GUIDANCE

POINT OF VIEW

GREAT LAKES ADVISORS
A WINTRUST WEALTH MANAGEMENT COMPANY

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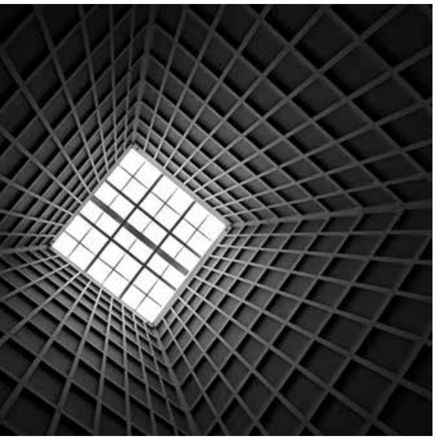

This past year defied most expectations. Global growth led to a surge in corporate profits pushing worldwide stocks higher. U.S. equities closed the year on high notes led by the NASDAQ up by 28%, the Dow Jones Industrial Average up 25%, and the S&P 500 index up over 21%. During the fourth quarter, the rally, which heated up during September due to hope of a reformed tax structure, accelerated during October and November making the U.S. equity markets look increasingly expensive. While some pundits believe the change in the U.S. tax code can provide continued strong profit growth in addition to a one-time price bump, we would be foolish not to also consider the fact that the Equity Risk Premia are back to, or below, levels which make stocks relatively attractive. Most valuation ratios for the broad market are also stretched to anywhere between 12-50% above long-term average. Expect some back and forth as investors collectively sort out which matters more: valuation, or growth prospects.

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In the quarter, the broader U.S. equity market, represented by the S&P 500, gained 6.6% and closed the year near its all-time high. Since markets turned higher in March 2009, toward the end of the "great recession," the S&P 500 Index has risen more than 370%, or nearly 19% per year for nine years.

Global equity markets rose with emerging markets gaining nearly 35% for the year. China gained 33%, Italy and Germany were up about 25%, Latin America +24%, Japan +22%, and the UK +17%. Most global equity indices also remain at or near all-time high levels.

The U.S. fixed income market for the last quarter, as measured by the Bloomberg Barclays Aggregate Index, posted a solid gain of 39 basis points, while the intermediate sector posted a 7 basis point loss for the quarter. Short rates rose as the Fed tightened once again in December, with the curve pivoting at the 7-year point and continuing to flatten.

The yield on 10-year U.S. Treasury Notes was 2.33% at year-end, virtually unchanged from September 30 and 12 basis points lower than where it started the year. The long end of the curve performed the best, and Treasuries once again outgained Corporate bonds for the period. Little or no sign of inflation continues to fuel the rally in long bonds, as economic data shows growth, but with little effect on wages. The tax law changes that occurred on December 22 have led to confusion about how lower corporate tax rates will affect supply and demand. These concerns have worked to keep rates relatively stable.

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Crude oil prices improved by almost 17% in the quarter, leading to 6-7% gains in the Energy sector. The fourth quarter recovery helped oil prices increase 13% for the full year, though natural gas prices declined by 11%. Finally, the U.S. dollar was unchanged in the fourth quarter, stemming its losses earlier in the year and finishing down about 9% in 2017.

Market Outlook

The New Year began much as last year ended: Equity markets are at or near all-time highs; interest rates remain low as the Federal Reserve continues to worry about pushing inflation higher toward its 2% objective, and global markets continue to rally, with equity indices up 1-3% in the first three trading days of 2018.

The Trump Administration and Republicans in Congress won a hard-fought battle to bring tax "reform" to fruition, providing many corporations with lower tax rates and additional incentives to invest domestically. Many "experts" agree the plan will add more than $1 trillion to our nation's debt over the next 10 years, a worrisome prospect, but one that is deemed manageable for a country that is currently $20 trillion in debt. We do believe that the plan will provide a modest boost to corporate earnings growth, not only because of the reduction of the corporate tax rate to 21%, but also because the tax plan provides other incentives to invest in capital equipment and allows cash balances trapped overseas to be repatriated at a relatively low tax rate. More importantly, we

We do believe that tax reform will provide a modest boost to corporate earnings growth.

think most, if not all, of the benefits of the tax bill are already embedded in current stock prices, as investors bid up share prices on several occasions in the last 18 months as the prospect for passage improved.

While the Federal Reserve frets over relatively low levels of "traditional" inflation (i.e. prices of consumer goods and services), it is apparent to us that there has been widespread inflation in asset prices (most notably equities) resulting from its injection of $4 trillion into the global economy since 2008. As noted earlier, the S&P 500 has compounded by 19% per year since early 2009. In its efforts to rekindle economic growth, which we agree was necessary in 2008-2009, the Fed and other central banks have unleashed a torrent of inflation in asset values that has resulted in: stretched equity valuations, historically low (and in some cases negative) interest rates around the world, the evaporation of measured volatility (VIX) and liquidity in fixed income markets, and the creation of cryptocurrencies, among other things. We are intently focused now on the Fed's efforts to begin extracting the liquidity it has created in the last 10 years. Thus far, the market's response has been measured, but any bump in the road may require the Fed to reverse course and pause in this effort.

Earnings growth has certainly been hard to come by in the last eight years as the economy is still scarred by the recession of 2008-2009. The Fed has gone to extraordinary lengths with monetary policy to "create" it, and the Trump Administration is pushing hard on fiscal policy to do so. We are hopeful that these efforts will provide balanced and sustainable growth in wages in the U.S., and will allow corporate earnings to grow to levels that support today's high valuation levels. We are concerned that the global economy and global markets are wound very tight, and any hiccup along the way could lead to a loss of confidence in these policies and deterioration of financial conditions.