EQUITY STRATEGY FOCUS

JULY, 2018

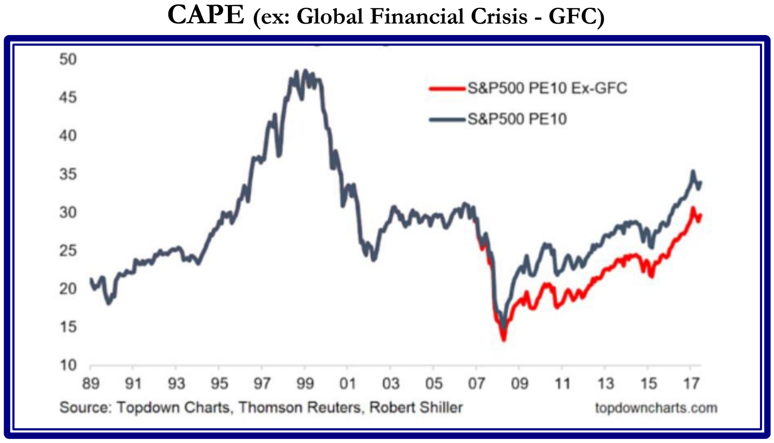
IN VIEW: The Equity Landscape

We are beginning the 10th year of consecutive positive stock market returns as measured by the S&P 500 index. On average, stocks outpaced bonds by over 1200 basis points a year. The length of this current bull market is understandably causing some concern to its longevity. One way to consider stock market valuations is to look at what is called Fair Value. When stock yields are above that of bonds, stocks are more attractive; when bond yields are above, then the opposite is true. Currently stock yields are well above bonds. While it's notable that the lines are converging, the spread is still wide enough for us to continue to prefer stocks over bonds.

Source: O'Shares ETF

Another way to look at the overall market valuation is through a 10-year smoothed version of the Price to Earnings (P/E) multiple or CAPE ratio. This figure (blue line in exhibit below) has indeed been in an uptrend since 2009 and is the subject of many conversations among analysts on whether or not the market is overheating. Some analysts argue that since the CAPE ratio looks at 10 year rolling time periods it would be prudent to screen valuations for outlying data or data that is not considered to be of normal occurrence. Let's remember that P/E multiples spiked after the collapse in earnings during the financial crisis. When these earnings are removed from the data the results, when compared to the initial CAPE ratio, suggest that perhaps market valuations are overstated. It is our belief that multiples have room to expand further as we navigate the late expansionary phase of the market.

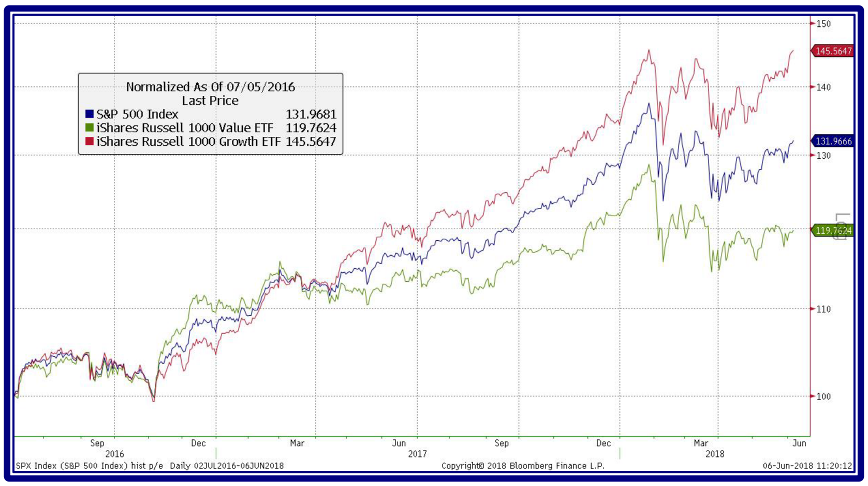
CAPE Ratio Comparison to
CAPE (ex: Global Financial Crisis - GFC)



Investors are facing intensifying pressure to lean towards growth stocks in order to stay relevant with benchmark returns. Even Warren Buffet, a renowned value investor, established a stake in Apple, which as of its 2017 shareholder letter is its second largest holding. As the market cycle continues to mature, more and more investors are buying into momentum stocks which has the potential to increase portfolio turnover. The foundation of value investing goes against the grain of collective crowd mentality, and by design should protect portfolios in the event of a change in leadership or a market correction. While we believe the current bull market still has room to expand, we remain rooted in our philosophy based on fundamentals.

