



WEALTH
MANAGEMENT

Market Review and Outlook

October 2018

Cedar Hill Wealth Management 120 N LaSalle, 33rd Flr, Chicago IL 60602

312.445.2900 www.cedhill.com An affiliate of MB Financial Bank, N.A.

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Investment Highlights

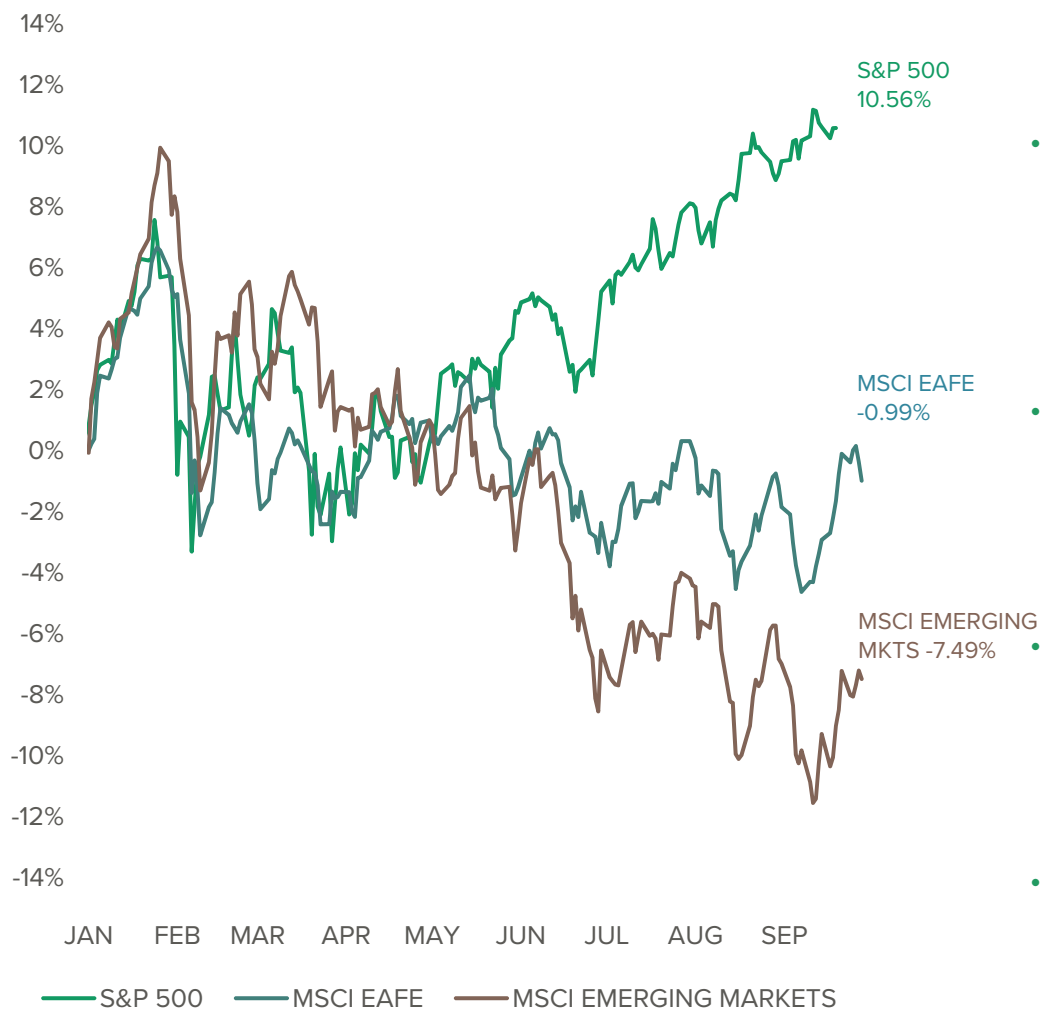
Investment Strategy Review

Other Charts

Investment Highlights

3Q 2018 Major Investment Themes

EQUITY MARKET RETURNS FROM 1/1/2018 THROUGH 9/30/2018



Source: Bloomberg

- Economic Backdrop & Equity Fundamentals Remain Healthy** – The list of reasons to be optimistic remains atypically long: record growth in corporate profits, contained inflation, a robust labor market, strong business and consumer confidence, near-average stock valuations – the list goes on.
- U.S Stocks Outpace their Foreign Peers** – While foreign equity fundamentals remain arguably more attractive than U.S. stocks, the latter outperformed by a wide margin during the quarter and YTD. This has largely been driven by uncertainty around the potential negative impacts of trade tensions with China, a rising U.S. dollar and idiosyncratic risks in a few emerging markets.
- Trade Wars & Trade Agreements** – Much of the market’s performance during the quarter (and the year) was colored by the escalating trade tensions between the U.S. and China. Just before the end of the quarter, the U.S., Canada, and Mexico came to a provisional agreement to replace NAFTA with a relatively close facsimile in the USMCA.
- The 10-Year Treasury Yield Breaks Above 3%** – In mid-September, the benchmark yield breached 3%. This move has been supported by strong employment market data and an improving domestic economy. Eyes will continue to be on relatively muted inflation data, which has kept interest rates from breaking meaningfully higher than 3% since 2011.
- Global Financial Conditions Tighten** – Rising global interest rates and a strengthening U.S. dollar are signs of improving financial conditions. That said, there remains notable divergence among major global policymakers.

2018 OUTLOOK (Established 1/1/18)

Domestic Equities: While valuations are elevated, a continuation of the strong fundamental backdrop should allow domestic equities to produce mid- to high-single digit results in 2018, with the first half of the year likely stronger than the second half.

International Equities: Attractive relative valuations versus U.S. equities, improving economic growth prospects and an uptrend in corporate earnings should position foreign equities for another good year in 2018.

Equity Income: U.S. production of oil, natural gas and liquids is expected to grow in 2018, leading to higher revenues and earnings for MLPs. The strategy should be able to provide a 7-8% dividend yield and 2-4% earnings growth; an attractive opportunity on both an absolute and relative basis.

Fixed Income: We expect rates to increase gradually throughout the year with minimal change to the steepness of the yield curve at year-end. 2018 fixed income results should be close to the coupon rate of interest, as bonds are unlikely to benefit from lower rates or be dramatically negatively impacted by rising rates.

2018 OUTLOOK (Updated 10/1/18)

Although many fear that higher interest rates will lead to the end of the 9+ year equity market rally, bear markets typically do not occur when the economic backdrop is so strong. While we are ensuring portfolios align with our clients' long-term goals and selecting high quality investment opportunities, the bull market appears to have more legs.

