividends grow in 2018, and we expect more to come in 2019.

This annual Viewpoint, along with quarterly updates, provides an organized way of looking at the economy, financial markets, and your portfolio.

Global Growth

As we close out 2018, the world appears to be growing above trend. The International Monetary Fund (IMF) expects real annual growth near 3.7% in 2018-2019 (chart below). For our part, we expect long-run growth of 3.1%, implying some moderation from current levels. Trade and globalization issues cloud the outlook as we enter the new year.

The trade war between the United States and China is an open-ended worry, and unresolved Brexit issues continue to hang over Europe. The longer these issues go unresolved, the more significant the impact on confidence, investment, and market returns. Headlines about trade will, therefore, be an essential market driver during 2019.

The United States

We expect the domestic economy to grow near 2.5% in 2019 but remain an engine of global expansion. Helped by tax cuts, the U.S. economy continues to grow above trend (3% year-over-year through the third quarter). Employment continues to rise, unemployment remains near 50-year lows, and wages are up. Strong business investment and a rise in worker productivity to 1.3%, are key reasons why growth continues to pick up without inflation. The economy is likely producing at or near full capacity given continued above-trend growth.

Monetary policy shifted from "accommodative" to "neutral" as the central bank raised interest rates to 2.5%. A more neutral posture by the central bank is appropriate in light of the Federal Reserve's expectations for growth and inflation. We expect higher volatility across asset classes as markets adapt to higher rates, especially after a decade of ultra-easy monetary policy. Less monetary accommodation, plus fiscal expansion, leads us to a neutral outlook for the dollar as we start the new year.

Developed Economies

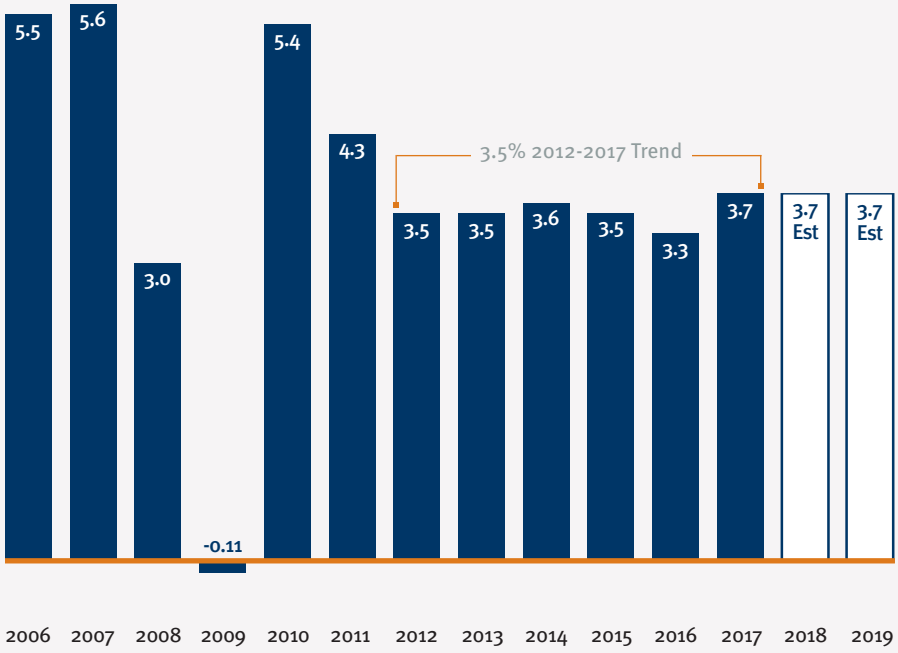
In 2018, most developed economies delivered disappointing growth. The international data began to downshift early in the year, in direct contrast to growth trends in the United States. There were many reasons for poor performance overseas. Brexit and rising nationalism dragged on European growth, and exchange rate volatility, higher borrowing costs, and capital outflows hurt many Asian and Latin American emerging economies. We have yet to see a turn on most of these issues, but we recognize that market valuations overseas are more attractive now.

