1Q 2019 | Global Equity Markets Review

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Executive Summary

With spirits lifted by accommodative tones in everything from central bank pressers to trade discussions, investors put the 4Q meltdown in the rearview and sent global stocks up around 12.3% in the first quarter of 2019. Volatility crumbled during the quarter, with the VIX closing out at half the level reached at the end of 4Q.

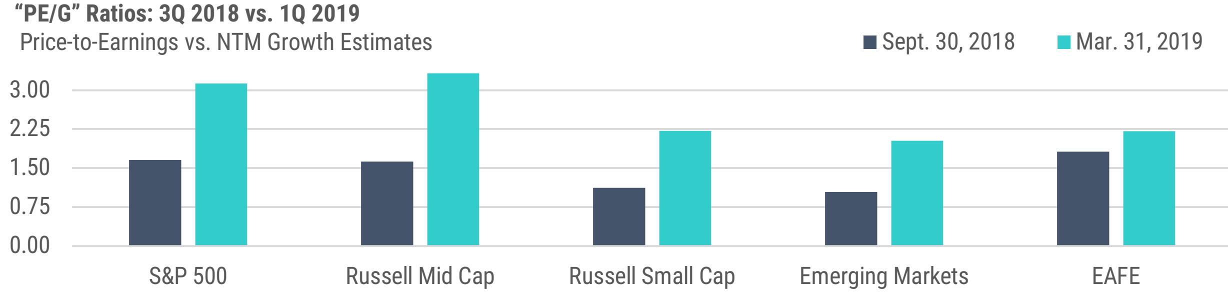
The S&P 500 led broad indices, adding 13.6% (as compared to a loss of 13.5% in the prior quarter) to land the trailing one-year return at 9.5%. Developed ex-US (+10.1%) and emerging markets (+10.0%) eked into double-digits for 1Q, with the ACWI ex-US adding 10.4%; all three indices remain in the red for the trailing one-year period.

While US heavyweights such as Apple (+21%), Microsoft (+17%), Amazon (+19%), Facebook (+27%), Google (+13%) and Netflix (+33%) came ripping back and drove equity results overall, the rally was broad and deep. US mid-cap stocks (+16.5%) were the overall leaders. Small caps, which ended the quarter up 14.6%, were leading through February-end but retreated in March; short interest rose, with the forward P/E on the index at roughly 21.6x vs. 16.2x for the S&P. As shown in the figure below, while global equity indices are nearing cyclical or all-time highs, PE/G ratios have expanded as the "G" (growth) moves in the other direction. Further to the capitalization trend, the S&P 500 Equal-Weight Index (+14.9%) outperformed the market-weight S&P. The S&P 500 Value outperformed in January as investors reloaded on US equity risk but the remainder of the quarter saw momentum slow relative to the S&P 500 Growth. Value finished 1Q up 12.2% vs. 15.0% for Growth and lags by 700 basis points on a one-year basis.

4Q's fire-sale – which in hindsight may feel a bit overdone – of course set the stage for a rebound in price, but underlying the sentiment reversal were legitimate shifts in the most acute pains from 4Q. Outcomes in equity seemed to reflect investor focus on the so-called "Fed Put" and similar global central bank action as well as US-China trade negotiations that – while still not resolved to the positive – yielded enough progress to carry water in the relief rally. US investors found further relief in earnings, which receded in growth terms relative to a record-setting 3Q18 but were up year-over-year and, most importantly, beat estimates that had been drastically reduced. Global sector leadership reflected a mix of factors, with top-performing Technology (+19.3%) announcing the rebound in US giants and Energy (+14.5%) coming in second best as oil prices regrouped from a brutal 4Q.

Facing a cross-current of political messes and collapsing activity (the eurozone manufacturing data marked an outright contraction in February), Europe-driven EAFE participated in the rally but met resistance despite accommodative monetary policy and appealing valuation. Emerging markets' underperformance may speak more to currency impacts and country-specific hiccups than to the broad macro pressures weighing on developed international markets. Fed dovishness and the implied potential for a softening dollar has shored up appetite for emerging assets over the last several months, but even modest reversal in the currency dynamic underscores the lingering effects of inflation driven by dollar strength in recent history. Nonetheless, Chinese equities added 17.7% during 1Q, supported by constructive trade talks as well as fiscal and monetary stimulus aimed at countering deceleration in manufacturing and housing. India, meanwhile, is poised to surpass China from a GDP perspective and posted a 9% return in March for a gain of 7.2% 1Q. Russia added 12.2% and although Brazil gave back half of its 17.7% January return throughout February and March, it ended the quarter up 8.6%.

