Quarterly Review and Outlook

January 2016

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

- **2015 Leaves Investors with Plenty to Watch**
  Edward A. Burgess, CFA
  Senior Vice President
  and Chief Investment Officer

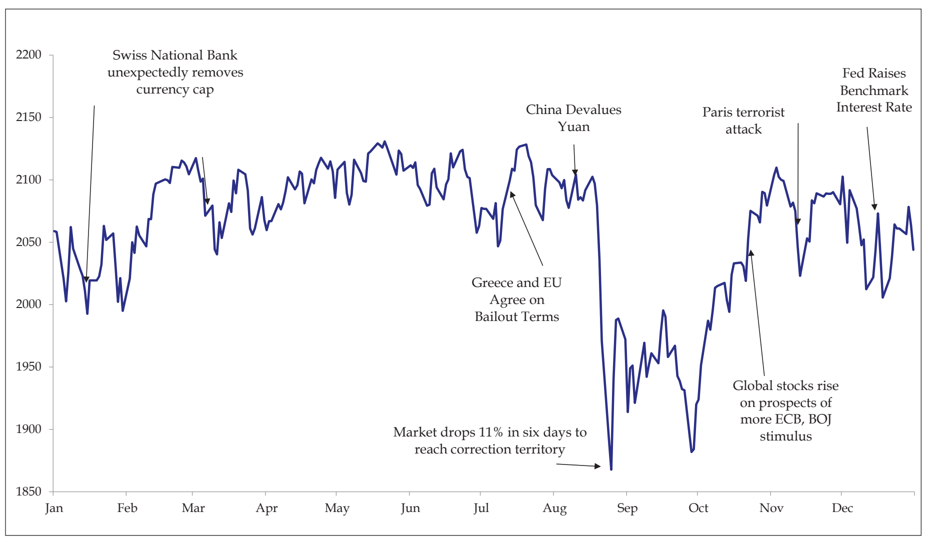
- **Market Diary**

- **2016 Update: General Assembly, Congress, IRS Vow to Keep Their Resolutions**
  M. Wickliffe Ruehling, JD
  Vice President and Trust Officer

2015 Leaves Investors with Plenty to Watch

After moving along in mildly positive territory for the first seven months of 2015, the U.S. equity market experienced its largest correction since the summer of 2011, declining almost 13% in August. Despite the increased volatility, however, the market rallied and ended the year about where it began. Consistent with the notations on the timeline below, the U.S. economy continued to chug along at a sluggish growth rate, but sufficient to cause unemployment to fall to 5%. The gradual improvement allowed the Fed to raise its overnight money rate for the first time in nearly 10 years.

S&P 2015



Source: © 2016 Strategas

The stock market move was narrow, meaning there was a huge difference in the returns of winners as compared to losers, a big change from when the Fed was actively pumping up its balance sheet and seemingly all stocks behaved the same (see chart next page).

Narrowness creates opportunities for active managers, who pick stocks rather than invest in broad indices. We believe the gap between winners and losers can persist as the Fed continues to normalize interest rates. Correlations between individual stocks and the market continue to weaken.

