MERIDIAN
Financial Partners
Clarify the path. Enjoy the journey.

Quarterly Economic Review

December 2018

2018 Market Review

Across the board, it was an extremely difficult year to make money in the financial markets.

- U.S. and global stocks dropped sharply in the last quarter, capping a year marked by turbulence and losses across most asset classes. Among investors' worries are signs of a global economic slowdown, exacerbated by ongoing Federal Reserve monetary tightening, U.S.-China trade tensions, and political uncertainties in Europe (Brexit, Italy) and the United States.
- Larger-cap U.S. stocks dropped 9% in December and fell 13.6% for the quarter (its worst quarter in seven years). For the year, U.S. stocks were down a more modest 4.5%. The negative year broke the S&P 500's remarkable nine-year run of positive returns.
- Smaller-cap U.S. stocks fell more sharply, losing 20% in the fourth quarter and 11% for the year (iShares Russell 2000 ETF).
- Foreign stocks struggled as well, with developed international markets and emerging markets both down 14.8% (Vanguard FTSE Developed Markets ETF and Vanguard FTSE Emerging Markets ETF). However, their underperformance versus U.S. stocks came earlier in the year. In the fourth quarter, emerging-market (EM) stocks beat U.S. stocks by seven percentage points, while developed international stocks matched the U.S. market's return.

The 4th quarter of 2018 was challenging for most asset classes ....

Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
Q4 2018	**STOCKS**					**BONDS**	
	-14.30%	-12.78%	-7.47%	-5.79%		1.64%	1.89%
Since Jan. 2001							
Avg. Quarterly Return	1.8%	1.3%	2.8%	2.4%		1.1%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	4.6%
	2009 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**		**2001 Q3**	**2008 Q4**
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%		-3.0%	-2.7%
	2008 Q4	**2008 Q4**	**2008 Q4**	**2008 Q4**		**2016 Q4**	**2015 Q2**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

... making 2018 the first negative year in a decade.

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2018	**STOCKS**				**BONDS**	
	-5.24%	-14.09%	-14.58%	-5.90%	0.01%	3.17%
Since Jan. 2001						
Avg. Annual Return	7.6%	5.8%	13.1%	10.1%	4.5%	4.4%
Best Year	33.6% **2013**	39.4% **2003**	78.5% **2009**	37.4% **2006**	10.3% **2002**	8.8% **2014**
Worst Year	-37.3% **2008**	-43.6% **2008**	-53.3% **2008**	-45.7% **2008**	-2.0% **2013**	1.2% **2013**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]).

It was extremely difficult to make money in U.S. Equities

US Stocks

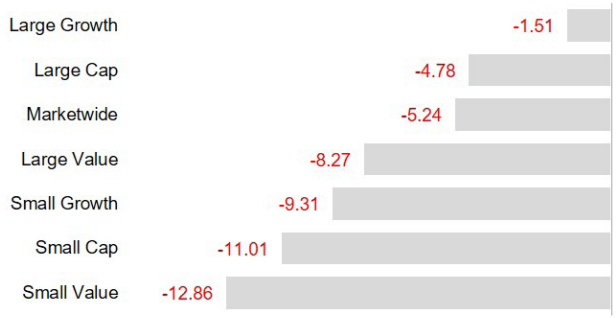
2018 Index Returns

US equities outperformed both non-US developed and emerging markets.

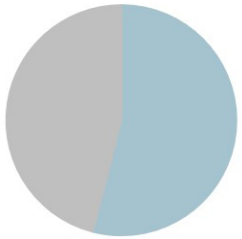
Value underperformed growth in the US across large and small cap stocks.

Small caps underperformed large caps in the US.

Ranked Returns for 2018 (%)



World Market Capitalization—US



54%

US Market

$25.1 trillion

Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	-1.51	11.15	10.40	15.29
Large Cap	-4.78	9.09	8.21	13.28
Marketwide	-5.24	8.97	7.91	13.18
Large Value	-8.27	6.95	5.95	11.18
Small Growth	-9.31	7.24	5.13	13.52
Small Cap	-11.01	7.36	4.41	11.97
Small Value	-12.86	7.37	3.61	10.40

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved.

...or in any asset class around the world.

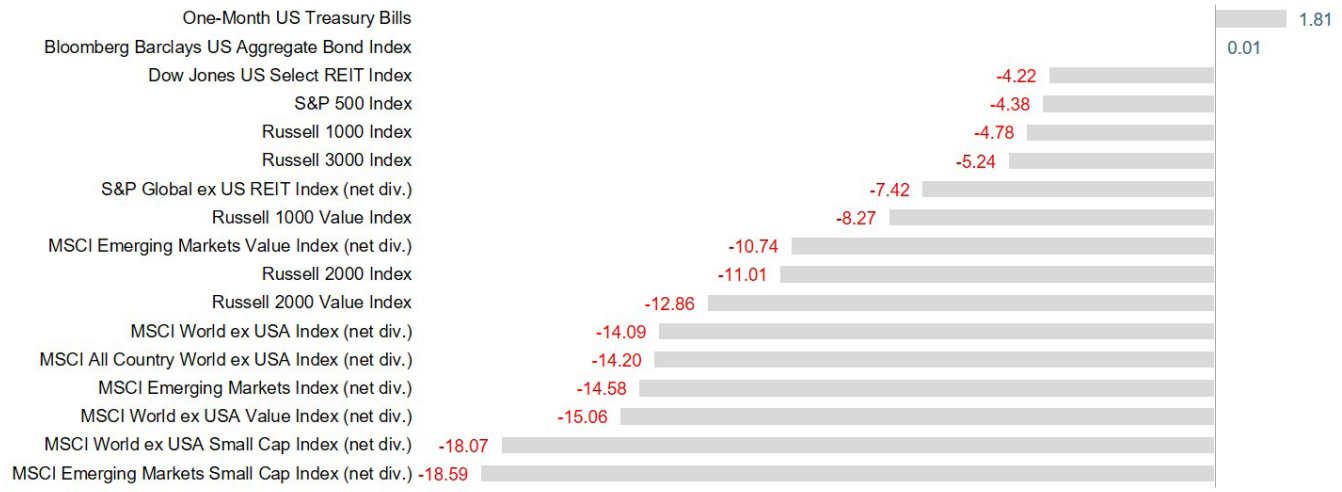
World Asset Classes

2018 Index Returns (%)

Equity markets around the world posted negative returns for 2018. Looking at broad market indices, the US outperformed non-US developed and emerging markets.

Value stocks were positive vs. growth stocks in emerging markets but negative in the US and non-US developed markets. Small caps underperformed large caps in the US, non-US developed, and emerging markets.

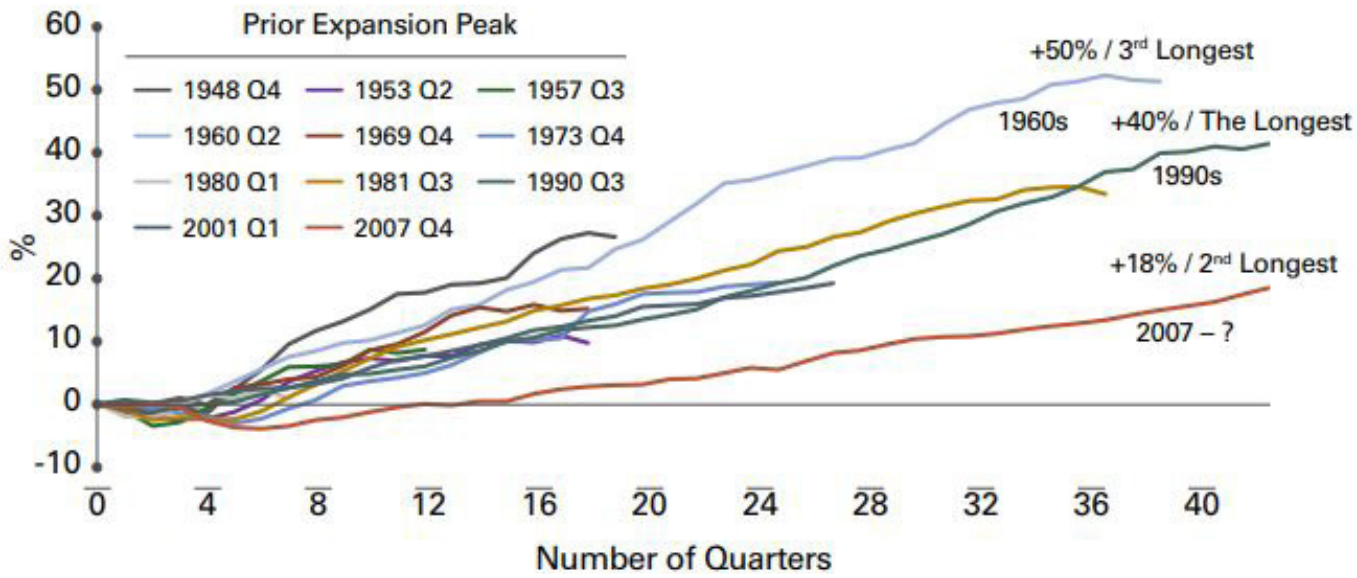
REIT indices outperformed equity market indices in both the US and non-US developed markets.



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

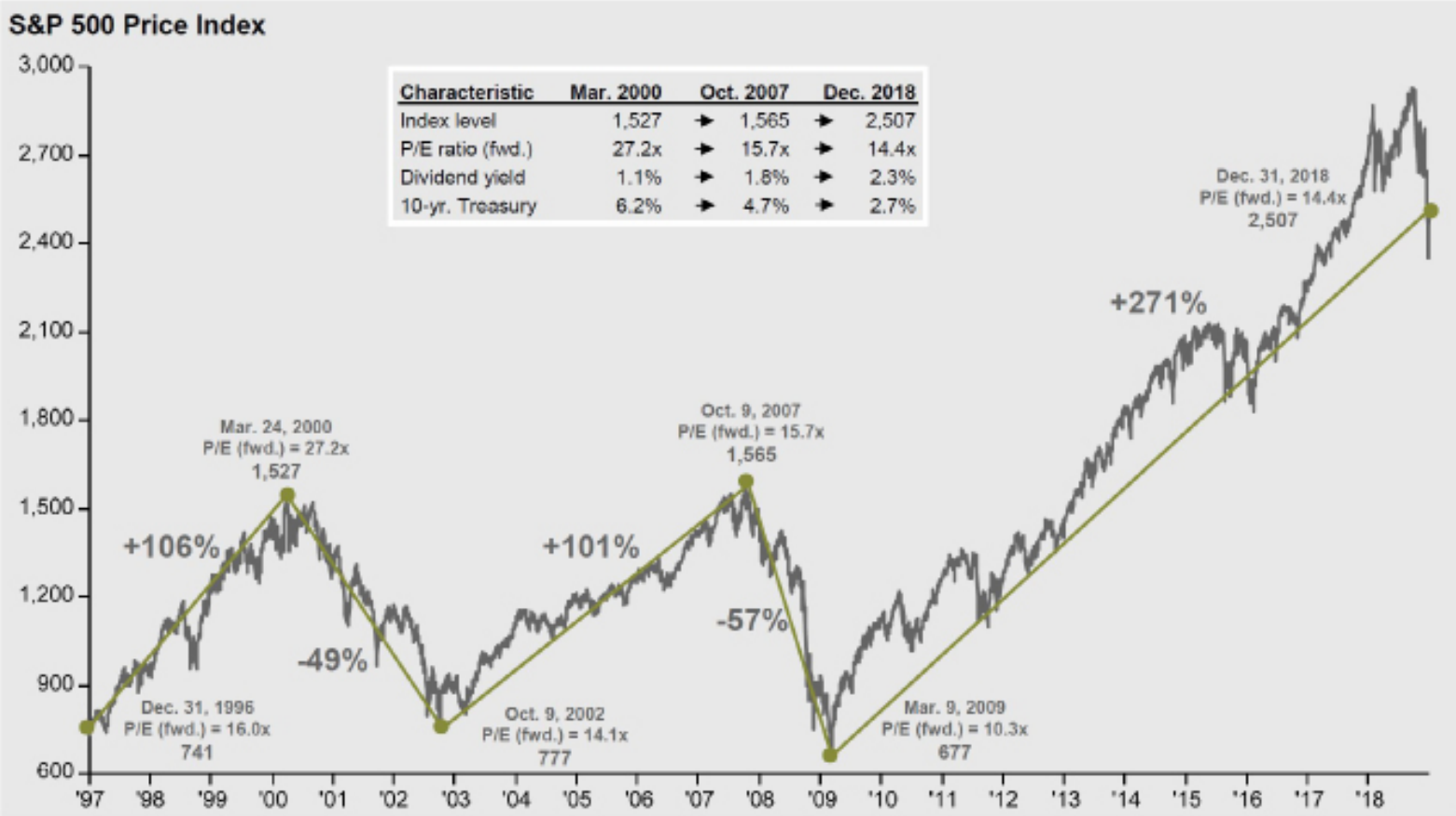
For now, the US economic expansion is still intact.