Europe

We expect Euro area growth to be cut again in 2019, especially if a Brexit plan fails to materialize. As of this writing, there is no agreed upon plan for the United Kingdom to leave the European Union (EU) and exit negotiations are underway. To successfully exit the EU, the United Kingdom needs to find a way to remove itself from the European customs union and the single market, while managing to negotiate a free-trade deal with the EU before the end of March. If a free-trade agreement is not reached, the U.K. could be abruptly forced out of the EU, resulting in considerable disruption of trade. It is worth noting that Euro area growth has already slowed to 1.6% in anticipation of Brexit.

WORLD ECONOMIC GROWTH (ANNUAL PERCENT CHANGE)

Source: International Monetary Fund, World Economic Outlook Database, October 2018



Emerging Economies

China, along with other emerging market (EM) countries, continues to see growth slow. To put this in context, we must recognize that emerging market economies now represent 40% of global output, up from 20% in the early 2000s. Rapid emerging market growth accounted for two-thirds of world growth between 2008-2018.

Investment and borrowing soared in China post-financial crisis, leading to a four-fold increase in outstanding private, non-financial credit (debt). Total EM private sector credit (debt) now stands at 140% of output (GDP), versus 80% in 2008, according to data from the Bank of International Settlements and the World Bank.

We believe the rapid rise in emerging market leverage is unsustainable and elevates risk in the EM financial system. With more debt, we expect slower growth (and potentially higher risk) in emerging markets. Judging from long-run trends in labor and productivity, we now estimate a 4-4.5% long-term growth rate for emerging market economies.

If correct, EM growth will fall short of the 5.5-6% growth rate that prevailed over the past decade but will be higher than what we expect from the United States and Europe.

Long-Term Outlook

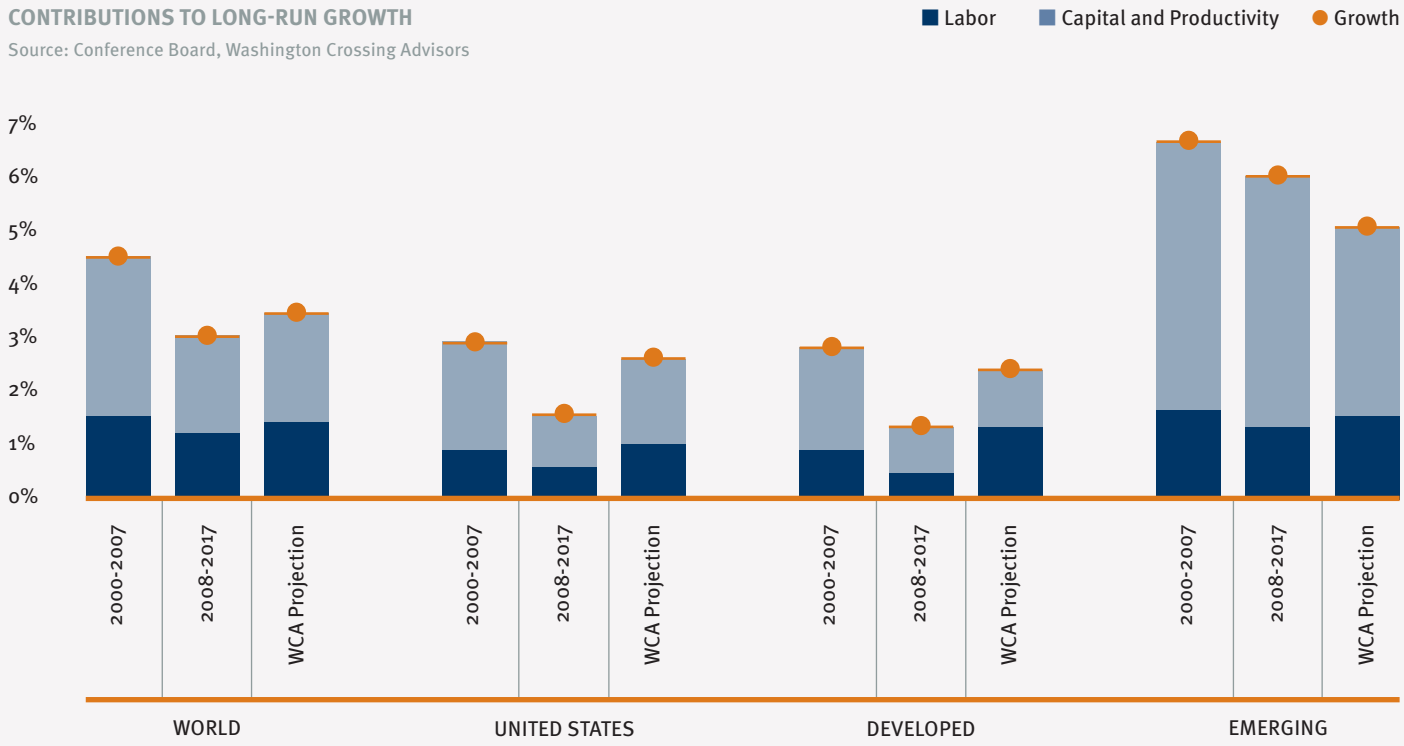
An escalating trade dispute could cost the global economy 0.4% from long-run growth, according to IMF forecasters. It is hard to see how such loss in output and income over time translates into a positive outcome, especially because trade and growth are so tightly interconnected.