The lesson to take from the recent foreign equity underperformance is one of short-term risks vs. long-term opportunity. We have been slow to put new capital to work internationally as these markets may need a catalyst (likely additional resolution to trade discussions) to improve market sentiment. Longer term prospects for international equities, especially emerging markets, remain in place.

MLPs have rallied in the second and third quarter 2018 due to a combination of strong earnings and distribution growth. Though many investors remain skeptical about MLPs after being burned in previous years, a few more quarters of improving earnings/distributions should alleviate much of those fears and move prices higher.

We continue to expect the yield curve to steepen, rates on longer term bonds will move up more than shorter term bonds. In this environment, positioning portfolios in shorter duration fixed income is prudent. We have also reduced higher risk credits and improved portfolio credit quality without giving up much yield.

Keys to Success in 2018 and Beyond

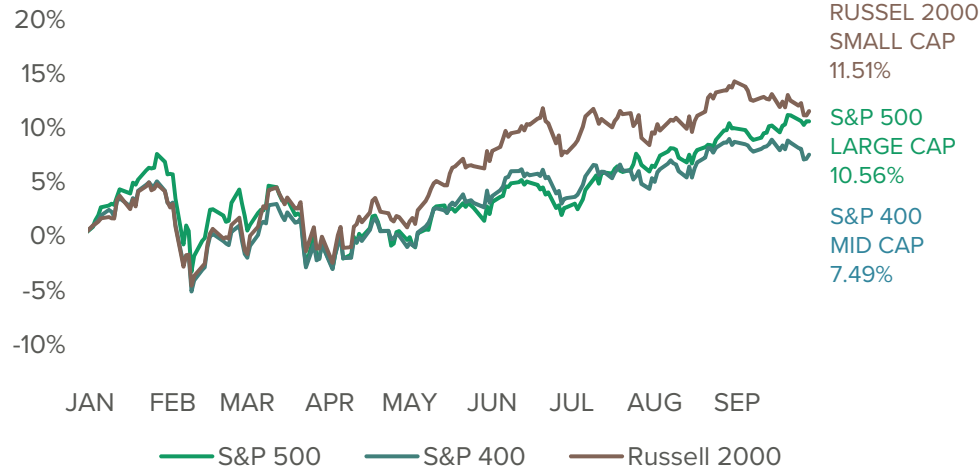
Looking ahead, it is important that we position portfolios to capture the upside we expect in 2018. That said, as we are deep into one of the longer bull equity markets in history, and the U.S. economy is likely in a late stage of the economic cycle, it is equally important that we position portfolios to protect client capital. In order to accomplish this we are taking a number of steps, all of which are fundamental to our investment philosophy:

- **Rebalance portfolios to each client's long-term asset allocation:** As the equity market continues to rise, portfolios have organically become more aggressive. We are actively taking profits to insure that client portfolios remain aligned with their long-term asset allocation targets.
- **Maintain our valuation-conscious discipline:** We understand that our conservative, value-focused philosophy means that we may miss out on all of the upside in momentum-driven years like 2017. We are firm believers that this approach will help protect capital when markets turn.
- **Seek pockets of value:** Though most equity asset classes are trading at valuations above historical averages, there are pockets of value that remain attractive on both an absolute and relative basis.
- **Utilize alternative investments:** Where appropriate, we utilize both private and liquid alternative investments to provide meaningful portfolio diversification. These strategies are less reliant on equity markets to produce positive results and can be a useful tool to provide downside protection.
- **Tactically shift portfolios to capture opportunities:** As has always been the case, we review portfolios on an ongoing basis and shift strategies when we uncover a more favorable risk/reward opportunity. This may include raising cash levels as valuation levels rise too far, investing where transitory variables have unnecessarily impacted asset prices, and seeking new ideas that offer superior risk/return trade-offs.

Investment Strategy Review

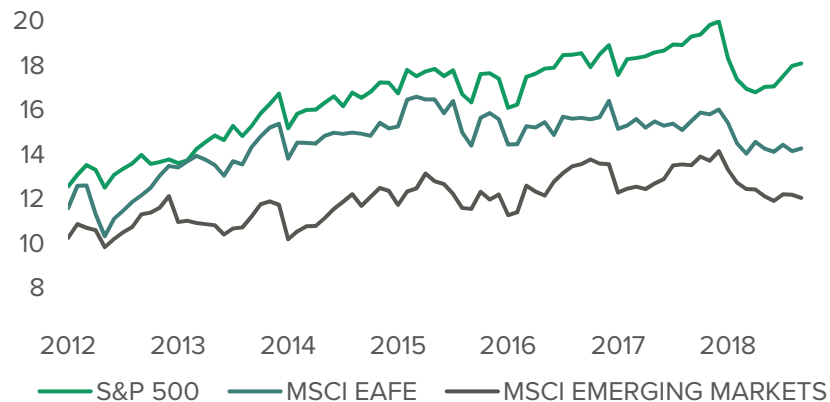
U.S. Equity Markets: 3Q 2018 Review

EQUITY MARKET RETURNS FROM 1/1/2018 THROUGH 9/30/2018



Source: Bloomberg

FORWARD P/E RATIOS FROM 1/1/2012 THROUGH 9/30/2018



Source: Morningstar

After fairly muted returns for domestic equities through the first half of 2018, performance accelerated in the third quarter.

- All major market cap segments and styles of U.S. stocks posted positive returns in 3Q. During the quarter, large caps (+7.8%) led the way, followed relatively closely by mid caps (+3.9%), and small caps (+3.6%).
- All sectors of the S&P 500 Index posted positive quarterly returns. Health Care led the way (+14.5%).
- While growth again outpaced value and large cap tech stocks continued to lead the S&P 500 higher, the breadth of leadership was much wider than during the first half of the year. In addition, Facebook turned from being among the largest contributors in 2Q to the largest detractor in 3Q.

Some important context for the “longest bull market in history”:

- Based on daily closing prices, we are now amidst the vaunted “longest bull market in history,” surpassing the run of the 1990s. If judged using month-end returns, however, this is just the fourth longest bull market.
- While the bull market has been quite long, the speed of the economic recovery (total GDP growth) has been below average relative to previous recoveries.

Although there are a number of idiosyncratic risks to the 9+ year bull equity market, a strong economic backdrop and earnings growth should help sustain this rally. A good defense today is a focus on quality companies – meaning those with good free cash flow, clean balance sheets, and the ability to preserve or increase dividends. We are, however, rebalancing portfolios (i.e. trimming equity exposure) to ensure they align with our clients’ long-term goals and risk appetites.

