Quarterly Review and Outlook

October 2017

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

"America's present need is not heroics, but healing; not nostrums, but normalcy; not revolution, but restoration."
— Warren G. Harding

Heading Higher: The Economy, Interest Rates and Stocks

Equity markets continued their winning ways in the third quarter despite threats of nuclear war, a spate of hurricanes, political stalemate in Washington and the unveiling of the Fed's plan to reduce its balance sheet.

Economic positives appeared to outweigh the negatives. Continued hiring absorbed new entrants into the labor markets. Regional Fed reports and business confidence surveys pointed to future economic strength while a weaker dollar promised to spur exports and attract foreign travelers. Minuses for the quarter included declines in construction spending and light vehicle sales (even with generous incentives). Personal income grew just in line with inflation.

When the Fed begins shrinking its $4.5 trillion balance sheet this month it will reverse a policy in place from 2008 through 2013 of pumping cash into the markets by buying bonds from the government and the public. The Fed's new approach will not involve outright selling of securities but will allow refinancing by the public as bonds mature, soaking up excess liquidity from the markets.

We do not expect this action to force longer-term interest rates much higher or very soon. The Fed's reductions are expected to amount to $300 billion in the *first year* of the program. Central banks elsewhere are expected to pump approximately $300 billion *a month* into global markets. With U.S. yields much higher than in their home markets, foreign buyers are expected to buy U.S. bonds in sufficient quantities to keep our rates low. That said, we could experience much higher levels of bond market volatility in the months ahead.

The futures markets anticipate a rise in the overnight Fed Funds rate to 1 – 1.25% in December. The outlook beyond is clouded by vacancies on the Fed's Board of Governors. Even though the Senate has confirmed Randal Quarles' nomination, there will be three vacancies on the seven-member board after Vice Chairman Stanley Fischer retires this month.

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Heading Higher ... *(continued)*

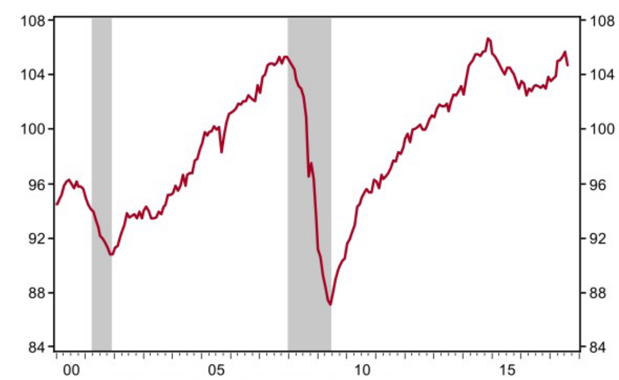
Banks had been under pressure for much of the quarter as longer-term interest rates had fallen, reducing lender margins. By the end of the period, however, the Fed's announcement of its plan encouraged investors that bank profits would return.

A recession in the U.S. seems unlikely now as four widely-accepted indicators of economic strength continue to trend higher (see charts below). Many foreign indicators point to the same.

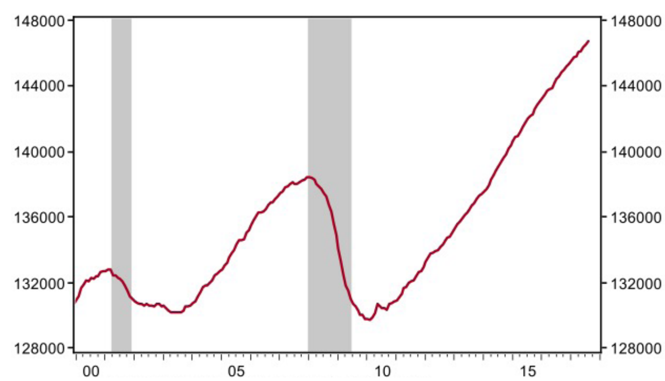
In the absence of a recession, we continue to believe that any correction in the equity markets would present a buying opportunity.