Cumulative U.S. Real GDP Growth By Expansion Cycle



Source: Bureau of Economic Analysis, Clarion Partners Investment Research, Q3 2018. **Past performance is no guarantee of future results.** The graph above is for illustrative purposes only and is not reflective of an actual investment.

2018 market performance did not derail the long term bull market...

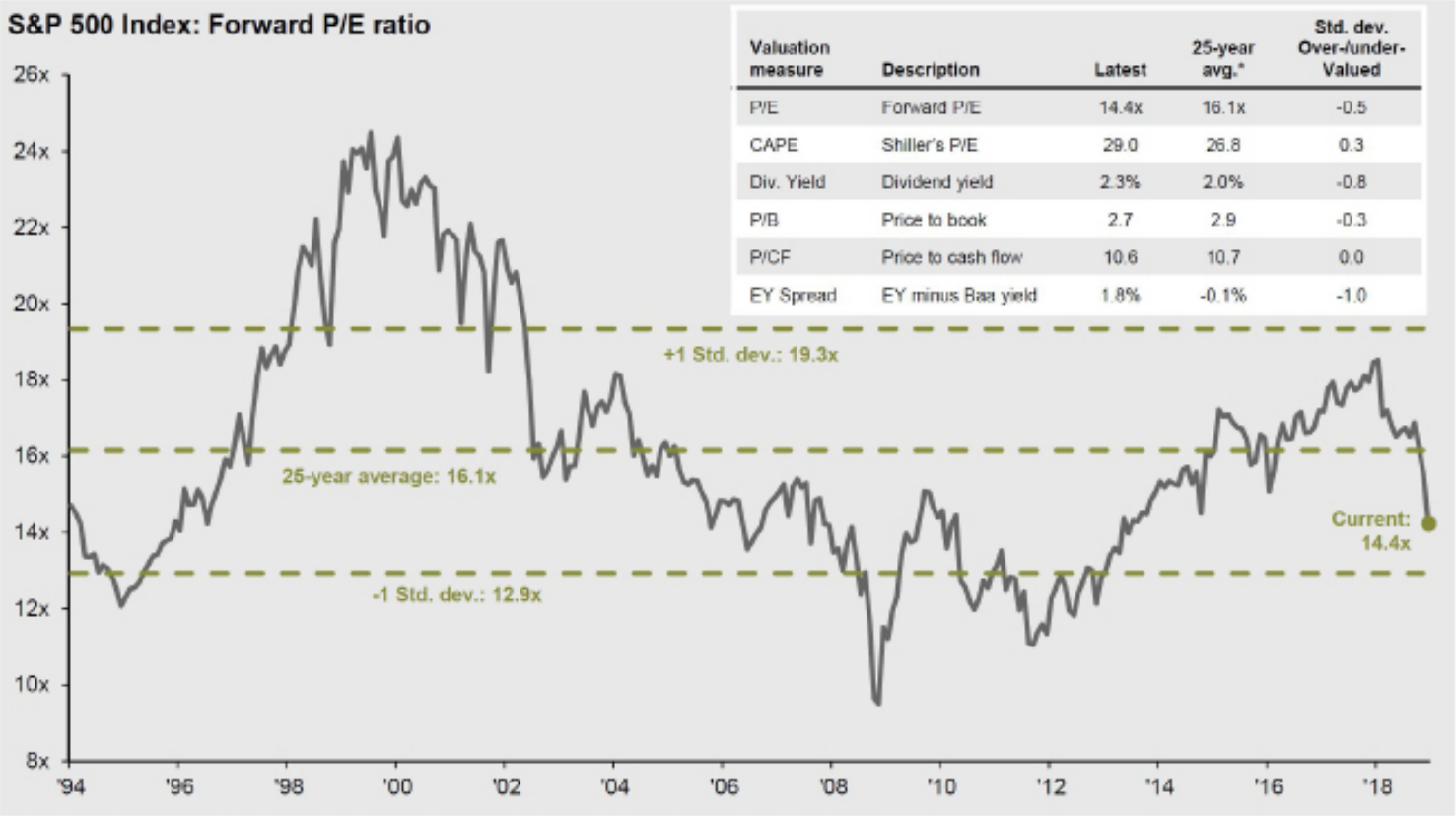


Characteristic	Mar. 2000		Oct. 2007		Dec. 2018
Index level	1,527	→	1,565	→	2,507
P/E ratio (fwd.)	27.2x	→	15.7x	→	14.4x
Dividend yield	1.1%	→	1.8%	→	2.3%
10-yr. Treasury	6.2%	→	4.7%	→	2.7%

Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2018.

J.P.Morgan

...but instead improved market valuations to below historical average.

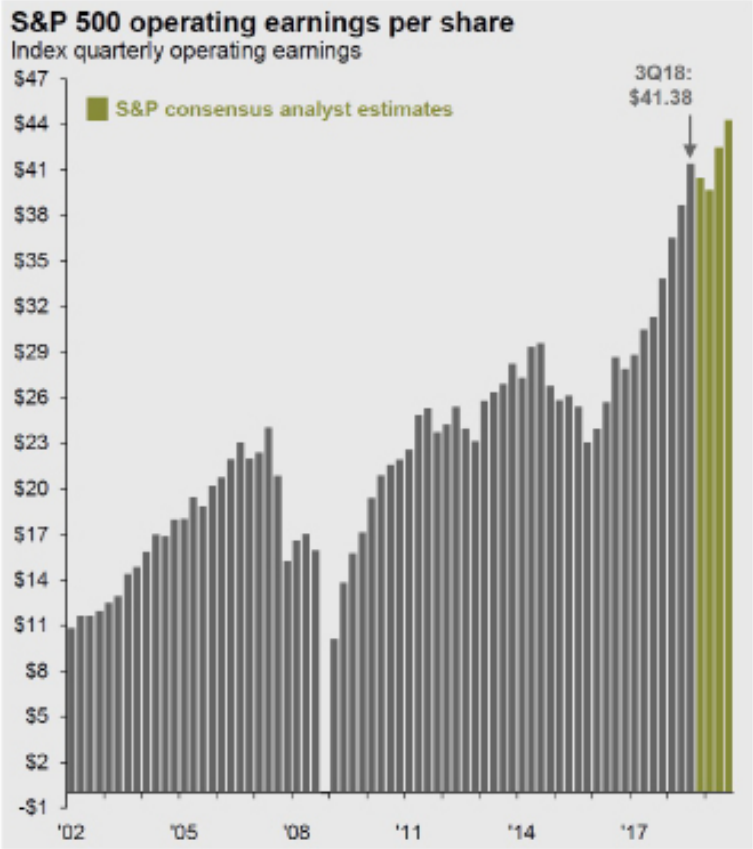


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	14.4x	16.1x	-0.5
CAPE	Shiller's P/E	29.0	26.8	0.3
Div. Yield	Dividend yield	2.3%	2.0%	-0.8
P/B	Price to book	2.7	2.9	-0.3
P/CF	Price to cash flow	10.6	10.7	0.0
EY Spread	EY minus Baa yield	1.8%	-0.1%	-1.0

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price to earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since December 1993, and FactSet for December 31, 2018. Average P/E and standard deviations are calculated using 25 years of IBES history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-month consensus dividend divided by most recent price. Price to book ratio is the price divided by book value per share. Price to cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure.
*P/CF is a 20-year average due to cash flow data availability.
Guide to the Markets – U.S. Data are as of December 31, 2018.

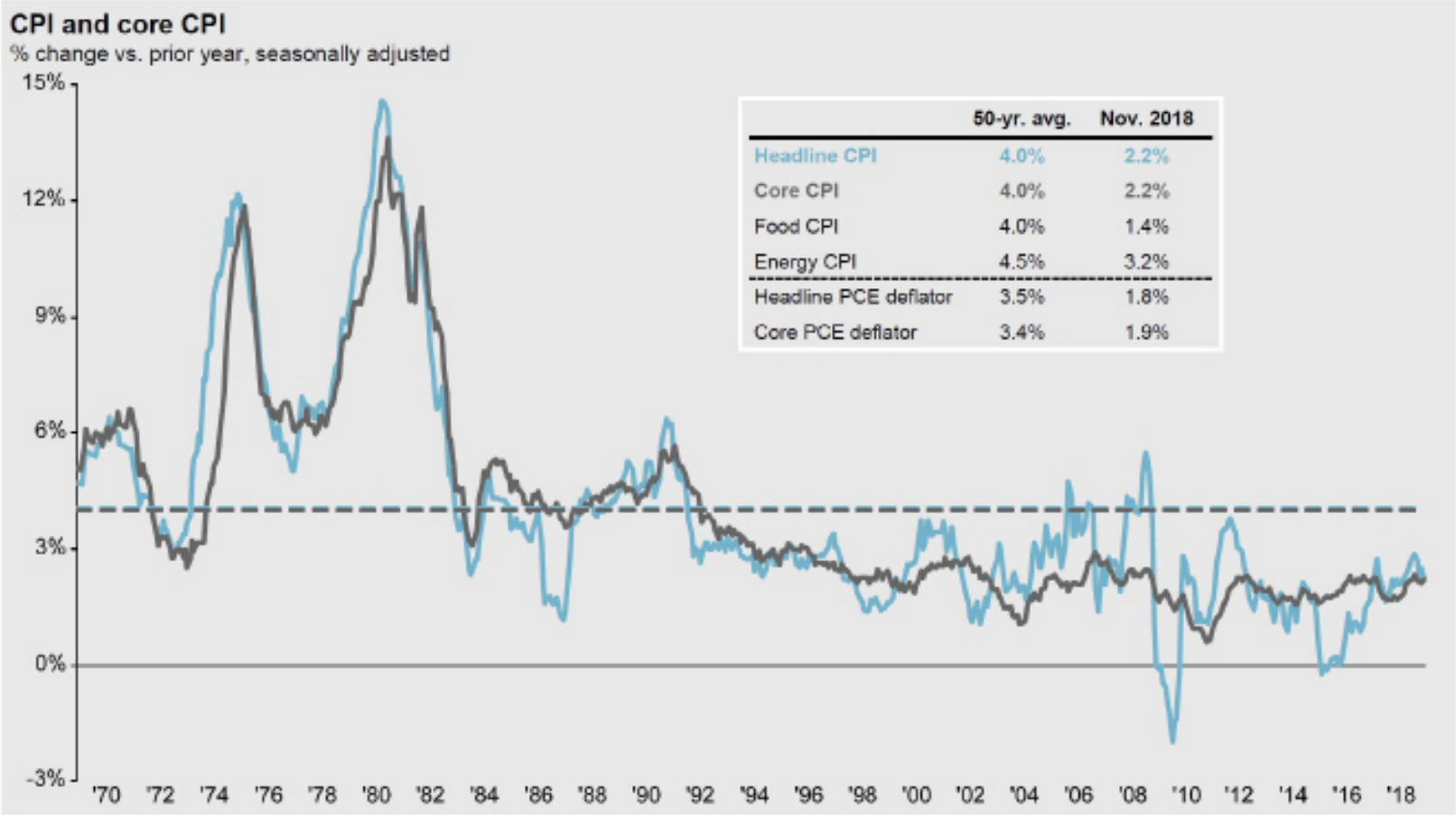
J.P.Morgan
Asset Management

US corporate earnings and profit margins remain high...