International Equity Markets: 3Q 2018 Review

MARKET PERFORMANCE AS OF 9/30/2018

| INDEX NAME | QTD | YTD |
|-----------------------|--------|--------|
| S&P 500 | 7.71% | 10.56% |
| MSCI EAFE | 1.35% | -1.44% |
| MSCI Europe | 0.80% | -2.46% |
| NIKKEI 225 (Japan) | 8.81% | 7.68% |
| MSCI Emerging Markets | -1.09% | -7.60% |
| MSCI BRIC | -4.12% | -8.42% |
| MSCI Emerging Asia | -1.83% | -6.70% |
| MSCI Latin American | 4.77% | -6.91% |

Source: Bloomberg

CURRENT P/E RATIO COMPARED TO LONG-TERM AVERAGES FROM 5/1/2005 THROUGH 9/30/2018

| | CURRENT | LONG-TERM AVERAGE |
|-----------------------|---------|-------------------|
| S&P 500 | 18.05 | 15.67 |
| MSCI EAFE | 14.26 | 13.94 |
| MSCI Emerging Markets | 12.03 | 11.66 |

Source: Morningstar

The story for foreign equities during the third quarter of 2018 continued to be one of near-term risks vs. better longer term fundamentals. While U.S. economic data continues to impress and suggests that a recession is not around the corner, international markets have been much more patchy.

- A full-blown dispute with China has always been the biggest trade-related concern.
- Italian elections and budget deficits, along with continued Brexit discussions, remind investors that Europe continues to face challenges.
- An economic slowdown in emerging markets and/or various country-specific shocks continue to bear watching over the near term.

Despite these risks, foreign equities continue to look more and more attractive over the longer term for a number of reasons.

- More than 90% of the next one billion entrants into the global middle class from 2015 to 2022 will be from India, China, or other Asian countries.
- In a world of generally fully-valued equity asset classes, both developed and emerging equities look more attractive relative to their long-term averages and to U.S. equities.

The lesson to take from the recent foreign equity underperformance is one of short-term risks vs. long-term opportunity. While international markets may continue to be under pressure near term until a catalyst (likely additional resolution to trade discussions) improves market sentiment, longer term prospects for international equities, especially emerging markets, remain in place.

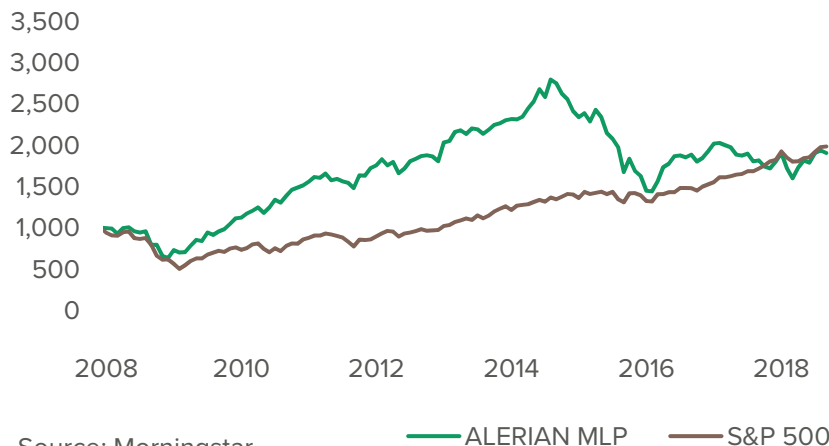
Equity Income: 3Q 2018 Review

MARKET PERFORMANCE

| INDEX NAME | FROM 1/1/2018 THROUGH 9/30/18 |
|--|----------------------------------|
| Alerian MLP Index | 5.90% |
| S&P 500 Index | 10.56% |
| Bloomberg Barclays U.S. AGG Intermediate | -1.60% |

Source: Bloomberg

S&P 500 AND ALERIAN MLP GROWTH OF \$1,000 FROM 1/1/2008 THROUGH 9/30/2018



The third quarter of 2018 brought the second consecutive strong quarter for the Cedar Hill Equity Income strategy. From a total return perspective, year-to-date MLP performance now sits squarely between that of stocks and bonds.

Investor focus continues to shift from structural and regulatory concerns to positive earnings and distribution announcements.

- Pipeline capacity is strained across the country due to record high oil and natural gas output. In areas like the Permian Basin, pipeline capacity is essentially maxed out.
- MLP dividends (around 7-8%) appear to be well covered and distribution growth is expected to be in the low/mid single-digit range.
- Across the entire investment landscape, MLPs remain among the most attractively valued opportunities relative to historical valuation levels. MLP earnings growth is accelerating, driving valuation multiples to well below long-term averages.

MLPs are unlikely to be impacted much by rising interest rates.

- Given above-average yield coupled with the potential for growth, pipeline companies have historically fared better than other yield-oriented securities (e.g. utilities, REITs) during periods of rising rates.
- If interest rates are driven higher by a strengthening economy, MLPs stand to benefit via increased demand for energy products.

A solid fundamental backdrop and improving earnings and distributions should continue to help improve investor sentiment.

Fixed Income Markets: 3Q 2018 Review

INTEREST RATES BOND INDEX

| | 6/30/2018 | 9/30/2018 |
|--|-----------|-----------|
| 1-Year Treasury | 2.31% | 2.56% |
| 5-Year Treasury | 2.71% | 2.95% |
| 10-Year Treasury | 2.84% | 3.06% |
| 30-Year Treasury | 2.97% | 3.21% |
| Bloomberg Barclays U.S. AGG Intermediate | 3.17% | 3.34% |
| Bloomberg Barclays 5-Yr Muni Bond | 2.18% | 2.40% |
| Bloomberg Barclays U.S. Corporate Credit Index | 4.02% | 4.07% |
| Bloomberg Barclays U.S. High Yield | 6.49% | 6.24% |

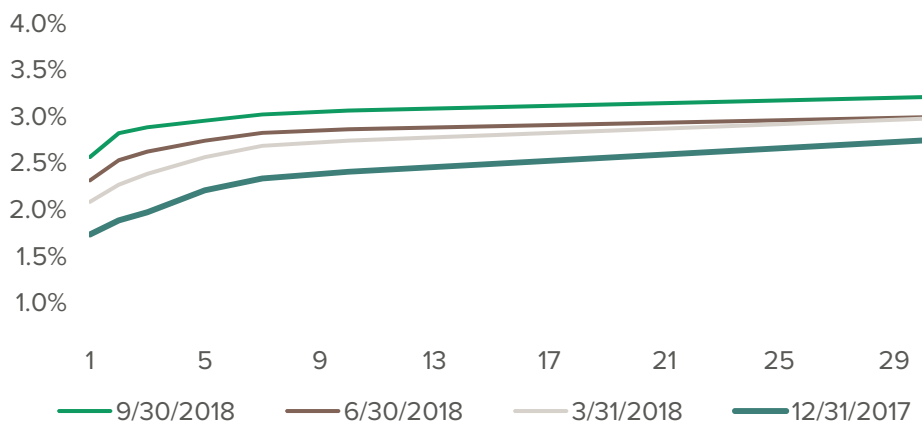
Source: Bloomberg

Long-term interest rates broke out of a multi-month trading range and the 10-year treasury yield is reaching levels not seen since 2011.