Finally, we are closely monitoring outstanding proposals for tax reforms and/or cuts. Just before the end of the quarter, President Trump unveiled a framework for tax reforms which includes a cut to the corporate tax rate, reduction of corporate "pass through" rates, reduces the number of brackets for individual taxes to three and doubles the basic standard deduction. Many Democrats in Congress have decried the proposal as favoring the wealthy. Many Republicans are concerned that budget deficits will expand, adding to the national debt, which just last month exceeded $20 trillion for the first time. Further, in states with relatively high income tax rates of their own, politicians have expressed alarm over the president's plan to eliminate the state and local tax (SALT) deduction. With opposition rising, we are not anticipating major tax reform at this time.

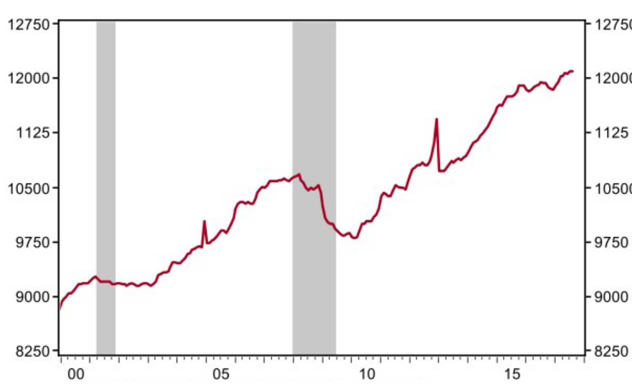
Industrial Production Index
SA, 2012=100



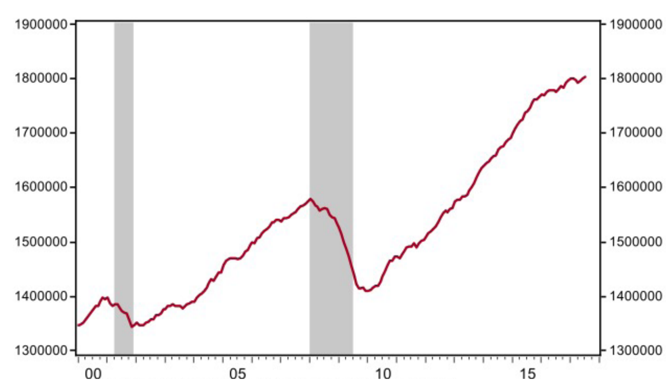
All Employees: Total Nonfar
SA, Thou



Real Personal Income less Transfer Payment
SAAR, Bil.Ch,.2009$



Real Manufacturing & Trade Inventories: All Industrie
EOP, SA, Mil.Chn.2009



Source for all charts: Strategas Research Partners

Equifax Hack: What Should I Do?

What should I do? This is a question we have all asked and been asked repeatedly since learning of the Equifax data breach. With the knowledge that our names, Social Security numbers, birth dates, addresses and in some instances, our driver's license and credit card numbers, could be in the hands of cyber thieves, we all want to know the best course of action to protect ourselves against identity theft.

While we have all understood the need to self-monitor our credit card statements, banking statements and credit reports for unauthorized transactions or accounts, the Equifax breach has put us on notice that retrospective diligence may not be enough. Since there is a good chance that we are included in the 143 million plus consumers whose personal information has been exposed, we should all assume that we are at risk and take action **now** to minimize that risk going forward.

Start by going to the Equifax website and click the link for potential impact to see if Equifax indicates that you have likely been impacted by the data breach.

www.equifaxsecurity2017.com

Experts are suggesting that, irrespective of what the website claims, you should assume that you are affected. If the website states that you are likely affected, Equifax will provide free credit monitoring for a year and directs you to the following website:

www.equifaxsecurity2017.com/enroll/

Next, change your passwords and challenge response questions. Many times the answers to our challenge response questions can be easily found by searching through our own social media. This, in addition to what may have been exposed in the Equifax breach, may be all that is needed to gain access to certain of your accounts.

Sign up for fraud alert or a security/credit freeze. A fraud alert will put any potential creditor on notice that you are concerned that someone may fraudulently try to establish credit in your name, while a security freeze will prevent **any new potential** creditor from pulling your credit report.