Therefore, we think the most likely result on trade is an eventual compromise and truce rather than continued escalation. Markets would undoubtedly cheer such an outcome.

As we look out to another new year, we project real long-run growth in the global economy of 3.1% as our base case. We attribute 1.3% of the growth rate projection to increased labor and 1.8% to rising investment and productivity (chart below).

CONTRIBUTIONS TO LONG-RUN GROWTH

Source: Conference Board, Washington Crossing Advisors

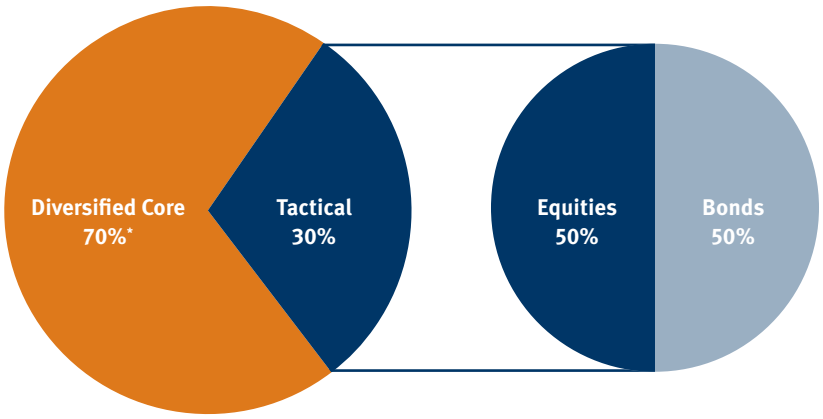


Portfolio Strategy

We begin 2019 with a more cautious posture than 2018. A year ago, economic and market trends were generally accelerating and investors were eager to accept risk in pursuit of return. Today, we see concern over trade, global growth, and higher interest rates as headwinds appear to be dampening investor enthusiasm. Portfolio exposure reflects a less aggressive mix of stocks and bonds, tilts toward domestic over foreign, underweights emerging versus developed markets, and favors value over growth.