- The yield curve moved to the flattest level in a decade with the 2-year vs. 10-year U.S. Treasury bond spread dropping to 0.18% in August, before rebounding slightly to 0.24% at quarter end.
- Strong economic data, particularly labor and wage figures, led to higher yields at the long end of the yield curve. Additionally, demand for Treasuries seemed to fade at quarter end as investors looked ahead to a ramp up in quantitative tightening of the Federal Reserve's balance sheet beginning in October.
- Last quarter's widening in investment grade credit spreads proved temporary as spreads tightened for both investment grade and high yield credits in the third quarter.

We continue to expect the yield curve to steepen, rates on longer term bonds will move up more than shorter-term bonds. In this environment, positioning portfolios in shorter duration fixed income is prudent. We have also reduced higher risk credits and improved portfolio credit quality without giving up much yield.

U.S. TREASURY YIELD CURVE IN YEARS



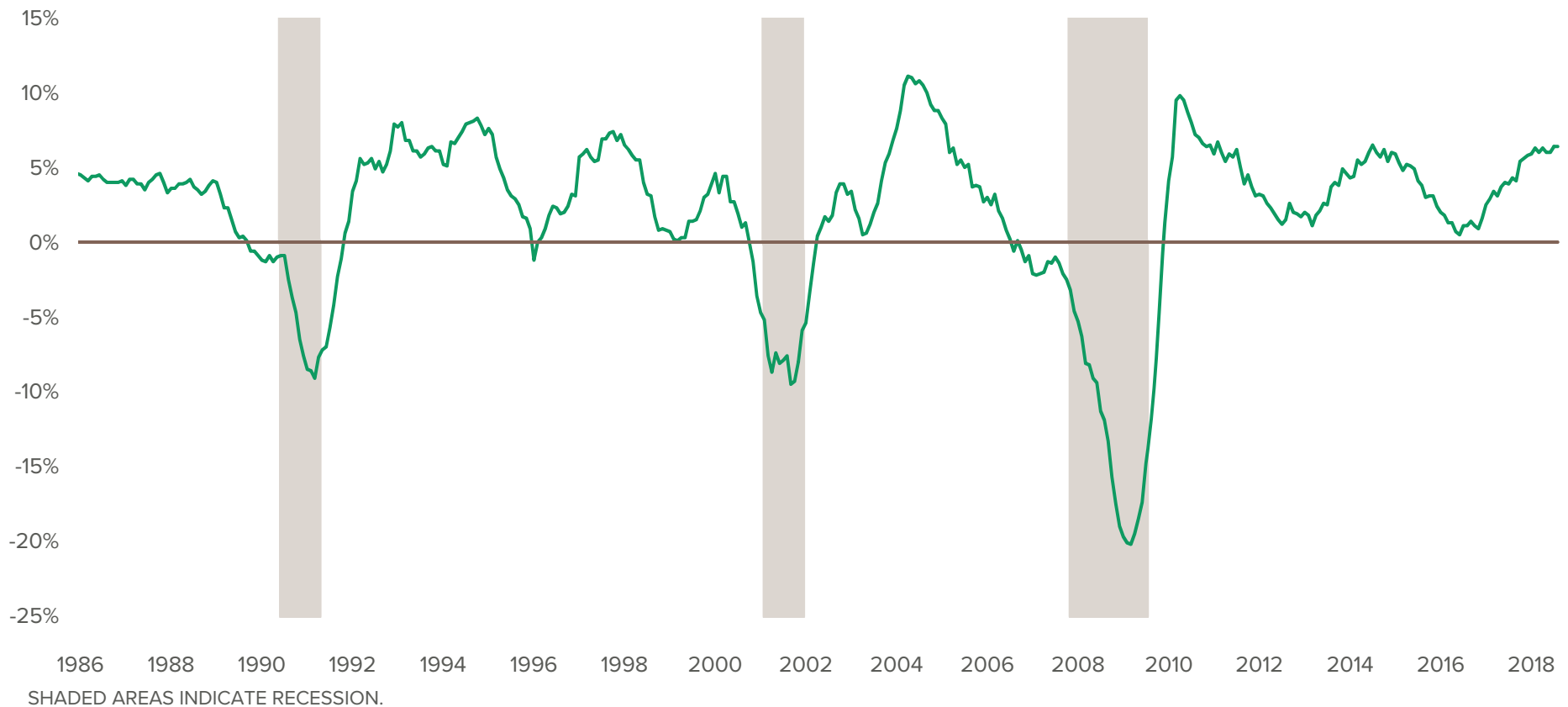
Source: Morningstar

Other Charts

Leading Economic Indicators

Leading indicators include economic variables that tend to move before changes in the overall economy. A negative reading in these indicators preceded each of the last three recessions. The latest reading suggests current economic conditions still remain favorable.

