EQUITABLE Trust

Trustees and Investment Advisors

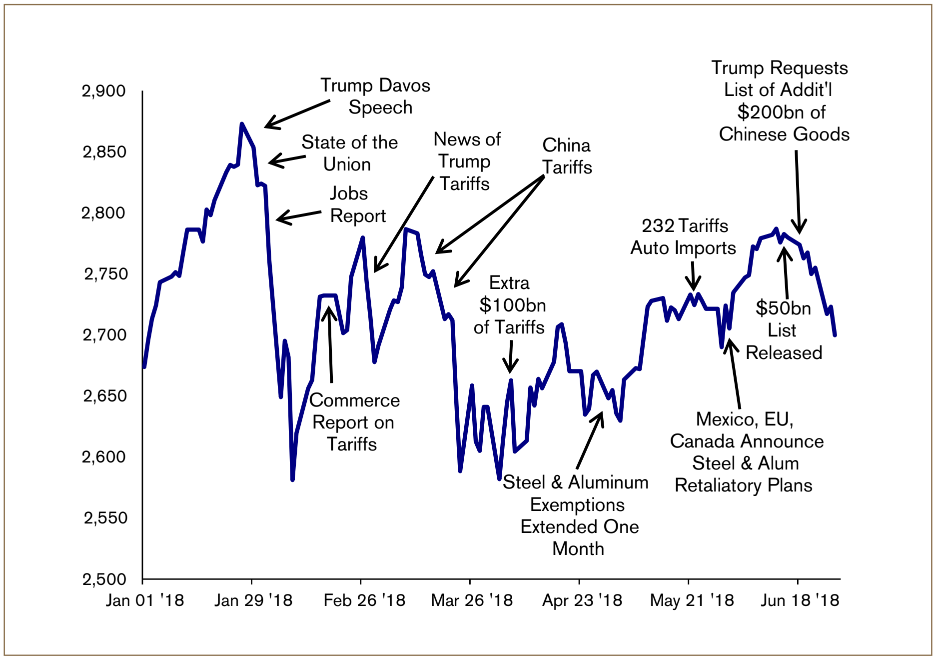
THIS ISSUE

THE BUMPY RIDE CONTINUES

Markets remained volatile in the second quarter of 2018, as a series of political and geopolitical events caused temporary pullbacks in stocks. But in contrast to the first quarter, U.S. economic growth and corporate earnings reminded investors of still-strong economic and market fundamentals. Subsequently, the major U.S. stock indices were able to finish the quarter with modest gains.

During the quarter, investors had to weather market volatility caused by numerous unsettling headlines including the imposition of steel and aluminum tariffs on U.S. allies, threats of a significant trade conflict between the U.S. and China, an Italian and EU political scare, and incremental speedbumps on Brexit.

S&P 500 Price Levels



Source: Strategas Research Partners

However, we also saw a material rebound in U.S. economic data from the first quarter, while Q1 earnings reports (released in April) reinforced positive annual earnings growth for the S&P 500. Whereas a lot of the headline focus was on trade and politics, the underlying fundamentals of the economy and the stock market steadily improved.

"The strongest of all warriors are these two: time and patience."
– Leo Tolstoy

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THE BUMPY RIDE ... *(continued)*

Looking internationally, the second quarter was not kind to markets. Foreign developed markets relatively outperformed emerging markets, which had a very poor quarter. But in aggregate, foreign stock markets badly lagged the U.S. in the second quarter. Emerging markets were decidedly negative in the second quarter for multiple reasons, including political unrest in Turkey, a fiscal crisis in Argentina, and, late in June, a sharp drop in the Chinese stock market due to concerns about U.S. and Chinese trade conflicts.

Concerns around international exposure have picked up along with volatility, but we continue to believe international equities will offer positive diversification benefits including leverage to growth, attractive real yield, and limited exposure to key global headwinds.

Switching to fixed income, the Federal Reserve raised interest rates another 25 basis points in June (as expected) and signaled it intends to raise rates two more times in 2018, which should bring the Fed Funds rate to nine-year highs. Those rate hikes came in response to steadily rising inflation, which finally hit the Fed's 2.0% year-over-year target in May. Internationally, the European Central Bank announced it will cut QE in half in October and end it completely at the end of the year, although the Bank is forecasting lower rates for a longer period of time than previously expected.

