Economic Overview

Economic Indicators	4Q'17	1Q'18	2Q'18	3Q'18	4Q'18	1Q'19
Real GDP *	2.3%	2.2%	4.1%	2.8%	2.7%	2.3%
CPI (year over year)†	2.1%	2.4%	2.8%	2.7%	2.5%	2.3%
Unemployment Rate†	4.1%	4.1%	4.0%	3.8%	3.7%	3.7%

-------------------- estimated --------------------

Source: Bloomberg

* Quarter over quarter annualized † end of period

Increase from last reported Decrease from last reported

Why are Real Rates so Low?

Any interest rate has two major components – one compensates for inflation, the other compensates for the actual use of the money or capital. This compensation for use, known as the real rate, is akin to the rent a landholder might charge for the use of his land. The real interest rate is the basic rent for the use of money before inflation is taken into account.

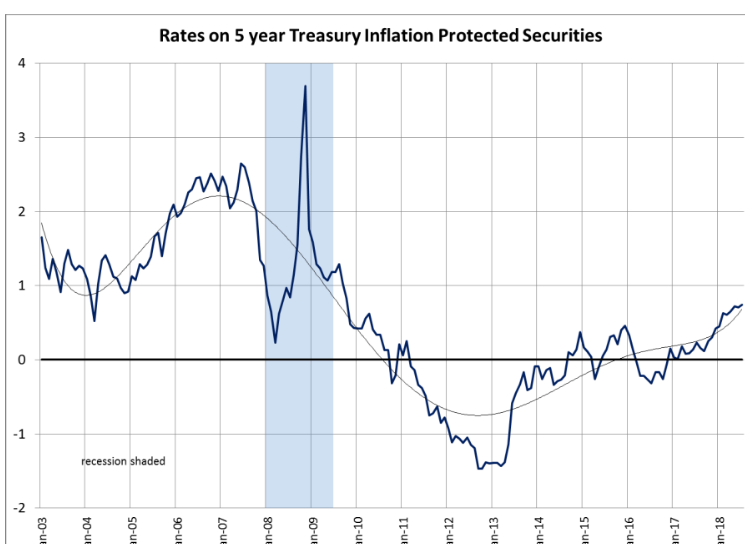
The real rate of interest historically has been between two and three percent. But since 2008, the real rate has been less than one percent and, at times, has been negative, as is evident from the accompanying chart of the rates on 5 year Treasury inflation-protected securities or TIPS. The payment of interest and principal on TIPS is indexed to inflation, so the rate on the securities is equivalent to the real rate of interest.

Why has the real rate been so low? This is a topic of more than casual interest for investors. First, it sets the base rate for what savers can expect to earn on their savings. When the real rate is low (or negative!), the best a saver can hope for is to stay even with inflation.

Perhaps more importantly, the real rate factors in to how future corporate earnings are valued and thereby into stock prices. When the real rate is low, all other things being the same, future earnings are worth more today and stock prices will be higher.

Analysts have speculated that real rates are low because of the actions of central banks. The bond purchase programs of the Federal Reserve, the European Central Bank, and the Bank of Japan have flooded the globe with money that has pushed down or repressed interest rates. Other analysts point to a global glut of savings as the cause for low real interest rates. They note that the increase in the value of the global bond and stock markets has far exceeded the volume of money created by central banks through their bond buying programs. Yet other analysts cite low economic growth as the cause of low real rates.

Each of these factors has likely contributed to today's low real rates with the global savings glut being the principal factor. If we are right, real rates are likely to remain low even after central banks stop all bond buying. The implication for investors is that equity valuations will remain elevated and bond returns will remain modest. Overall, returns on capital will be lower than historical averages, with important consequences for investors' financial plans.



Source: Board of Governors of the Federal Reserve

STRATEGY INSIGHT

August 2018

People's United Advisors

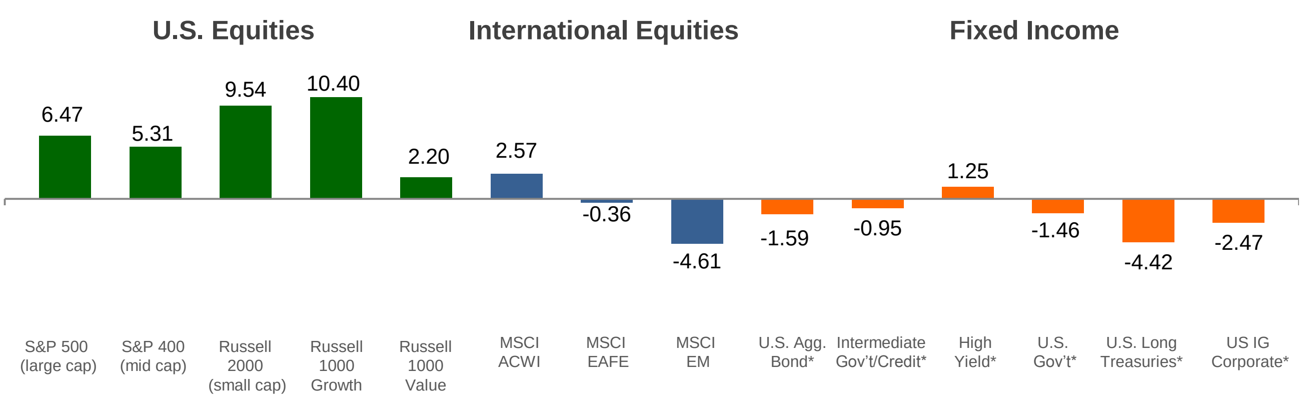
Equity: “Tariffs are the greatest.” - President Trump

- The second quarter of 2018 was dominated by headlines, discussions, and concerns about yield curves, Fed rate increases, tariffs and trade wars. The equity markets ignored the hysteria, however, and focused on the economy. As a result, the second quarter was up almost 3 ½%, but the volatility of the first three months continued in the second period as the market continues to work through its correction.

- Although sector participation increased in the second quarter, performance was heavily driven by two sectors and a limited number of stocks. Tech and Consumer Discretionary make up about 39% of the S&P 500 and were up over 16% and 14% respectively. In addition, three stocks, Amazon, Netflix, and Microsoft, accounted for over 70% of the year-to-date gain. However, that the market continues to make higher lows and recently broke through the 2,800 level, which had been a resistance level, are positives for the market overall.

- Small cap in general outpaced large cap stocks with performance driven by expected stronger earnings growth and the perception that small companies are somewhat insulated from the issues of tariffs and international trade. Growth continues to outperform value due to the relative outperformance of Technology and the underperformance of Financials.

Market Returns (%) Year-to-Date As of July 31, 2018



Source: Bloomberg *Bloomberg Barclay's indices

Fixed Income: Central banks act locally, impact globally.

- The 10 year Treasury hit the psychologically significant 3% yield threshold this week as the yield curve experienced a period of flash steepening (longer term interest rates moving up more rapidly than shorter term rates).

- The move upwards in longer term rates was related to bond market reaction to potentially higher rates in Japan due to tweaks in the Bank of Japan’s monetary policy.

- As long as the fed believes it will be able to adhere to its plan to hike 6 more times by 2020 (the bond market believes that number is closer to 4) the curve will likely not be able to sustain steepening absent surprisingly strong growth or inflation prints.

- These dynamics continue to support increasing the allocation to shorter maturity Treasuries relative to other areas of the bond market. Shorter maturities benefit portfolios by allowing investors to more quickly realize the higher yield that fed monetary policy is providing.

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