In past commentaries, we have written about FAANG stocks and their sizable representation within benchmarks. The S&P 500 index currently has 26% Technology and the Russell 1000 Growth index has a 40% exposure. Drilling down further, 16% and 27% of those respective indexes are invested in the FAANG stocks. The Russell 1000 Value index by comparison only has a 9% weight in the Technology sector with zero representation in FAANG stocks.

Performance Dominated by Tech Heavy Indexes



The timing of this style drift into growth stocks is concerning, and could turn out to be quite detrimental to long term returns of portfolios that are focused on momentum stocks as the market cycle matures. Our value orientation is a key discipline during shifts in investor sentiment. This year, value style sectors such as Consumer Staples, Consumer Discretionary, Utilities and Financials have underperformed adding to frustrations amongst value investors. But the dichotomy between growth and value is widening which only cements the necessity to remain focused on underlying fundamentals.

Take a look below at comparative fundamentals for the FAANG stocks versus the Technology holdings of the AIM composite. Metrics for the FAANG stocks are lofty on both an absolute and relative basis. While it is currently difficult to find absolute value amongst the Technology sector, we aim to bring the metrics closer in line with the overall sector.

FAANG Stock Valuation Metrics

Company Name	Price/Sales TTM	Price/EPS TTM	Price/EPS Fwd 1 Year	5 Yr Hist EPS Gr Rate (eps from cont ops)	Dividend Yield (Indicated Rate)	Price / Cash Flow TTM	Price / Book	Market Cap
FACEBOOK INC-A	14.07	28.41	18.83	261.33	0	20.80	7.23	560,176,114,726
AMAZON.COM INC	4.68	265.81	59.31	64.48	0	44.58	25.96	818,912,593,612
APPLE INC	4.42	18.83	14.66	7.65	1.51	14.64	7.52	949,260,601,940
NETFLIX INC	13.97	232.33	71.45	100.28	0	--	39.55	159,032,272,710
ALPHABET INC-CL A	7.81	30.93	20.00	14.78	0	20.42	4.98	795,720,018,798
Average	**8.99**	**115.26**	**36.85**	**89.70**	**0.30**	**25.11**	**17.05**	**656,620,320,357**
SPX Index	**2.15**	**20.68**	**15.75**	**--**	**1.93**	**13.32**	**3.16**	**24,210,000,000,000**

Source: Bloomberg and Altman Investment Management, LLC

AIM Composite Valuation Metrics

Company Name	Price/Sales TTM	Price/EPS TTM	Price/EPS Fwd 1 Year	5 Yr Hist EPS Gr Rate (eps from cont ops)	Dividend Yield (Indicated Rate)	Price / Cash Flow TTM	Price / Book	Market Cap
MICROSOFT CORP	8.25	27.85	25.30	4.09	1.65	18.06	9.88	782,418,417,718
ORACLE CORP	5.26	18.17	13.99	2.70	1.61	12.84	4.03	192,297,353,865
APPLIED MATERIALS	3.92	12.83	11.32	33.66	1.52	13.44	7.85	53,023,312,281
INTEL CORP	4.34	14.26	13.85	3.28	2.13	10.80	3.71	263,057,000,000
KEYSIGHT TECHNOLOGIES	3.49	98.66	17.98	0.00	0	25.78	4.54	11,486,987,006
CISCO SYSTEMS INC	4.58	20.16	15.08	5.87	3.03	15.83	4.42	204,998,647,913
ACCENTURE PLC-CL A	2.87	25.12	21.81	9.00	1.67	17.42	10.52	102,873,922,970
Average	**4.67**	**31.01**	**17.05**	**8.37**	**1.93**	**16.31**	**6.421**	**230,022,234,536**
SPX Index	**2.15**	**20.68**	**15.75**	**--**	**1.93**	**13.32**	**3.16**	**24,210,000,000,000**