"PE/G" Ratios: 3Q 2018 vs. 1Q 2019
Price-to-Earnings vs. NTM Growth Estimates



Comparative Index Returns (%)

	1 Mo.	3 Mo.	1 Yr.
S&P 500 Index	1.9	13.6	9.5
S&P 500 Equal-Weight Index	0.9	14.9	7.2
S&P 500 Growth Index	2.7	15.0	12.8
S&P 500 Value Index	1.1	12.2	5.9
Russell Mid Cap Index	0.9	16.5	6.5
Russell 2000 Index	-2.1	14.6	2.0
MSCI EAFE Index	0.7	10.1	-3.2
MSCI Emerging Markets Index	0.9	10.0	-7.1
MSCI All Country World Index	1.3	12.3	3.2
MSCI ACWI ex-US Index	0.7	10.4	-3.7
BBg Barc US Aggregate Bond Index	1.9	2.9	4.5
BBg Barc US Corporate High Yield Index	0.9	7.3	5.9
60% MSCI ACWI/ 40% BBg Barc US Agg Bond	1.6	8.5	3.9

S&P Global BMI Sector Returns (%)

	1 Mo.	3 Mo.	1 Yr.
Consumer Discretionary	1.1	12.6	0.4
Consumer Staples	3.7	11.0	4.4
Energy	1.3	14.5	2.0
Financials	-2.2	8.2	-7.1
Health Care	0.9	9.2	10.6
Industrials	-0.6	13.0	-2.5
Information Technology	3.5	19.3	8.5
Materials	0.4	10.8	-4.5
Communication Services	2.0	11.7	0.8
Utilities	1.8	9.8	13.1
Global Property	3.9	14.5	10.3
MLP	3.0	14.4	15.3

Key Indicators

	Current	3 Mo. Change	1 Yr. Change
US 10-Year Tsy Yield (%)/ bps	2.42%	-27	-32
SPDR Gold Trust Price ($)	$122	+$1	-$4
WTI ($/ bb)	$60	+$15	-$5
VIX (Level)/ % Change	13.71	-46%	-31%

Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of March 31, 2019. For index and key indicators definitions, please see notes & disclosures. The chart at left shows the PE/G ratios for the S&P 500, Russell Mid Cap, Russell 2000, MSCI Emerging Markets & MSCI EAFE Indices as of the dates indicated. The information uses Price-to-Earnings Trailing 12 Months and EPS growth estimates for the next 12 Months.

1Q 2019 | Sector Select Risk-Managed Review

WST CAPITAL MANAGEMENT

Performance & Positioning Recap

In 1Q 2019 the Sector Select Risk-Managed (SSRM) composite returned 3.10% gross (2.81% net), lagging the S&P 500 return of 13.65%. The S&P 500 Trend Allocator Index added 2.13%.

SSRM opened 1Q in the fully risk-off posture that it had assumed in the course of the meltdown in December. In mid-January the strategy began to leg back into a rapidly recovering equity market, beginning with a 10% allocation to Utilities; Consumer Discretionary and Consumer Staples were added at 10% each at the beginning of February. By the end of that month the "risk-on" trend was sufficient to warrant both increased exposure and a growthier sector footprint, and SSRM allocated 48% to Technology alongside Consumer Discretionary while eliminating Utilities and Consumer Staples and rolling 10% in to Health Care for a roughly 66% total position in equity. Throughout the quarter the "risk-off" segment held a combination of intermediate and short-term treasury ETFs, plus gold.

In effort to unpack the significant shortfall relative to long-only US equity, we believe it is worth revisiting the market environment and model positioning prior to 1Q 2019. SSRM spent 2018 invested with average equity exposure of 70%, having begun to unwind its risk-asset footprint after the 1Q 2018 drawdown upset key momentum trends. The strategy opened 3Q 2018 invested at roughly 66% in equity; it began to "down-shift" through sector composition and reduced equity weight throughout 3Q and the start of 4Q. By mid-4Q 2018 the strategy was mostly risk-off and thus had a largely sideline view of the market meltdown in December.