PORTFOLIO STRATEGY

PORTFOLIO STRUCTURE



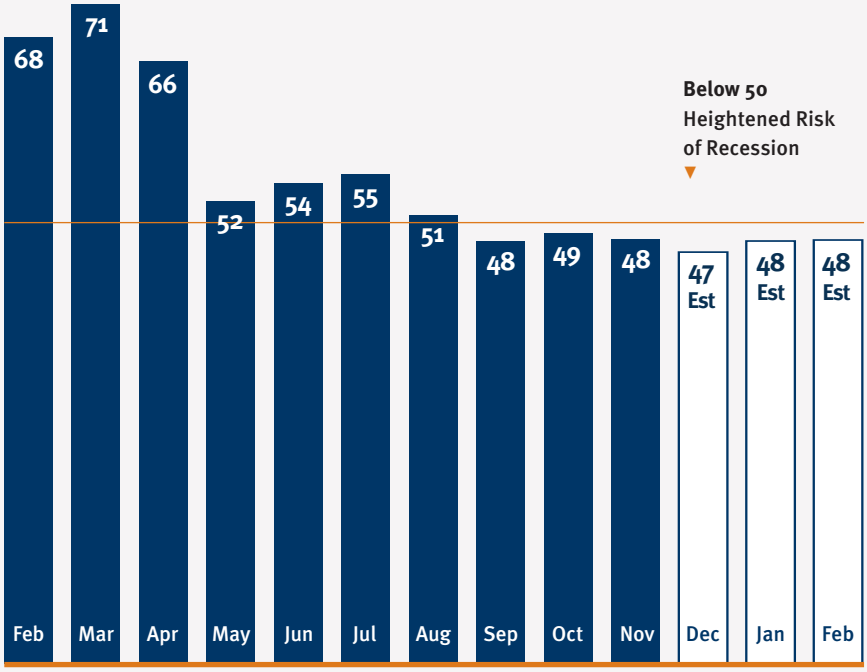
COMBINING LONG- AND SHORT-TERM PERSPECTIVES IN ONE ACCOUNT

We think of portfolios as having two parts. At the "core" of the portfolio is a diversified equity and diversified bond allocation. The long-run forecasted returns you see on page 7 guide these tactical allocations. Because forecasts are long term, changes in the core tend to be slower. This helps reduce turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORT-TERM FOCUS

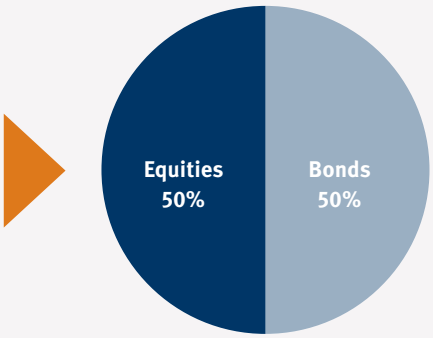
WCA FUNDAMENTAL CONDITIONS BAROMETER



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

SATELLITE
Short-Term Focus

Asset allocation is tactically neutral equities versus bonds at the start of 2019. This view is supported by the WCA Fundamental Conditions Barometer, which remains near 50 (see chart left).



As of December 20, 2018.

ASSET CLASS	10-YEAR VIEW RETURN	10-YEAR VIEW VOLATILITY	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
BOND ASSUMPTIONS					
Core Bonds	2.9%	3.0%			
1-3 Year Treasury Bond	2.9%	0.8%			
Mortgage-Backed Securities	2.8%	2.2%			
Intermediate Government/Credit	2.9%	2.4%			
20+ Year Treasury Bond	2.5%	13.5%			
Investment-Grade Corporate Bonds	3.2%	6.1%			
High-Yield Corporate Bonds	3.9%	8.1%			
EQUITY ASSUMPTIONS					
Equity	5.7%	13.7%			
Domestic Large Cap Value	6.0%	14.1%			
Domestic Large Cap Growth	5.2%	13.4%			
Foreign Developed Equity Markets	6.6%	16.2%			
Foreign Emerging Equity Markets	6.3%	19.3%			
Gold	3.3%	16.8%			
REITs	6.0%	20.1%			

As of December 20, 2018. Past performance does not guarantee future results.

Core Satellite

CORE POSITIONING: LONG-TERM FOCUS

DEVELOPED VS. EMERGING	› **Equities are allocated with a tilt toward developed over emerging markets.** Improving growth in the United States and Europe, higher expected volatility in emerging markets, and a neutral view on the dollar lead us to a tactical overweight for developed versus emerging markets.
GROWTH VS. VALUE	› **Domestic style exposure now is overweight value versus growth.** Outsized gains in technology shares reduces the relative attractiveness of growth over value. Domestically focused sectors, like utilities, offer some near-term value.
DURATION AND CREDIT QUALITY	› **Portfolio duration and credit exposure is currently neutral versus target exposure across most categories of fixed income.** We reduced our exposure to high yield corporate bonds last year and increased exposure to higher grade bonds given slippage in macroeconomic data.