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Right) Federal Reserve.
EPS levels are based on operating earnings per share. Earnings estimates are Standard & Poor's consensus analyst expectations. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2018.

...inflation is contained...

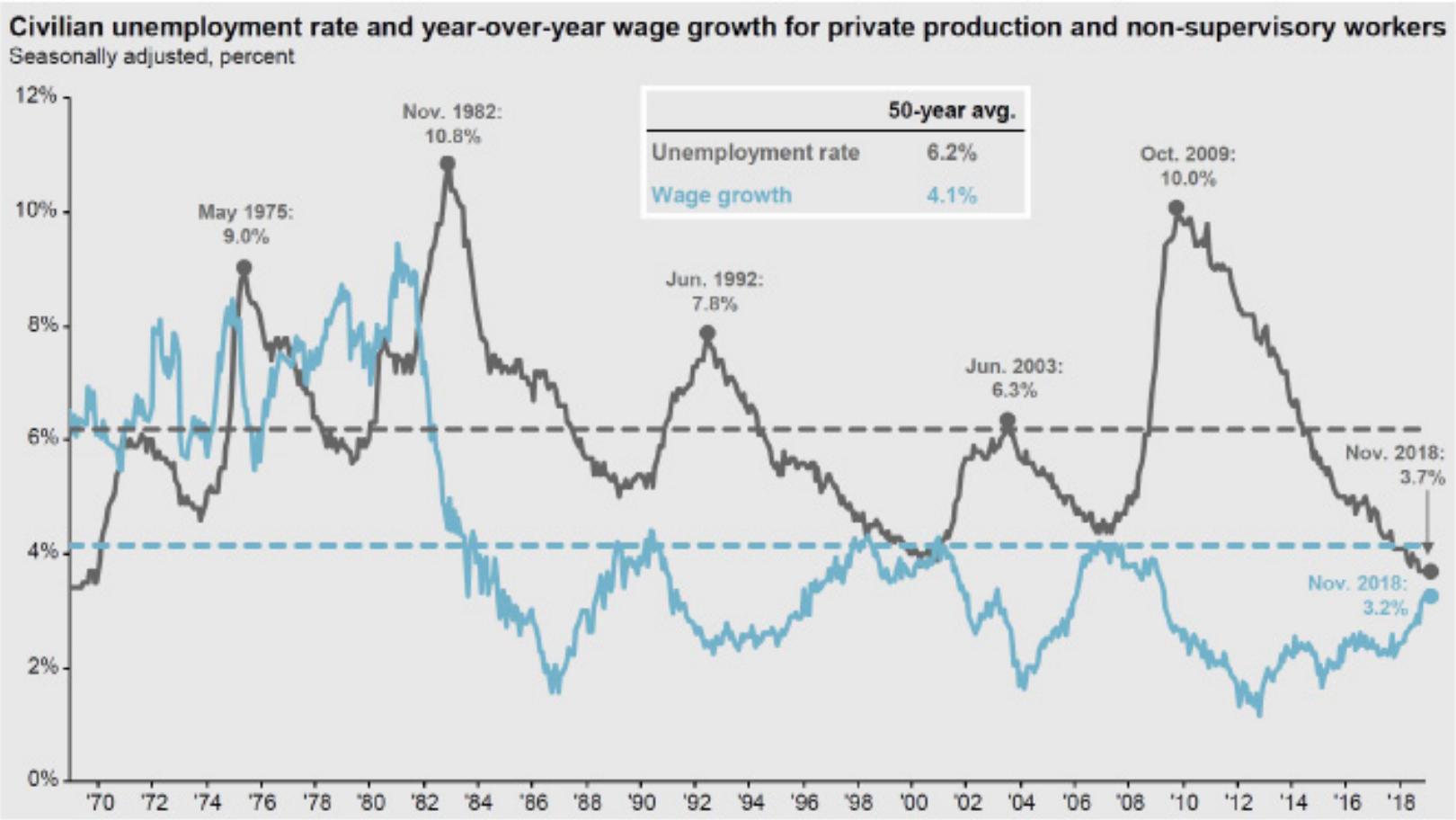


	50-yr. avg.	Nov. 2018
Headline CPI	4.0%	2.2%
Core CPI	4.0%	2.2%
Food CPI	4.0%	1.4%
Energy CPI	4.5%	3.2%
Headline PCE deflator	3.5%	1.8%
Core PCE deflator	3.4%	1.9%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of December 31, 2018.

JPMorgan

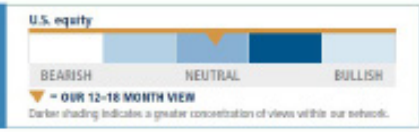
...and unemployment continues to fall.



Source: BLS, FactSet, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of December 31, 2018.

In general, leading economic indicators remain positive...but several spots in the economy are weakening.

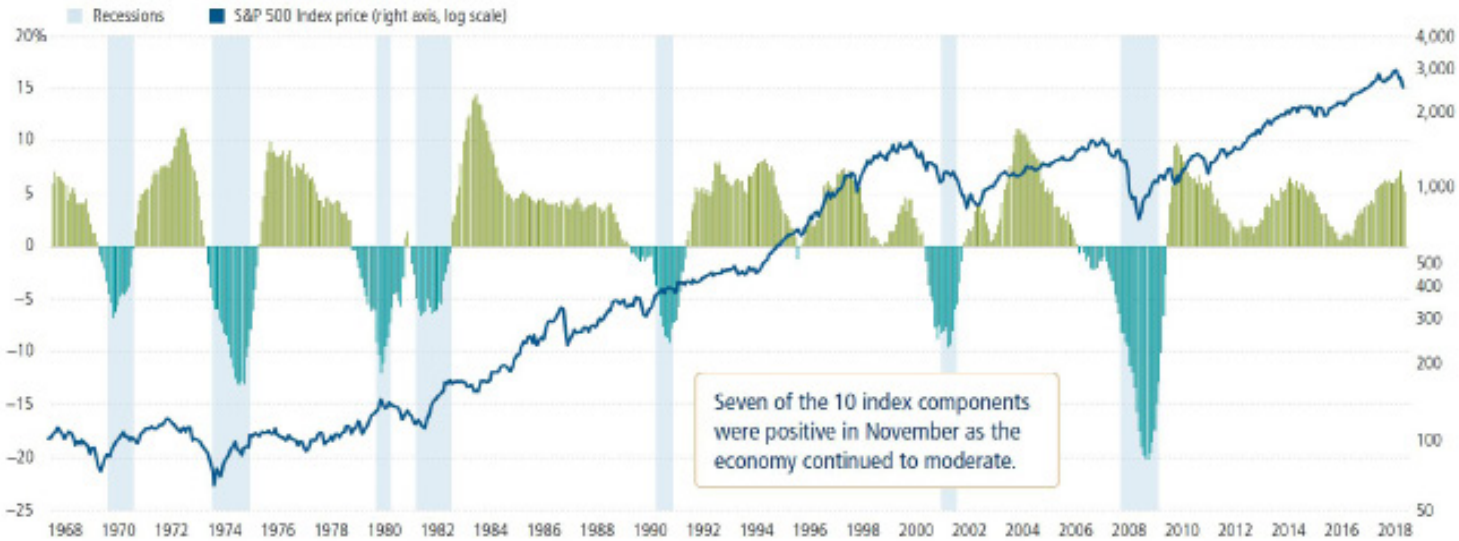
Leading economic indicators remain robust for now



"Solid GDP growth at about 2.8 percent should continue in early 2019, but the LEI suggests the economy is likely to moderate further in the second half of 2019."

THE CONFERENCE BOARD
Trusted Insights for Business Worldwide

Year-over-year change in the Composite Index of Leading Indicators



Composite Index of Leading Indicators (ranked by weighting in the index)							
Weekly manufacturing hours worked	▼	ISM Index of New Orders	▲	Consumer expectations	▲	Yield spread	▲
New orders of consumer goods and materials	▲	Leading Credit Index	▲	New orders of nondefense capital goods	▲	Stock prices	▼
Weekly unemployment claims	▼	Building permits	▲				

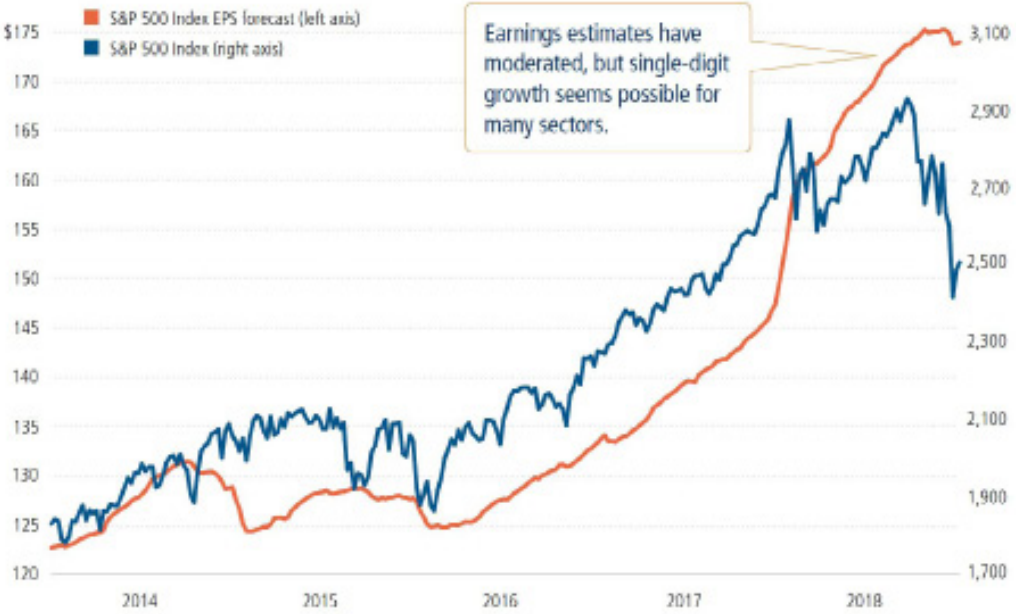
Source: The Conference Board, as of 11/30/18; Standard and Poor's, as of 12/31/18. The Composite Index of Leading Indicators is an index published monthly by The Conference Board, used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components whose changes tend to precede changes in the overall economy. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Corporate earnings growth may be past its peak.