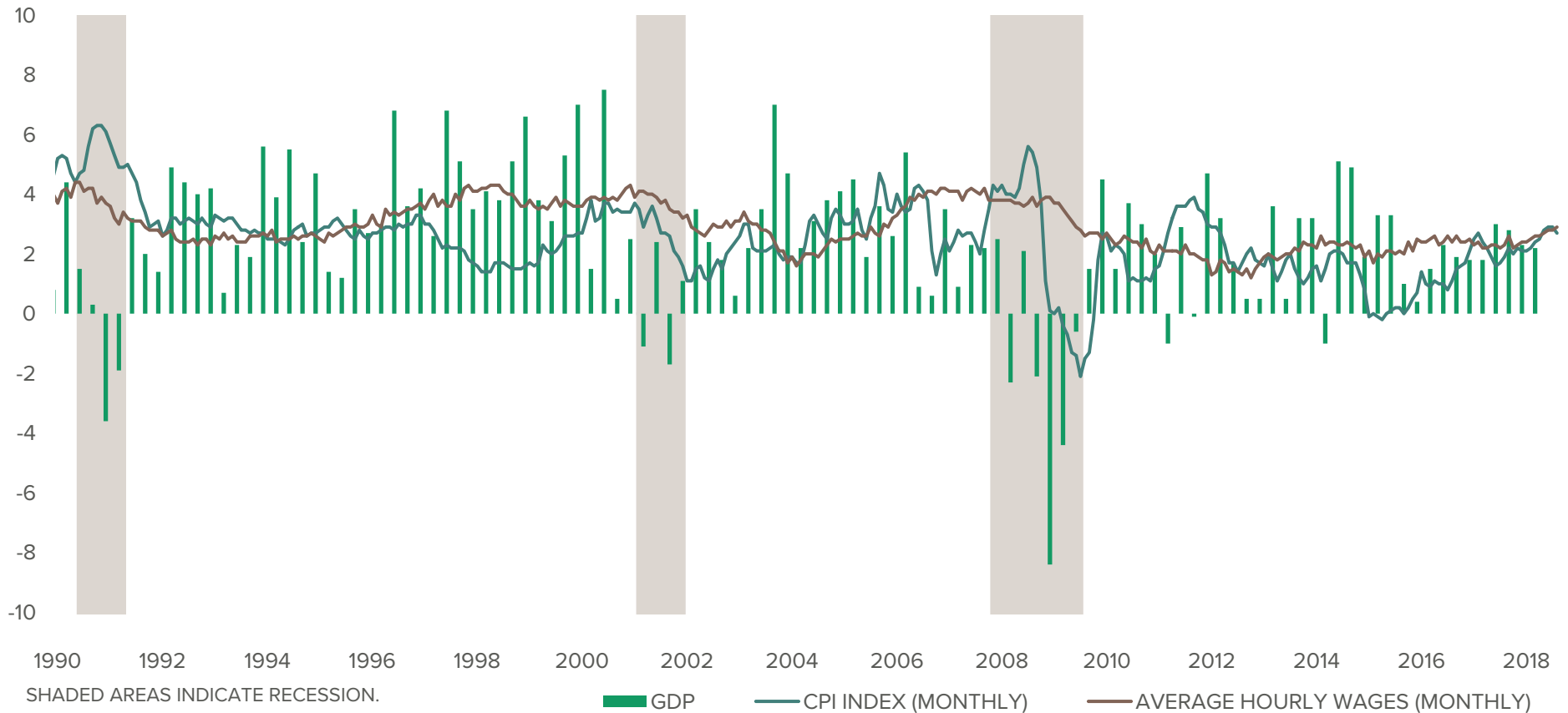
CONFERENCE BOARD U.S. LEADING ECONOMIC INDICATORS INDEX
PERCENT CHANGE YOY, MONTHLY, FROM 1/1/1986 THROUGH 8/31/2018



U.S. GDP & Inflation

While the current recovery has been longer than most past economic expansions, the pace has been somewhat anemic. The silver lining may be that the period of economic expansion is not yet over, as GDP growth is forecast to accelerate.

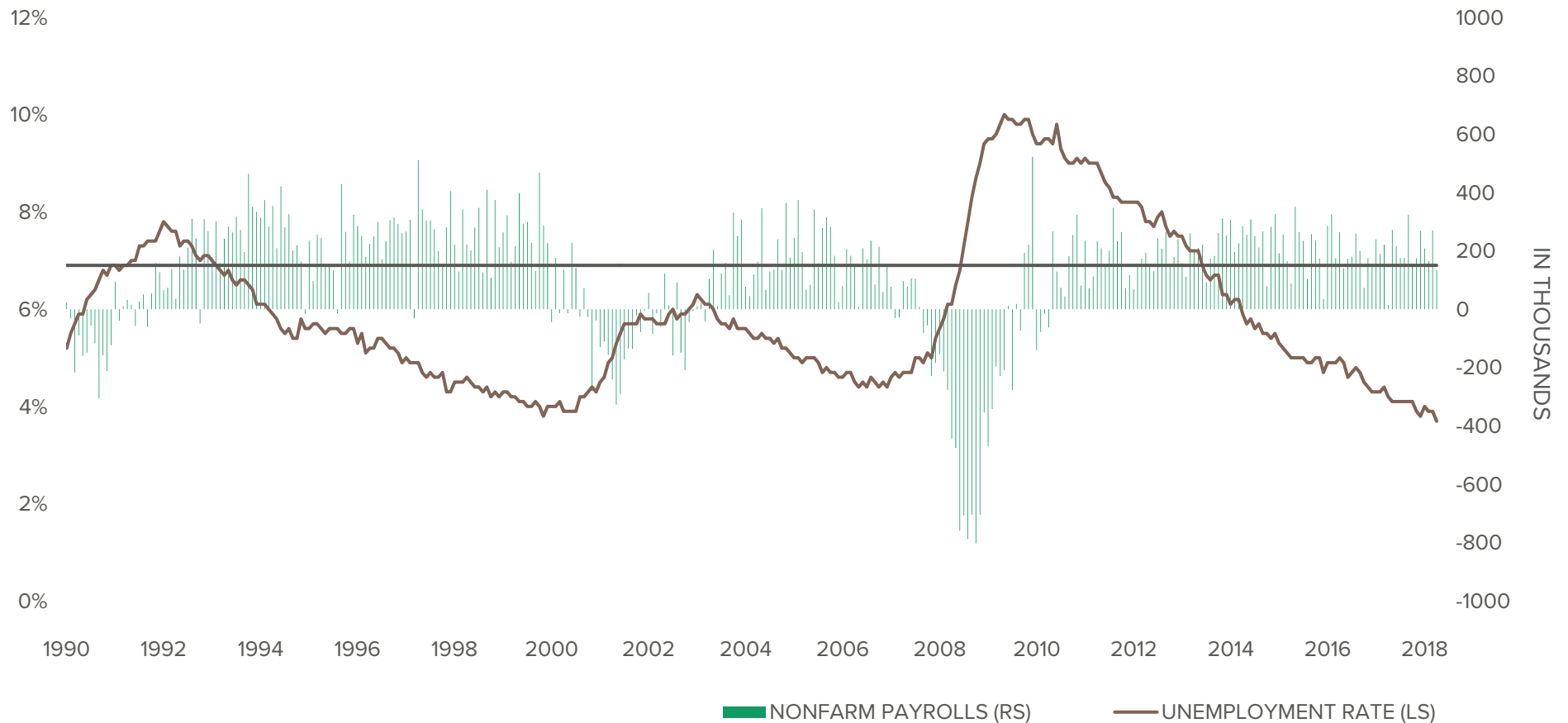
**U.S. GDP, INFLATION & WAGE GROWTH
FROM 1/1/1990 THROUGH 9/30/2018**



Employment Data

A trend of consistent job additions since early 2011 has brought the unemployment rate (3.7%) down to the lowest level in nearly a half century. For context, the last time the rate was this low, millions of men had been drafted for the Vietnam War and taken out of the labor force.