These views are provided by Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. Volatility refers to an expected standard deviation of returns, a measure of uncertainty around our estimate. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, Washington Crossing used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinion subject to change without notice.
* Including stocks, bonds, and other assets.

Equity Market Outlook

Despite near-term growth concerns, improving earnings and dividends suggest that fundamentals are still intact. Rising profits and lower prices in 2018 translate into better starting valuations versus a year ago. We continue to favor value over growth, and like the domestic exposure, consistency, and yield potential of utilities. Better expected domestic performance leads us to maintain a bias toward the domestic and developed foreign markets versus emerging markets.

Global stocks fell in 2018 as measured by an 8% year-to-date decline in the MSCI All Country World index through the time of this writing. Non-domestic stocks declined 13%[1], and the United States equity market declined roughly 3%[2]. The performance reflected a worsening in the global growth outlook amid concern over trade and rising interest rates. As global growth became less coordinated, global equity market performance also became less uniform. We are maintaining our tactical overweight to domestic versus foreign markets as we start 2019.

After record low volatility in 2017, we saw a pickup in stock market volatility in 2018. A flareup in volatility in February 2018, and a second bout of losses in the third quarter, seemed to point to a shift in the outlook. Investors began to question what slowing global growth and higher interest rates might mean for stock values. The combination of greater uncertainty, lower expected growth, and higher rates threw a wet blanket on returns in 2018.

But the news here is not altogether bad. While the S&P 500 stock market index declined for the year, earnings and earnings forecasts rose. Earnings for the S&P 500 are expected to be up over 20% on revenue growth of 9% in 2018. Analysts forecast earnings will rise another 8.3% in 2019 on revenue growth of 5.5%.

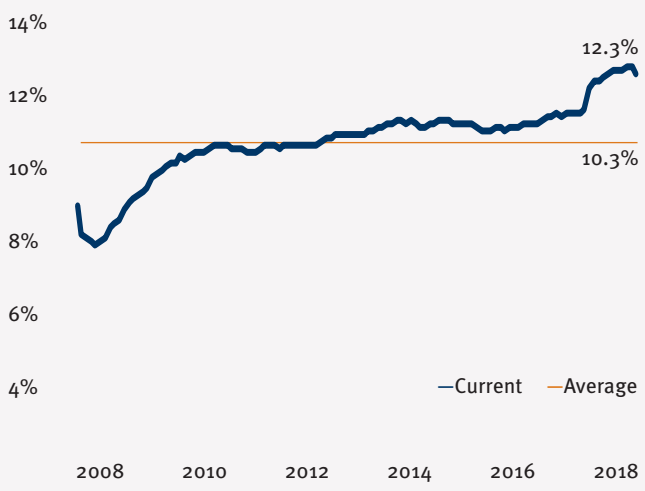
The combination of lower stock prices and higher earnings improves the starting valuation level and makes long-run expected returns somewhat better in our view. A year ago, the S&P 500 traded at 18 times earnings on a 12-month forward looking basis. Today, that multiple stands at a more attractive 15.4 times and is closer to the 10-year average of 14.6 times. A lower starting valuation bumps up our equity market return assumption.

In addition, total cash distributions from S&P 500 companies, consisting of dividends and share buybacks, should be roughly $1.25 trillion in 2018. This is comprised of about $450 billion in expected dividends and $800 billion in expected share buybacks (a 5.3% total cash return relative to a $23.3 trillion S&P 500 market capitalization).