"U.S. earnings will likely remain supportive for the market unless economic growth is much weaker than we expect."[1]

BCA RESEARCH

Earnings growth forecasts for U.S. companies have begun to level off



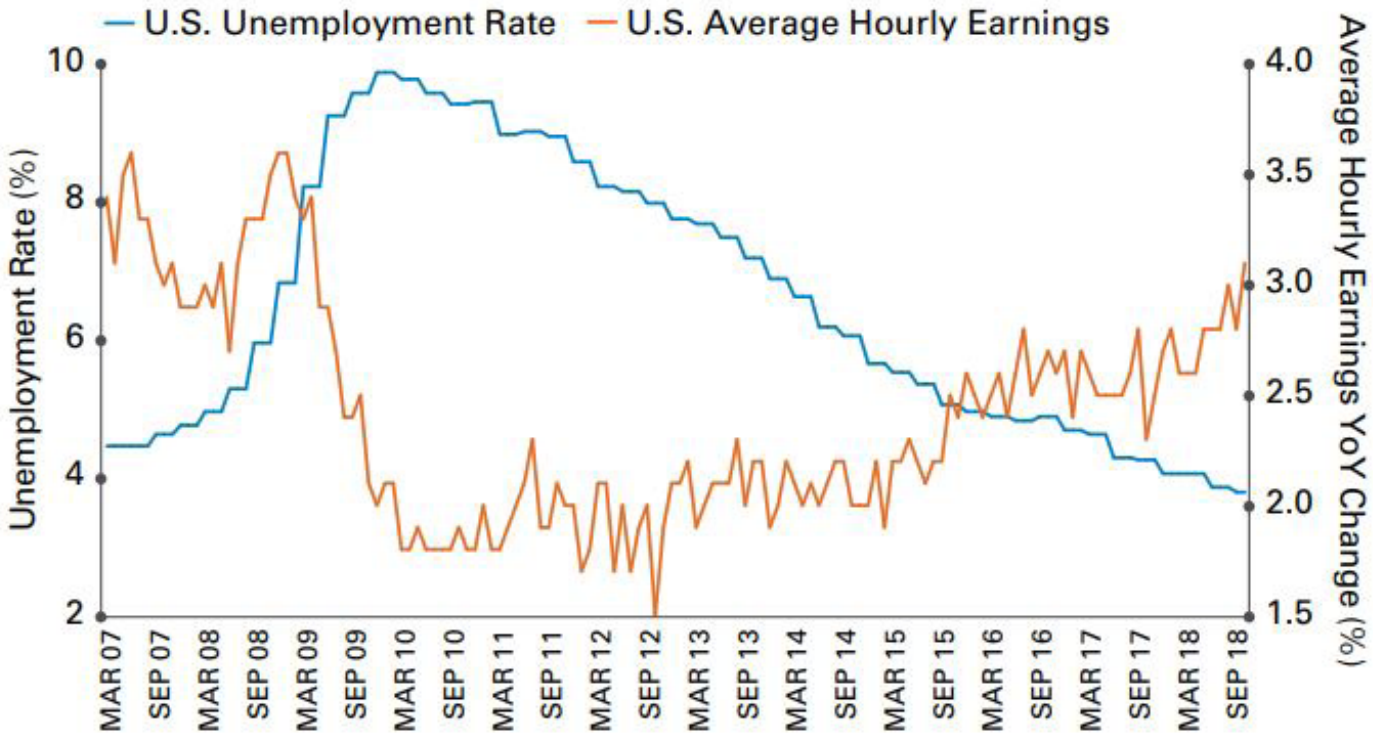
2019 EPS growth estimates year over year (%)	
Industrials	10.84
Consumer discretionary	9.93
Financials	9.39
S&P 500 Index	**7.64**
Healthcare	7.36
Energy	7.26
Information technology	7.07
Communication services	6.00
Materials	5.71
Utilities	5.18
Consumer staples	4.35
Real estate	3.68

Source: FactSet, as of 12/31/18. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Earnings per share (EPS) is a measure of how much profit a company has generated calculated by dividing the company's net income by its total number of outstanding shares. Past performance does not guarantee future results.

1 bcaresearch.com, 2019.

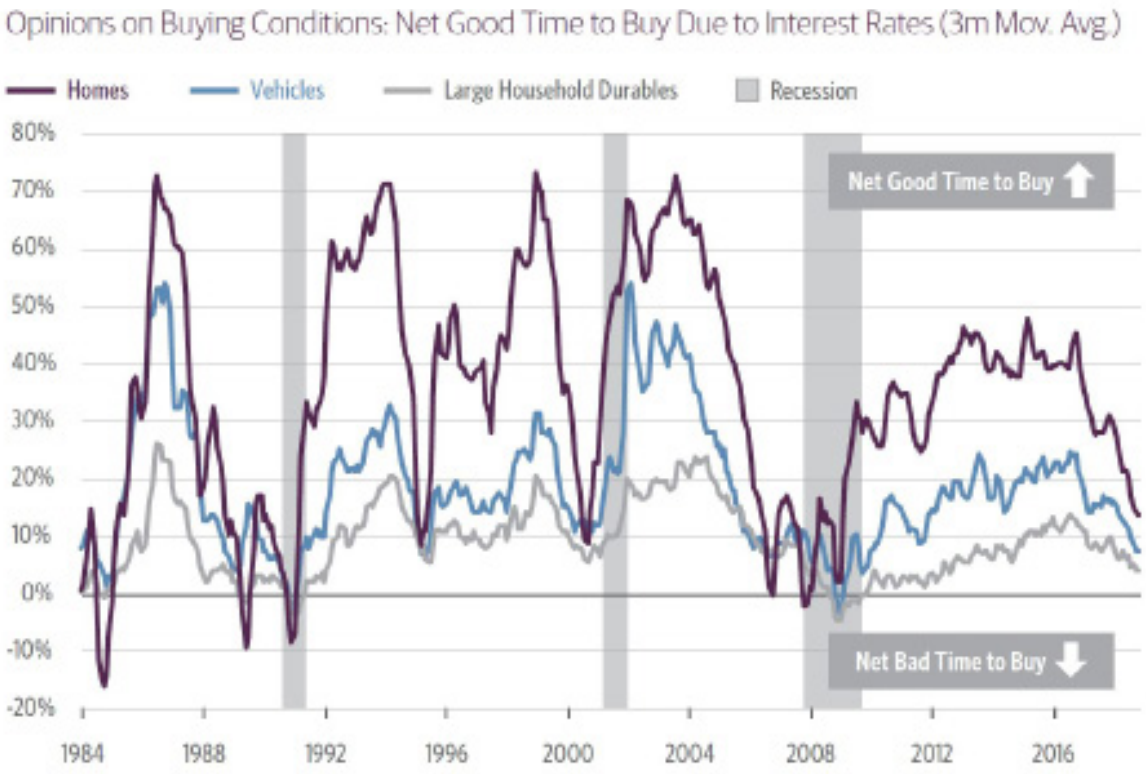
Low unemployment is driving up wages which will hurt corporate profit margins.

U.S. Unemployment Rate and U.S. Average Hourly Earnings



Source: Bloomberg

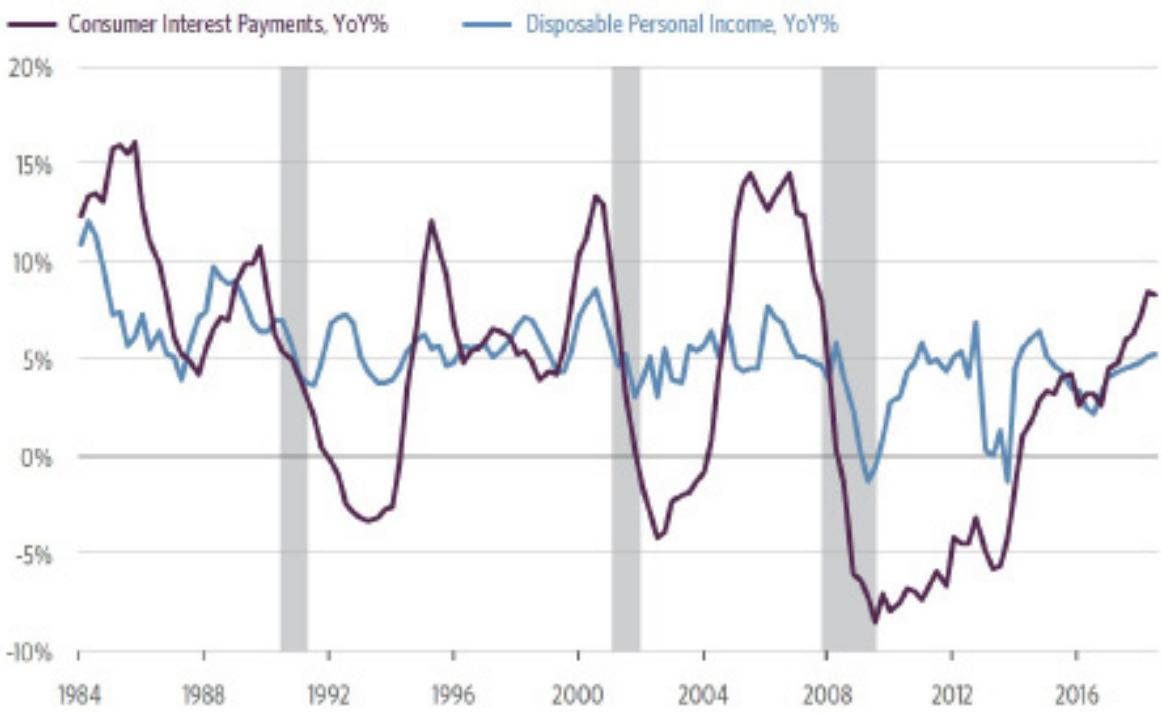
Rising rates have bruised home, vehicle, and durable goods sales.



Source: Bloomberg, University of Michigan, Guggenheim Investments. Data as of 10.31.2018.

The rise in rates is already hurting activity in housing and autos, the two most rate-sensitive sectors. Home and auto sales are well off their respective cycle peaks as rising rates dampen consumer sentiment, which is typical toward the end of an expansion.

Consumer debt service costs are rising faster than disposable income.



Source: Haver Analytics, Guggenheim Investments. Data as of 9.30.2018. Consumer interest payments include mortgage interest payments.

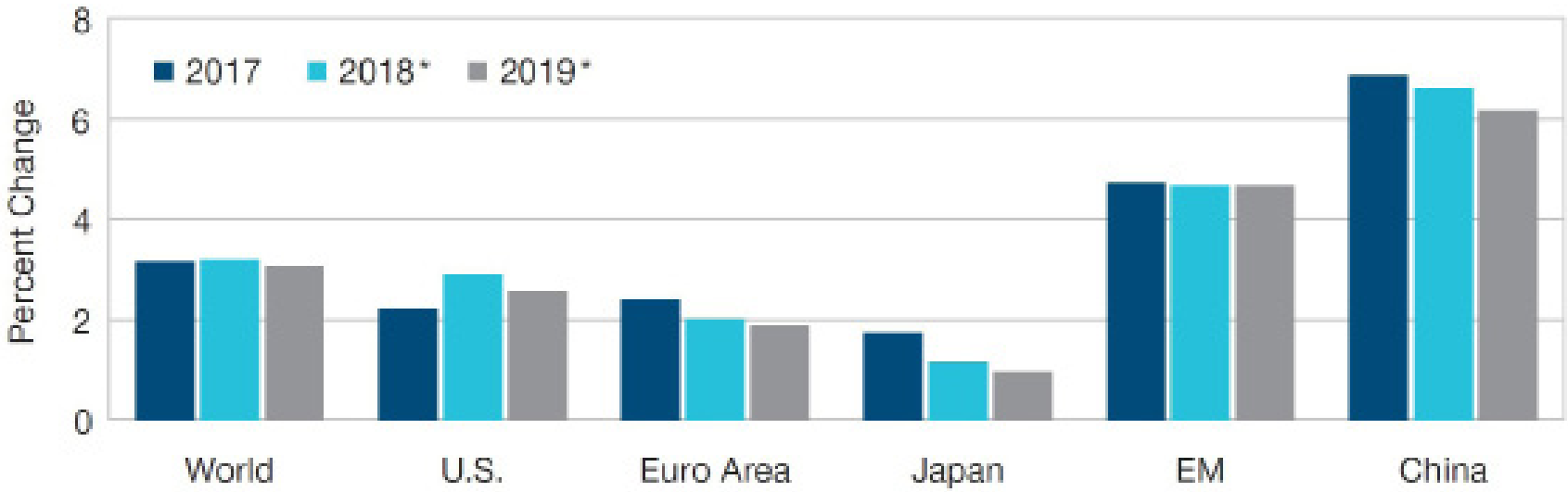
Higher rates on mortgages and consumer credit are causing household debt service costs to rise faster than disposable income, another late-cycle indicator.

And generally, global growth rates are slowing.

Global Growth Is Slowing

Actual and projected real GDP growth

As of October 2018

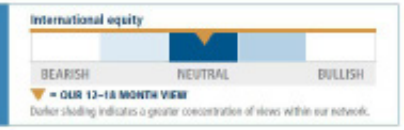


Source: IMF/Haver Analytics.

*IMF projection.

Overseas growth is slowing as well...

