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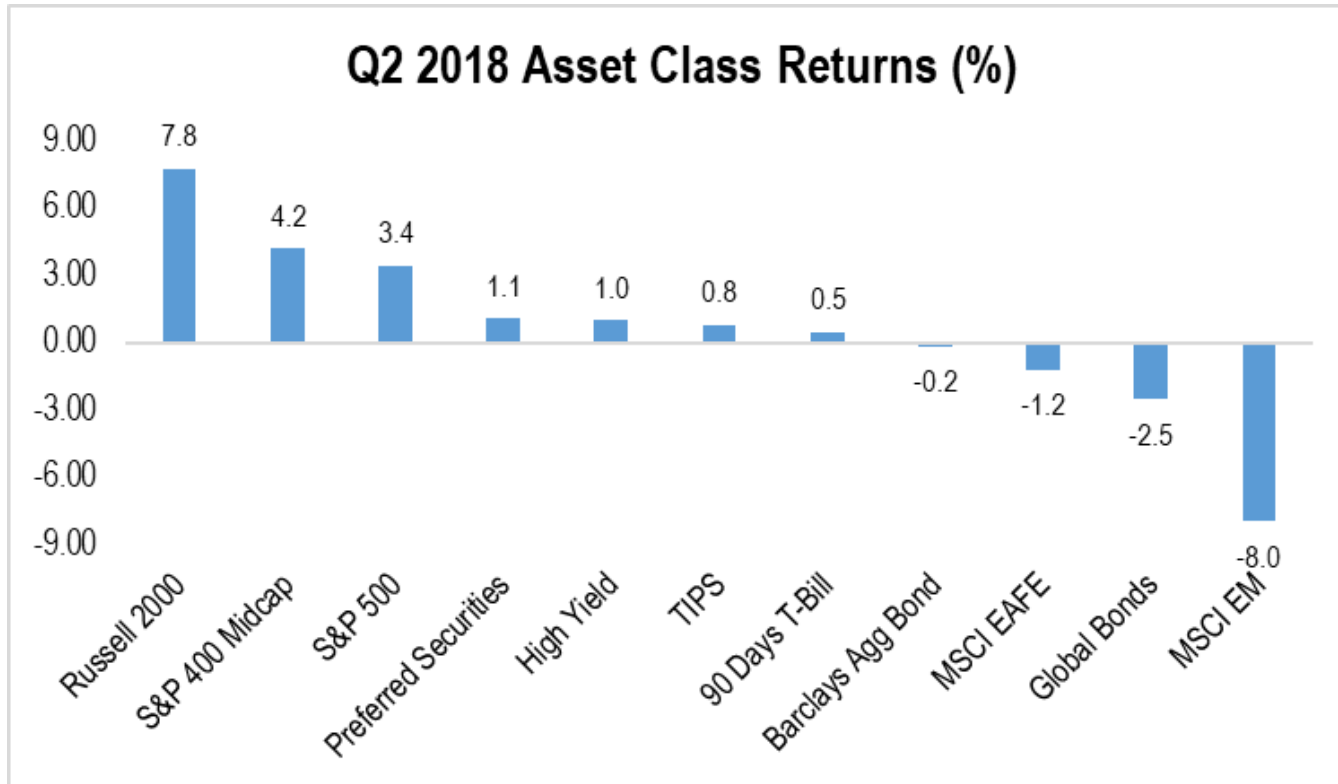
Forward Thinking. Mutual Success. Peace of Mind.

Third Quarter 2018

Market Outlook & Portfolio Insights

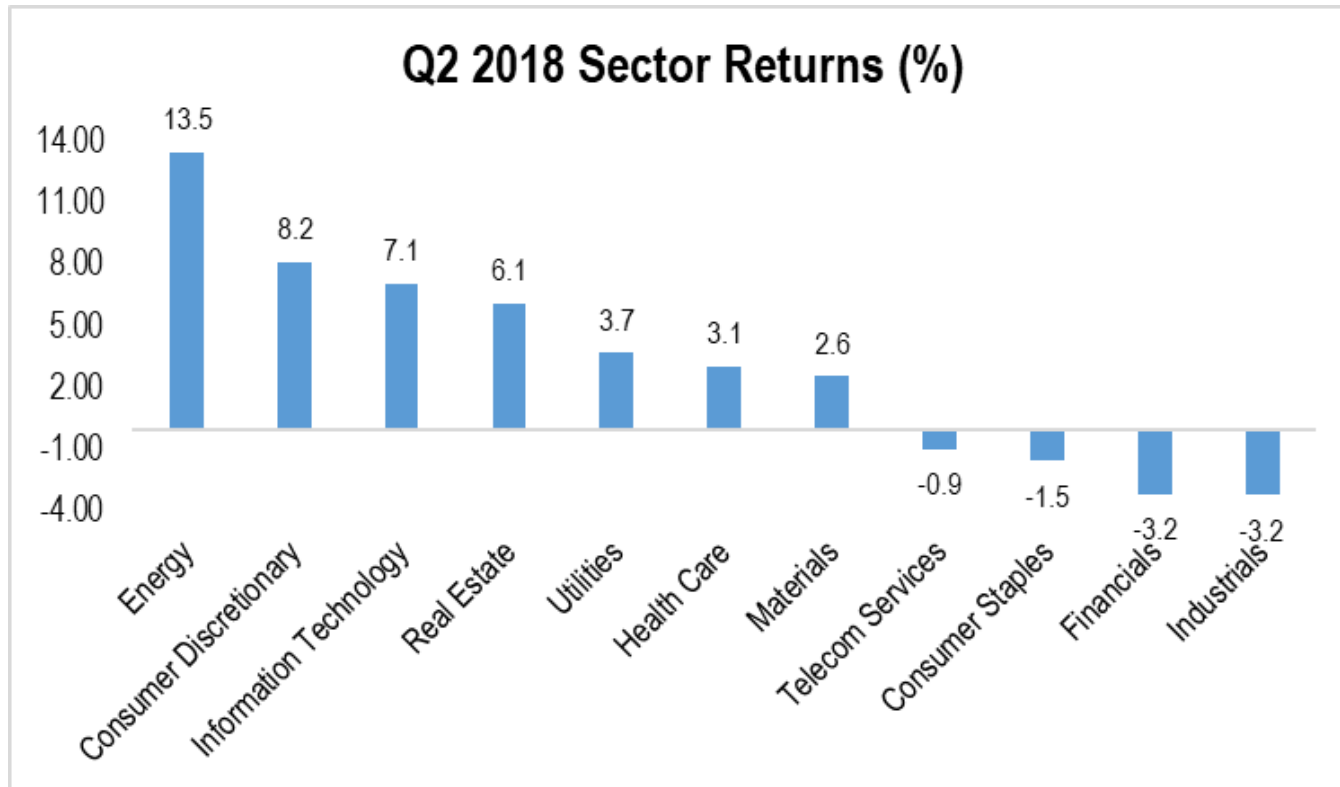
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Q2 2018 was Marked by Dispersion of Returns