Additionally, the leading benchmark for the broad bond market (Bloomberg Barclays US Aggregate Bond Index) declined for a second straight quarter. This is the first time in over four years that this benchmark for bonds has registered consecutive negative quarters, as concerns about rising inflation and rising interest rates pressured fixed income markets. There was a clear preference by investors for shorter duration bonds, as one-to-three-month Treasury bills again logged a positive return. Yields on cash and short-term fixed income are now more meaningful than they have been since the crisis, allowing for a more productive contribution to portfolio returns. Consistent with the past several years, we are maintaining very short duration bond exposure in client portfolios. Higher rates, however, are beginning to justify a larger allocation to this asset class.

In sum, the second quarter again served as a reminder that the historically low volatility of 2017 was an anomaly. Yet as unwelcome as the return of volatility has been in 2018, it remains well within historical norms, and this level of volatility will likely continue into the second half of 2018.

As we stay focused on market and economic fundamentals, we are mindful of elevated earnings expectations of 20%+, driven in large part by tax cuts that went into effect this year. We are also cognizant that market returns have exhibited less breadth and have been increasingly driven by the technology sector. We are watching these market elements along with the improving yield profile in short-term fixed income to determine when additional caution might be warranted.

Market Diary Period Ending June 30, 2018

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.5%	0.8%	1.4%	0.7%	0.4%	0.3%
Barclays Aggregate	-0.2%	-1.6%	-0.4%	1.7%	2.3%	3.7%
Barclays Municipals	0.8%	0.1%	0.6%	1.9%	2.3%	3.5%
Barclays High Yield	1.0%	0.2%	2.6%	5.5%	5.5%	8.2%
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	0.5%	-0.4%	10.7%	8.2%	9.4%	5.8%
U.S. Stock Market (S&P 500)	3.4%	2.6%	14.4%	11.9%	13.4%	10.2%
U.S. Mid-Cap Stocks (S&P 400)	4.3%	3.5%	13.5%	10.9%	12.7%	10.8%
U.S. Small-Cap Stocks (S&P 600)	8.8%	9.4%	20.5%	13.8%	14.6%	12.3%
International Stocks (MSCI AC World ex US)	-2.6%	-3.8%	7.3%	5.1%	6.0%	2.5%
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	-0.6%	-1.6%	1.3%	0.7%	1.3%	1.3%
Commodities (Bloomberg Commodity)	-0.1%	-0.9%	5.8%	-5.2%	-6.8%	-9.3%
Gold (S&P GSCI Gold Total Return)	-5.5%	-4.6%	0.2%	1.5%	-0.1%	2.7%

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

PARTITION OF REAL ESTATE

If you have ever found yourself in a business relationship that is not working out, then you know how uncomfortable that circumstance can be. Another such relationship can be one in which you are a co-owner of real estate with one or more other people or firms whom you did not choose to be your co-owners. Perhaps you inherited the property when your father or mother passed away.

You now wish to sell your interest in this property. Maybe it's because you need the money, or maybe one or more of the other co-owners show disdain for you. The bottom line is that agreement about what to do with the property seems impossible because the owners never seem to have similar perspectives on the options. Whatever the reason, you wish to cash out, but how can you if they don't want to sell? Are you stuck in such a relationship forever?

The answer is an unqualified "No." Tennessee law provides that every co-owner of property has the absolute right to have the property partitioned. A person cannot be forced to continue with a joint ownership against his or her wishes.

The legal remedy in Tennessee is called a right of partition. A partition lawsuit results in the court choosing between two courses of action, namely, either a partition "in kind" or by sale. If the partition is to be made in kind, there is a procedure by which the property is physically divided

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among the co-owners. For example, one five-acre tract may be divided into five one-acre tracts if there are five owners and the court decides that such a division is fair.

If a co-owner seeks a partition by sale, however, he must meet the requirements of Tennessee statutory law that requires the petitioner to show either that "…the premises are so situated that partition [in kind] …cannot be made" or "…the premises are of such description that it would be manifestly for the advantage of the parties that the same should be sold instead of partitioned."

If the petitioning co-owner meets this burden, the court will order the sale of the property with the net proceeds to be disbursed to all co-owners based upon each one's ownership percentage. In many counties, the court appoints the Clerk and Master to advertise and effect the sale. Although it is said that Tennessee law favors a partition in kind, the case law seems to indicate otherwise. Perhaps that is because it is so difficult to show that any particular parcel of property is "so situated" that a fair partition in kind is possible.

In closing, be ever mindful of the difficulties that can result from jointly-owned property. It is prudent to seriously consider divesting yourself of such property as part of your estate planning or at least avoiding bequests to a number of disparate individuals or families. Your family may later be very appreciative.

Equitable Trust works with many families who have placed real estate in trust for the benefit of their families. A trust is one way to address centralization of ownership responsibility and management for families that may own property for several generations. We would like to discuss the options with you.

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