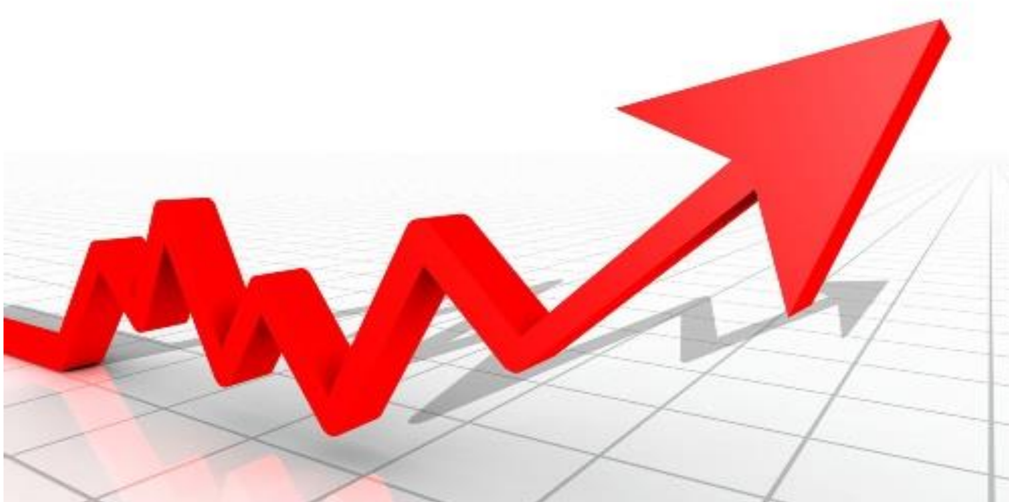


TMI Market Trax

Market Commentary Quarterly

2Q2018

EXCEEDING EXPECTATIONS

IN THIS ISSUE

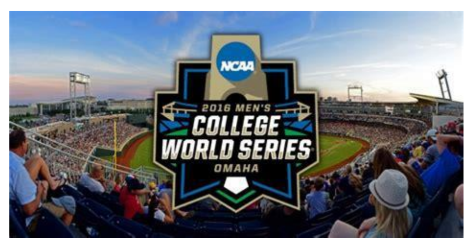
A Shift in Momentum

by Mark Teichner, Chief Investment Officer

Contested in Omaha, Nebraska every spring, the College World Series brings together baseball teams fortunate enough to have won their regional tournaments, as well as top NCAA individual talent on these squads. Many of these highly ranked players have already committed to participating at the pro level when the tournament concludes, having proven their capabilities during their collegiate years. This year's final, best of three series, was contested between the Oregon State University (OSU) Beavers facing the University of Arkansas Razorbacks, with a combined seventeen players having been selected in the 2018 MLB draft.

Oregon State was unable to develop any momentum during the early part of the series, and the Razorbacks won game one by the score of 4-1. Game two again had the "Hogs" leading by the score of 3-2 going into the top of the last inning, with two outs, a two balls two strike count on the batter, and their "go-to" closer on the mound. An Arkansas victory appeared to be secured as Oregon State's batter hit a pop fly into foul territory down the first base line. From the comfort of my couch and even more so for those in the bleachers, it appeared to be a challenging yet catchable ball, expected to end the game and give the Razorbacks their desired World Series championship. Unfortunately, this was not to be the case as the ball hit the ground in between three converging defensemen, leaving the fielders looking at each other in confusion and disappointment. The ESPN producers then directed their TV camera towards the Arkansas head coach sitting on the bench, who appeared stunned by the play and with an ominous look on his face. Momentum is important in sports and the investment markets.

While the outcome of anything is never certain, even surrounded by top talent and with your ace on the mound, a single surprise event can become the unexpected catalyst for a shift in momentum. This was indeed the case as minutes later, with just one strike and the

