Quarterly Review and Outlook

January 2018

EQUITABLE Trust

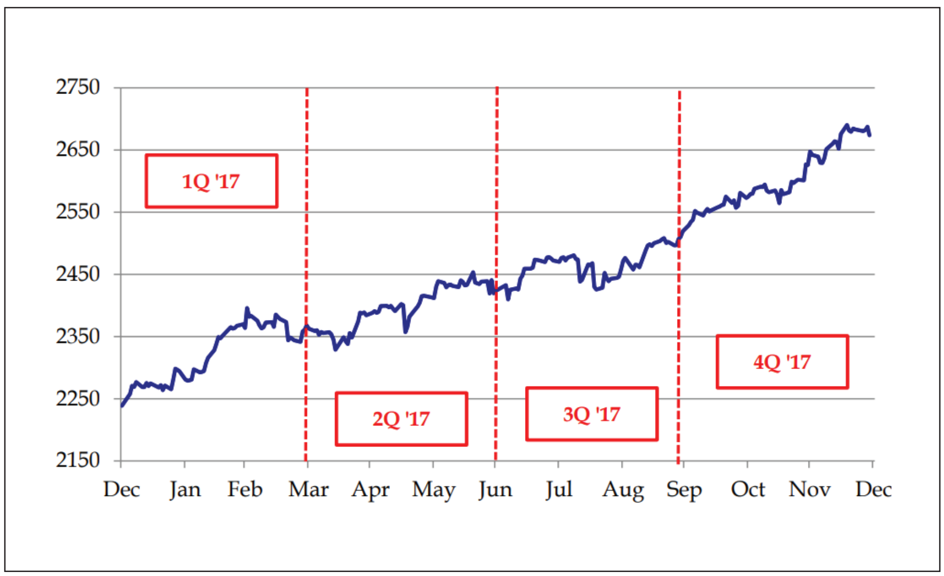
Trustees and Investment Advisors

This Issue

More Smooth Sailing or Rough Seas Ahead?

What was remarkable about the U.S. stock market in 2017 was not that it reached new heights or provided a total return of more than 20%, but how it did it. The market delivered a positive total return for each of the 12 months. It has now been more than 380 trading days since the last 5% correction in prices. For the first year ever, the S&P 500 didn't experience a 3% correction, putting 2017 in the record books again. Foreign markets did even better.

S&P 500



Source: Strategas Research Partners

Nothing could shake the market – not whiffs of scandal in Washington nor threats from an increasingly bellicose North Korea nor the Fed's September announcement of plans to normalize interest rates and reduce the size of its bloated balance sheet. Only then did interest rates begin to rise slightly.

Domestic economic growth accelerated throughout the year, responding well to the promise of tax cuts and reforms which were finally delivered just before year-end. Less noticed, but perhaps just as important, many Federal rules and regulations were swept away by Executive Order. The National Federation of Independent Businesses has attributed a significant upturn in small business optimism to deregulation.

"Don't think there are no crocodiles because the water is calm."

— Malayan Proverb

(continued on next page)

The evidence points to much of the good news extending into 2018. We expect a pickup in domestic earnings, especially with the benefit of the corporate tax cut making forward valuations more reasonable. Ongoing deregulation should benefit small companies especially.

The economy is very near full employment. As such, future growth is likely to lead to real wage growth, which could put pressure on profit margins for some companies but at the same time puts cash in the hands of consumers. Meanwhile, taxes are being reduced for most individual taxpayers despite the well-publicized limitation on state and local tax deductions. This also puts more cash in the hands of consumers and should help consumer stocks.