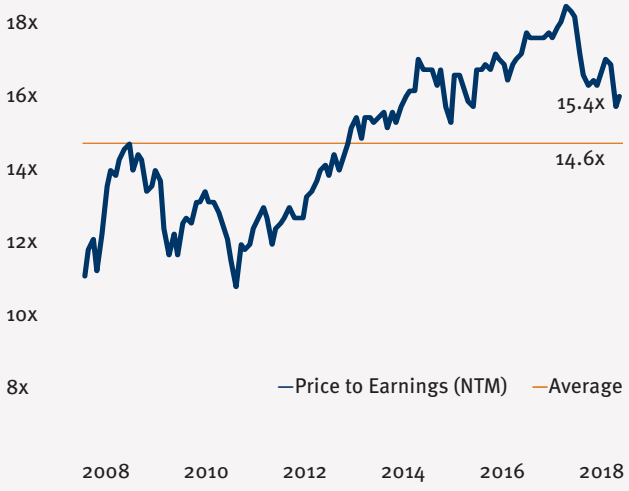
It is important to mention that a jump in buybacks seems to be driven by a one-time repatriation of foreign cash under the new tax plan. We do not believe that such a high rate of cash return is sustainable over

S&P 500 FORWARD 12-MONTH MARGIN

Source for S&P 500 Charts: FactSet



S&P 500 FORWARD 12-MONTH P/E RATIO



the long run, and assume a lower level of buybacks going forward. We project a net buyback yield of 1.5% instead of the current 3.5% yield.

Foreign vs. Domestic

It is impossible to fully disassociate U.S. multinational companies in the S&P 500 from the global economy. Roughly 40% of S&P 500 revenue comes from outside our borders. The most globally exposed sector is the technology sector and the most insulated sector is the utility sector. Technology is also the sector most closely associated with the growth style of investing and utilities are solidly in the value category.

Growth vs. Value

We continue to see "growth" as being relatively overvalued and "value" as being relatively undervalued. This, coupled with these sectors relative exposure to slowing foreign growth, leads us to continue our tactical overweight to value relative to growth. Value sectors with lower embedded growth expectations could fare relatively better, especially if global growth disappoints.

Short-Term Tactical View

As our short-term "barometer" declined in 2018 (see page 6), we tactically reduced equity exposure to a neutral allocation from an overweight allocation. We have not yet seen a pickup in the data as reflected in the WCA Fundamental Conditions Barometer, and remain with a more conservative equity allocation at this time. It is worth noting that foreign and market-based elements included in our analysis of fundamental conditions were the weakest links in 2018, lending support to a more cautious stance on foreign assets.

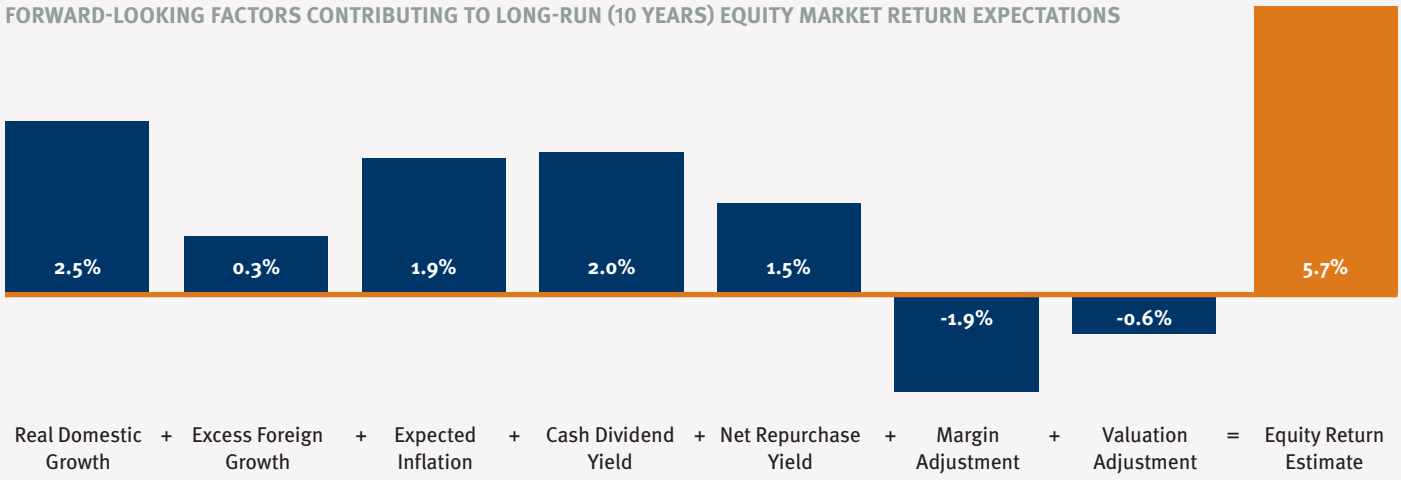
Until we see some signs of improving near-term trends, our tactical equity positioning will remain neutral to underweight relative to the benchmark with a tilt toward domestic over foreign equities.