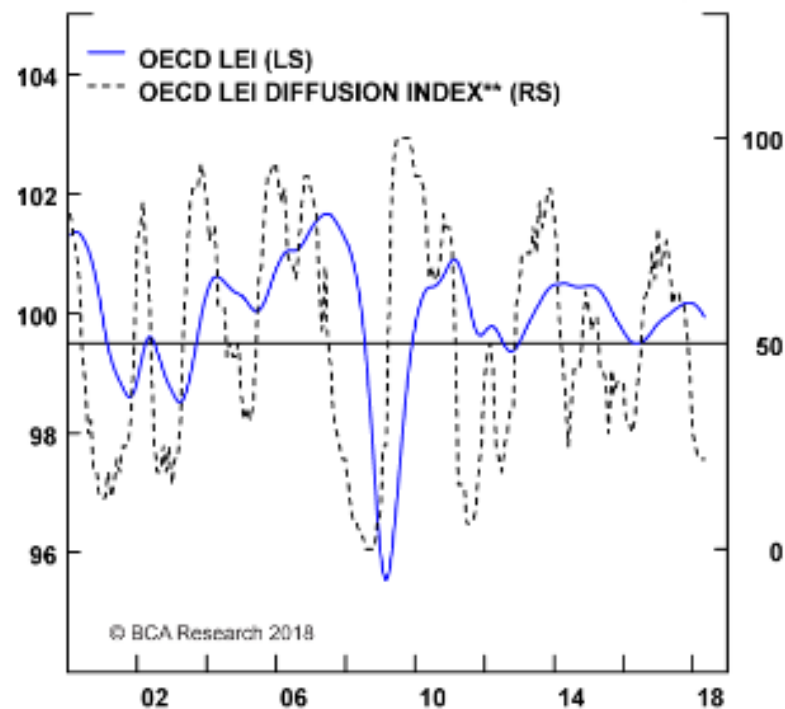
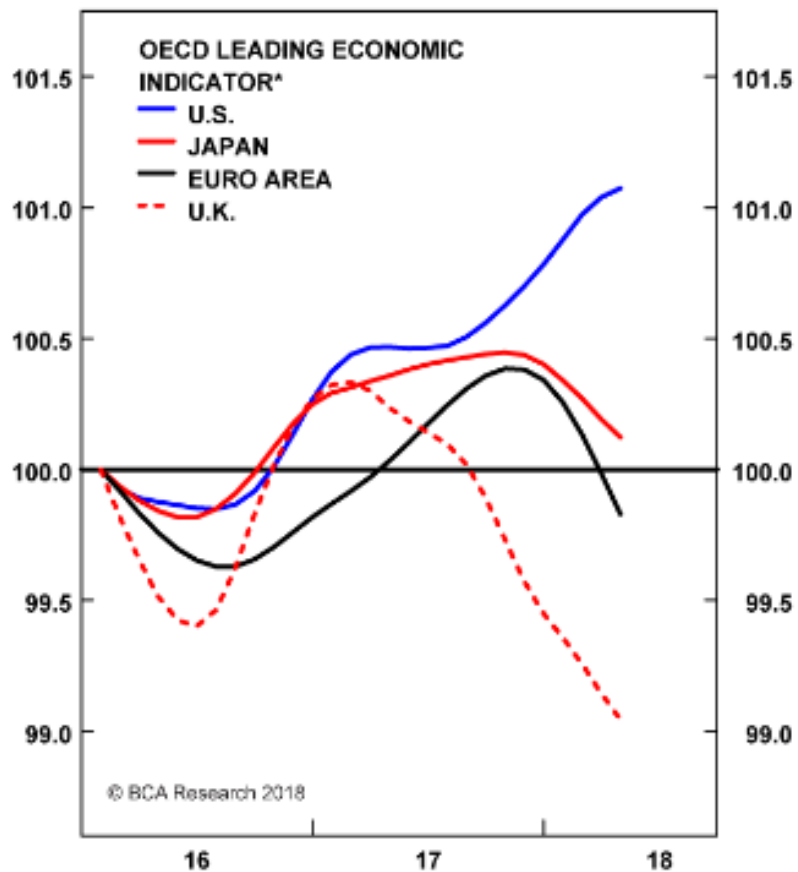
Source: Morningstar Direct

