QUARTERLY 4Q17
TACTICAL ASSET ALLOCATION

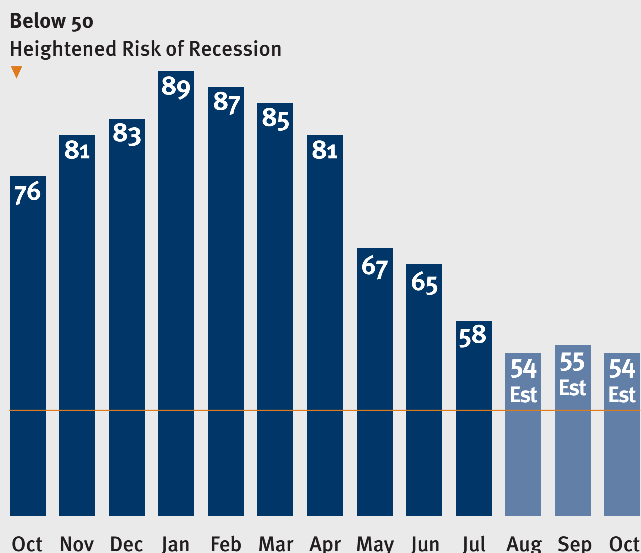
We prepare to end 2017 with consumer and investor confidence running high, but we are mindful of potential longer-term speed bumps. Portfolios are neutrally weighted between stocks and bonds as we enter the fourth quarter.

Consumer and investor confidence is running high, but this is no reason to rest on our laurels. The economy emerged from a deep recession eight years ago and continues to expand today. The large pools of unemployed workers created by the recession are now gone, and production levels are full. Asset values are at records, with stock markets at record highs and the housing market is back to 2005 levels. Eight years of economic growth and continued low interest rates explain much of the improvement.

Many observers are seeing signs of continued momentum for growth. The International Monetary Fund, for example, expects global growth to average near 3.6% this year and next. While U.S. growth expectations are lower than at the start of the year, emerging and European growth forecasts are higher. Policy choices in China and the United States are driving changes in expected growth.

China is delaying adjustments favoring household consumption versus favoring continued government and business investment. In the United States, expectations for large tax cuts and spending programs are being reduced due to budget concerns and politics. We believe the policy decisions made by China and the United States will have both near-term and far-reaching implications. Advancing the current policy initiatives would likely boost near-term growth. However, rapid debt accumulation, rich asset values, complacency brought about by a long period of low rates, geopolitical tension, and a rise in inward-looking populist movements all pose longer-term risks.

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.

Equities Outlook

After a year of overweighting stocks in portfolios, we reduced exposure to neutral in August. The reason for the change was our evolving view of fundamental conditions. While the level of activity appears good, we would expect to see the rate of improvement to moderate from here. The reflation trade that began in early 2016 gave a boost to commodity prices, eased pressure on banks, and boosted earnings. This process gave global growth a "shot in the arm" and lifted U.S. growth from near 0% to 2.5% today.

Investors, seeing better growth and fading risk, bid up risky assets like stocks and corporate bonds. The S&P 500 stock index is up over 30% since early 2016, reflecting higher earnings and improving growth. Continuation of low interest rate policies and prospects for tax cuts also lifted stocks. The S&P 500 now trades at 18 times forecast 12-month operating earnings, versus a 10-year average multiple of 14.1 times. Hope for tax reform in the United States provides some reason for potential upside. The passage of a tax reform package that delivers sizable tax cuts and boosts investment would be a significant event. U.S. growth rates and the dollar would likely firm, but interest rates could also rise more rapidly than expected. Repatriation of foreign cash could also reduce the need for corporate bond issuance, thus limiting supply and compressing spreads.

Fiscal stimulus resulting from tax reform also brings risks, as the economy seems to be operating near full capacity. Higher interest rates and a stronger dollar would more likely result in this case. "Reflation" trades, including European, Japanese, and emerging market stocks could lose some luster. We would also be concerned about sectors that have high or increased leverage. Higher rates, the potential for wider credit spreads, and leverage could hurt the financials sector performance. "Value" would likely become a riskier proposition under this scenario.