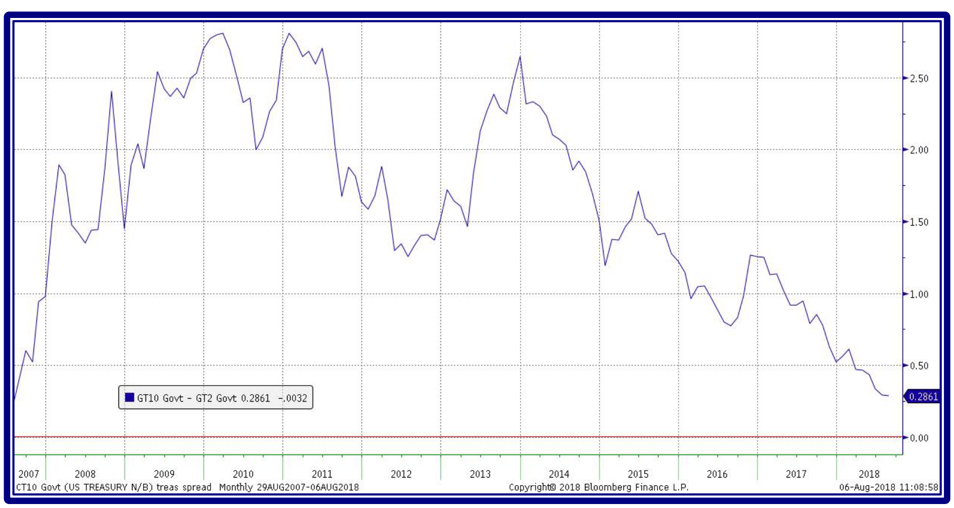
Source: Bloomberg and Altman Investment Management, LLC

ECONOMIC COMMENT:

As markets continue to climb in the 2nd quarter, it appears as though the resilience of the current bull market is dependent upon economic growth and is not being overshadowed by geopolitical uncertainty. To date, the economy continues to move forward on higher GDP growth, low unemployment, strong global growth, and benign inflation. Higher oil prices are driving earnings expectations higher. Inflation remains tame as the Central Banks continue with accommodative policies. Unemployment dropped to 3.9% as of its latest reading, currently at a level we haven't seen since 2000. Wage growth remains well below levels during periods of similar labor markets, keeping inflation in check. At the June Fed meeting, policy makers announced another rate hike, displaying their confidence in the economic progress thus far. Fed Policy appears to be overshadowing the potential negatives of a protectionist environment. The minutes did touch on several potential risks that they will continue to monitor: one being the impact of the looming trade war and second the narrowing spread between short and long-term bond yields.

The narrowing of the short/long spread indicates that investors are stepping up to pay for short term protection. This move demonstrates a flight to safety amongst investors which appears to have escalated over the past two years. We are still 28 points away from an inverted yield curve (when short term rates are higher than long term) which would signal a recession. Trading near that territory is signaling investor caution and we will continue to monitor the trend.

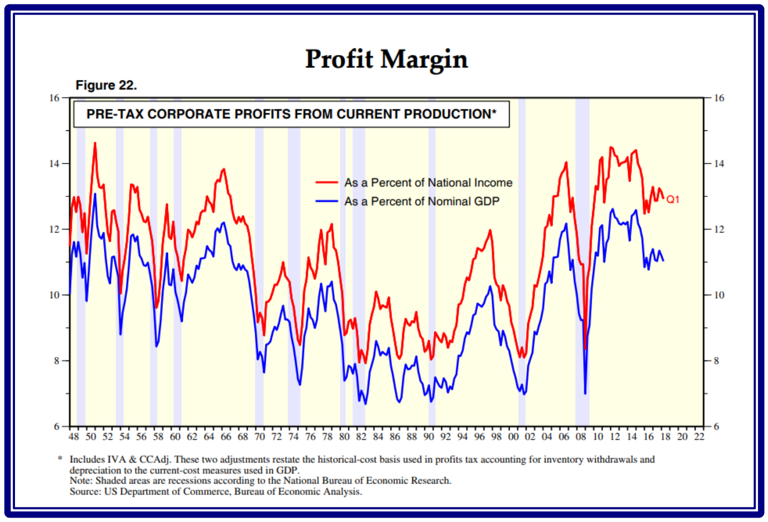
Spread Between 10 and 2 Year Treasury is Narrowing



Source: Bloomberg and Altman Investment Management, LLC

Given mostly positive economic data releases, the looming trade wars, immigration reform and the ongoing investigation by Special Counsel Mueller have had little impact on markets thus far. It is unclear at this point whether investors view these issues as peripheral and/or temporary pressures, or if materialization of any one of these individual factors simply doesn't carry enough weight.

Corporate profits as a percentage of GDP received a slight boost from tax reform, after falling from peak 2016 levels. Conditions for improving earnings still exist, however any potential trade war consequences have yet to play out and could pull this trend down from current levels.