Performance Across Sectors was Even More Varied

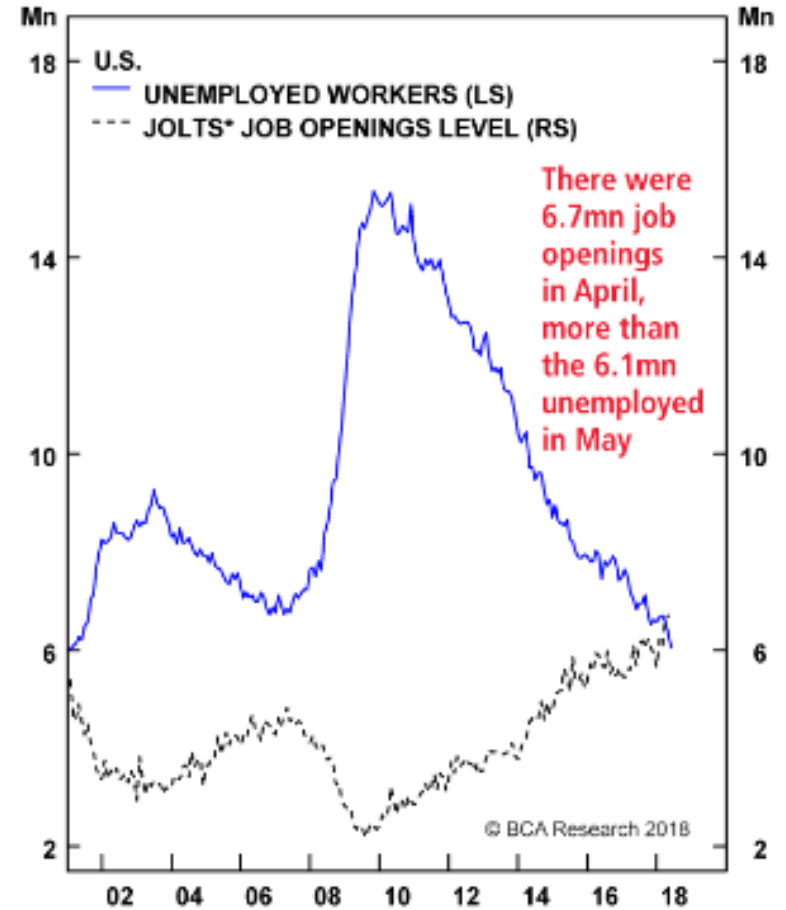
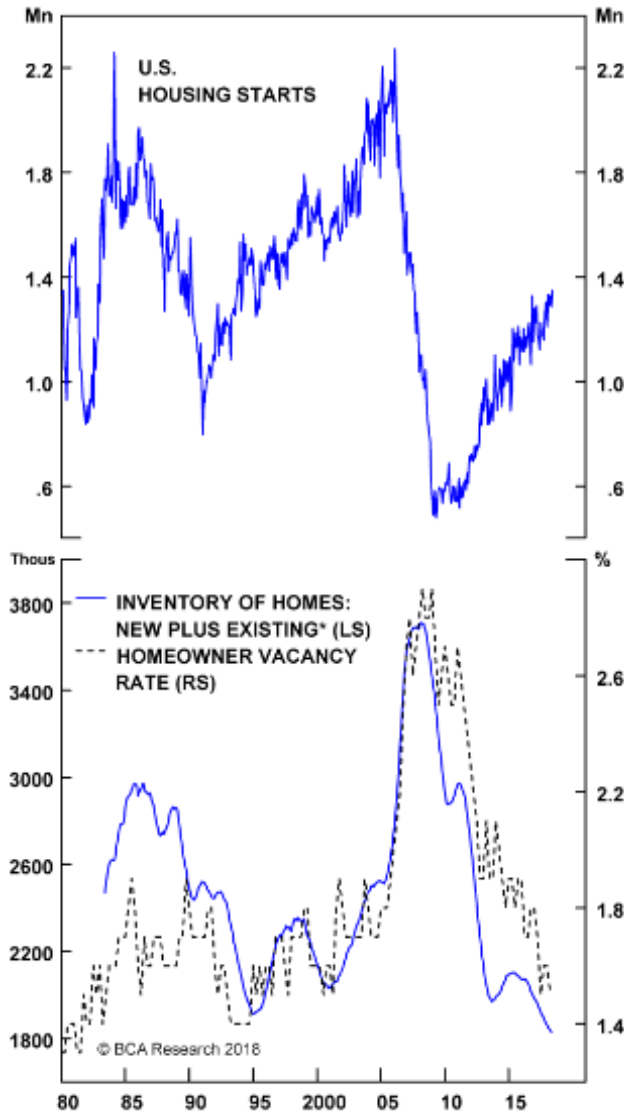


