EQUITABLE Trust

Trustees and Investment Advisors

THIS ISSUE

"The best way to teach your kids about taxes is by eating 30% of their ice cream."

– Bill Murray, Comedian

2019 SO FAR: SOFTER ECONOMY, STRONGER MARKETS

Global equities rebounded in the first quarter. Concerns over softening global economic demand were offset by the dovish shift in monetary policy from the world's central banks, rising hopes that trade disputes would be resolved and by President Trump's signing a decree to reopen the federal government on January 25th, after its longest shutdown ever, 35 days. All of the above led to demand for treasuries and falling yields and also brought positive returns to nearly all categories of the bond market.

The major US stock indices recorded their best quarterly performance in a decade, thanks in part to expectations for easier fed policy and progress in resolving the US-China trade conflict. Small cap stocks outperformed large companies, largely reversing last year's fourth quarter. All 11 S&P 500 sectors finished the quarter with positive returns. However, the fact the S&P 500 index is up 21% from its December 24th low and yet is still below last year's high is an indicator of just how difficult the end of 2018 really was.

Both the stock and bond markets were unleashed in early January by the "Powell Pivot." Fed Chairman Jerome Powell signaled a major shift in policy by indicating there would be no further increases in the fed funds rate this year. Investors had been expecting two increases in 2019. Short term treasury securities soared on the news, and by the end of the quarter fed funds futures were pricing in a rate *cut* by December.

Other central banks joined in, with the ECB pushing down rates in Europe. There are now about $12 trillion of foreign government securities trading globally with negative yields. With unattractively priced bonds in their local markets, foreign buyers swept into the US markets to capture low, but substantially better, yields. This influx of demand drove longer term yields in treasuries down, causing the yield curve to flatten, and even parts of it to invert (see chart on top of next page). That is, longer-term investments carried lower yields than shorter-term ones. This partial inversion created a stir among headline writers as some claimed that inversions generally precede bear markets or even recessions. The 3 month/10 year portion of the curve inverted briefly in March. What the headlines missed is that this spread should invert for at least 10 consecutive trading days to produce a reliable recession signal. The most consistent predictor is the 2 year/10 year spread, which did not invert at all. Consequently, we do not believe either a recession or a bear market has been predicted.

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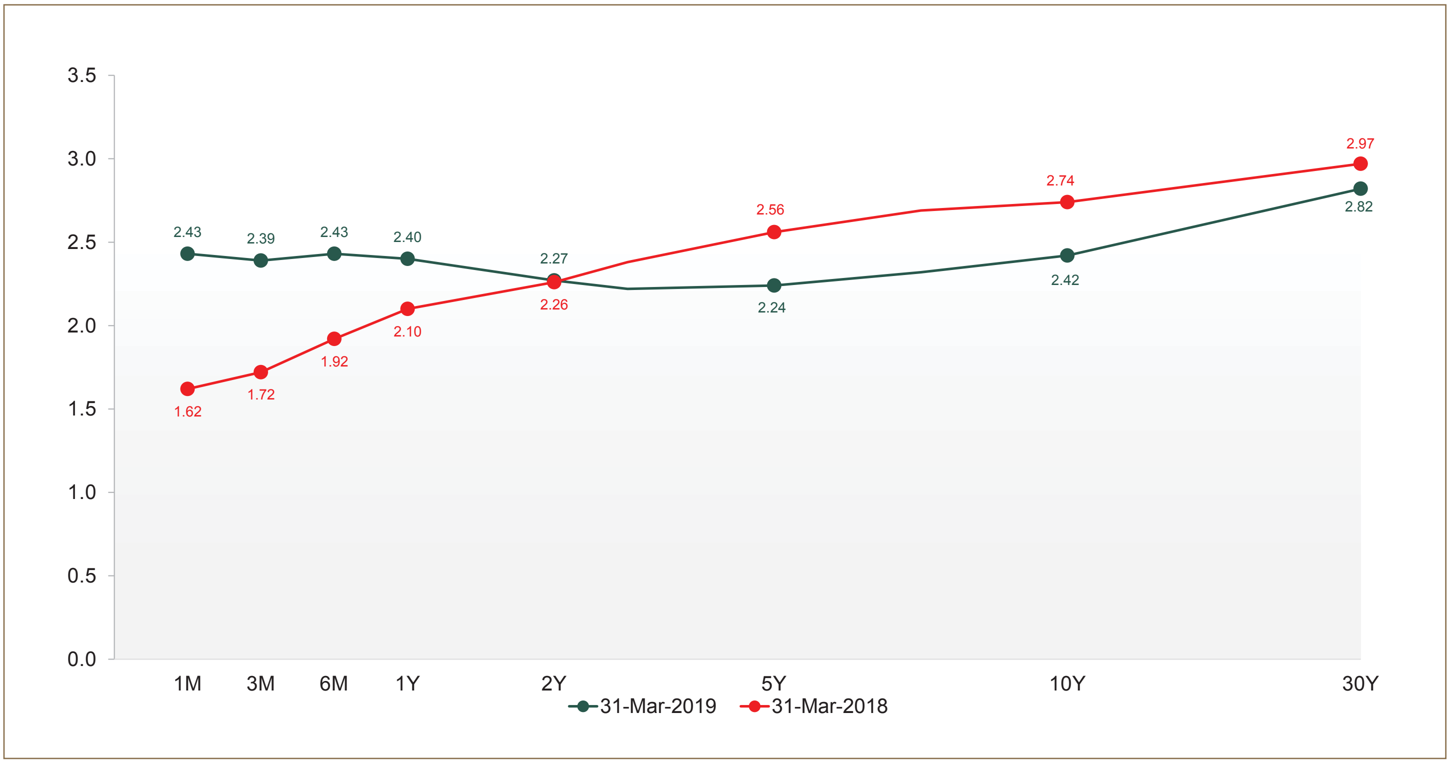
2019 SO FAR … *(continued)*

United States Treasury Yield Curve
Rates March 31, 2019



Source: Factset

Also making a recession unlikely are the facts that the real, or inflation-adjusted, fed funds rate is near zero and M2 money supply growth has accelerated to 4.2%. On the contrary, these usually foretell strong stock market performance over the following 12 months.