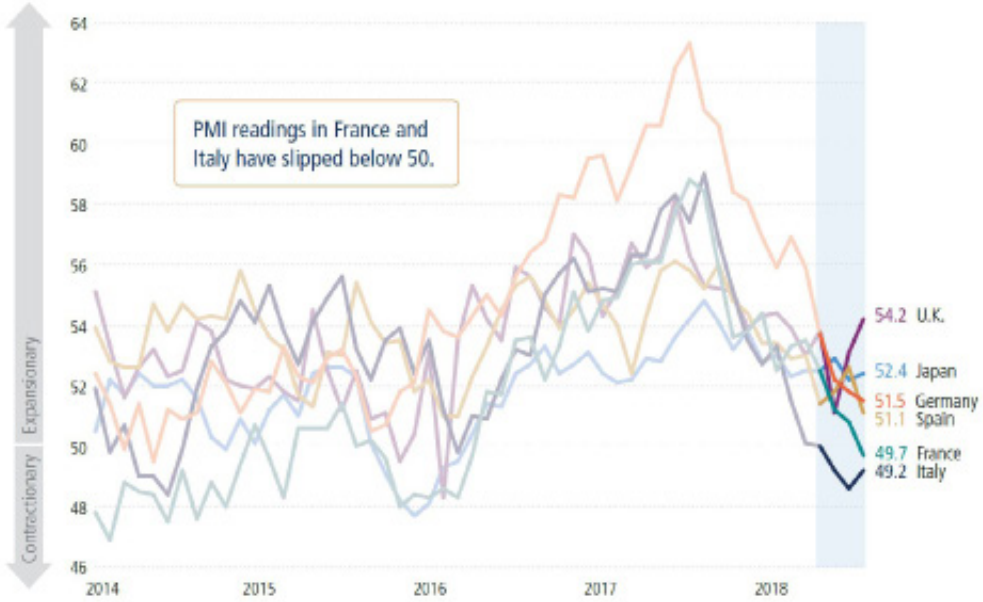
Economic momentum abroad has reversed



"Global manufacturing growth has slowed significantly since peaking in late 2017, further confirming our narrative that the global economic cycle is maturing and peak growth is likely behind us."

Ned Davis Research Group

Growth has continued to slow in Japan and Continental Europe



Lead quotes from eurozone PMI surveys

1 "The last three months of 2018 saw **manufacturers report the worst quarterly performance in terms of production** since 2013."

2 "Production levels were achieved only by firms eating into backlogs of orders received in prior months … **December saw a third consecutive monthly drop in new orders.**"

3 "Some of the recent weakness could prove temporary, being the result of **protests in France and the auto sector struggling** to adjust to new emissions regulations."

4 "Weak demand and growing risk aversion … suggests that any rebound could prove modest … **with Brexit representing a particularly worrying unknown for the outlook.**"

Source: Markit, World Bank, FactSet, as of 12/31/18. The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment. It is not possible to invest directly in an index. Past performance does not guarantee future results.

...and the dollar strength has hurt international equities...

When the U.S. dollar strengthens, international equities tend to lag U.S. equities

"At some point, a dovish turn from the Fed will lead to some depreciation of the dollar and global growth will stage a rebound."

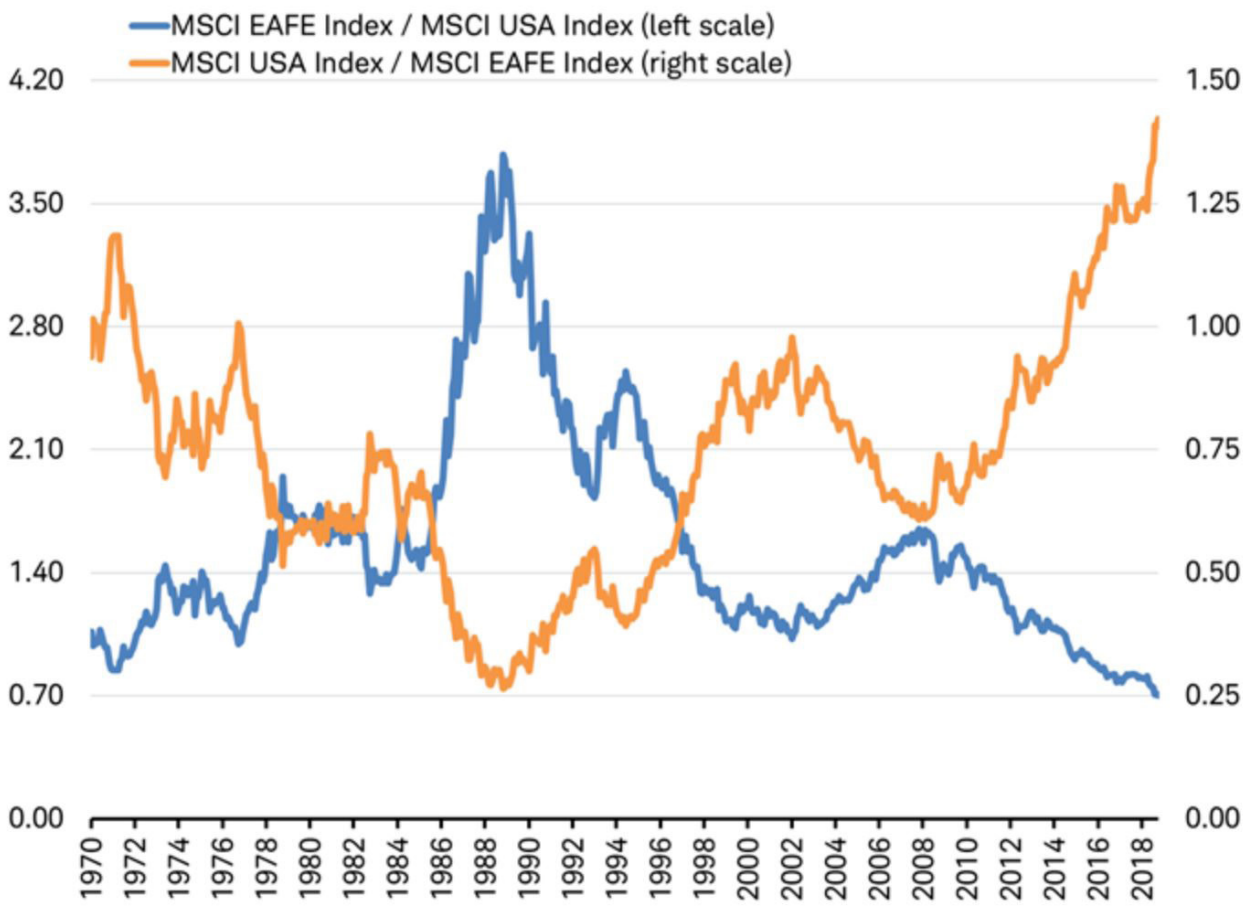
BCA RESEARCH

International stocks have been comparatively weak when the U.S. dollar rises—and comparatively strong when the U.S. dollar falls

Source: FactSet, 12/31/18. The U.S. Dollar Index (DXY) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the United States' most significant trading partners. International equities are represented by the MSCI Europe, Australasia, and Far East (EAFE) Index, which tracks the performance of publicly traded large- and mid-cap stocks of companies in those regions. U.S. equities are represented by the S&P 500 Index, which tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

...leading to a historically wide gap in performance between US & Internatioanl equities.

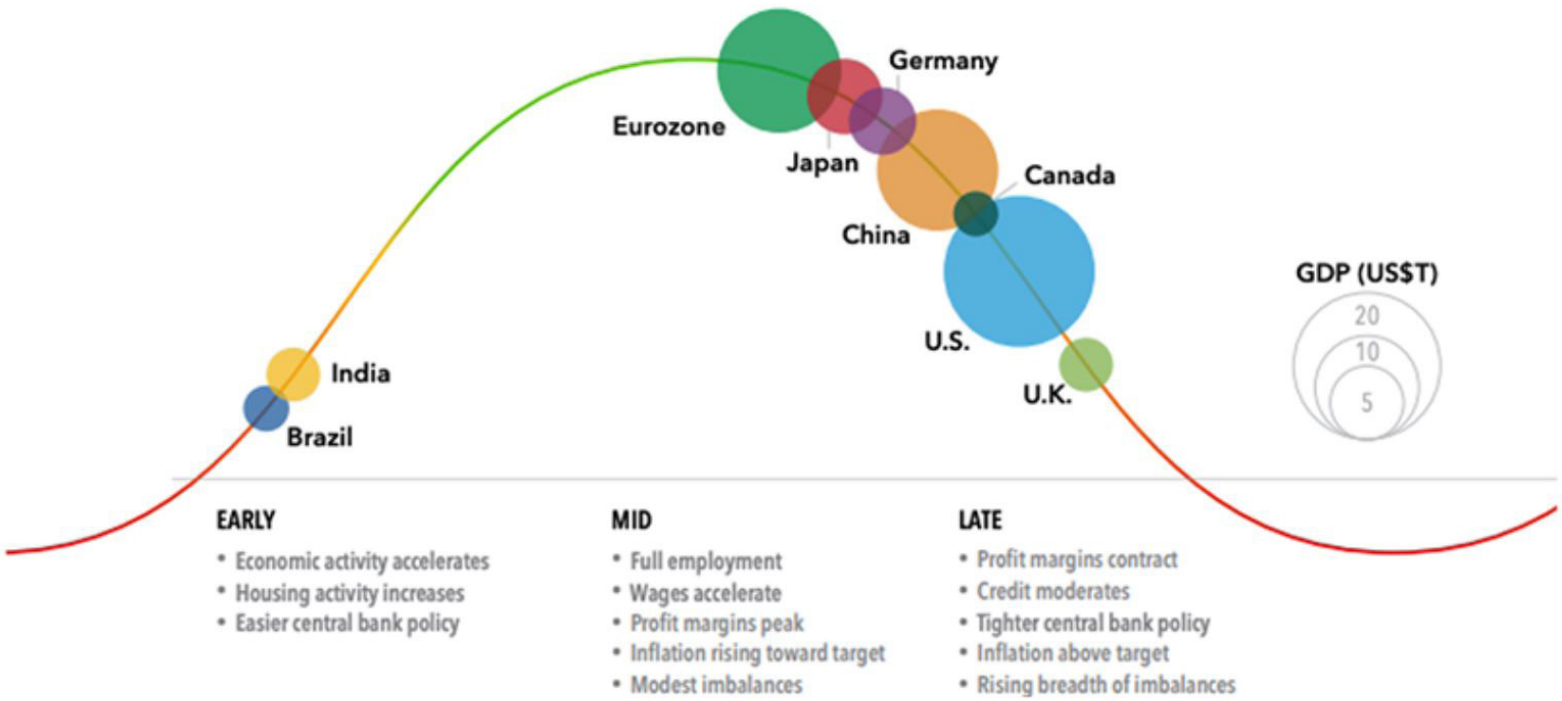
U.S. and international stocks



Source: Charles Schwab, Bloomberg data as of 12/9/2018. Past Performance is no guarantee of future results.

All of the slowing data is typical for the last part of an expansion.

U.S. economy, among first to reach late cycle, continues to lead the pack.



Sources: Capital Group, FactSet.

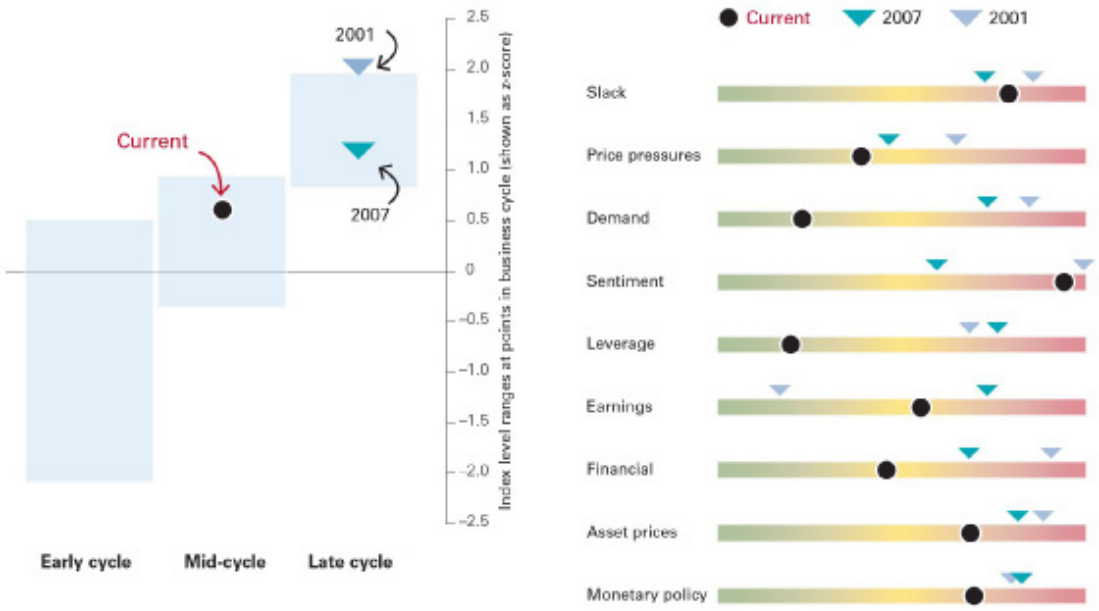
But it may be too early to fully call a recession in the US.