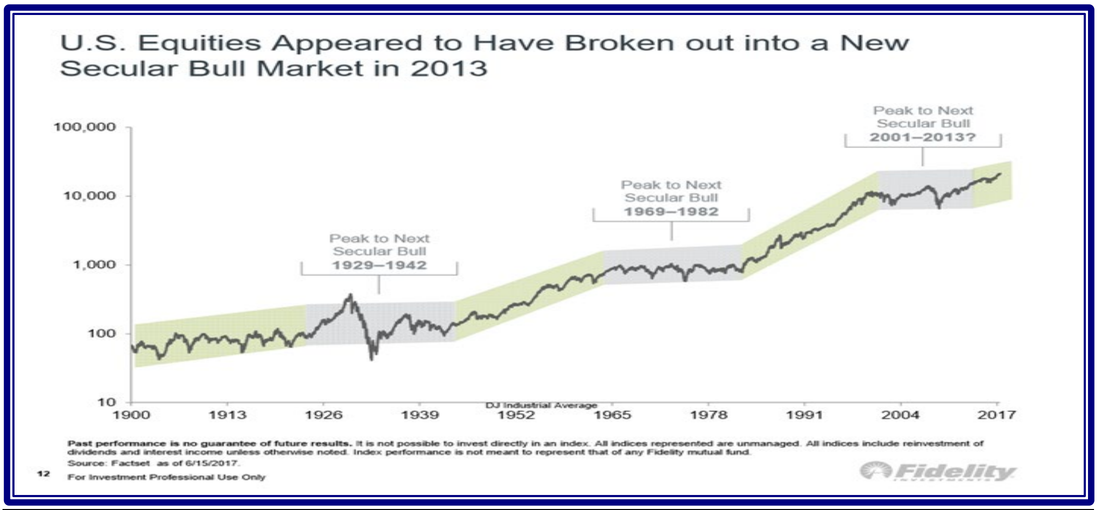
Source: Yardeni Stock Market Brief - June 2018

So far, the current administration has implemented several protectionist policies. With each action within its infancy stage, longer term consequences are widely debated. We can, however, look to past U.S. trade wars such as the one with Japan in the early 80s. History has taught us that tariffs/quotas do not always work to lower trade deficits. Back then, when quotas were placed on Japanese auto exports, the share of Japanese auto imports declined; but due to rising auto prices, the dollar amount actually continued to rise. Foreign export countries can also alter products with new specifications, circumventing tariff/quota laws. Alternatively, targeted tariffs pave the way for secondary countries to enter the market at potentially higher costs. In looking back at our global trade history, the resulting higher prices in some cases came back to hurt the U.S. consumer. Japan and other targeted countries were not the only ones shouldering the brunt of the burden. It is also important to note that in the earlier example Japan and other involved nations were allies willing to come to the negotiating table. As compared to what is going on today, the trade war appears to be more hostile.

CLOSE-UP: Equity Investment Overview

Market Performance Overview:

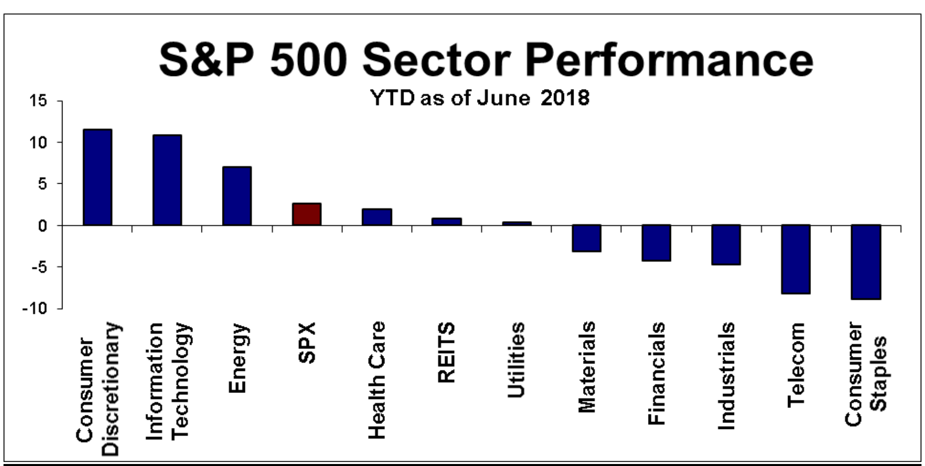
The Russell 2000 Index of small cap stocks in general has less international exposure and as a result has outperformed larger caps this year. Despite protectionist policies favoring smaller cap domestic companies, stocks as a whole continue to move higher in Q2 and into Q3. The global economy should continue to grow and protectionism isn't likely to become a significant drag on growth. Forecasts should move higher on tax savings and corporate earnings.