Conclusion

Slower global growth and rising interest rates are contributing to a pickup in equity market volatility. However, underlying fundamentals continue to move in the right direction and valuations seem better than a year ago. Consequently, our long-run equity market return assumptions are higher today than a year ago. The chart below demonstrates how our underlying fundamental assumptions lead to our long-run expected return.

1. *MSCI All Country World Index – Excluding the U.S.*
2. *S&P 500*

FORWARD-LOOKING FACTORS CONTRIBUTING TO LONG-RUN (10 YEARS) EQUITY MARKET RETURN EXPECTATIONS



Source: These views are provided by Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product.

Fixed Income Outlook

A series of rate hikes by the Federal Reserve in 2018 lead us to anticipate a slowing pace of rate hikes ahead. Meanwhile the global hunt for yield keeps downward pressure on U.S. Treasury yields, and late-cycle risks are making high-yield corporate bonds less attractive.

Cash and Equivalents

The Federal Reserve continued to lift short-term interest rates as the U.S. economy strengthened in 2018. Since the Federal Reserve first raised rates in 2015, progress toward tightening has been slow. A short-term rate near 3% would put the nominal cash rate about 1% above the Federal Reserve's target inflation rate. Since we are now approaching the 3% threshold, it is no longer appropriate to call the central bank's policy posture "accommodative." Unless we see a sharp pickup in growth or a spike in inflation, it would make sense for the central bank to slow the pace of rate increases in 2019.

Federal Reserve Chairman, Jerome Powell, raised eyebrows with a more hawkish tone during the early fall of 2018. Markets initially responded by pricing in more aggressive tightening in 2019, but nervous markets led the Federal Reserve to soften its tone late in the year. Ultimately, we expect to transition from the current 2.5% short-term rate toward 3%. This expectation leads us to expect a nominal return on Treasury bills near 2.9% over the long run.

Longer Term Bonds

Longer term Treasury bonds appear to be pricing in an insufficient premium for risk in our view. Over time, we expect to see the 30-year Treasury bond's yield rise toward 3.9% versus a 3.1% yield today. The result of rising yields will be a below-average return on long-term Treasuries. One reason why domestic Treasury yields may be so low is the hunt for yield globally. German 10-year bunds now yield only 0.25%, United Kingdom gilts yield 1.3%, and Japanese bonds yield near 0%. By contrast, U.S. Treasury yields near 3% are relatively attractive. The scarcity of global yield alternatives may be holding Treasury yields lower than they would be otherwise. Another potential reason for why long-term Treasury yields have stopped rising may be that investors are reducing growth expectations for the U.S. and global economies headed into 2019.