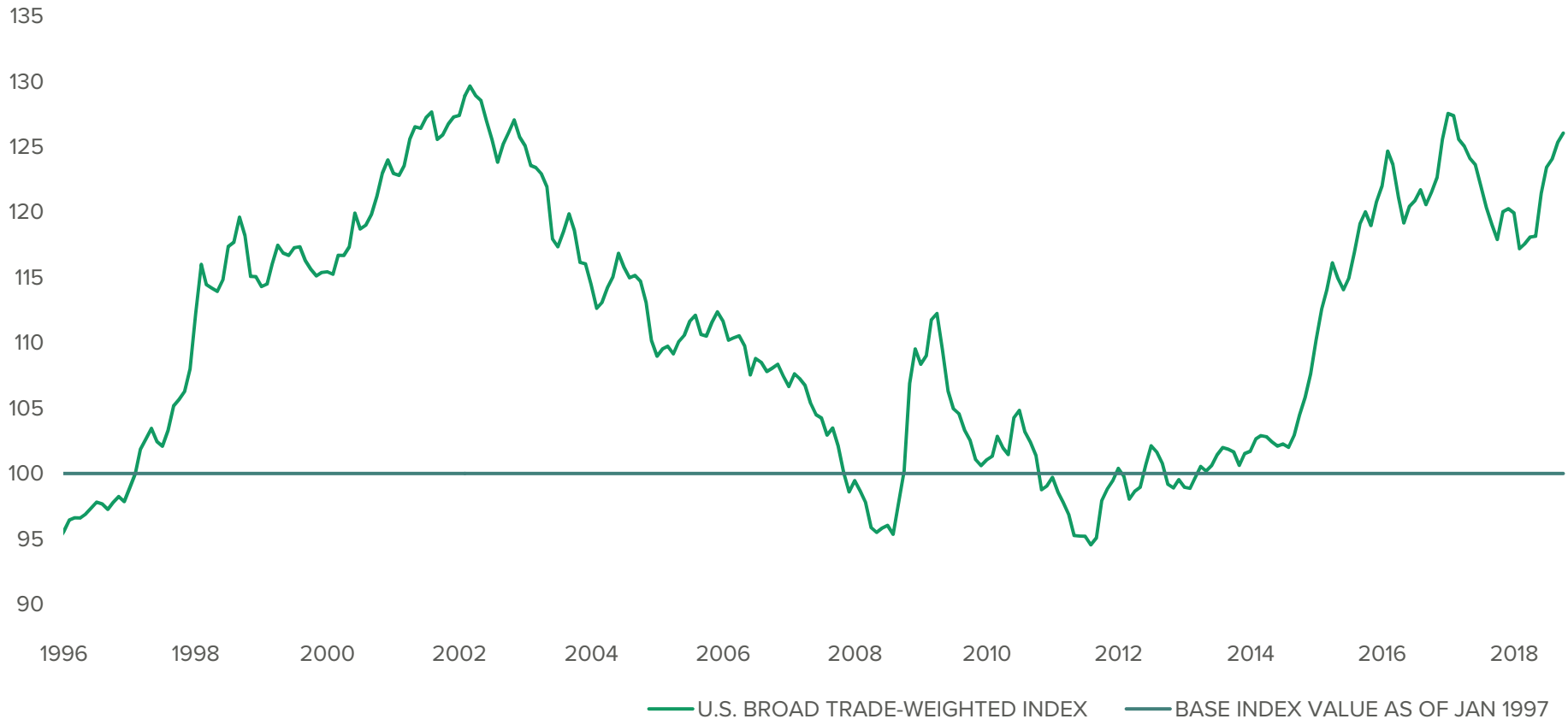
UNEMPLOYMENT RATE & NONFARM PAYROLLS FROM 6/1/1990 THROUGH 9/30/2018



U.S. Dollar Strength

After a weak 2017, the U.S. dollar has mounted a strong comeback thus far in 2018. Driven primarily by a strong U.S. economy, the dollar's strength has taken a toll on other global currencies. A protracted rise in domestic interest rates should prove to be a continued tailwind for the dollar.

U.S. DOLLAR VS. 26 FOREIGN CURRENCIES FROM 1/1/1996 THROUGH 9/30/2018



US. Federal Funds Effective Rate

After several years of historically easy monetary policy, the Federal Reserve has continued to lift the U.S. Federal Funds Effective Rate towards its long-term target level. The Fed raised interest rates eight times, for a cumulative 2.0% increase since the end of 2015, and a total of one more hike is expected in 2018.

U.S. FEDERAL FUNDS EFFECTIVE RATE FROM 1/1/1988 THROUGH 9/30/2018



Long Term U.S. 10-Year Treasury Yield

The 37-year bull market for bonds had driven the 10-Year Treasury yield to near historically low levels over the past several quarters. That said, the benchmark domestic bond yield closed the quarter at 3.06%, representing an increase of over 27% from year end.