Industrial stocks have underperformed during the first half of the year. Historically this sector performs well after a trough in cap-ex and growth begins to accelerate. This underperformance leads some to question whether the market is anticipating a peak in spending. Concurrently, CEOs have been deferring cap-ex decisions due to the mounting uncertainty surrounding global trade relations. The election outcome in November could provide some clarity as to the direction of global trade on a long-term basis. The softer housing market is also working against the sector as higher interest rates become a concern for mortgage costs.

Energy had a strong first half as Brent Crude prices rallied over 19%. In the week following the June 22nd OPEC meeting, Brent crude oil prices popped up over $79 per barrel, its highest level in about 3 1/2 years. Despite announcing output increases of 1 million barrels a day (mbd), oil prices initially rallied before falling back to the low $70s per barrel. Other potentially offsetting factors include falling Venezuelan and Libyan production levels and uncertainty with regards to the Iranian output as a result of the U.S. pulling out of the Iran Nuclear Deal. Brent Crude oil prices have been rising since early 2016 on global inventory drawdowns. The U.S. Energy Information Administration (EIA) estimates that global inventories fell by 0.5 mbd in 2017 and another 0.2 mbd so far in 2018.

There are more pushes and pulls affecting the price of crude. On the bearish side, the shale miracle continues to boost production in the U.S., OPEC quotas are still up for debate, and Saudi Arabia and Russia have already started pumping more oil. And on the horizon, electric vehicles could weigh on oil demand if they're broadly adopted. On the bullish side, renewed U.S. sanctions against Iran could lower that country's production, the dissolving society in Venezuela has crippled its oil industry, and the strong global economy has helped boost demand. All this has resulted in the U.S. EIA's forecasting an oil market that's in surprising balance. This year, it expects worldwide crude oil and liquid fuels production of 100.22 million barrels per day (mbd) and worldwide consumption of 100.29 mbd.



Source: Bloomberg and Altman Investment Management, LLC

Consumer Discretionary and Technology have enjoyed double digit returns this year. Within Consumer Discretionary, internet and direct marketing were the strongest, followed by department stores then footwear. In Technology, application software and home entertainment software led the sector. It's expected that cyclical sectors take the lead in a mid to late expansionary market cycle, as consumer confidence remains high, unemployment is low, and inflation is in check.

Financial stocks have been struggling this year, despite profitability gains from higher interest rates and regulatory easing. Rates on the 10-year treasury are indeed higher at nearly 3%. However, the spread between shorter term 2-year and longer term 10-year rates is narrowing. This time last year, the spread was as wide as 92 basis points and compares to the current spread of just 28. Banks borrow money at the short end of the curve through customer deposits, CDs or other short-term debt. Banks then loan money out on the longer end of the curve realizing a profit from the spread. Naturally, as this spread narrows, net profits are squeezed. According to Bloomberg, net interest margin estimates for Q2 are up ~2 basis points, as compared to the prior quarter increase of 7. While this compressing spread has been overshadowing the industry thus far this year, banks posted revenue growth of 1.87% and EPS growth of 18.5%. Diversified financials posted revenue growth of 13.8% and EPS growth of 34.9%. After initially trading down on announcement day, bank stocks on average posted a 2-day gain of 1.4% while diversified financials partially recovered posting -0.3%.

In terms of the AIM composite:

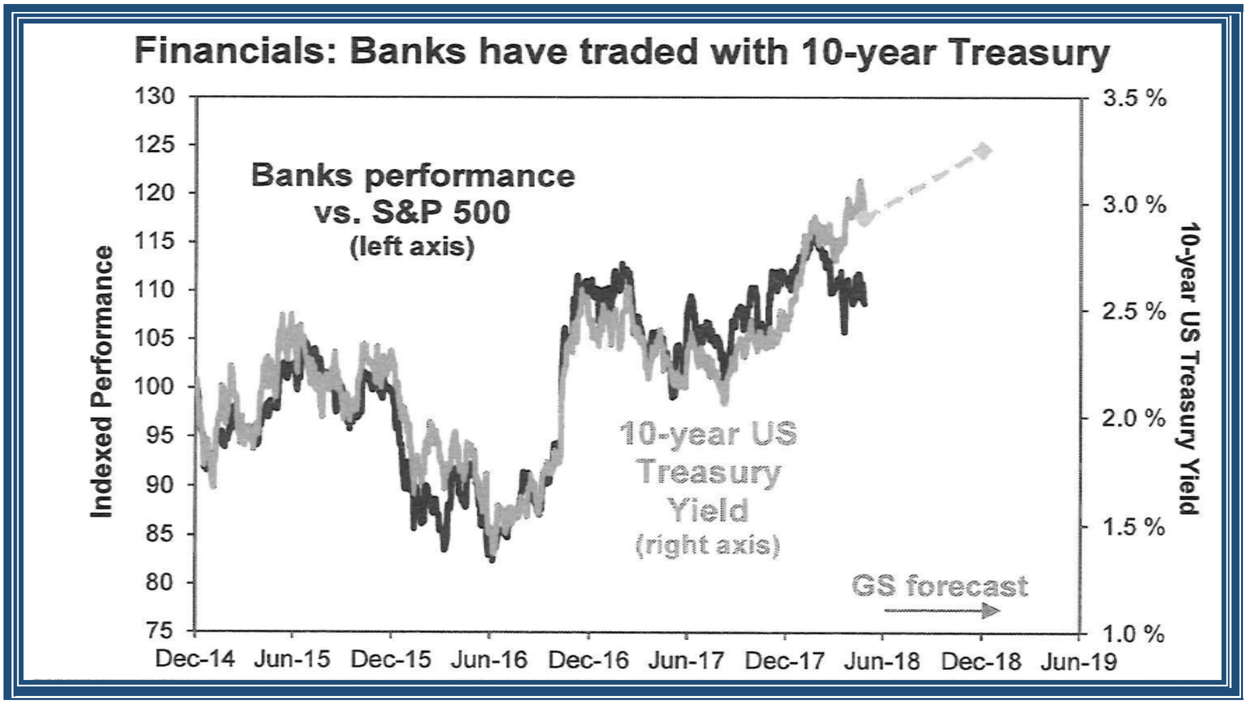
- For the first half of the year, the AIM composite lagged the benchmark S&P 500. Consumer Staples, Energy, and Industrials were additive to relative performance. Consumer Discretionary, Information Technology, Financials, and Telecom detracted from relative performance.
- The top 5 positive contributors to relative performance were Keysight Technologies, Archer Daniels Midland, Conoco Phillips, Regions Financial, and Marathon Oil.
- The bottom 5 negative contributors to relative performance were Dollar Tree, Applied Materials, Oracle, Cardinal Health, and McDonald's Corp.

Portfolio Strategy:

M&A activity continues to be robust with global volumes up over $1.2 trillion in Q2 2018. Contributing to this uptrend is tax reform, lower financing costs, strong equity markets, and global growth. Growth is attributed to sheer size of mergers as opposed to the number of deals. In March, Cigna announced it was acquiring Express Scripts (ESRX) this year for nearly $50 billion. ESRX, one of the last stand-alone Primary Benefits Managers, traded up nearly 9% on the day of the announcement.

A direct link to insurers, such as Cigna, has become paramount in client affordability and service. ESRX needed a business combination in order to stay relevant in a consolidating industry. Prior to this deal, CVS announced a merger with Aetna, and United Healthcare joined forces with OptumRx. Amazon's new announcement of acquiring Pill Pack adds to the mounting pressures to obtain cost control.

June results for the Federal Reserve's latest stress test on banks are in. Stress tests measure whether or not banks carry sufficient amounts of capital in order to remain soluble during recessions. All but one company passed, allowing them to continue paying dividends. The Fed calculated that large cap banks "added approximately $800 billion in high quality capital", thus raising optimism that banks could continue to lend money in the face of a recession. The Federal Deposit Insurance Corporation (FDIC) announced that bank profits increased 27% in Q1 year over year.