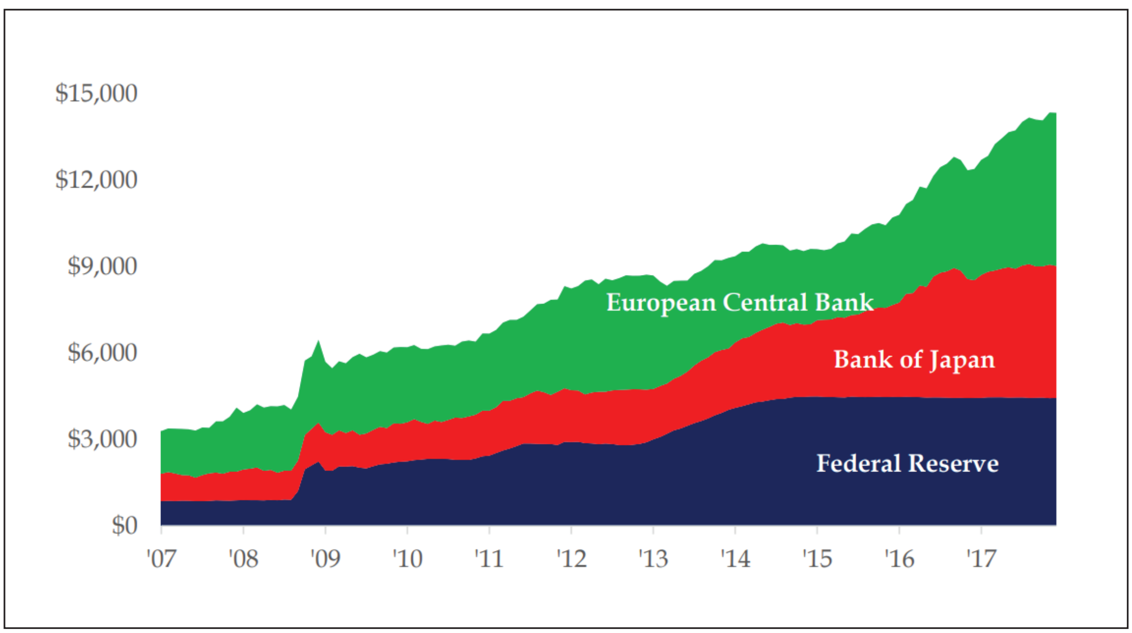
The corporate tax cuts are expected to help bring back to the U.S. approximately $775 billion in repatriated profits from overseas in 2018. The Joint Committee on Taxation estimates that $91 billion of that will flow into government coffers from the mandatory tax on repatriated profits. The remaining cash could be used by repatriating companies to buy back shares, raise dividends, make capital investments or retire debt, which would otherwise be refinanced at higher rates in the future. Repatriation is expected to benefit especially stocks in the Information Technology, Health Care and Materials sectors.

Tax cuts, when they work as intended, have historically led to higher interest rates. A combination of high yields, lower tax rates and financial deregulation are bullish for bank stocks; bond prices could suffer in this expected environment. We continue to recommend maintaining shorter-duration bond portfolios to protect against rate risk and to provide more frequent opportunities to reinvest at presumably higher interest rates.

We also maintain higher than normal participation in foreign stocks, where earnings growth is even faster. The European Central Bank and the Bank of Japan are still adding liquidity to the markets (see chart below).

Total Assets on Central Bank Balance Sheets

(FED, BOJ, ECB; $Bn)



Source: Strategas Research Partners

In short, we think 2018 could be another positive year for investors, but bear in mind we are overdue a 5 – 10% correction or more. A simple return to normal volatility in stocks could provide one. A misstep by the Fed in implementing or communicating their plans to investors would almost certainly cause turbulence in the fixed income markets.

Market Diary Period Ending December 31, 2017

	RATES OF RETURN					
Fixed Income	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
90 Day U.S. Treasury Bills	0.30%	0.01%	0.95%	0.44%	0.28%	0.33%
Barclays Aggregate	0.16%	-0.17%	3.39%	2.10%	2.15%	3.92%
Barclays Municipals	-0.13%	0.07%	3.49%	1.91%	2.04%	3.53%
Barclays High Yield	0.76%	0.36%	7.58%	6.47%	5.72%	8.10%
Equities	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	6.39%	1.20%	24.93%	9.83%	10.63%	4.87%
U.S. Stock Market (S&P 500)	7.57%	1.48%	22.59%	11.97%	15.61%	8.82%
U.S. Mid-Cap Stocks (S&P 400)	6.37%	1.20%	16.98%	11.62%	14.68%	10.32%
U.S. Small-Cap Stocks (S&P 600)	3.06%	0.75%	13.35%	12.54%	15.57%	10.77%
International Stocks (MSCI AC World ex US)	5.38%	0.89%	28.42%	8.36%	6.62%	1.97%
Alternatives	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	1.50%	0.20%	5.08%	1.29%	1.92%	1.36%
Commodities (Bloomberg Commodity)	5.82%	0.50%	2.95%	-5.16%	-8.58%	-7.39%
Gold (S&P GSCI Gold Total Return)	3.42%	0.72%	12.59%	2.88%	-5.21%	4.27%

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

Tax Law Changes Offer New Planning Opportunities

On December 22, President Trump signed the Tax Cuts and Jobs Act of 2017 (“TCJA”)[1]. The legislation provides for sweeping changes to the U.S. tax code not seen since the Tax Reform Act of 1986.