Still too early to call recession in the U.S.

A comparison of the current state of fundamentals with previous business cycles

a. Cyclical index just now moving toward later cycle levels

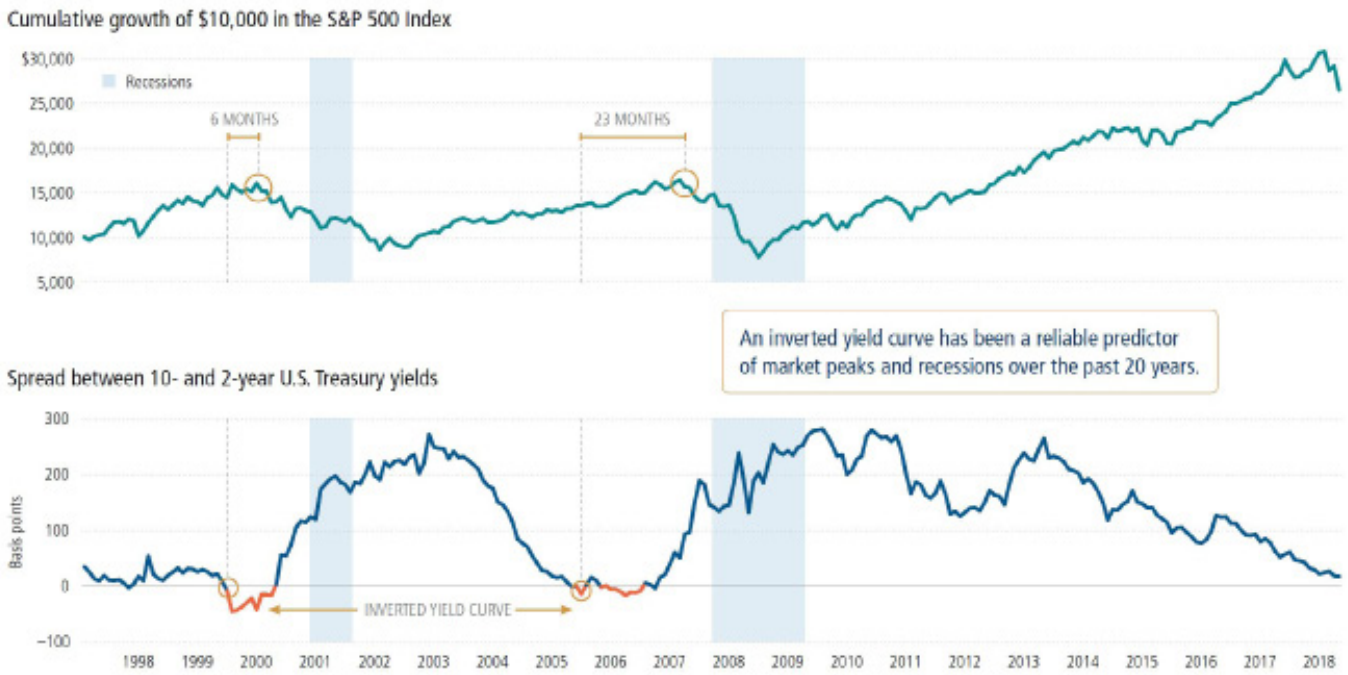
b. Lack of extremes broadly present across a range of indicators



Notes: Figure I-2a displays the historical ranges of a cyclical index at various points in the business cycle. Index is shown as a *z*-score and weighted by first principal components of 25 economic indicators (below). The business cycle is determined by historical observations of the output gap. Figure I-2b displays the underlying components of the cyclical index in Figure I-2a, presenting the current level relative to historical observations. The 2007 and 2001 data points indicate the index and component position 12 months prior to the onset of recession. Underlying indicators: slack = output gap, U3 and U6 unemployment rate gap relative to NAIRU. Price pressures = personal consumption expenditures (PCE), core PCE, average hourly earnings, unit labor costs. Demand = housing starts, residential investment, non-residential investment, durable goods consumption. Sentiment = business optimism, consumer sentiment, consumer confidence. Leverage = household financial obligations ratio, nonfinancial corporate debt, FRB Senior Loan Officer Opinion Survey for consumer and commercial and industrial credit terms. Earnings = corporate profits. Financial = Vanguard financial conditions index, yield curve (measured as the 10 year-3 month Treasury yield) Asset prices = Vanguard's fair-value CAPE, corporate OAS spread, high-yield OAS spread. Monetary policy = federal funds rate versus neutral rate estimated by the Laubach-Williams (2003) model. Data range is 1980 Q1-present.

Sources: Vanguard, Moody's Analytics Data Buffet, Federal Reserve Bank of St. Louis, Laubach-Williams (2003).

The yield curve may hold clues to the timing of the cycle.



Source: FactSet, as of 12/31/18. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

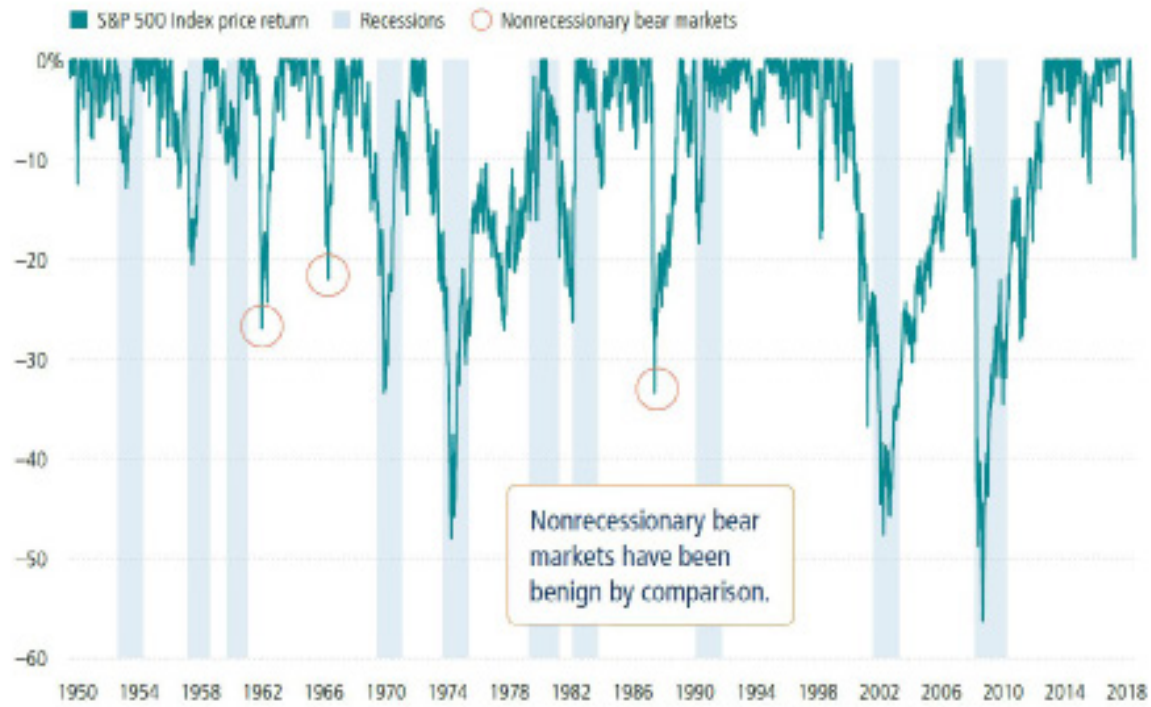
The time between a yield curve inversion and the start of a subsequent bear market averages about 17 months

2-10s Yield Curve Inversions and Subsequent Bear Markets: (Dec. 1965 – Nov. 2018)		
Date of Initial Inversion	Date of Subsequent Bear Market	# of Months from Inversion to Bear Market
Dec-65	Feb-66	1
Feb-67	Nov-68	20
Sep-78	Nov-80	25
Jan-89	Jul-90	17
Jun-98	Mar-00	20
Feb-06	Oct-07	19
		17 (Average)

Source: Richard Bernstein Advisors, FRB, Standard & Poor's

Not all bear markets behave the same.

S&P 500 Index price drawdowns since 1950



Market declines breaching 20% since 1950

Start	Years*	% decline	Recession?
7/56	2.17	−20.47	Y
12/61	**1.75**	**−26.87**	**N**
2/66	**1.23**	**−21.97**	**N**
11/68	3.31	−33.33	Y
1/73	7.58	−47.99	Y
11/80	1.96	−23.79	Y
8/87	**1.94**	**−33.34**	**N**
3/00	7.23	−47.59	Y
10/07	5.50	−56.24	Y
Recessions	**4.63**	**−38.24**	**6**
Nonrecessions	**1.60**	**−27.39**	**3**

Source: FactSet, as of 12/31/18. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Drawdown is a measure of market declines from a peak to a subsequent trough. Past performance does not guarantee future results.
* Represents time to recover to the prior market peak.

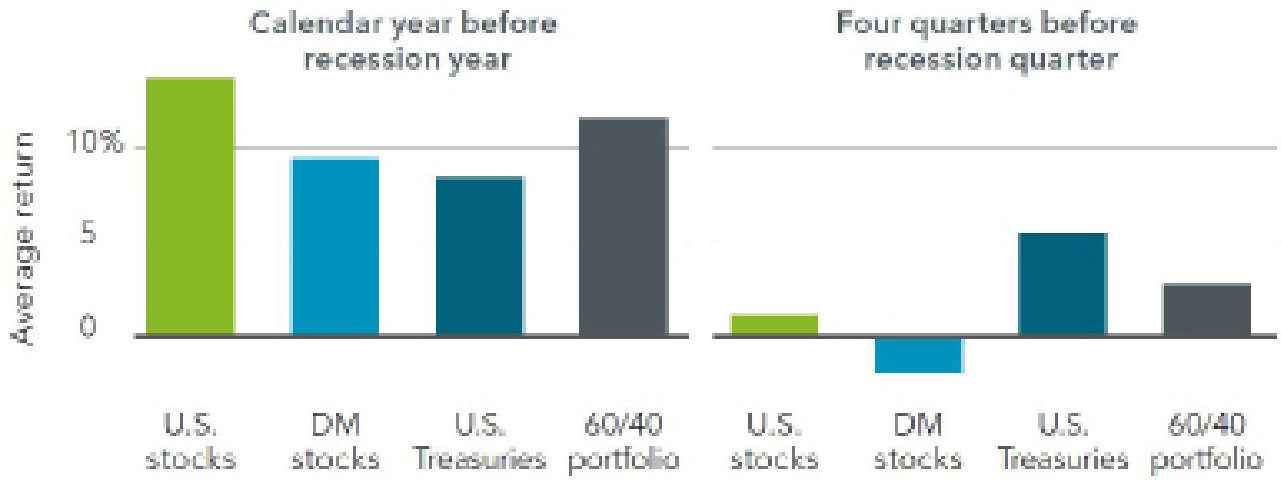
Past bear markets have tended to be shorter than bull markets.

Source: Schwab Center for Financial Research with data provided by Bloomberg. A bear market is usually defined as a decline of 20% or greater. Duration is measured as the number of days from the previous peak close to the lowest close reached after it has fallen at least 20%, and uses a 30/360 date conversion (30 days a month/300 days a year). The market is represented by the S&P 500 index. Past performance is no guarantee of future results.

If 2019 avoids a full recession stocks could still post positive returns...