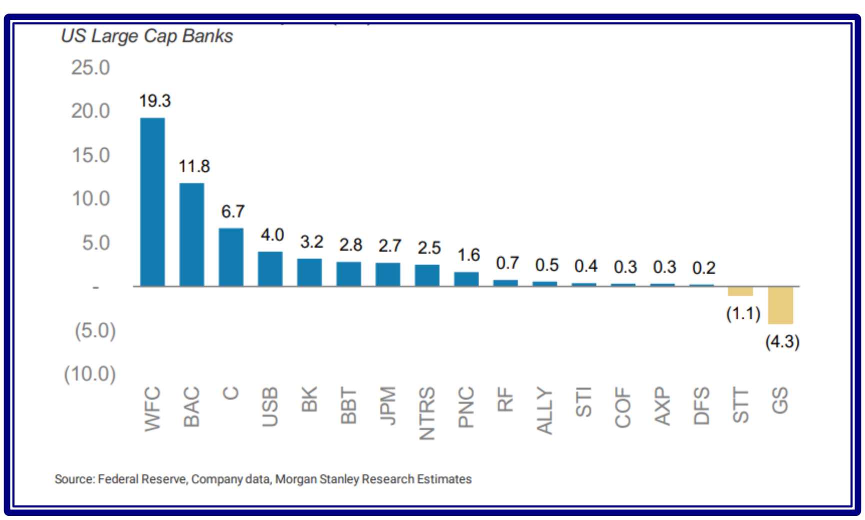
Source: Goldman Sachs

According to The New York Times reporting, banks are on a path to pay out the largest dividends since the financial crisis. Bank of America recently announced it would be raising its dividend by 25% and has been authorized to repurchase $20 billion in common stock through 2019. Regions Financial's capital plan was approved which includes a dividend increase to $0.14 up from $0.09 and a stock buyback of $2 billion. The Fed also approved Wells Fargo's capital plan to increase its dividend by 10% and double its stock repurchases from the prior year. The Bank of New York announced a 17% increase in quarterly dividends coupled with $2 billion in common stock buybacks.

Goldman Sachs and Morgan Stanley, passed the test despite carrying capital below minimum levels. The reason being that as a result of new tax legislation these banks were forced to take one-time losses. Elizabeth Warren expressed concerns at the July 17th Banking Committee Meeting, stating that banks should be saving more capital now as opposed to paying out to investors. In her opinion, Goldman Sachs and Morgan Stanley were treated too softly by lax oversight. They were not failed but given subpar titles without penalties.

Estimated Maximum Excess Capital

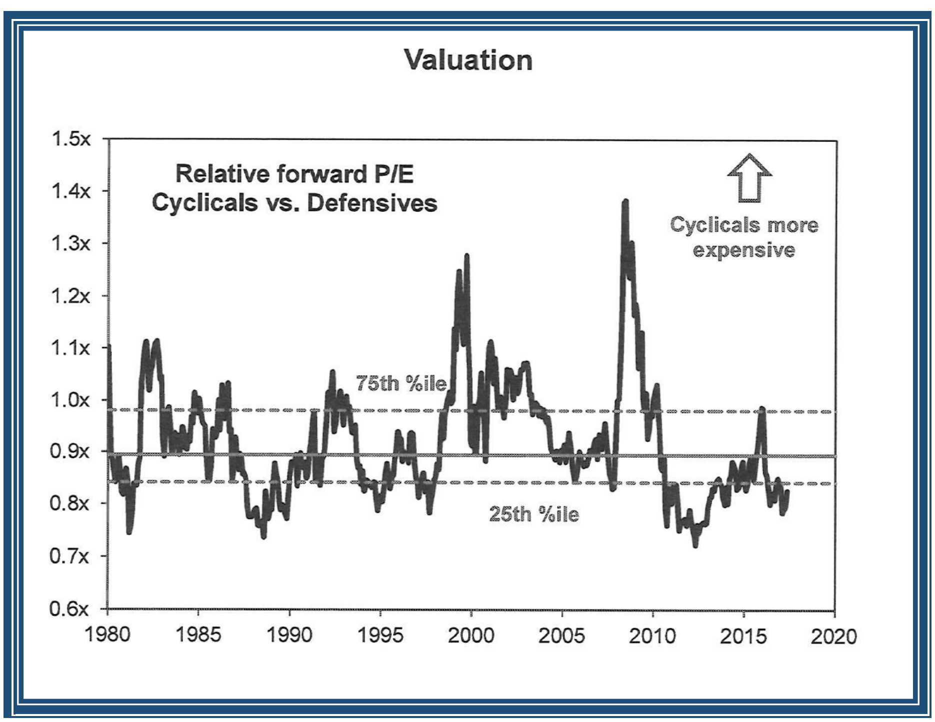
(in Billions $)



The Philadelphia Semiconductor Index (SOX index) has underperformed the benchmark S&P 500 Index since early February, as global trade tensions intensified. With an average of only 20% of revenues coming from the United States, these companies are highly exposed to escalating trade tensions and it is being reflected in relative stock prices. Export controls are of significant importance to this industry, as prioritized by the Semiconductor Industry Associations' letter to the President Elect in late 2016. The industry also urged for expanding access to global markets and protection of intellectual property (IP). Trade tariffs on the other hand are working against industry and taking them in quite the opposite direction.