Leaving aside a couple of particularly dramatic trading sessions, the deterioration in market conditions during 2018 was gradual enough to afford a trend. The 1Q rally, however, was the opposite; markets reversed at hyper-speed, delivering roughly a third of the quarter's overall upside within the first week of January and over half of the quarter's total return by the middle of that month. The 1Q recovery simply played out at a speed our model is not designed to address. As a risk-managed strategy rooted in trend-following, SSRM behaved consistent with the intentions of its design and overall results fell in line with our principal objective of drawdown management and opportunistic participation.

Source for all performance and attribution information: FactSet, S&P, as of March 31, 2019. Attribution analysis performed on an account that has been designated as the representative account for the SSRM composite, and was selected on the basis of non-performance factors such as longevity, stability, minimal flows and adherence to the model. Please see notes & disclosures for composite definition and other important information.

Attribution

In 1Q versus the S&P 500, effects from SSRM's positioning – i.e., the impacts of asset class selection and sector selection, within equity – were negative. Security selection effects were negative due primarily to equal-weight exposure in equity.

--- Positioning

The principal driver from a positioning perspective was lack of or materially underweight exposure to equity during the S&P 500's best quarter since 2009. SSRM averaged just 33% in equity during 1Q and was fully risk-off for the first two weeks of January. The majority of assets were invested instead in the Alternate Segment, a risk-off allocation intended to provide a simple hedge against equity market movement, as it comprises assets that exhibit historically low or inverse correlation to the S&P 500.

Positioning effects on a sector-by-sector basis were mixed. As a function of the strategy's risk controls, the initial equity allocations were made to defensive/ lower volatility sectors that underperformed the broader index. Utilities was the long equity holding from mid-January to early February, and it underperformed materially during the period in which it was held. Consumer Staples and Consumer Discretionary – both added in February – marginally outperformed the broader S&P 500. Finally, Technology (introduced as the equity overweight at the end of February) and Consumer Discretionary both outperformed the broader S&P during March, while Health Care – the final equity holding – lagged.

--- Security selection

In a comparison of the market-weight and equal-weight indices, equal-weight as a factor was largely constructive during 1Q. The S&P 500 Equal-Weight Index outperformed the market-weight index by nearly 130 basis points, articulating a broad and deep rally that especially favored mid-cap names in the US. On a sector-by-sector basis, exceptions to the equal-weight outperformance trend were Industrials, Utilities, Communications Services and Real Estate.

Within SSRM, security selective during equity holding periods was mixed and largely negative, as the material relative outperformance for equal-weight occurred earlier in the quarter with the market's sharp rally. Equal-weight Utilities underperformed for the quarter overall and during the holding period. Consumer Staples outperformed during the holding period, while equal-weight Consumer Discretionary outperformed in February but lagged in March. While equal-weight Technology and Health Care outperformed during the quarter overall, they lost relative steam in March (the portfolio holding period) and thus detracted from relative performance. Security selection in the Alternate Segment was negative, as cash, gold and core bonds underperformed equity markets.