Fixed Income

Recently, the Federal Reserve raised interest rates again and announced they would begin to unwind their balance sheet. Both of these actions imply a shift at the Fed away from the ultra-dovish stance the bank has maintained for so long. While the rate increase and balance sheet announcement were expected, the reality is that policy is becoming tighter.

All else equal, continued growth and higher short-term rates should eventually weigh on bond prices. We have yet to see this, however, and long-term bond prices have actually risen recently. This is a somewhat surprising outcome, especially given the generally positive view of current growth and prospective tax reform.

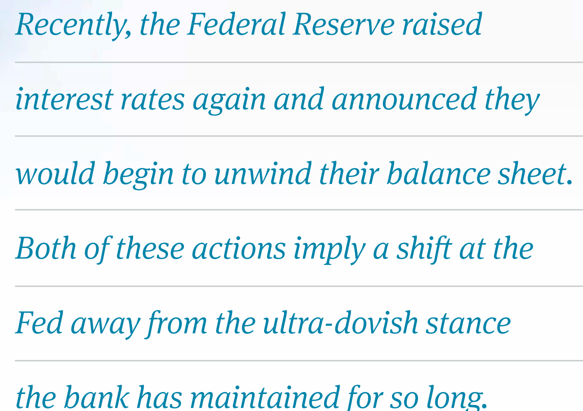
One explanation for the drop in long-term Treasury bond yields relates to inflation. Core consumer prices are trending near a 1.4% annual growth rate. This is well below the Federal Reserve's long-run target of 2% inflation. Slippage in the inflation rate, especially as the economy is doing well and the dollar is weak, is quite unusual. Should the outlook darken, policy responses could be hindered by low starting inflation and interest rates.

Corporate bond spreads, meanwhile, are near cycle lows. This is happening despite increased borrowing in some sectors and increasing non-financial leverage. Again, better expected growth and potential for tax reform explain some of the compression in spreads. While we are happy to see the economy performing well, we think much of the improvement is priced in to credit markets given today's tight spreads. Investment-grade credit exposure was reduced from overweight to neutral during the third quarter.

Summary

Trends in the data remain positive, but we expect to see some fading of momentum as we move forward.

We remain focused on our WCA Fundamental Conditions Barometer for clues about the direction from here. We will make tactical adjustments should changing conditions warrant. Satellite portions of portfolios are neutrally allocated between stocks and bonds, in keeping with our forecast "barometer."