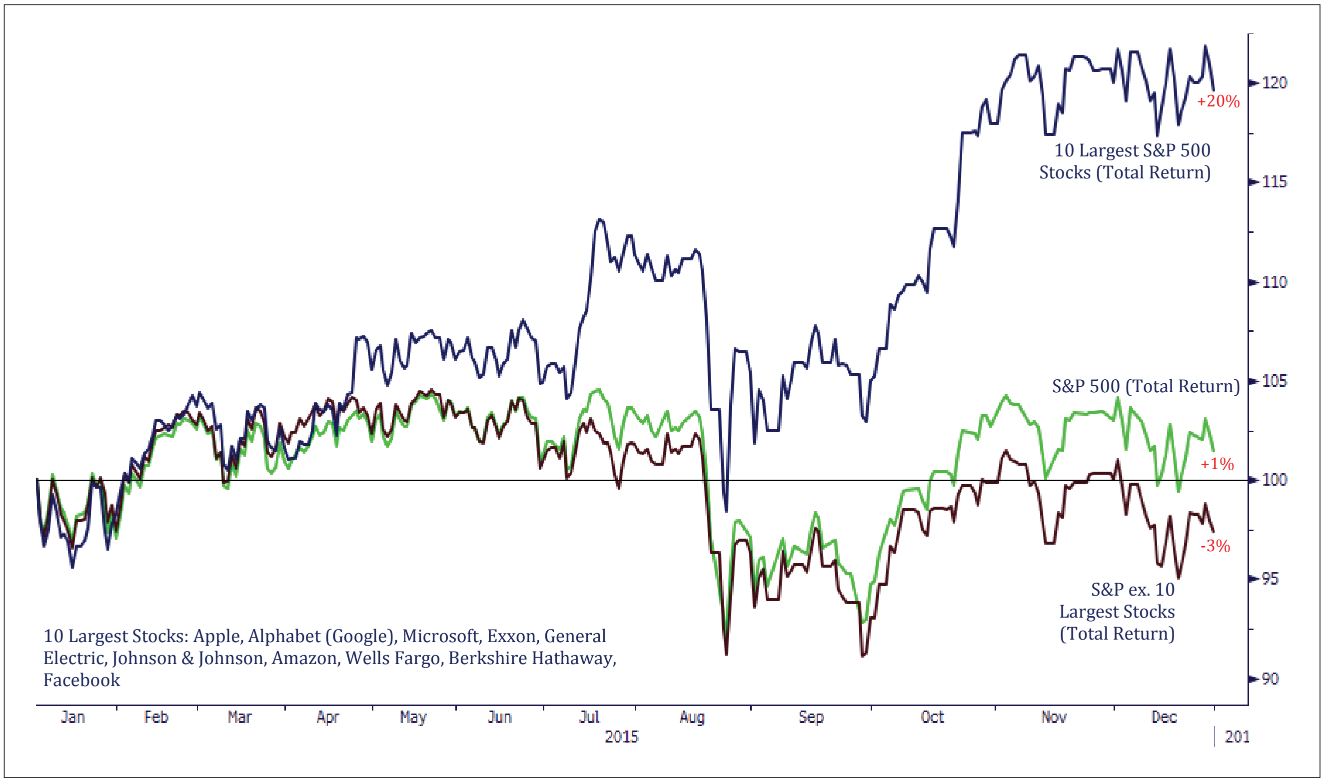
We are hesitant to make predictions about 2016 when the year has already begun in an uncertain fashion. However, we will be closely watching the following in the coming year:

"Prediction is very difficult, especially if it is about the future."

— A Danish Proverb adopted by many

(continued on next page)

2015 Performance



Sources: © 2016 - Data: Bloomberg. Chart: Strategas.

- Can China engineer a soft landing? Its government is trying to transition the economy from an industrial-export model to one with a domestic consumer emphasis.
- When will oil prices find a bottom? It is no longer assumed that low energy prices are good for the economy or corporate earnings. Prices have dropped enough so that damage to the energy sector offsets the positives in other sectors.
- Will the equity markets broaden out? If so, indexing strategies might work better than active management. If not, stock-picking will likely reign supreme.
- How fast (or often) will the Fed raise interest rates? This question is not only of interest to bondholders. Rapidly rising rates have implications for the federal budget.
- How will the U.S. presidential election affect the markets?
- Will the federal budget be additive to the economy as opposed to the fiscal drag of the last two years?
- How fast will corporate earnings grow? Can P/E multiples expand? We can see reasons to expect earnings to grow at about 6% in 2016. What is less clear is why earnings multiples would expand.

We are not expecting a U.S. recession in 2016. Accordingly, we continue to see market pullbacks as opportunities to put cash to work in stocks and equity mutual funds. We continue to see value in developed international markets where central banks are still applying large amounts of monetary stimulus.

Alternative investments, especially equity long/short strategies, are appealing as ways of generating returns while keeping portfolio volatility in check. Meanwhile, we continue to be cautious with our bond investments, seeking high quality names with shorter maturities as interest rates rise.

Market Diary Period Ending December 31, 2015

	RATES OF RETURN					
Equities	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	5.14	-1.80	-1.80	8.32	6.71	5.40
U.S. Stock Market (S&P 500)	7.03	1.37	1.37	15.12	12.55	7.30
U.S. Small-Cap Stocks (Russell 2000)	3.59	-4.41	-4.41	11.65	9.19	6.78
International Stocks (MSCI EAFE)	4.80	-0.21	-0.21	5.68	4.27	3.74
Emerging Markets Stocks (MSCI Emerging Markets)	0.52	-14.83	-14.83	-6.55	-4.55	3.89
Alternatives	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (HFRX Global Hedge Fund)	-0.60	-3.60	-3.60	0.70	-0.70	0.10
Global Real Estate (FTSE/EPRA NAREIT)	4.87	-0.41	-0.41	5.32	6.86	5.16
Commodities (Bloomberg Commodity)	-10.52	-24.66	-24.66	-17.29	-13.46	-6.42
Energy (Bloomberg Commodity - Energy)	-22.70	-38.87	-38.87	-26.94	-21.54	-21.07
Gold (Gold Spot)	-4.96	-10.46	-10.46	-14.15	-5.70	7.41
Fixed Income	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Barclays Aggregate	-0.57	0.55	0.55	1.44	3.25	4.51
Barclays Municipals	1.50	3.30	3.30	3.16	5.35	4.72
Barclays High Yield	-2.06	-4.43	-4.43	1.70	5.03	6.95

Rates of Return for periods longer than 12 months are annualized. Data is provided by Northern Trust and Hedge Fund Research.