Notes & disclosures

WST CAPITAL MANAGEMENT

Index Returns – *all shown in US dollars*
All returns shown trailing 3/31/2019 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The S&P 500 index is comprised of large capitalized companies across many sectors and is generally regarded as representative of US stock market and is provided in this presentation in that regard only.
- The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The S&P 500 equal-weight index (S&P 500 EWI) series imposes equal weights on the index constituents included in the S&P 500 that are classified in the respective GICS® sector.
- The S&P 500 Growth Index is comprised of equities from the S&P 500 that exhibit strong growth characteristics and is weighted by market-capitalization.
- The S&P 500 Value Index is a market-capitalization weighted index comprising of equities from the S&P 500 that exhibit strong value characteristics such as book value to price ratio, cash flow to price ratio, sales to price ratio, and dividend yield.
- The Russell 3000 Index tracks the performance of 3000 U.S. corporations, determined by market-capitalization, and represents 98% of the investable equity market in the United States.
- The Russell Mid Cap Index measures the mid-cap segment performance of the U.S. equity market and is comprised of approximately 800 of the smallest securities based on current index membership and their market capitalization.
- The Russell Micro Cap Index is a market-capitalization weighted index that measures the performance of 2000 small-cap and mid-cap securities. The index was formulated to give investors an unbiased collection of the smallest tradable equities still meeting exchange listing requirements.
- The MSCI All Country World Index provides a measure of performance for the equity market throughout the world and is a free float-adjusted market capitalization weighted index.
- The MSCI EAFE Index is a market-capitalization weighted index and tracks the performance of small to large-cap equities in developed markets of Europe, Australasia, and the Far East.
- The MSCI Emerging Markets Index is a float-adjusted market-capitalization index that measures equity market performance in global emerging markets and cannot be purchased directly by investors.
- The S&P Global BMI sector indices are into sectors as defined by the widely used Global Industry Classification Standards (GICS) classifications. Each sector index comprises those companies included in the S&P Global BMI that are classified as members of respective GICS® sector. The S&P Global BMI Indices were introduced to provide a comprehensive benchmarking system for global equity investors. The S&P Global BMI is comprised of the S&P Emerging BMI and the S&P Developed BMI. It covers approximately 10,000 companies in 46 countries. To be considered for inclusion in the index, all listed stocks within the constituent country must have a float market capitalization of at least $100 million. For a country to be admitted, it must be politically stable and have legal property rights and procedures, among other criteria.
- The Barclay's US Aggregate Index, a broad based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.

Key Indicators
Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to equity markets.

- The US 10-Year Treasury Yield (%)/bps, is the return on investment for the U.S. government's 10-year debt obligation and serves as a signal for investor confidence.
- SPDR Gold Trust Price ($), is an investment fund that reflects the performance on the price of a gold bullion, less the Trust's expenses.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- CBOE Volatility Index (Level)/% Change, which uses price options on the S&P 500 to estimate the market's expectation of 30-day volatility.

Wilbanks, Smith & Thomas Asset Management, LLC ("WST" or the "Firm") is defined as an SEC registered investment adviser headquartered in Norfolk, Virginia. WST claims compliance with the Global Investment Performance Standards (GIPS®) Prospective clients can obtain a GIPS-compliant presentation and/ or the firm's list of composite descriptions by contacting WST with the contact information referenced above.

The Sector Select Risk-Managed Composite has an inception date of November 30, 2012 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Sector Select Risk-Managed strategy. The strategy seeks to deliver the returns of the WSTCM Sector Select Risk-Managed Index (WSTE – Bloomberg Symbol), a public index published by Bloomberg and calculated by Standard & Poor's Custom Indices. WSTE index is comprised of the "Sector Segment" made up of any combination of the primary sectors of the S&P 500® Index represented by the Guggenheim Equal Weighted S&P 500 sector ETF's and the "Alternate Segment" composed of U.S. Treasury Inflation Protected Notes, PIMCO Total Return (an actively managed bond fund), gold, and Investment Grade Floating Rate Notes. The portfolio may represent any combination of the two segments or 100% of the "Alternate Segment." This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to December 31, 2016, the Sector Select Risk-Managed strategy was referred to by WST as the WST Asset Manager – U.S. Equity strategy. The composite was created October 2016. The composite is measured against the S&P 500 Index and has the S&P 500 Trend Allocator Index as a secondary benchmark. The S&P 500 Index is a market capitalization weighted index, including reinvestment of dividends and capital gains distributions that is generally considered representative of U.S. stock market. The S&P 500 Trend Allocator Index is designed to track the performance of a systematic trend-dependent strategy allocating between the S&P 500 and cash, based on price trends. If the S&P 500 is observed to be in a positive trend, then the index is allocated to the S&P 500, otherwise, it is allocated to cash.

This commentary also includes performance figures for the SPDR Gold Trust (GLD), which is held in the SSRM model but in this case is used as a proxy for the performance of the asset class, given the security's prominence as a means of accessing exposure to the asset class. We believe use of this proxy is appropriate in the context of providing our clients and Advisors with relevant information about markets. We consider an index to be a portfolio of securities whose composition and proportions are derived from a rules-based model. See the appropriate disclosures regarding models, indices and the related performance. You cannot invest directly in an index and the performance of an index does not represent the performance of any specific investment. Some of the information enclosed may represent opinions of WST and are subject to change from time to time and do not constitute a recommendation to purchase and sale any security nor to engage in any particular investment strategy.