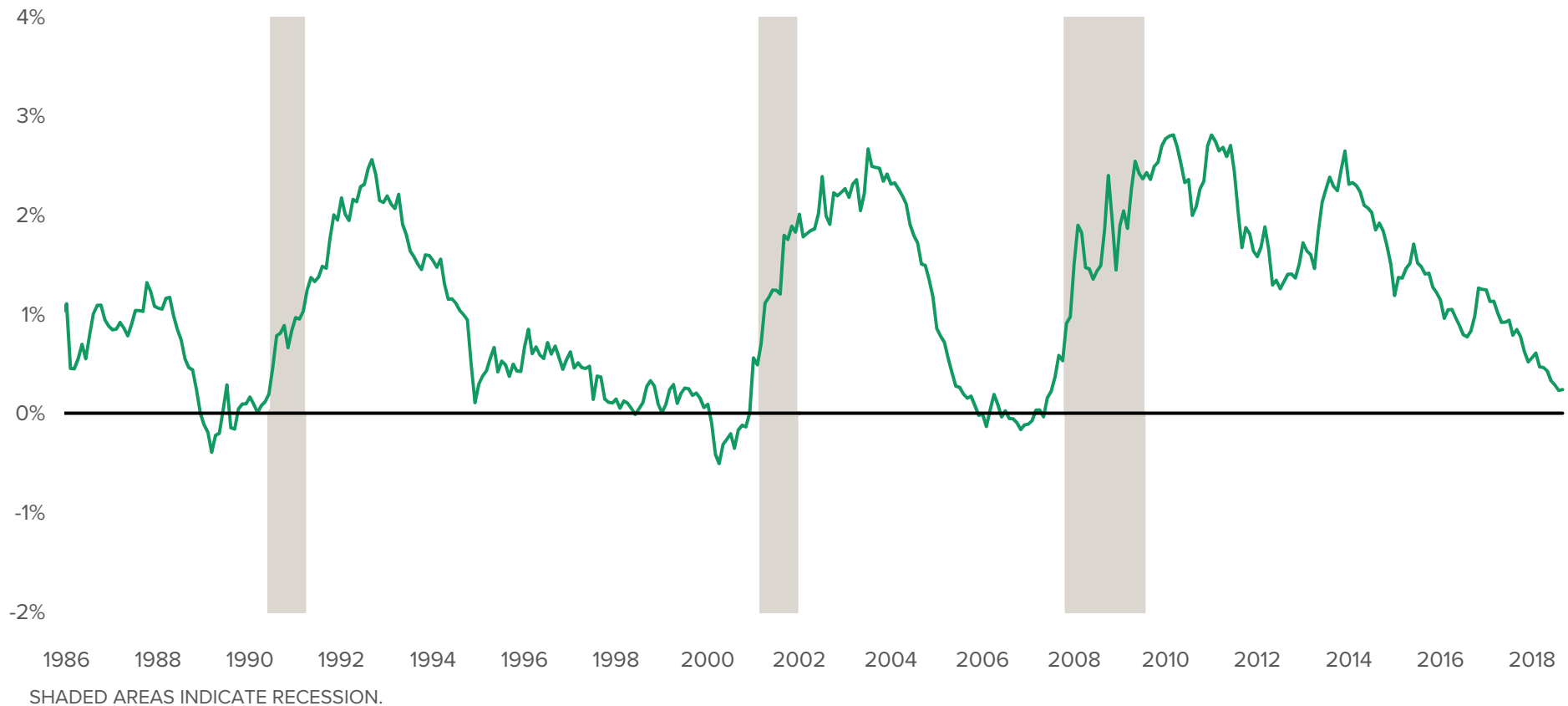
**U.S. 10-YEAR TREASURY YIELD
FROM 1/1/1962 THROUGH 9/30/2018**



2-Year vs. 10-Year Treasury Yield Curve Spread

A comparison of long-term versus short-term Treasury rates illustrates that past recessions were preceded by an inverted yield curve (i.e. the 10-Year Treasury yield falling below the 2-Year yield). During the quarter, this yield spread got as low as 18bps, giving us the flattest yield curve in a decade. As of 9/30/18, the 10-Year yield was just 0.24% above the 2-Year yield.

10-YEAR U.S. TREASURY YIELD MINUS 2-YEAR U.S. TREASURY YIELD FROM 1/1/1986 THROUGH 9/30/2018



Relative Yield

10-Year U.S. Treasury bonds have historically provided a higher yield than equities. From 2008 until as recently as last year, however, the yield on the S&P 500 has on multiple occasions eclipsed that of the 10-Year. Since late 2017, the breakout of the 10-Year has meant that investors can now enjoy a meaningfully higher yield than that provided by large cap U.S. stocks.

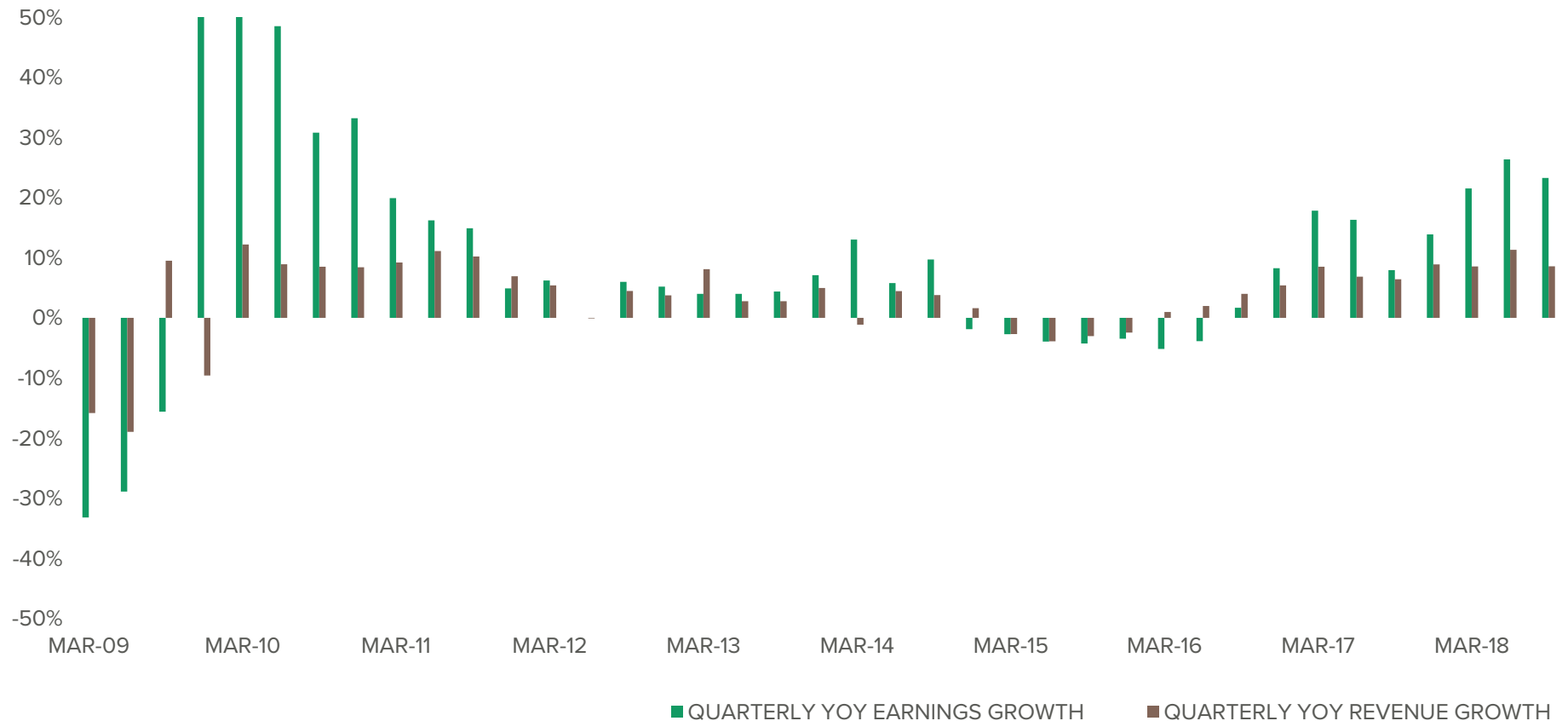
**S&P 500 INDEX DIVIDEND YIELD VERSUS 10-YEAR TREASURY YIELD
FROM 1/1/1994 THROUGH 9/30/2018**



Corporate Earnings & Revenue Growth

Quarterly earnings and revenue growth figures have been strong in the U.S., and have accelerated through 2018. Continued solid corporate performance this year and beyond will be necessary to support current valuations. Year-over-year corporate profit growth above 20% is arguably the biggest and most important positive supporting force in the persistence of the 9+ year bull market.