Keep in mind that a world increasingly filled with electronics and sensors has helped keep the market for semiconductors robust. The most recent data comes from the Semiconductor Industry Association which reports that worldwide semiconductor sales climbed in May by 3.0% m/m and 21.0% y/y to a new record high and maintained the S&P 500 Semiconductors stock price index at an almost 12% gain since the start of the year. However, concerns about the duration of the cycle and the impact of the Trump trade war have weighed on the S&P 500 Semiconductor Equipment industry stock price index, which has lost its leadership position this past month. Semiconductor equipment companies are in the unenviable position of being important to China's future and therefore being a key negotiating chip for President Trump. China wants to create a competitive domestic semiconductor industry as part of its "Made in China 2025" plan. As a result, Chinese companies have become large buyers of semiconductor equipment.

Analysts aren't especially optimistic about results next year. Semiconductor equipment revenues growth is expected to decelerate sharply from 25.6% this year to 4.4% in 2019. Likewise, the industry's earnings are expected to shift from 49.5% growth in 2018 to 1.1% growth next year. The forward P/E is 10.0, moderately lower than in recent years. The slowdown in S&P 500 Semiconductors is slightly less dramatic, with revenues expected to grow 15.3% this year and 5.1% in 2019. Earnings growth is forecast to jump 30.7% this year, but only 4.3% in 2019. The forward P/E is 13.1, down only a touch from where it has been in recent years. Anticipating the market reaction in Q1, we took some profits in Applied Materials and reduced our tech exposure. Should a full-blown trade war erupt, we would anticipate further reductions in our semiconductor exposure.



Source: Goldman Sachs

IN SUMMARY:

The second quarter earnings season, which is nearly over, has been almost as impressive as the first quarter's earnings result. At the end of last year, industry analysts scrambled again to raise their 2018 and 2019 earnings estimates to reflect the passage of the Tax Cuts and Jobs Act (TCJA). The U.S. economic growth also confirms the earnings reports during the first half of this year. The overall strength reported by the BEA might be attributable to the stimulative impact of the TCJA, as well as to the ongoing lift to earnings from the Trump administration's business deregulation. So far, neither the rise in short-term interest rates, nor the increase in the trade-weighted dollar, nor the escalating trade war has weighed on earnings. We think that earnings will remain strong over the rest of this year. Our year-end target for the S&P 500 index of 3100 is based on earnings for the year that approach $157 per share and an estimate of $175 per share for 2019 and a market multiple of 18 times.

GDP came in at 4.1% in Q2 - accompanied by improving employment, increasing consumer spending, rising exports and strong manufacturing. We remain confident in the strength of the U.S. economy and have a constructive view on markets. Tax savings and corporate earnings should overshadow potential risks from protectionist policies, as long as trade posturing doesn't escalate into a full-blown longer-term trade war. We are estimating that GDP growth may achieve a 3.3% growth rate for 2018 against 2.7% inflation. We modestly raised our 2018 earnings expectations to 21% growth. We maintain our 10% growth estimate for 2019.

U.S. stocks have been outperforming other major overseas stock price indexes since early February. At that time, President Trump started his "America First" protectionist ideology aimed at making free trade *fairer trade* with America's major trading partners. Despite the mounting evidence that the global economy has been rebounding from the worldwide energy-led mini-recession of 2015, increasing portfolio investments in companies with greater international exposure may be premature. This alternative allocation, although attractive based on relative valuations against their U.S. counterparts, gives credence to the potential economic risk associated with an escalating trade war. In reviewing U.S. stocks, they've done even better when foreign indexes are priced in local currencies, because the dollar has soared in response to Trump's renewed trade frictions. Meanwhile, the 10-year U.S. Treasury bond yield has remained below 3.00% since the end of May. All this suggests that the U.S. dollar and U.S. financial assets are viewed as the securities of choice.