2016 Update: State General Assembly, Congress, IRS Vow to Keep Their Resolutions

Resolution #1: No More State Inheritance Tax
At the stroke of midnight on New Year's Eve, when most people resolve to start new habits, the State of Tennessee kept a resolution it made four years ago: The Tennessee General Assembly repealed the state's inheritance tax, meaning residents who die in 2016 and thereafter will not owe any Tennessee inheritance taxes. This year's full repeal is the ultimate result of a 2012 law that instituted gradual repeal over the past four years.

Previously, Tennessee estates owed taxes if their respective values exceeded the following exemptions:

- 2012 - $1,000,000
- 2013 - $1,250,000
- 2014 - $2,000,000
- 2015 - $5,000,000

The Internal Revenue Service also amended its federal estate tax exemption for 2016, increasing the basic exclusion to $5.45 million from $5.43 million in 2015.

Resolution #2: IRA Qualified Charitable Distributions Become Permanent in 2016
Charities and taxpayers will both get a boost in 2016 thanks to new federal legislation making annual qualified charitable distributions ("QCDs") from individual retirement accounts permanent. As a general rule, distributions from an IRA are taxable and imputed as ordinary income to the withdrawing taxpayer. QCDs therefore offer advantages far beyond the philanthropic spirit, allowing for an "above the line" reduction in a participating taxpayer's adjusted gross income. This correlates with a potential reduction in taxes on Social Security benefits, lowered Medicare premiums, and an increased use of personal itemized deductions.

The Consolidated Appropriations Act of 2016 now allows individuals 70 ½ years of age and older to make tax-free distributions of up to $100,000 annually to qualifying charities. Better still, these distributions can automatically satisfy yearly required minimum distributions. QCDs may be

(continued on back page)

Disclaimer: Any performance data quoted herein represents past performance, does not guarantee future results, nor can its accuracy be guaranteed. The commentary represents the opinions of Equitable Trust and is subject to change based on market and other conditions. These opinions are not intended to be a forecast of future events nor future results. Estate, trust and tax planning-related material is provided for discussion and information only. Competent legal and accounting advice should be acquired before adopting any of the strategies or approaches described. These materials are provided for informational purposes only.

made from any IRA or individual retirement annuity, but not from an employee pension, inherited IRA, or simple retirement account. The contribution may be made with cash or in-kind property.

To make a contribution, you should contact the charity of choice directly to ensure the correct payee name for the check. Then, instruct your trustee or agent to make a transfer directly from your IRA to the charity. It's important to note the contribution won't qualify if the trustee or agent makes the mistake of first distributing funds to any other account you own as a go-between before making the ultimate distribution. Similarly, the contribution loses qualifying status if the check is made out to you. Finally, make sure to request a letter of acknowledgement from the charity for your own record keeping.

Resolution #3: IRS Adjusts 2016 Tax Rates, Standard Deductions, and Exemption Amounts

Low growth in the consumer price index led to minimal changes in applicable rates and exclusions in 2016. Most notably, exclusions for annual gifts, as well as maximum contributions for individuals to traditional IRA's, Roth IRA's, and 401(K) plans remain the same. The personal exemption for 2016 is up $50 to $4,050 from the 2015 exemption of $4,000. Taxpayers should note the exemption is subject to a phase-out beginning with adjusted gross incomes of $259,400 ($311,300 for married couples filing jointly). It phases out completely at $381,900 ($433,800 for married couples filing jointly).

A more detailed listing of important 2016 rates, exclusions, and contribution limits follows:

2016 Tax Reference

GIFT AND ESTATE TAX EXCLUSIONS	
Gift Tax Annual Exclusion	$14,000 per beneficiary
Lifetime Gift and Estate Tax Exemption	$5,450,000 per individual
TAX ADVANTAGED ACCOUNTS	
Traditional IRA	
Under age 50: Up to $5,500	Age 50 and above: Up to $6,500
Roth IRA	
Under age 50: Up to $5,500	Age 50 and above: Up to $6,500
Simple IRA	
Under age 50: $12,500	Age 50 and above: $15,500
401(k), 403(b), 457, SARSEP	
Under age 50: $18,000	Age 50 and above: $24,000

The reference provided is for educational purposes and does not constitute investment, legal, or tax advice. All contribution limits listed are subject to various additional rules, caveats, and phaseouts. Please speak with your advisor before relying on any materials listed above.

EQUITABLE Trust

Trustees and Investment Advisors

Equitable Trust Company
One Belle Meade Place
4400 Harding Pike, Suite 310
Nashville, Tennessee 37205

www.equitableco.com
Telephone: 615-460-9240
Fax: 615-460-9242
Toll Free: 1-866-442-3564