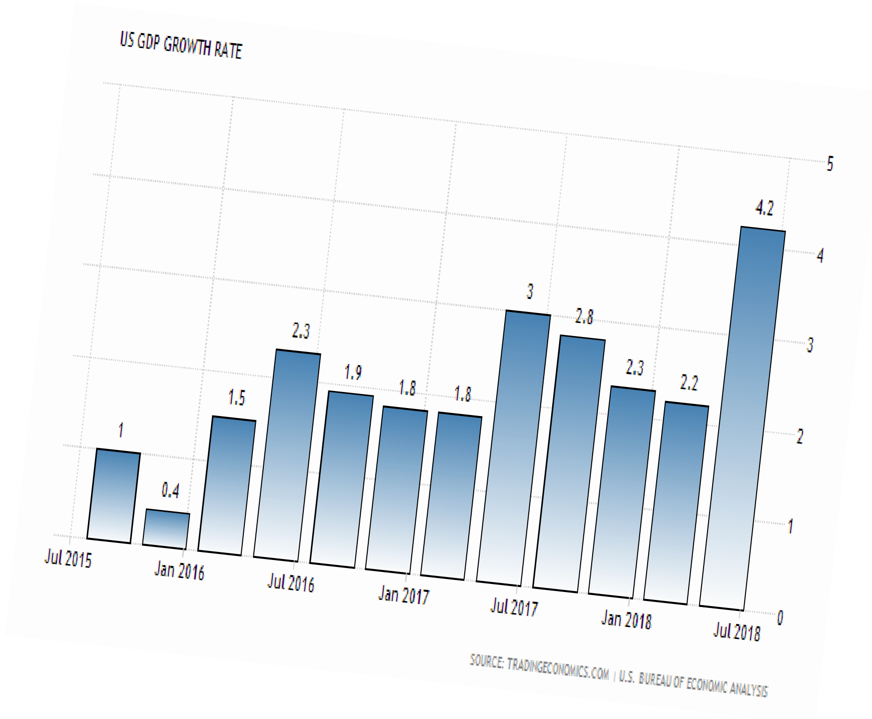


NCAA - CWS

Since 1950, the NCAA College World Series has been played in Omaha, Nebraska. In 2018, Oregon State University won its third title, all under the direction of coach Pat Casey (2006, 2007, 2018). Their 5-0 win over Arkansas was the tenth shut-out in CWS history.

final out remaining to end the game, the same OSU batter, now having been given a renewed opportunity, singled to bring in the tying run from third base. The following batter, a first round draft pick by the Minnesota Twins, then "jacked" a two-run homer over the right field fence to put the Beavers up 5-3. Despite best efforts, Arkansas was unable to recover from this devastating setback, losing game two, while also losing game three the following evening by the lopsided score of 5-0. In this astonishing turnaround, the OSU Beavers celebrated their series victory with their unexpected freshman hero pitcher, who had just thrown a complete game shutout, now laying at the bottom of the dogpile.

The financial markets have resembled that of a competitive baseball game, having experienced their own versions of unexpected events, moments of excitement and disappointment, and changes in momentum during the most recent quarter and first half of the year. Due to improved sentiment and economic momentum, the investment environment was favorable going into 2018. In response, the equity markets moved to new highs, despite rising rates and being late in the economic cycle. Although valuations were higher than long term by

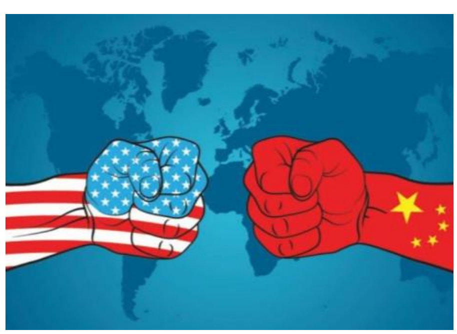


an accelerating rate of economic growth, moderate inflation, still accommodative monetary policy, favorable earnings and upward market momentum, while yet to experience the speculative "blow off" rally usually experienced at end of the bull market phase. The benefits of the tax cuts were sinking in, confidence levels were rising, and investors were prepared to charge the field.

US GDP GROWTH RATE

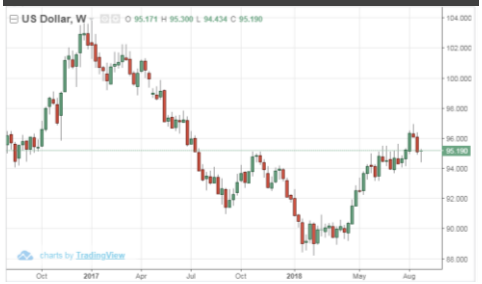
The US economy advanced an annualized 4.2 percent on quarter in the second quarter of 2018, slightly higher than a preliminary reading of 4.1 percent, beating market forecasts of 4 percent, the second estimate showed.

Then, just as investors were embracing the favorable theme, renewed talk of canceling trade agreements and the potential for "trade wars" entered into the equation, causing the market's tone to change. Trump's pitching style, which consists of throwing high and inside brush back fast balls to back batters off the plate, raises the ire of the opposition, and threatening to charge the mound should they get hit by an intentional beanball. This aggressive style differs dramatically from the previous administration who chose to throw BP softballs to keep the opposing team content. Unexpectedly, the favorable decisions resulting from the recently passed tax cuts, including new capital investment, robust hiring plans, and expansion strategies, were now potentially in need of reconsideration. Business leaders were compelled to assess what impact any tariffs would have on their existing business practices and processes, revenues, sourcing vendors, costs, and profitability. This caused investors to call timeout and go to concession stand.

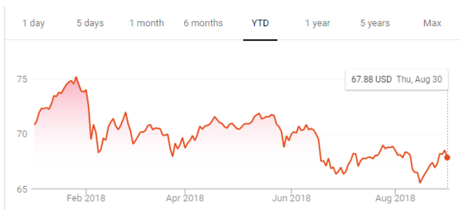


In reaction to the media's headline proclamations of a pending "trade war", the investment outlook became highly uncertain. Whether trade threats were purely negotiation posturing or would be fully implemented, the implementation of tariffs has the effect of offsetting at least some of the positive effects of tax cuts. As a result, the economic backdrop turned slightly less favorable, and bullishly positioned investors began shaking their heads in dismay. NAFTA and EU trade agreements are in play, but China remains the primary target of the administration's effort to level the global trade playing field. This is partially a result of China's outsized trade surpluses, but most importantly their theft of technology, their protective support of local, government-run businesses, as well as demands they place on businesses wishing to do business in China.