Late-cycle investing

Average 12-month returns in periods preceding U.S. recessions, 1978–2018

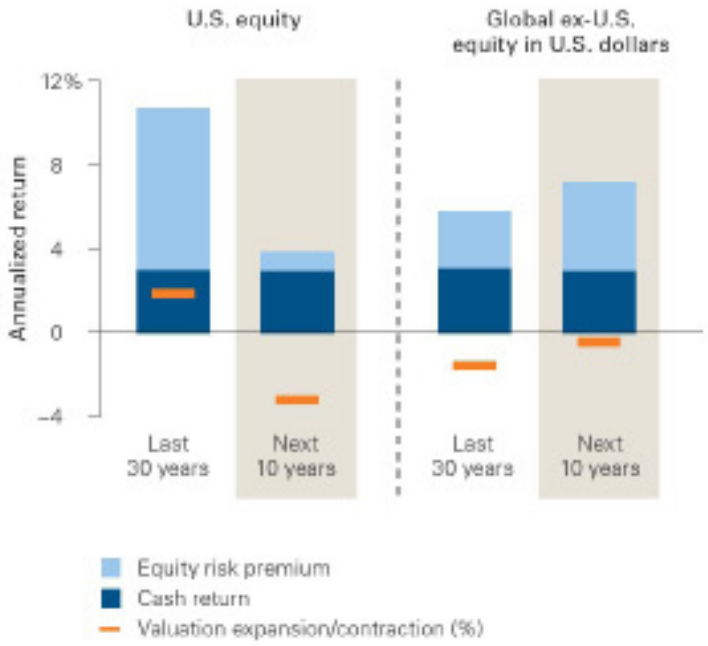


Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute, with data from Bloomberg and NBER, December 2018. Notes: The bars show average returns in selected assets in periods before U.S. recessions. The left-hand bars show the average returns in calendar years before the year in which a recession started. The right-hand bars show the average returns in the four quarters preceding the quarter in which a recession started. Recessions are as defined by NBER, with five recorded over the 40-year period. U.S. stocks are represented by the S&P 500 Index, DM stocks by the MSCI World Index, U.S. Treasuries by the Bloomberg Barclays U.S. Treasury Total Return Index. 60/40 refers to a hypothetical portfolio of 60% S&P 500 and 40% Bloomberg Barclays U.S. Treasury Total Return Index, weighted monthly. Equities reflect price returns and bonds total returns, all in U.S. dollar terms.

...compared to historical averages, the outlook equity returns is muted.

The outlook for equity markets is subdued

a. Exposure to non-U.S. equities may be beneficial



Notes: Data for the last 30 years are from January 1988–December 2017, in USD. Next-10-year data are based on the median of 10,000 simulations from VCMM as of September 30, 2018, in USD. Historical returns are computed using indexes defined in "Indexes used in our historical calculations" on page 5. See Appendix for further details on asset classes shown here.

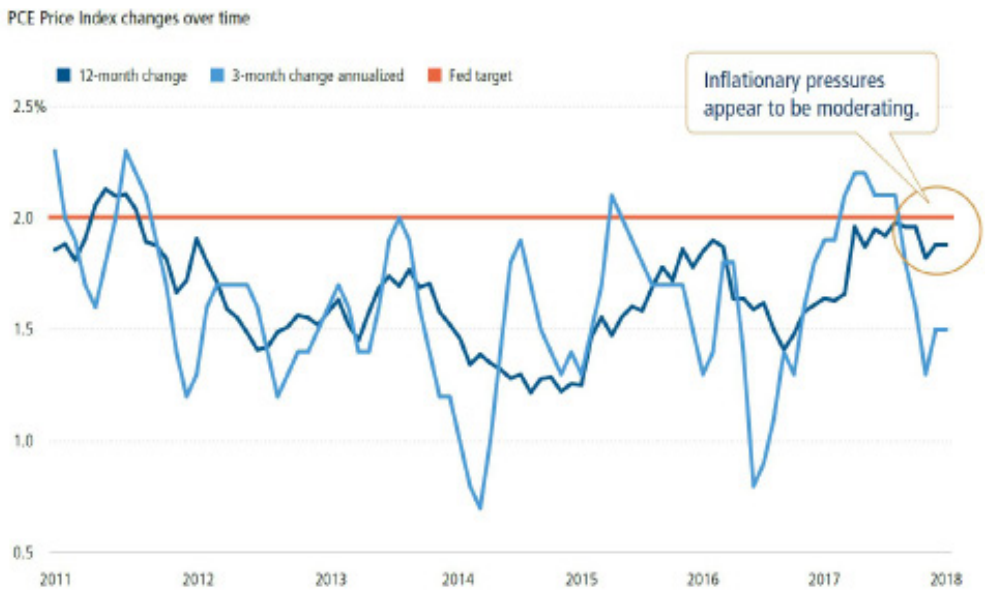
Source: Vanguard calculations, based on data from Dimson-Marsh-Staunton Global Returns Dataset, FactSet, Morningstar Direct, and Thomson Reuters Datastream.

Turning to fixed income markets, the Fed may slow the pace of rate hikes as inflation moderates.

The Fed may slow the pace of rate hikes as inflation moderates

"Core inflation looks to have peaked in the U.S." CAPITAL ECONOMICS

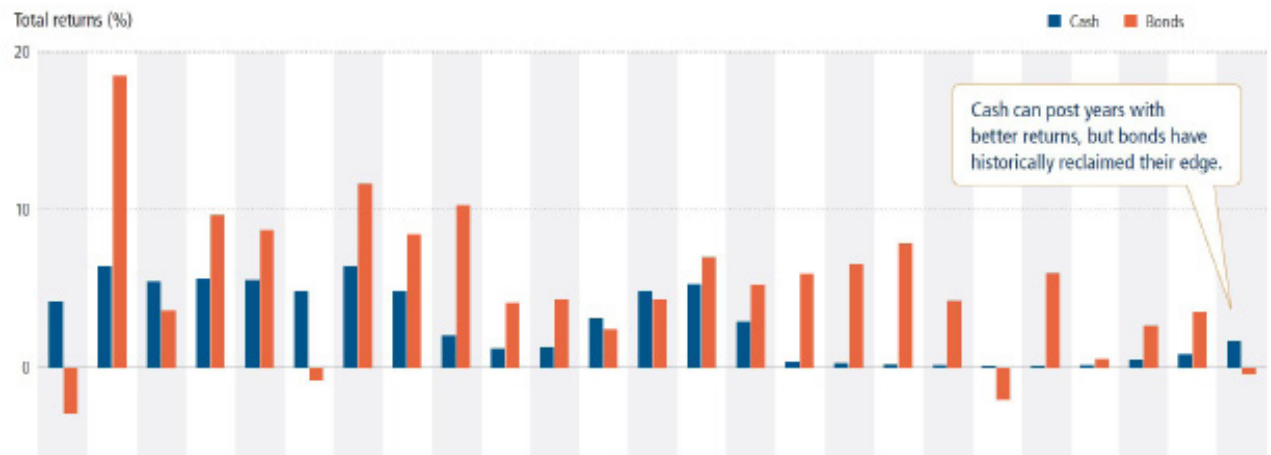
Inflation briefly climbed to the Fed's target before retreating more recently



Source: U.S. Federal Reserve (Fed), Chicago Fed, as of 12/31/18. Interest-rate projections are based on the median for the federal funds rate projections of the The Federal Open Market Committee (FOMC), the body responsible for setting the federal funds rate, which meets eight times a year. FOMC members anonymously report interest-rate projections four times a year, in March, June, September, and December. The Core Personal Consumption Expenditure (PCE) Price Index measures the prices paid by consumers for goods and services, excluding more volatile food and energy prices. It is not possible to invest directly in an index. Past performance does not guarantee future results.

With the bulk of rate increases behind investors, bond returns should return to normal and outpace cash returns...

Cash outperformed bonds six times over the quarter century ended 2017—and bonds regained the lead in each subsequent year but one



Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cash (%)	4.17	6.38	5.45	5.64	5.52	4.80	6.38	4.84	2.02	1.21	1.27	3.10	4.84	5.27	2.92	0.37	0.24	0.19	0.15	0.12	0.09	0.14	0.51	0.86	1.92	?
Bonds (%)	−2.92	18.47	3.63	9.65	8.69	−0.82	11.63	8.44	10.25	4.10	4.34	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	−2.02	5.97	0.55	2.65	3.54	0.01	?

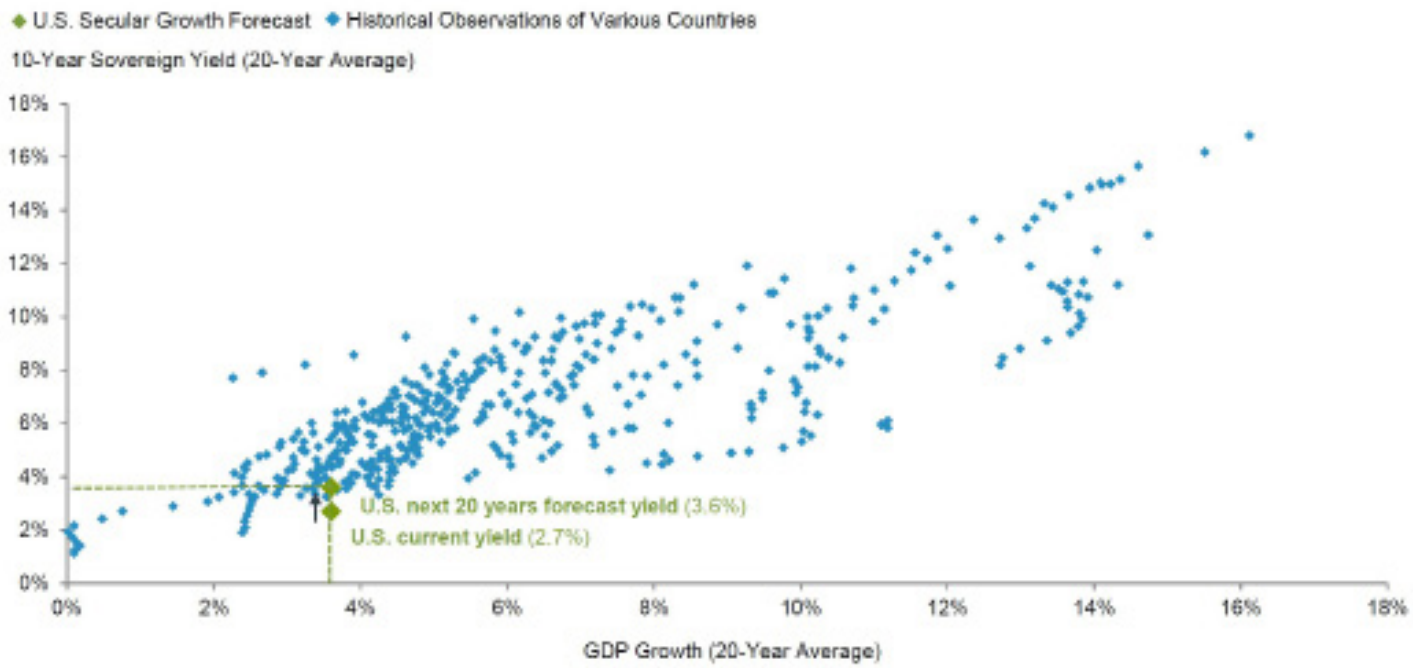
Source: FactSet, as of 12/31/18. Cash is represented by the Bloomberg Barclays U.S. Short Treasury (3–6 Month) Index, which tracks U.S. Treasury bills, notes, and bonds with less than a year to maturity. Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, which tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index. Past performance does not guarantee future results.

...yet returns should remain historically low.

Secular Rate Outlook: Higher than Now, Lower than History

Over long periods of time, GDP growth has a tight positive relationship with long-term government bond yields (yields generally have averaged the same rate as nominal growth). We expect interest rates will rise over the long term to an average that is closer to our 3.6% nominal GDP forecast, but this implies they would settle at a significantly lower level than their historical averages.