Source: Morningstar Direct

Global Growth is Slowing with the U.S. Outshining its Peers

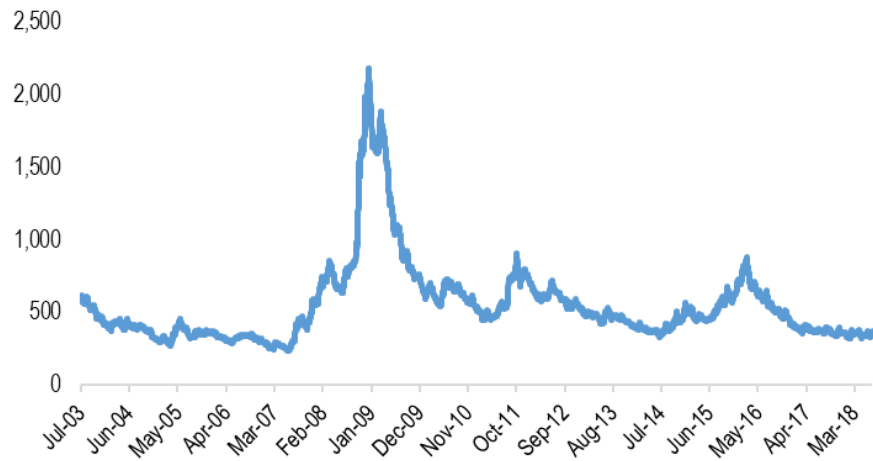


Underlying U.S. Fundamentals Remain Sound

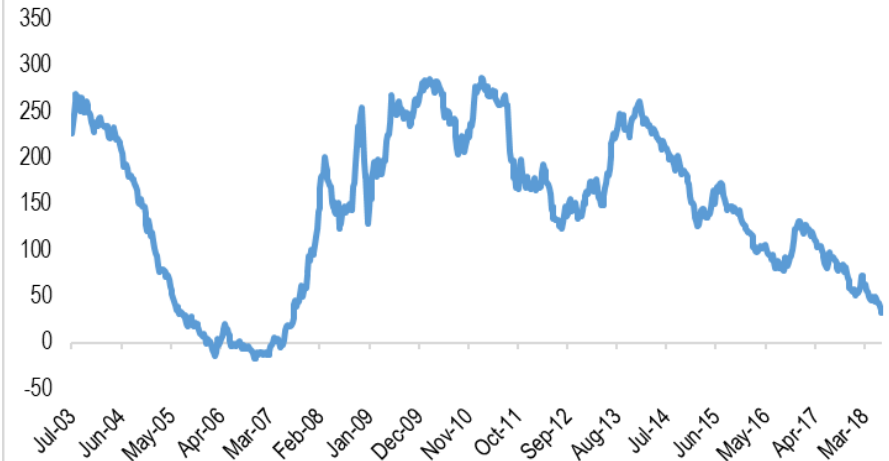


Liquidity Signs are Mixed

High Yield Option-Adjusted Spread (BPs)



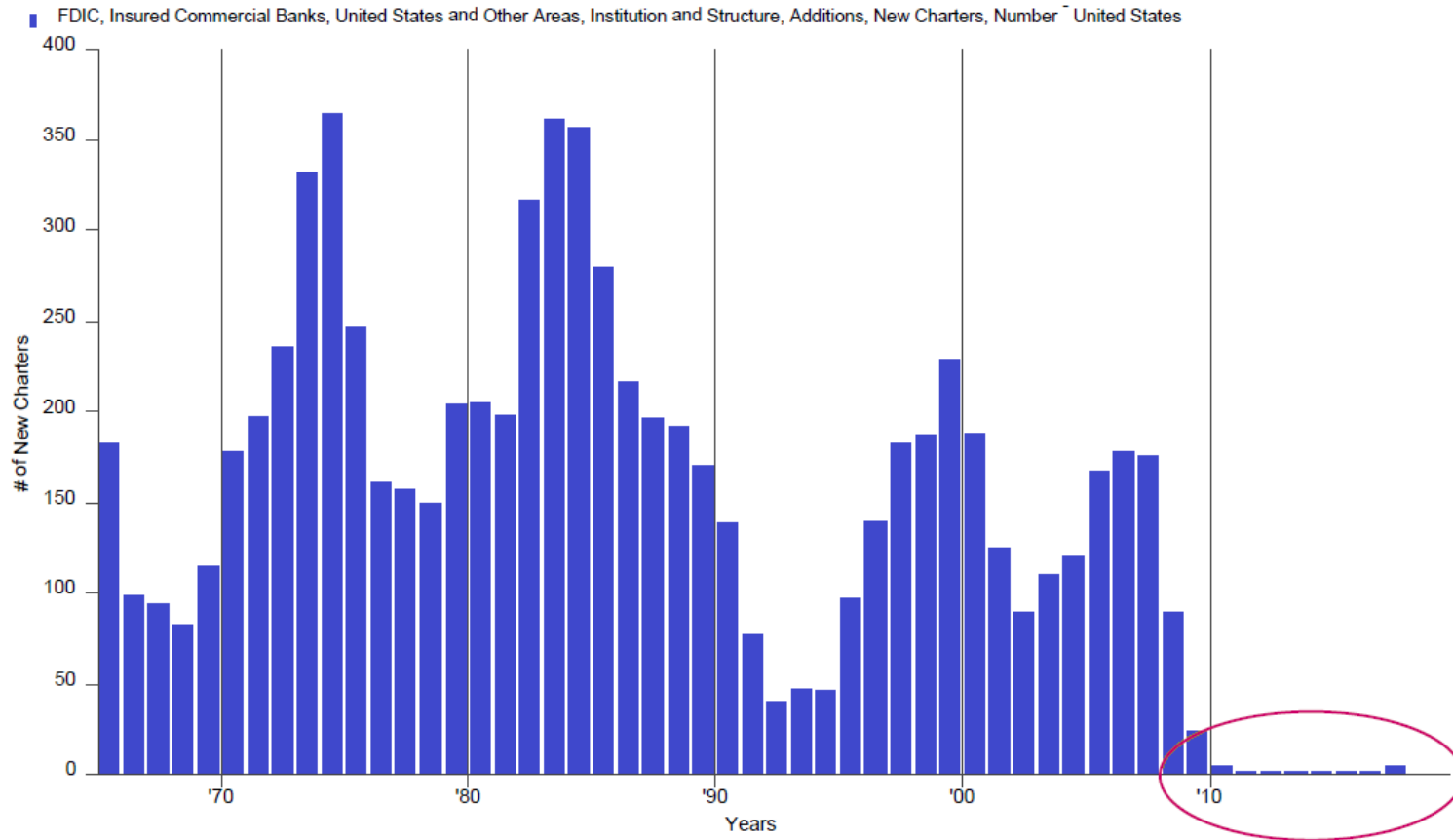
10-Year/2-Year U.S. Treasury Spread (BPs)