We are circumspect about trade. While there is cautious optimism for a US-China trade deal, the prospects for an amicable divorce between the UK and the EU are daunting and cause concern about decelerating global economic growth. Further, if a trade deal with China reverses most of the tariffs the Chinese and Americans have imposed on each other, it could easily be offset by President Trump's threatened tariffs on the import of European automobiles, aircraft and agricultural products.

There is much talk about the "fading" fiscal stimulus from the US government. We are not overly concerned. Most of the tax changes taking effect in 2018 were made permanent. The lower corporate tax rate reduced permanently the hurdle to new investment by US corporations. Of the estimated $811 billion corporate tax savings in 2018, only 38% went to share buybacks and dividend increases. The balance went to paying down debt, mergers and acquisitions, funding US operations, capital investments and pension funding, all items which benefit the economy and corporate health in the long run.

Corporate profit growth is likely to slow in the short run, however. The reality of slower earnings growth, already high profit margins and the difficulty of year-over-year comparisons could make it unlikely to repeat first-quarter results in the second.

We expect the Federal Reserve and other major central banks will not raise rates for the remainder of 2019. We see economic momentum and earnings growth slowing after a very strong 2018, and we recognize that we are late in the economic cycle, but our base case does not call for a US recession this year. Our experience tells us that when optimism and valuations are rising we need to exercise caution and stick with sensible, long-term investment plans.

Market Diary Period Ending March 31, 2019

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.58	0.58	2.14	1.23	0.76	0.45
Barclays Aggregate	2.94	2.94	4.48	2.03	2.75	3.77
Barclays Municipals	2.21	2.21	4.63	2.00	2.54	3.28
Barclays High Yield	7.26	7.26	5.93	8.59	4.69	11.27
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	12.18	12.18	2.60	10.70	6.46	12.00
U.S. Stock Market (S&P 500)	13.65	13.65	9.50	13.55	10.93	15.94
U.S. Mid-Cap Stocks (S&P 400)	14.49	14.49	2.59	11.27	8.30	16.30
U.S. Small-Cap Stocks (S&P 600)	11.61	11.61	1.57	12.59	8.47	17.02
International Stocks (MSCI AC World ex US)	10.31	10.31	-4.22	8.11	2.57	8.86
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	3.22	3.22	-0.18	2.10	0.72	2.77
Commodities (Bloomberg Commodity)	5.70	5.70	-7.30	0.95	-9.64	-2.99
Gold (S&P GSCI Gold Total Return)	0.91	0.91	-2.84	0.77	-0.44	3.17

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

YOUR CHARITABLE DEDUCTION: PROVE IT OR LOSE IT

Charitable giving is both a generous act and a potentially generous tax deduction. When you donate cash to a qualified charity and itemize your deductions, you can deduct up to 60% of your adjusted gross income. Property is deductible up to 30% of your adjusted gross income.

But the IRS's generosity only goes so far. To qualify for the charitable deduction, the IRS requires strict compliance with its substantiation requirements. Strict compliance is not hyperbole in this context. In fact, the IRS denied a $64 million charitable contribution deduction simply because the contemporaneous written record did not say whether the charitable organization provided any goods or services to the donor in exchange for the donation.

Fortunately, we now have published regulations from the IRS detailing what you need to substantiate your charitable gift and qualify for the deduction. To avoid a technical knockout of your charitable deduction, ensure you closely follow these newly-published regulations.

Cash Donations.

A cash donation in any amount requires either a bank record or written communication from the charity showing the organization's name, the date of the contribution, and the amount. An email counts. For cash donations over $250, you are also required to keep a contemporaneous written acknowledgement from the organization that includes (1) the amount of the contribution, and (2) a description and good faith estimate of the value of any goods or services provided by the organization in exchange for the donation. You must have these records by the due date for filing your tax return in the year following the donation.

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Non-Cash Donations.

- Donations of property under $250 require a receipt from the charity or another reliable record showing the organization's name and address, the date of the contribution, and a description of the property that would adequately describe it to someone unfamiliar with the type of property.
- Contributions of property over $250 require a contemporaneous written acknowledgement. Donations between $500 and $5,000 have the additional requirement to file a Form 8283 for Noncash Charitable Contributions.
- For donations over $5,000, you must have a qualified appraisal of the property and complete Section B of Form 8283, which must be signed by you and the charitable organization.
- Donations over $500,000 require that you attach a copy of the qualified appraisal to your tax return.

Qualified Appraisals.

To determine the fair market value of donated property over $5,000, you will need an appraisal. But not just any appraisal will do. The new regulations require that the appraisal be performed by a qualified appraiser according to the Uniform Standards Board of Professional Appraisal Practice (USPAP). The appraiser must have verifiable education and experience valuing the type of property being appraised. That means the individual must have successfully completed professional or college-level coursework in valuing the relevant type of property, and either (1) at least two years' experience valuing that type of property, or (2) a recognized appraiser designation.

It is important to carefully comply with the IRS roadmap for charitable contributions. Make sure you maintain detailed records at the time of the donation and be aware of the requirements at tax time. Don't lose your charitable deduction on a technicality. Our professionals at Equitable Trust are happy to work with you and your attorney to discuss the charitable contribution deduction and other tax mitigation strategies.

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