Nominal Government Bond Yields and GDP Growth

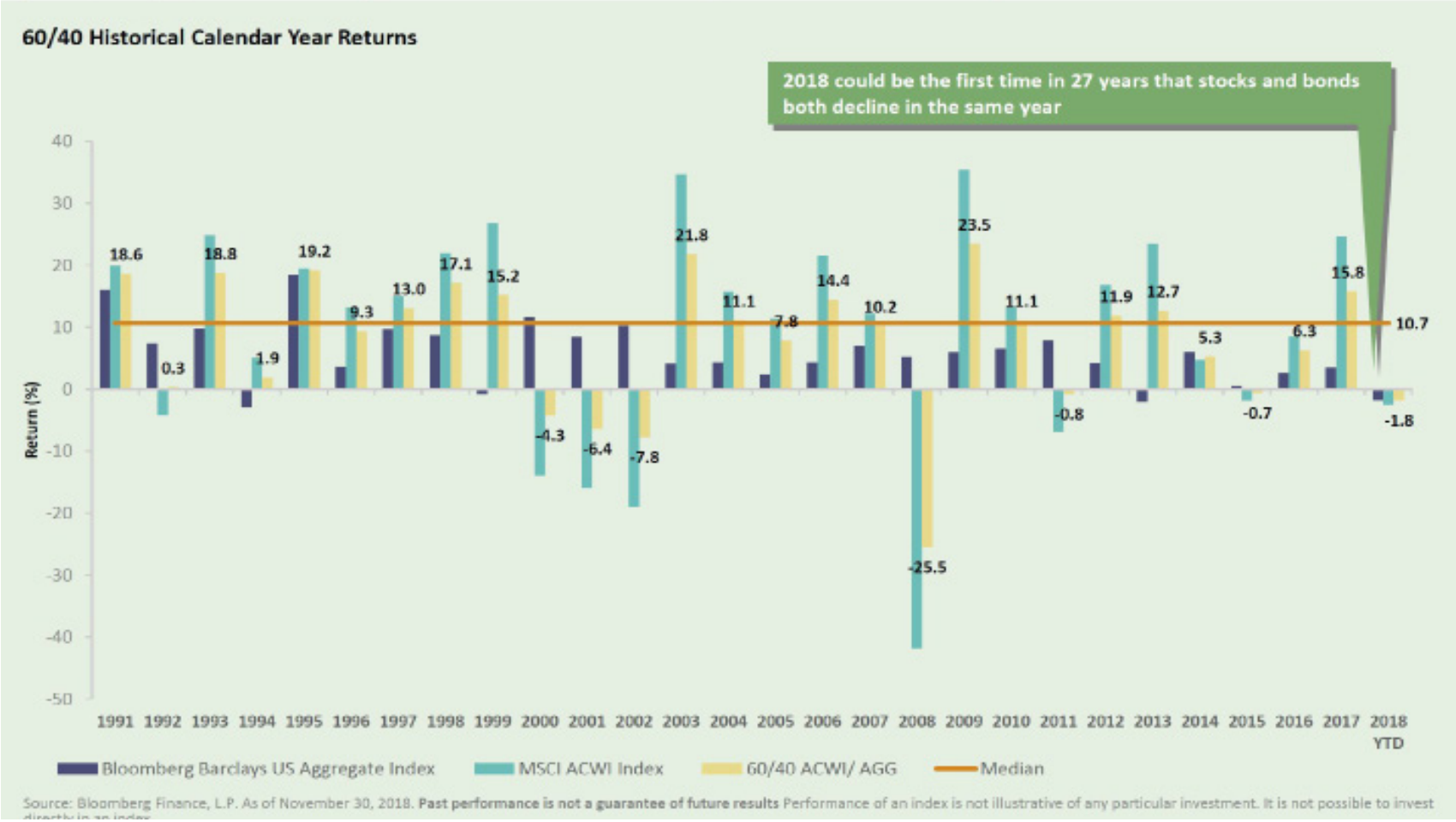


GDP: Gross Domestic Product. Source: Official Country Estimates, Haver Analytics, Fidelity Investments (AART), as of 12/31/18.

Fidelity

With both equities and fixed income posting lower than historical returns in 2018 and the rest of this cycle, returns for a diversified portfolio could be less than average.

60/40 Portfolio Performance — As both stocks and bonds are negative for the year, 60/40 balanced portfolio returns are 13% below their long-term historical median



Source: Bloomberg Finance, L.P. As of November 30, 2018. **Past performance is not a guarantee of future results** Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.

Again underscoring the importance of broad asset class diverisfication.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2004 - 2018 Ann.	2004 - 2018 Vol.
REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	REITs 8.5%	REITs 22.4%
EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	EM Equity 8.3%	EM Equity 22.1%
DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Large Cap 7.8%	Small Cap 18.6%
Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	Small Cap 7.5%	Comdty. 18.6%
High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	High Yield 7.3%	DM Equity 17.6%
Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	Asset Alloc. 6.2%	Large Cap 14.5%
Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	DM Equity 5.2%	High Yield 11.0%
Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 3.9%	Asset Alloc. 10.3%
Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Cash 1.3%	Fixed Income 3.3%
Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Comdty. -2.5%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/03 – 12/31/18. Please see disclosure page at end for index definitions. All data represents total return for stated period. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2018.

J.P.Morgan
Asset Management

Looking Ahead

Over the next twelve months, uncertainty is high and the range of potential equity market outcomes is wide.

Bullish case scenario:
- Solid U.S. growth and further unemployment declines
- Soft data like housing starts and manufacturing causes Federal Reserve to pause on interest rate hikes
- Trade resolution of some sorts—even if it is simply a truce
- Weakening of the dollar due to trade imbalance, slower US growth, and weakening demand

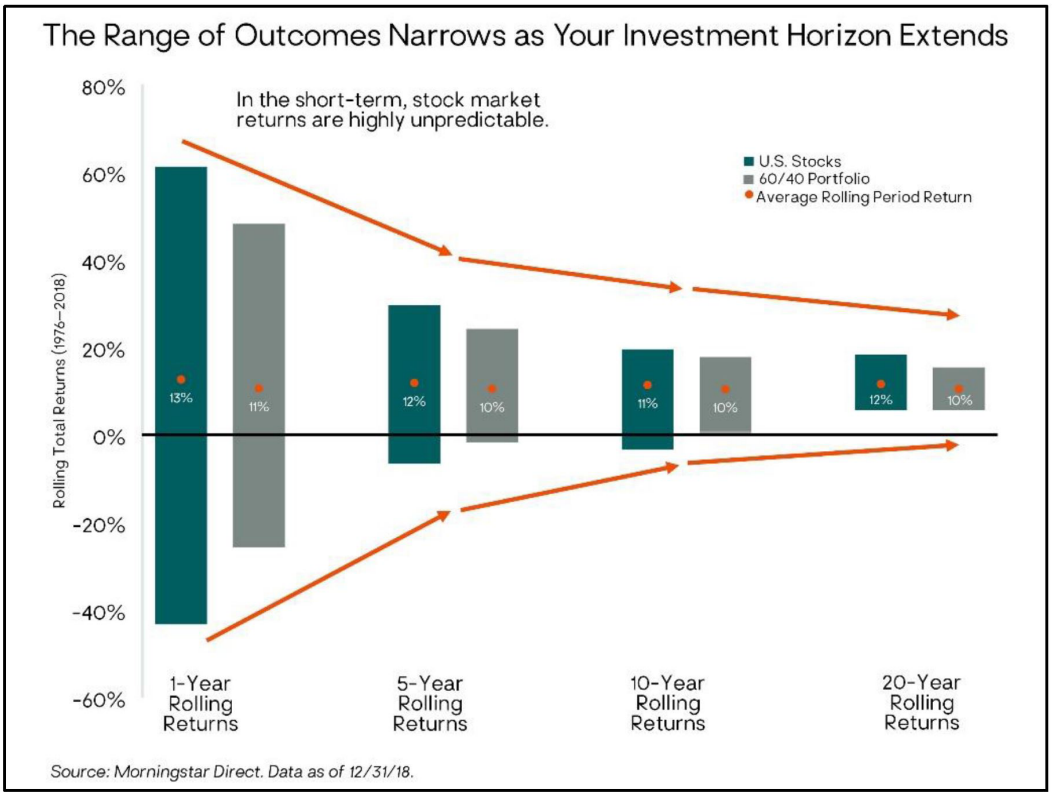
In this scenario:
- Global equities will generate low double-digit returns
- Cyclical/value stocks will outperform
- International and EM stocks (which are undervalued and have more cyclical exposure) will likely outperform U.S. stocks during this period. A declining dollar will be an additional tailwind to dollar-based investors in foreign markets.
- Core bond returns will be positive due to flat to lower interest rates , and underweight to U.S. stocks and core bonds.

Bearish case scenario:
- A U.S. recession in 2019, as the economy to slows "sharply" due to tighter monetary policy and the fading boost from the 2018 tax cuts.
- The Fed will hike rates two more times in early 2019 but begin cutting rates in 2020
- Slower global growth than the consensus expects, driven by slowing global demand and tighter financial conditions. (However, it is unlikely that the EM crisis repeats as in 2018)
- U.S. dollar weakens as Fed rate cuts come into view while other major central banks remain on hol

In this scenario:
- U.S., international, and EM stocks will all have losses next year.
- Despite their lower valuations, foreign markets will be dragged down by falling U.S. stocks, but U.S. stocks will experience the steepest declines.
- Core bonds should do okay.
- The dollar will remain strong for much of the year, but then weaken as the 2020 Fed rate cuts come into view.

In Closing

The breadth of outcomes for 2019 asset classes is astonishingly wide, making short term performance impossible to predict. However, as the time horizon legthens to mid and long range windows, the possible outcome set narrows.



Portfolios are positioned to perform well over the medium to long term and to be resilient across a range of potential scenarios. Over the short term, if the current recession fears are overdone, we expect to generate strong overall returns, with outperformance from our foreign equity positions and flexible bond funds. On the other hand, if U.S. stocks slide into a full-fledged bear market, our portfolios have dry powder in the form of lower-risk fixed-income that should hold up much better than stocks. We'd then expect to put this capital to work more aggressively; for example, by increasing our exposure to U.S. stocks at lower prices and valuations implying much higher expected returns over our medium-term horizon.

Successful investing is a process of consistently making sound, well-reasoned decisions over time, and across market and economic cycles. We believe our diversified, fundamental, valuation-based investment approach meets this definition. As long as we continue to execute our approach with discipline and remain patient during the inevitable periods when it is out of favor, we have no doubt we will continue to achieve successful and rewarding long-term results for our clients.

Disclosures

- Please remember that past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the adviser), will be profitable or equal to past performance levels.

- Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Meridian. The discussion is general in nature, and therefore not intended to recommend or endorse any asset class, security, or technical aspect of any security for the purpose of allowing a reader to use the approach on their own. Before participating in any investment program or making any investment, clients as well as all other readers are encouraged to consult with the professional advisor of his/her choosing, including investment advisers and tax advisors. Meridian is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. To the extent that clients as well as all other readers have any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Meridian Financial Partners, LLC can assist in determining a suitable investment approach for a given individual, which may or may not closely resemble the strategies outlined herein.

- Any charts, graphs, or visual aids presented herein are intended to demonstrate concepts more fully discussed in the text of this brochure, and which cannot be fully explained without the assistance of a professional from Meridian Financial Partners, LLC. Readers should not in any way interpret these visual aids as a device with which to ascertain investment decisions or an investment approach. Only your professional adviser should interpret this information.

- The S&P 500 is an unmanaged index used as a general measure of performance. The Barclays Aggregate Bond index is a generally accepted measure of bond performance. You cannot invest directly in an index, and therefore performance of these indices cannot be shown net of fees or expenses. These fees would, if imposed, have a materially adverse effect on performance.

- All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Meridian Financial Partners, Inc. ("Meridian"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Diversification does not guarantee against market losses, it is a method used to help manage investment risk.

- Meridian Financial Partners, LLC, is registered as an investment adviser with the United States Securities and Exchange Commission. Registration as an investment adviser does not imply any certain degree of skill or training. Meridian Financial Partners, LLC's disclosure document, ADV Firm Brochure is available at www.meridianfinancialpartners.com. Alternatively, a copy of the Meridian's current written disclosure Brochure discussing our advisory services and fees is also available upon request.

- If you are a Meridian client, please remember to contact Meridian, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services.