Source: Federal Reserve Bank – St. Louis

Fiscal Policy in the U.S. is Stimulative

NEW COMMERCIAL BANKS CHARTERED BY YEAR



Source: Fidelity Investments

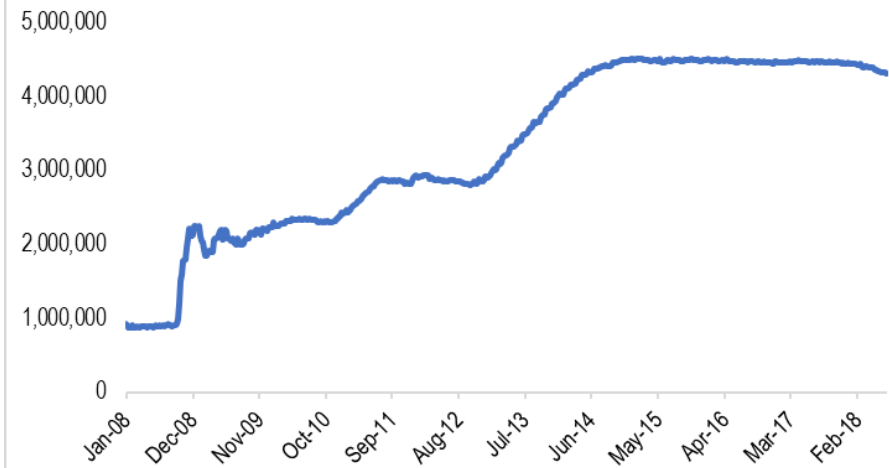
Monetary Policy is Tightening

Effective Federal Funds Rate (%)