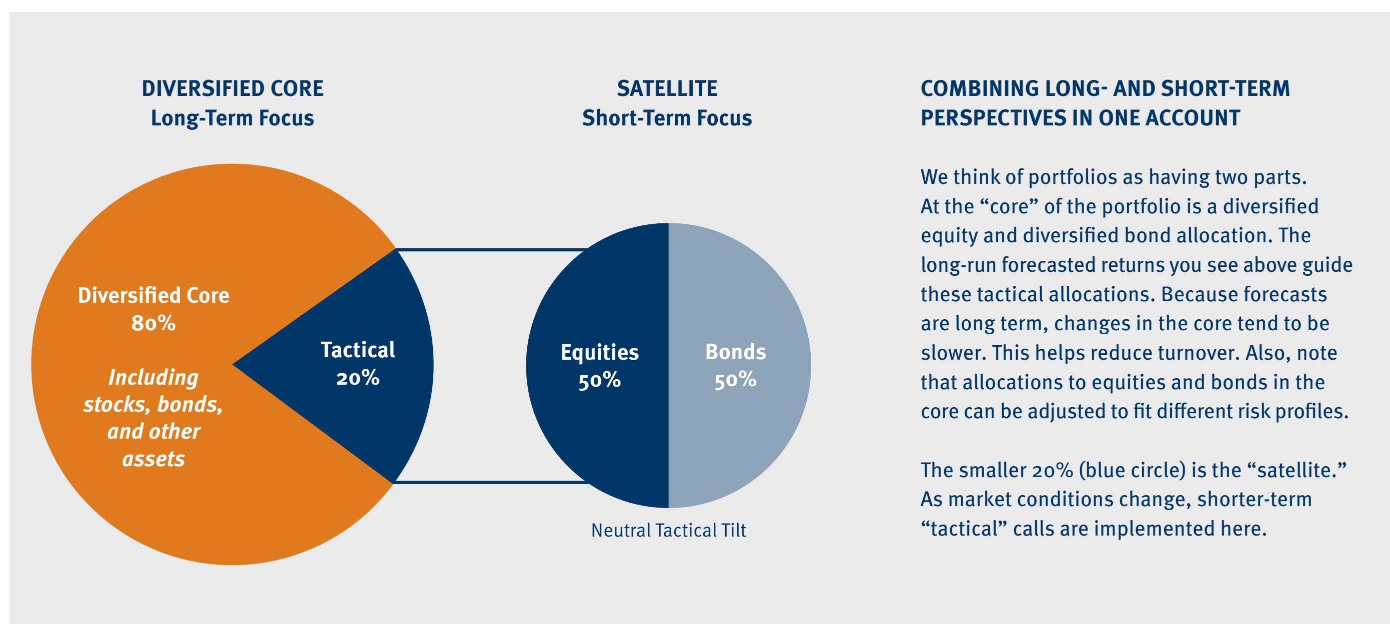


Recently, the Federal Reserve raised interest rates again and announced they would begin to unwind their balance sheet. Both of these actions imply a shift at the Fed away from the ultra-dovish stance the bank has maintained for so long.

ASSET CLASS	10-15 YR VIEW RETURN	VOLATILITY	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
BONDS					
Core Bonds	3.9%	2.8%		Tactical	
1-3 Year Treasury Bond	2.3%	1.0%		Core	
Mortgage-Backed Securities	2.5%	2.5%		Core	
Intermediate Government/Credit	2.4%	2.4%		Core	
20+ Year Treasury Bond	2.6%	11.4%		Core	
Investment-Grade Corporate Bonds	2.8%	5.2%		Core	
High-Yield Corporate Bonds	2.9%	8.6%			Core
EQUITY					
Equity	5.0%	14.5%		Tactical	
Domestic Large Cap Value	5.0%	15.7%	Core		
Domestic Large Cap Growth	5.0%	14.3%			Core
Foreign Developed Equity Markets	5.5%	17.4%			Core
Foreign Emerging Equity Markets	5.5%	20.4%	Core		
Gold	2.5%	15.7%	Core		
REITs	5.4%	22.3%		Core	

As of September 30, 2017. Past performance does not guarantee future results.

■ Core ■ Tactical



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 above guide these tactical allocations. Because forecasts are long term, changes in the core tend to be slower. This helps reduce turnover. Also, note that allocations to equities and bonds in the core can be adjusted to fit different risk profiles.

The smaller 20% (blue circle) is the "satellite." As market conditions change, shorter-term "tactical" calls are implemented here.

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.

About 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 $1 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.

Description of Indices and Terms/ Disclosures

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.

Score 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 Score Program are proprietary products developed by Stifel. More information on the Score 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 Score Program is appropriate for their needs.

This commentary often expresses opinions about the direction of market, investment sector, and other trends. The opinions should not be considered predictions of future results. The information contained in this report is based on sources believed to be reliable, but is not guaranteed and not necessarily complete.

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.

About Washington Crossing Advisors | Washington Crossing Advisors a wholly owned subsidiary of Stifel Financial Corp. (NYSE-SF). The WCA team has been helping individual and institutional investors build wealth for over 20 years. www.washingtoncrossingadvisors.com

© 2017 Washington Crossing Advisors, LLC. All rights reserved. 10-17