A fraud alert can be established with any one of the three major credit bureaus: Experian, Equifax and TransUnion. You can go to any of their websites or call them to set up a free fraud alert. The service typically lasts for a 90-day period before expiring. Signing up with any one of the credit bureaus establishes the alert for all three. The disadvantage of a fraud alert is that your credit report can be accessed. Based upon the fraud alert, the potential creditor should take measures to contact you for identity verification, but there are no guarantees. It is possible that once you are notified, the credit has been established. So while a fraud alert may allow you to minimize damage, it is possible that it is only after damage has been done.

A security/credit freeze is more cautious but also more difficult to establish. A security/credit freeze lets you restrict access to your credit report, which in turn makes it more difficult for identity thieves

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Equifax Hack ... *(continued)*

to open new accounts in your name. Like a fraud alert, it can be set up online or over the phone, but it has to be done with each of these three credit bureaus and at a minimal expense. Once you sign up, each bureau will provide you with a PIN, which will be required to subsequently unfreeze (thaw) your credit. Since the freeze blocks any new potential creditor from pulling your credit, that could include credit you wish to establish or services which can only be established with credit information. So keep in mind that you will have to manually (remember those PINs) unfreeze/ thaw your credit with the credit bureaus if you want anyone to be able to access your credit for any legitimate reason.

Before freezing your credit, it's wise to check your credit reports first.

TransUnion	1-800-680-7289	www.transunion.com
Experian	1-888-397-3742	www.experian.com
Equifax	1-888-766-0008	www.equifax.com

Consider a subscription to a credit monitoring service provider like Lifelock, Identity Guard or Privacy Guard. Services and costs vary from company to company, but all provide email alerts within 24 hours of a change to your credit report and offer identity theft protection. Some services offer family coverage, personal expense compensation, reimbursement of stolen funds and legal fees. Some services scan for subscribers' personal information on the area of the internet called the dark web (that information which is intentionally hidden from search engines, using masked IP addresses) which is accessible only with special browsers. Other providers, such as Credit Karma, are free and offer no cost monitoring. These services are not fool proof, but are well worth the cost given the potential risk.

On an ongoing and regular basis, be vigilant.

- Check your account statements for any unusual activity. Notify the appropriate parties as soon as you notice something unusual.
- Check your credit report. Notify the appropriate parties as soon as you notice something unusual.
- Regularly change your passwords.
- Avoid using any challenge response answers that can be obtained from social media.
- Implement 2-factor authorization whenever it is available.
- Set up alerts on your financial accounts that notify you if changes are made to any of your accounts or if charges are made online.
- Be cautious of email and phone scams, which are increasing as a result of the Equifax event. Do not respond to unsolicited offers.

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Market Diary Period Ending September 30, 2017

	RATES OF RETURN					
Fixed Income	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
90 Day U.S. Treasury Bills	0.27	0.64	0.75	0.33	0.22	0.39
Barclays Aggregate	0.85	3.14	0.07	2.71	2.07	4.27
Barclays Municipals	0.73	3.72	1.01	2.20	2.12	3.77
Barclays High Yield	1.98	7.00	8.88	5.83	6.37	7.84
Equities	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	5.18	17.25	18.65	7.43	10.21	3.88
U.S. Stock Market (S&P 500)	4.48	14.24	18.61	10.81	14.24	7.44
U.S. Mid-Cap Stocks (S&P 400)	3.22	9.40	17.52	11.18	14.44	9.00
U.S. Small-Cap Stocks (S&P 600)	5.96	8.92	21.05	14.07	15.61	9.27
International Stocks (MSCI AC World ex US)	6.16	21.13	19.61	4.70	6.98	1.28
Alternatives	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	1.40	3.53	3.49	0.72	1.72	1.15
Commodities (Bloomberg Commodity)	2.25	-3.49	-1.03	-10.72	-10.68	-7.20
Gold (S&P GSCI Gold Total Return)	3.09	10.71	-3.35	1.26	-6.80	5.17

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

Equifax Hack ... *(continued)*

In addition, contact your bankers and brokers to find out about their security policy regarding disbursing funds from your accounts. At Equitable Trust, our security measures include verifying with a personal phone call any requests for withdrawals to an account which has not previously been verified. In addition, we will not wire money to anyone other than the person(s) named on the Equitable Trust account without prior client documented verification.

At Equitable Trust, we are committed to protecting clients' assets, protecting client privacy and safeguarding client information.

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.

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