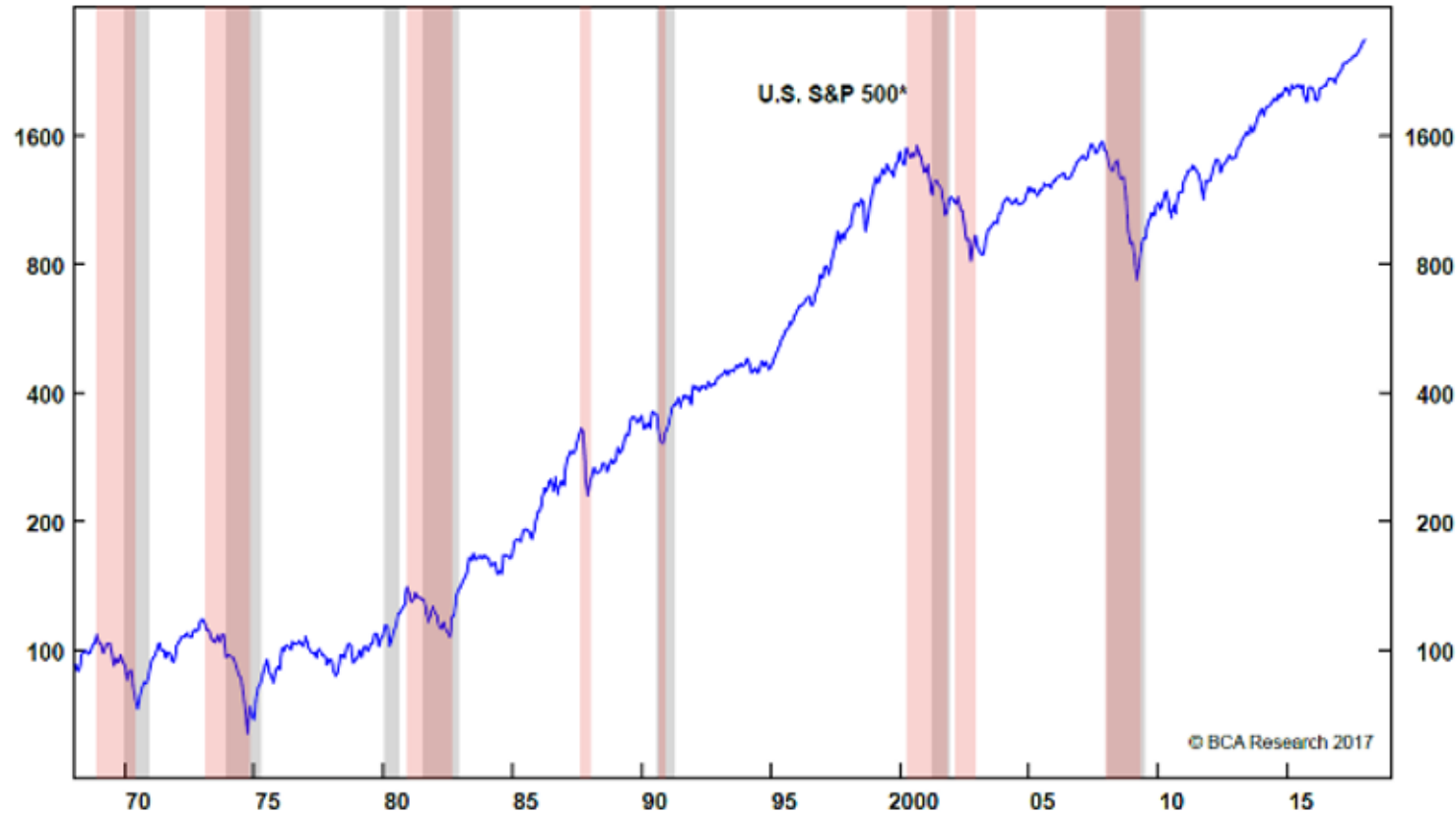


Source: Federal Reserve Bank – St. Louis

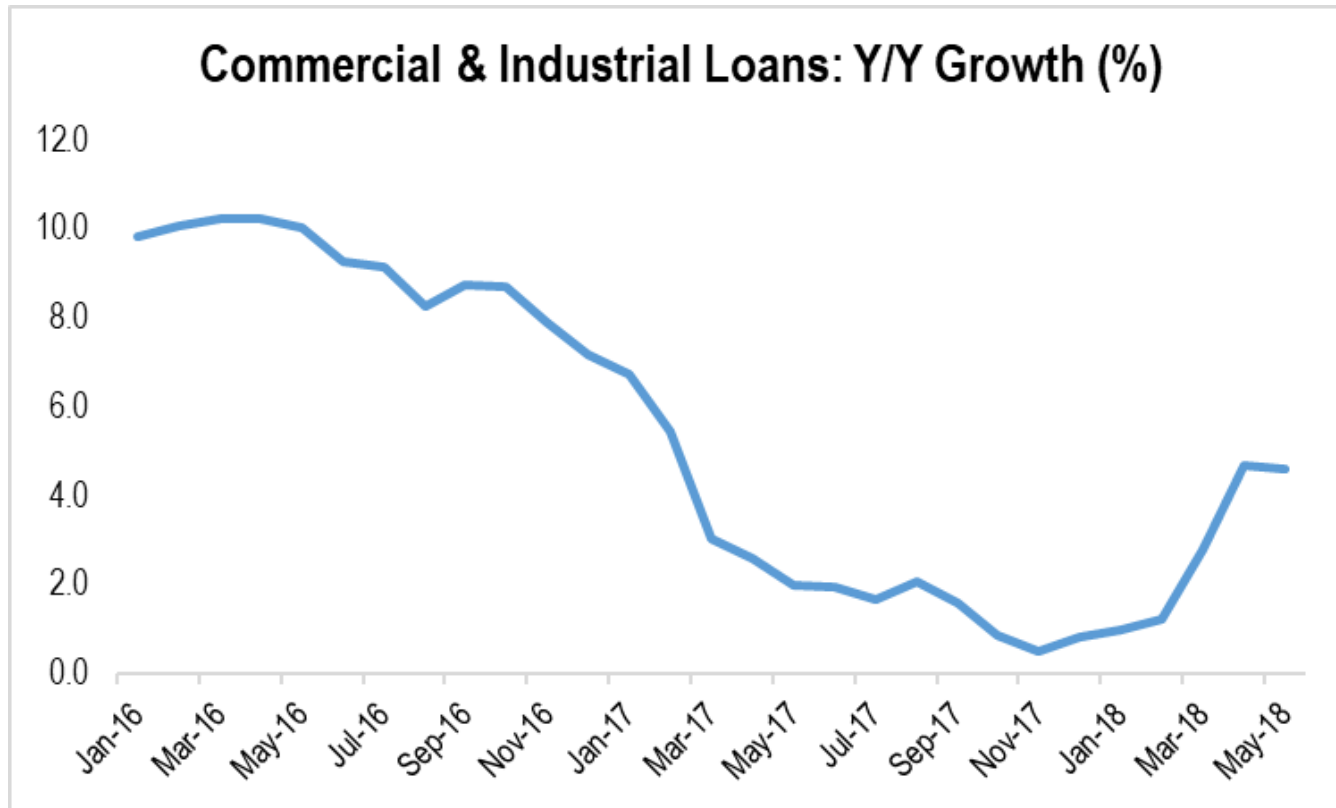
Federal Reserve: Total Assets (\$ Millions)