Credit

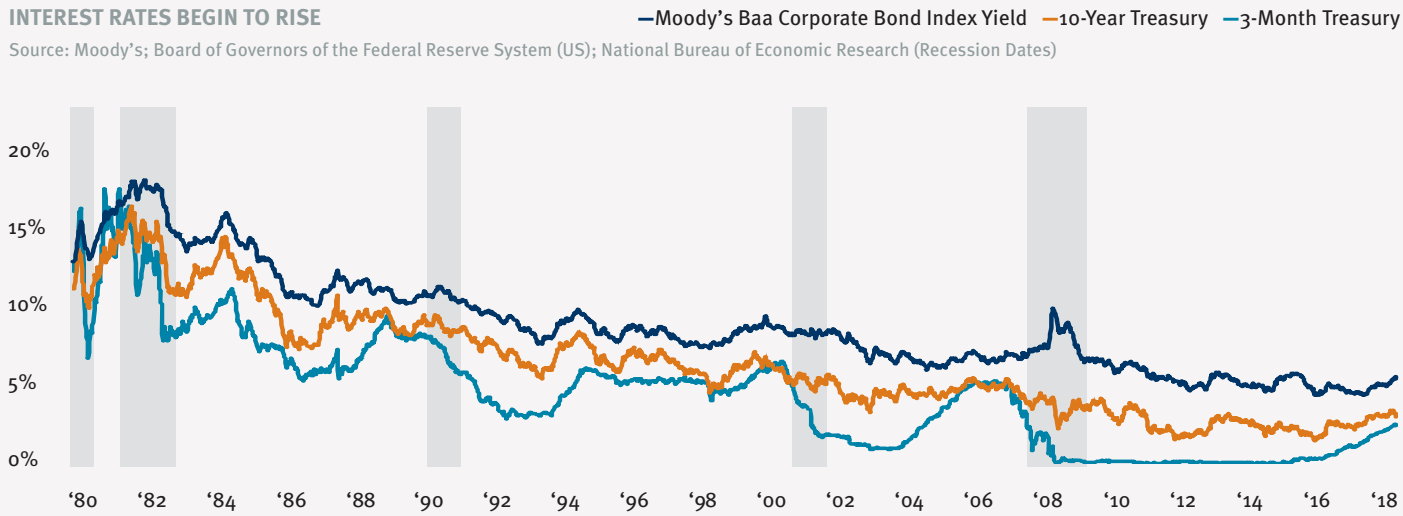
Credit spreads widened during 2018 as markets grew concerned about growth. In some segments of credit markets, growing leverage and debt has created pockets of risk.

While default rates are historically low, lower global growth, tighter global financial conditions, and trade tension all raise credit risks. According to Moody's Investor Service, corporate leverage is rising and the share of U.S. speculative-grade issuers has risen to 67%, the highest level ever. Late cycle risks lessen the relative attractiveness of lower quality credit versus high-quality and sovereign debt.

As we enter 2019, we see exceptionally compressed risk premiums across the entire fixed income spectrum. If conditions weaken further, a tactical case could be made for extending high-quality duration issues. From a long-run perspective, we see little compelling reason to adopt positioning far from benchmarks at this point.

INTEREST RATES BEGIN TO RISE

Source: Moody's; Board of Governors of the Federal Reserve System (US); National Bureau of Economic Research (Recession Dates)



Shaded areas equal recessions.

Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Barclays Aggregate Bond Index: A composite of the Barclays Gov't/ Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

The ICE U.S. Treasury 1-3 Year Bond Index is a market value weighted index designed to measure the performance of U.S. dollar-denominated, fixed rate U.S. Treasury securities with minimum term to maturity greater than one year and less than or equal to three years.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

The FTSE Developed All Cap ex U.S. Index is part of a range of indices designed to benchmark international investments. The index comprises large, mid and small cap stocks from developed markets excluding the U.S.

The FTSE Emerging Markets All Cap China A Inclusion Index is a market-capitalization weighted index representing the performance of large, mid and small cap stocks in Emerging markets. The index is comprised of approximately 3350 securities from 21 countries.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Opportunity Disclosure: The Washington Crossing Advisors, LLC Stifel Conquest and Dynamic Strategies Portfolios require a $25,000 and $50,000 minimum investment, respectively. Strategies in the Stifel Opportunity Program are proprietary products developed by Stifel. More information on the Opportunity Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Opportunity Program is appropriate for their needs.

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All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity investments are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors to varying degrees. Fixed Income investments are subject to market, market liquidity, issuer, investment style, interest rate, credit quality, and call risks, among other factors to varying degrees.

Any projections, targets, or estimates in this report are forward looking statements and are based on WCA's research, analysis, and assumptions made by the Adviser. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this commentary.

Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

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