The impact of the TCJA will be wide-ranging, and the tax code changes present numerous planning opportunities for Equitable Trust clients. While planning requires close consultation with legal and tax advisors, we have attempted to highlight a few opportunities of the new law.

The Slow Demise of the Estate Tax…or a Sleeping Giant? Despite changes, ongoing uncertainty continues to plague estate tax planning. Many of the provisions of the bill affecting individual taxpayers, including doubled lifetime estate, gift and generation skipping transfer (GST) exemptions (up to $11.2 million per individual in 2018, with continued estate tax exemption portability between spouses), will sunset in 2025, reverting back to current inflation-adjusted levels. While completely unpredictable, political sea-change in Washington in 2020 could speed up this process. *Caveat emptor*, however: as recently as 2012, many individuals rushed to take advantage of so-called “limited” windows under increased estate and gift lifetime exemptions, only to see exemptions increased or made “permanent,” leaving some with estate planning remorse.

Individuals with taxable estates near to and in excess of the new exemption amounts should consider utilizing some or all of their new exemption via lifetime gifting strategies. This allows gifted assets to appreciate outside of a taxable estate, growing transfer tax free for the next generation. Trusts can be excellent vehicles for this, allowing allocation of the GST exemption to remove assets from the estates of future generations. The presumption is that these exemptions will be grandfathered if exemption amounts revert back to lower levels. Continued use of the annual gift exclusion, increased to $15,000 per person for 2018, also remains an effective gifting strategy.

If retaining some form of future flexibility and access to gifted assets remains a concern, married clients may wish to consider completed gifts in trust to spouses and children (sometimes referred as “spousal lifetime access trusts” or “SLATs”), which allows one spouse to retain a

(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.

beneficial interest in the trust while removing the trust assets from the taxable estate of both spouses.

As always, transfer tax related estate planning should be balanced with comprehensive income tax planning. The TCJA retains the step-up in basis for appreciated assets held in one's estate at death, so in addition to selecting the most effective technique, asset selection should incorporate income tax saving opportunities as well.

Shifting Charitable Strategies. The increased standard deduction (up to $12,000 per individual, $24,000 for a married couple filing jointly) will cause a reduction in the number of taxpayers who itemize deductions. Charitably inclined non-itemizers should consider "bunching" of charitable and other eligible deductions into alternating taxable years, or strategically into years of increased income, to maximize the effectiveness of the deduction. The use of a private foundation or donor advised fund as an intermediary between strategic gifting and the ultimate grant to a charitable recipient is advisable if clients wish to continue to make an annual impact on specific charities.

For clients 70½ and older, the charitable IRA rollover remains an effective strategy to make direct charitable gifts and remove required minimum distributions from ordinary income.

Increased 529 Coverage. In a gift to many Equitable Trust clients, the TCJA expanded the definition of qualified expenses under 529 education plans to include $10,000 per year for "enrollment or attendance … at a public, private or religious elementary or secondary school." Qualified 529 distributions were previously only available for higher education expenses. Parents and grandparents can put away up to $15,000 a year per student into a 529 plan, which will grow tax free, and can now be used for private elementary and secondary education, as well as higher education expenses. Given the $10,000 annual expense limit, relative to the higher tuition price tag on many Nashville area private schools, donors should be cautious of overfunding these plans, which carry a 10% penalty (plus unpaid tax) on earnings for nonqualified withdrawals.

The TCJA ultimately provides a variety of planning opportunities, some of which may be time sensitive. As always, there are countless rules, limitations and exceptions applicable to any strategy, and careful planning by professionals familiar with individual circumstances is always advisable.

[1] Due to the procedural requirements of the Senate Byrd Rule governing budget reconciliation, the final bill was ultimately entitled the slightly less memorable "An Act To Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018."

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