Bear Markets Historically have Coincided with Recessions



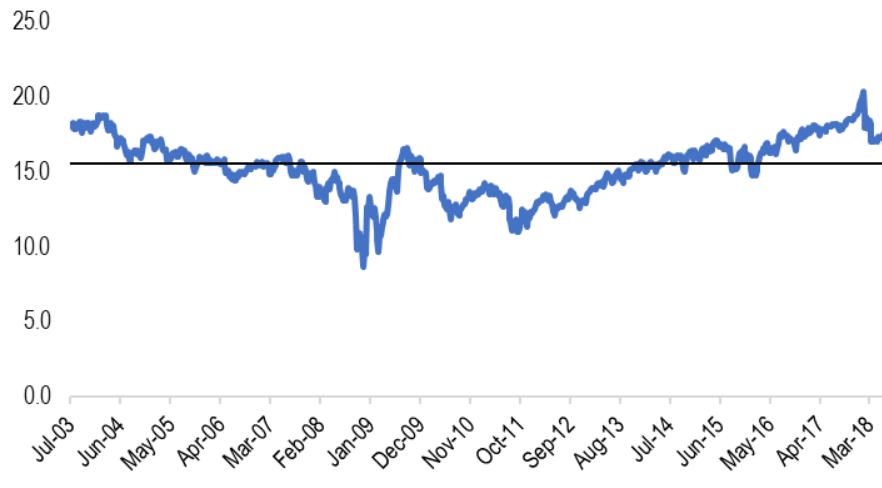
Credit Growth is Expanding



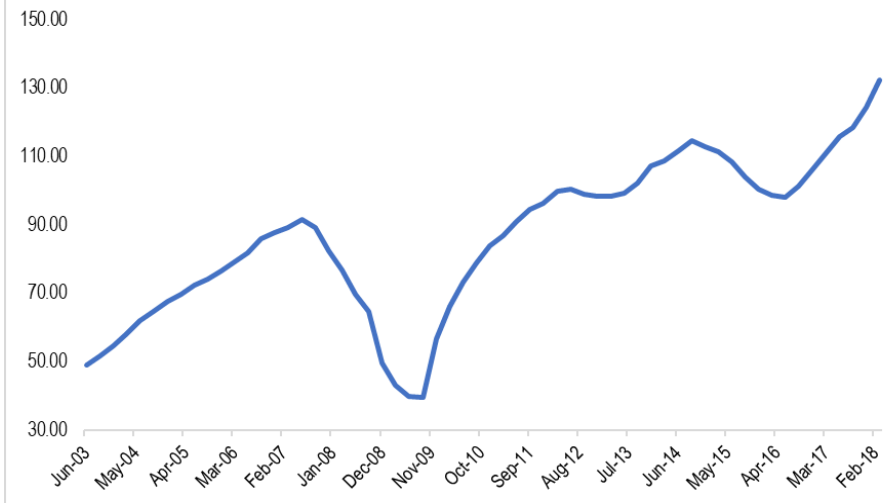
Source: Intrinsic Research Systems

U.S. Valuations are In-Line While Earnings are Improving

S&P 500: Price to Next 12-Month Earnings



S&P 500: Trailing Twelve Month Operating EPS (\$)