S&P 500 INDEX YOY QUARTERLY EARNINGS AND REVENUE GROWTH FROM 3/30/2009 THROUGH 9/30/2018



Source: Bloomberg.

Asset Class Returns

Asset class performance is cyclical, highlighting the importance of constructing a broadly diversified portfolio.

PERIODIC TABLE OF ASSET CLASS TOTAL RETURNS FROM 1/1/2007 THROUGH 9/30/2018

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | YTD |
|---------------------------|----------------------------|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|----------------------------|---------------------------|---------------------------|---------------------------|
| EMERGING MARKETS 39.8% | LT BOND 24.0% | EMERGING MARKETS 79.0% | REAL ESTATE 27.6% | LT BOND 29.9% | REAL ESTATE 19.7% | SMALL CAP 41.3% | REAL ESTATE 28.1% | REAL ESTATE 2.8% | SMALL CAP 26.6% | EMERGING MARKETS 37.8% | SMALL CAP 14.5% |
| COMMODITIES 16.2% | GLOBAL BOND 9.2% | HY BOND 57.5% | SMALL CAP 26.9% | ST/IT BOND 7.8% | EMERGING MARKETS 18.6% | MID CAP 33.5% | LT BOND 25.1% | LARGE CAP 1.4% | MID CAP 20.8% | LARGE FOREIGN 25.6% | LARGE CAP 10.6% |
| LARGE FOREIGN 11.6% | ST/IT BOND 5.1% | MID CAP 37.4% | MID CAP 26.6% | REAL ESTATE 7.3% | LARGE FOREIGN 17.9% | LARGE CAP 32.4% | LARGE CAP 13.7% | ST/IT BOND 0.6% | HY BOND 17.5% | LARGE CAP 21.8% | MID CAP 7.5% |
| LT BOND 9.8% | HEDGE FUNDS -23.3% | LARGE FOREIGN 32.5% | EMERGING MARKETS 19.2% | GLOBAL BOND 6.4% | MID CAP 17.9% | LARGE FOREIGN 23.3% | MID CAP 9.8% | LARGE FOREIGN -0.4% | LARGE CAP 12.0% | MID CAP 16.2% | HY BOND 2.5% |
| ST/IT BOND 7.4% | HY BOND -26.2% | REAL ESTATE 27.5% | COMMODITIES 16.8% | HY BOND 4.4% | SMALL CAP 16.3% | HY BOND 7.4% | ST/IT BOND 6.0% | LT BOND -1.2% | COMMODITIES 11.8% | SMALL CAP 13.2% | REAL ESTATE 1.8% |
| GLOBAL BOND 5.7% | SMALL CAP -33.8% | SMALL CAP 27.2% | HY BOND 15.2% | LARGE CAP 2.1% | LARGE CAP 16.0% | HEDGE FUNDS 6.7% | SMALL CAP 4.9% | SMALL CAP -2.0% | EMERGING MARKETS 11.6% | REAL ESTATE 8.7% | HEDGE FUNDS -1.2% |
| MID CAP 5.6% | COMMODITIES -35.7% | LARGE CAP 26.5% | LARGE CAP 15.1% | MID CAP -1.7% | HY BOND 15.6% | REAL ESTATE 2.9% | HY BOND 2.5% | MID CAP -2.2% | REAL ESTATE 8.6% | LT BOND 8.5% | LARGE FOREIGN -1.4% |
| LARGE CAP 5.5% | LARGE CAP -37.0% | COMMODITIES 18.9% | LT BOND 9.4% | SMALL CAP -4.2% | ST/IT BOND 4.2% | ST/IT BOND -2.0% | GLOBAL BOND -0.5% | GLOBAL BOND -3.6% | ST/IT BOND 2.7% | GLOBAL BOND 7.5% | ST/IT BOND -1.6% |
| HEDGE FUNDS 4.2% | REAL ESTATE -37.3% | HEDGE FUNDS 13.4% | LARGE FOREIGN 8.2% | HEDGE FUNDS -8.9% | HEDGE FUNDS 3.5% | EMERGING MARKETS -2.3% | HEDGE FUNDS -0.6% | HEDGE FUNDS -3.6% | HEDGE FUNDS 2.5% | HY BOND 7.5% | COMMODITIES -2.0% |
| HY BOND 1.9% | MID CAP -41.5% | ST/IT BOND 5.9% | ST/IT BOND 6.6% | LARGE FOREIGN -11.7% | LT BOND 3.4% | GLOBAL BOND -4.0% | EMERGING MARKETS -1.8% | HY BOND -4.6% | GLOBAL BOND 1.6% | HEDGE FUNDS 6.0% | GLOBAL BOND -2.6% |
| SMALL CAP -1.6% | LARGE FOREIGN -43.1% | GLOBAL BOND 2.6% | GLOBAL BOND 5.2% | COMMODITIES -13.3% | GLOBAL BOND 1.7% | COMMODITIES -9.5% | LARGE FOREIGN -4.5% | EMERGING MARKETS -14.6% | LARGE FOREIGN 1.5% | ST/IT BOND 3.5% | LT BOND -5.8% |
| REAL ESTATE -17.8% | EMERGING MARKETS -53.2% | LT BOND -12.9% | HEDGE FUNDS 5.2% | EMERGING MARKETS -18.2% | COMMODITIES -1.1% | LT BOND -13.9% | COMMODITIES -17.0% | COMMODITIES -24.7% | LT BOND 1.3% | COMMODITIES 1.7% | EMERGING MARKETS -7.7% |

Source: Bloomberg. Diversification does not guarantee a profit and does not eliminate the risk of loss. Emerging Markets: MSCI EM; Large Foreign: MSCI EAFE; Large Cap: S&P 500; Mid Cape: S&P MidCap 400 TR; Small Cap: S&P SmallCap 600; Real Estate: FTSE NAREIT All Equity REITs; LT Bond: BBgBarc US Treasury Long; Global Bond: Citi WGBI USD; HY Bond: ICE BofAML US High Yield; Hedge Funds: HFRX Global Hedge Fund Index; ST/IT Bond: BBGBarc US Agg Bond; Commodites: Bloomberg Commodity

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