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The inauguration of President Trump, combined with Republican majorities in both houses of Congress has ushered in a period of potential radical policy change in the US. During the first quarter, this development has begun to impact the investment environment. In some cases, both the changes themselves and the market implications have been shaped by responses from the Federal Reserve and US economic, political and trading partners.

During the first quarter, the current US equity bull market celebrated its eighth birthday, fueled by an improving economy and hopes for more business-friendly policies under a new regime. In March, following President Trump's State of the Union, The Dow Jones topped 21,000 for the first time in its 120 year history. The S&P 500 rose 6% in the first quarter, extending postelection gains. We'd note, however, the underlying contributors to the rally have shifted. The technology sector was by far the best performer during the first three months, jumping 12.6%. Apple alone added more than 50 bps to the S&P 500 return. In contrast, some of the most popular post-election sectors such as banks and energy have lagged.

Eight years ago, the S&P 500 closed down more than 50% from its 2007 high, and10-year US Treasury yields had fallen 70 bps below the previous year. Investors were pessimistic and fearful at the time. However, it was at those precise levels that those with the courage and investment acumen to navigate through such cycles, exercised discipline and sought opportunity.

So far in 2017, emerging markets equities have led the advance, gaining 11.5%. For the first time since 2010, emerging market economies are enjoying a synchronous recovery with the rest of the world. The developed market private sector is now re-leveraging, a phase which tends to create a favorable feedback loop to the emerging regions. In our view, in spite of this recent rally, and after years of massive underperformance, emerging markets stocks are still attractively valued as compared to their US counterparts. We'd note, however, the relative "cheapness" isn't the same as safety, as these markets are prone to high currency and commodity volatility, as well as political turmoil. Investing in these areas demands the discipline, courage and acumen only active management can provide.

A year after the Federal Reserve boosted its benchmark interest rate for the first time in nearly a decade; it has raised the rate twice in the past four months. These increases reflect the Bank's rising confidence that rising confidence that the economy is poised for continued and sustained growth. As of the end of the quarter, the economy reached an important milestone when consumer inflation exceeded the Fed's 2% target after undershooting it for nearly five years. This raises the prospect of additional tightening this year. So far, early investor reactions to a more hawkish tone from the Fed have been a relief, as the market's worst fears were averted. This echoes our view presented during our recent quarterly Market Review Meeting this month that you may have participated in.

US sentiment surveys have recently soared to a 16-year high, as businesses, consumers and investors have all have indicated their ongoing optimism in the economy and financial markets. We'd caution, however, there is a disconnect between sentiment and

First Quarter Market Watch

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2017	12/31/2016	% chg	3/31/2016	% chg
DJIA	20,663.22	19,762.60	5.2%	17,685.09	19.9%
S&P 500	2,362.72	2,238.83	6.1%	2,059.74	17.2%
NASDAQ Composite	5,911.74	5,383.12	10.1%	4,869.85	22.9%
Russell 2000	3,444.36	3,372.81	2.5%	2,768.64	26.2%

	Date	1 Quarter Ago		1 Year Ago	
	3/31/2017	12/31/2016	% chg	3/31/2016	% chg
Japan Nikkei 225	18,909.26	19,114.37	3.5%	16,758.67	18.0%
MSCI EM (Emerging Markets)	958.37	862.27	11.5%	836.80	17.7%
MSCI EAFE	1,792.98	1,684.00	7.4%	1,652.04	12.2%
MSCI AC World	448.87	421.84	7.0%	398.26	15.7%
FTSE 100	7,322.92	7,142.83	4.9%	6,174.90	9.2%
SSE Composite Index	3,222.51	3,103.64	4.7%	3,003.92	0.4%

US Equity Sector Performance

	Q1	1-yr ret.
Consumer Discretionary	8.4%	12.6%
Consumer Staples	6.4%	4.9%
Energy	-6.7%	15.9%
Financials	2.5%	31.5%
Health Care	8.4%	10.2%
Industrials	4.6%	18.2%
Information Tech	12.6%	23.8%
Materials	5.9%	18.4%
Telecom	-4.0%	1.9%
Utilities	6.4%	6.6%

US Equity Style Performance

	Q1	1-yr ret.
Dow Jones Utilities	6.6%	8.0%
AMEX DJ TRANS Avg.	1.1%	16.5%
Russell 1000 Value	3.3%	18.7%
Russell 1000 Growth	8.9%	14.8%
Russell 2000 Value	-0.1%	29.3%
Russell 2000 Growth	5.3%	22.2%

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reality. Underlying US economic data have been mixed. So far in this cycle, economic growth has averaged just 2% per year, the slowest of all the post-World War II expansions. Business spending remains lack-luster, retail sales slowed in February, and, after a banner 2016, auto sales have since struggled.