US DOLLAR INDEX



EAFE INDEX



The resulting risk aversion caused investors to move towards safer asset classes and sectors, contrary to the optimistic portfolio positioning more aligned with a robust recovery. Active managers who had put their economically sensitive home run hitters in the lineup underperformed as a result. Already benefitting from a strong domestic recovery and rising real rates, the U.S. dollar rallied 5% against major global currencies during the second quarter, contrary to many strategists' views looking for weakness. International developed and emerging market returns suffered, with emerging market indices faring the worst. Chinese stocks, representing over 32% of the MSCI Emerging Market index, were most exposed to the direct and indirect consequences of trade tariffs. Additionally, repayment of dollar-denominated debt becomes more challenging for overseas borrowers when foreign currencies weaken against the dollar, as do investment returns. As an example, the Shanghai and Shenzhen Indices were down over 10% and 13% for the 2nd quarter, respectively, but down 13% and 17% in U.S. dollar terms. The developed EAFE index generated a total return of +4.3% for Euro based investors but was down 0.9% for U.S. investors when converted to dollars. European economic conditions continued to weaken during the 2nd quarter, were negatively influenced by Italy's election (concern for a possible exit from the Eurozone depending on the election outcome), as well as future economic uncertainties due to potential tariffs.

With international markets challenged, investors showed preference for U.S. domiciled companies during the quarter, recognizing the total size, strength, and importance of the U.S. economy puts the U.S. in a strong negotiating position, and ability to prevail in a bench clearing brawl. The large cap. Russell 1000 index was up over 3.5% on a total return basis. Large domestic companies benefitted from their exposure to the superior economic conditions in the U.S., including expected 2nd quarter GDP growth of roughly 4%, but also hampered by their international business exposures, and uncertainty on trade. The real performance hero during the quarter was from the freshman class, represented by the Russell Micro-cap. index, up almost 10% during the quarter. This sub-index consists of the smallest 1000 stocks in the Russell 2000 small cap. index, which itself was up a respectable 7.75% for the quarter. Despite their lofty valuations relative to historical multiples, small cap. companies are more immune to the uncertainties of international trade and will realize the greatest earnings benefit from the reduction in corporate tax rates. Investors piled into this asset class, participating in its upward momentum.

Momentum persisted in the 2nd quarter for the growth style of investing, with the Russell 3000 Growth index up 5.9% versus the Russell 3000 Value style up 1.7%. Momentum also prevailed for the technology and consumer discretionary sectors on improved spending patterns, while the energy sector recovered due to rising oil prices on tighter supply and Iran sanctions. The weakest areas were in the financial sector, due to yield spread compression, and in the industrial sector due to trade concerns. Unexpected positive performance was seen in the real estate and utility sectors, as investors embraced their defensive positioning and higher dividend yields, consistent with the quarter end rally in the bond market. As they say, "defense wins ball games."

The economic outlook remains favorable, and valuation attractive as forward Price/Earnings multiples for the S&P500 have retreated to their 25-year average of 16.1x. While we remain constructive on the equity markets, on a shorter-term basis we are more cautious as the pre-election months have historically been weak. We have made no major changes to our allocation positioning, anticipating the strength of the economy will prevail and trade issues will be resolved favorably. However, we are keeping a close eye on the ball for a change in momentum, including a move towards value and improved results from international positions, watching for unexpected events from wherever they may appear, giving ourselves enough time to make the play.

FAST FACTS

EAFE Index

The EAFE Index is a stock index that serves as a performance benchmark for the major international equity markets as represented by 21 major MSCI indices from Europe, Australia and the Middle East. The EAFE Index is the oldest international stock index and is commonly called the MSCI EAFE Index.

(Source: Investopedia.com).

US Dollar Index

The U.S. dollar index (USDX, DXY, DX) is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.'s most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

TMI Market Trax is written by TMI Trust Company's Mark Teichner. For questions or comments on TMI Market Trax, TMI Agency portfolios or other investment services distributed by TMI Trust Company, contact Mark Teichner at mteichner@tmico.com.

The material herein is a general assessment of the market environment and is based on data from sources considered to be reliable. It is not guaranteed as to accuracy, does not purport to be complete, and is subject to change without notice. This communication is for informational purposes only and is not intended to be a forecast of future events or prediction of future results. It should not be used or relied upon as research or investment advice.

Investing involves risks including loss of principal. Current and future portfolio holdings are subject to risks as well. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Bonds and bond funds will decrease in value as interest rates rise. Due to the speculative nature, high-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

Diversification may not protect against market risk. There is no assurance the objectives discussed will be met. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance.

Use by other than intended recipients is only allowed prior to TMI Trust Company's consent. Sender accepts no liability for any errors or omissions arising as a result of transmission. Any comments or statements made herein do not necessarily reflect those of TMI Trust Company or its affiliates.

Market Commentary Quarterly

TMI Trust Company
901 Summit Avenue
Fort Worth, TX 76102