Elsewhere in the developed world, the euro zone economy has gradually improved since 2013. There are still pent-up demands that could continue to propel the economic recovery. However, political risks have also increased, as evidenced by the results of the UK and Italian referendums. The UK has begun the path out of the European Union. The triggering of Article 50 of the Lisbon Treaty that governs EU law opens a two-year window for Britain to negotiate the terms of its exit from the bloc, unraveling 44 years of ties. The UK government is expected to seek a broad trade and economic deal with the EU and any Brexit deal will need the approval of a majority in the European Parliament. The negotiations are likely to be tough, as early indications are that Britain and the EU are far apart. We believe these political risks will subject EU markets to volatility risk through 2017.

Approaching the end the first quarter, margin debt has climbed to a record of $528 billion, signaling bullishness for investors attempting to navigate the political and economic crosscurrents. We'd caution, however, such a steep climb in margin debt could indicate investors are losing sight of market risks. Margin debt has historically peaked right before market collapse like the ones in 2000 and 2008. During these periods of market downturn, investors who bought securities with borrowed money must pull out of their investments, exacerbating the decline.

The past few years have brought a flurry of venture funding for startups. The surge in deal flows and elevated valuations, however, have resulted in liquidity constraints, making it difficult for young companies to raise subsequent rounds of funds at favorable terms. Rather than raising a new equity round at a suboptimal valuation or seeking a premature liquidity event, some startups have been turning to another, less conventional types of financing: debt

The first quarter of 2017 could set the tone for the rest of the year. During the final quarter of 2016, the S&P 500 aggregate corporate earnings-per-share scored the strongest year-over-year growth in the past two years. This partly reflected the low base in the final months of 2015. So far, US corporate profits have extended their rebound late last year as broader economy remained on a trajectory of steady, modest growth. A continuation of the early-year equity advance is now more dependent on further growth in corporate earnings, on which we are cautionary.

Bond Markets

	3/31/2017	1 Qtr Ago	1 Yr. Ago
Treasury Bill, 90 Day	0.75	0.50	0.21
Treasury Note, 2 Year	1.26	1.20	0.72
Treasury Note, 5 Year	1.92	1.92	1.21
Treasury Bond, 10 Year	2.39	2.44	1.77
Treasury Bond, 30 Year	3.01	3.07	2.61

Commodities (In US dollars)

	3/31/2017	1 Qtr Ago	1 Yr. Ago
Gold	1,251.20	1,151.70	1,235.60
Crude Oil	50.60	53.72	38.34
US Dollar Index	100.22	102.29	94.58
Bloomberg Commodity IDX	85.35	87.51	78.83

US Bond Sector Performance

	Q1	1-Year Return
BAR CAP Govt. Interm. TR	0.5%	-0.6%

Interest Rates

	3/31/2017	1 Qtr Ago	1 Yr. Ago
PRIME RATE	4.00	3.75	3.50
FEDERAL FUNDS RATE	0.91	0.66	0.38
LIBOR RATE 30 DAY	0.16	0.16	0.16
LIBOR RATE 3 MONTHS	0.23	0.23	0.23
30YR FIXED MORTGAGE	4.14	4.32	3.71

Exchange Rates (Rate per US dollar)

	3/31/2017	1 Qtr Ago	1 Year Ago
Canadian Dollar	1.334	1.341	1.293
Euro	18.834	20.602	17.138
British Pound	0.935	0.948	0.878
Swiss Franc	0.800	0.809	0.696
Chinese Yuan	1.001	1.016	0.958
Japanese Yen	6.892	6.950	6.468

Economic Trends

	3/31/2017	1 Yr. Ago
Unemployment Rate	4.70	5.00
Average Single Family Home Price	270,800	265,100
Industrial Capacity Utilization	75.87	75.38

In the near-term, regime shifts under a new president, rising US interest rates, diverging global monetary policies, and heightened geopolitical challenges will have implications for sentiment, liquidity, and the valuation of various assets in the world. Our investment professionals here at the 1911 Trust Company are vigilant on assessing the underlying impacts of these variables on corporate fundamentals, and focused on security selection and manager monitoring processes.

In our closing remark, we'd quote a local legend of the four islands in Narragansett Bay: “Prudence”, “Patience”, “Hope” and “Despair”. “Prudence” and “Patience” are timeless values in times of “Hope” and “Despair”, and are especially relevant in today's environment of increasingly divergent outcomes. We, at the 1911 Trust Company, remain disciplined on managing our clients' investments with a strict focus on optimal long-term outcome.

Kevin Kavanaugh
President & Chief Investment Officer

Lei Qin, CFA, FRM, CAIA
Director of Equity Research

*Performance for equity indices represents total returns (including dividends).