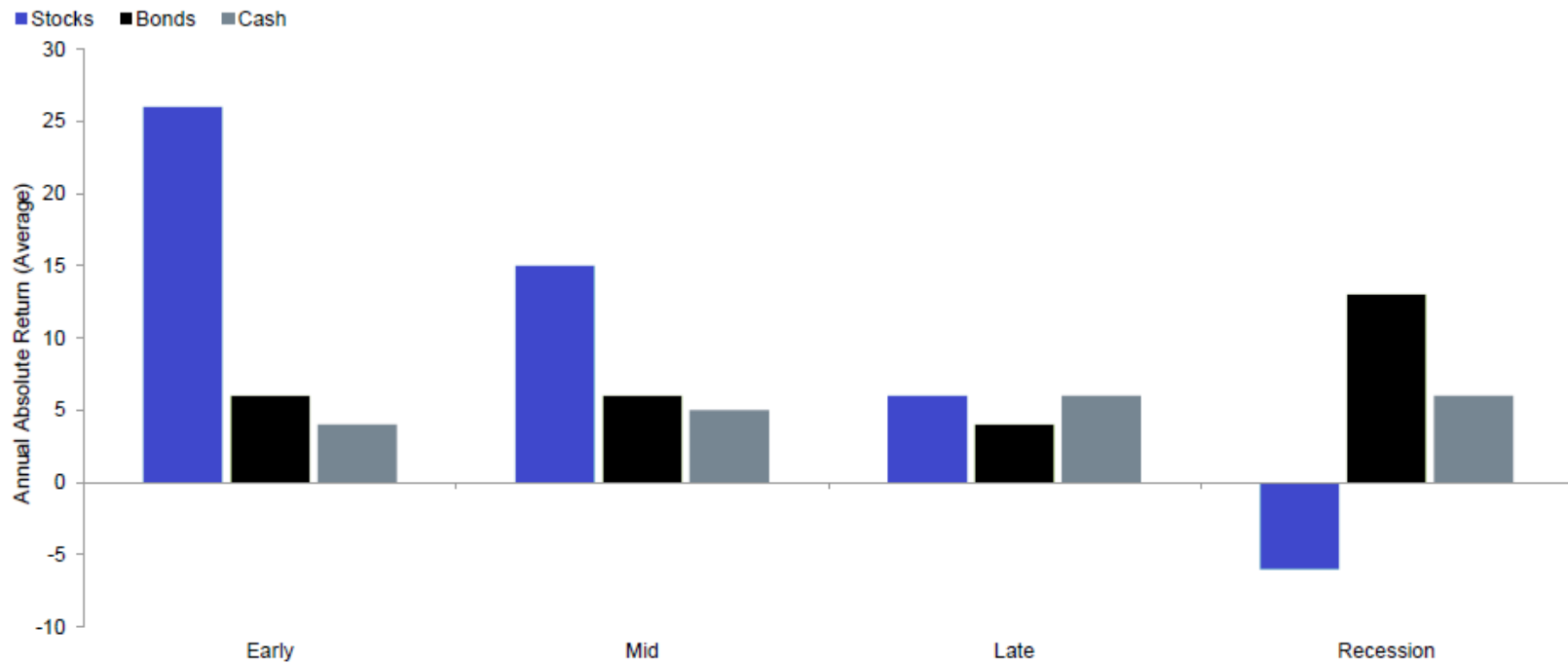


Source: Intrinsic Research Systems

As the Cycle Ages, Stocks are Less Compelling

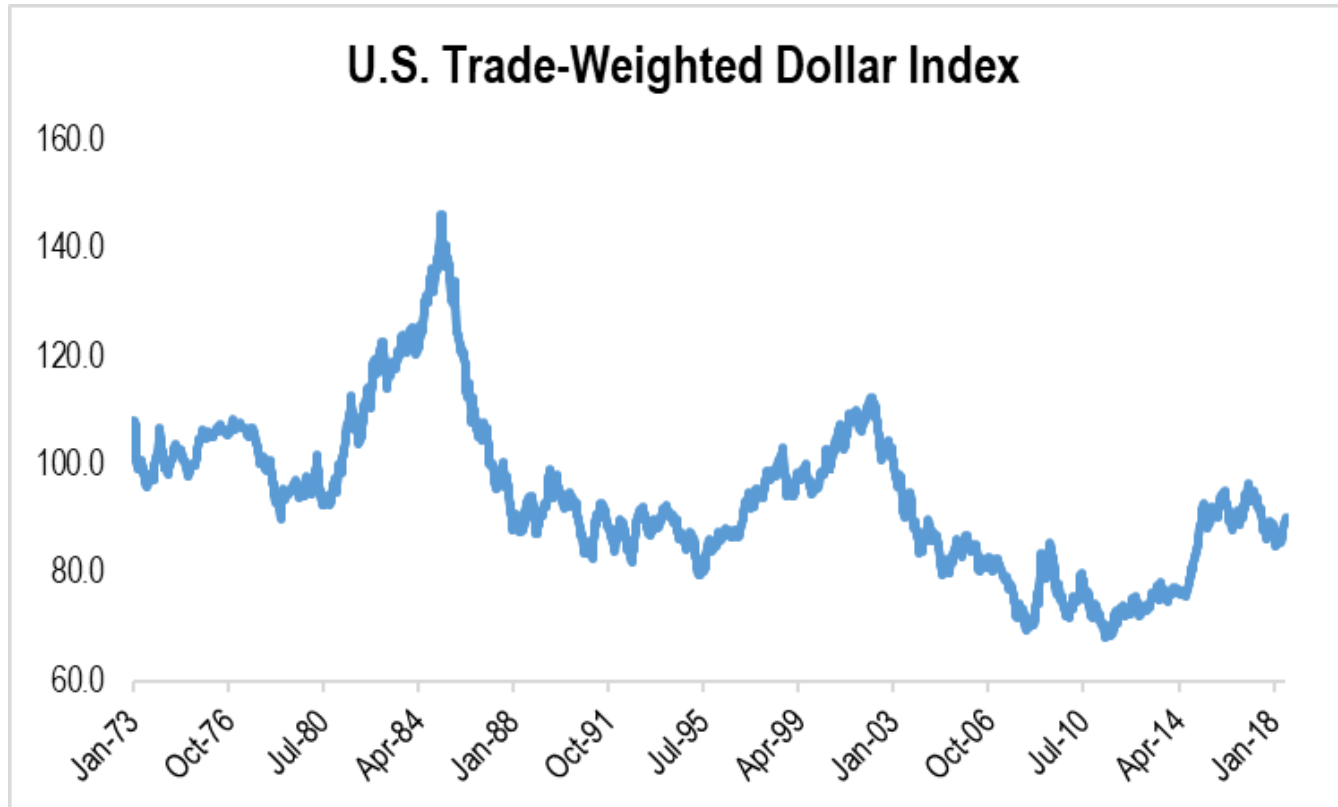
ASSET CLASS PERFORMANCE ACROSS BUSINESS CYCLE PHASES

1950–2010



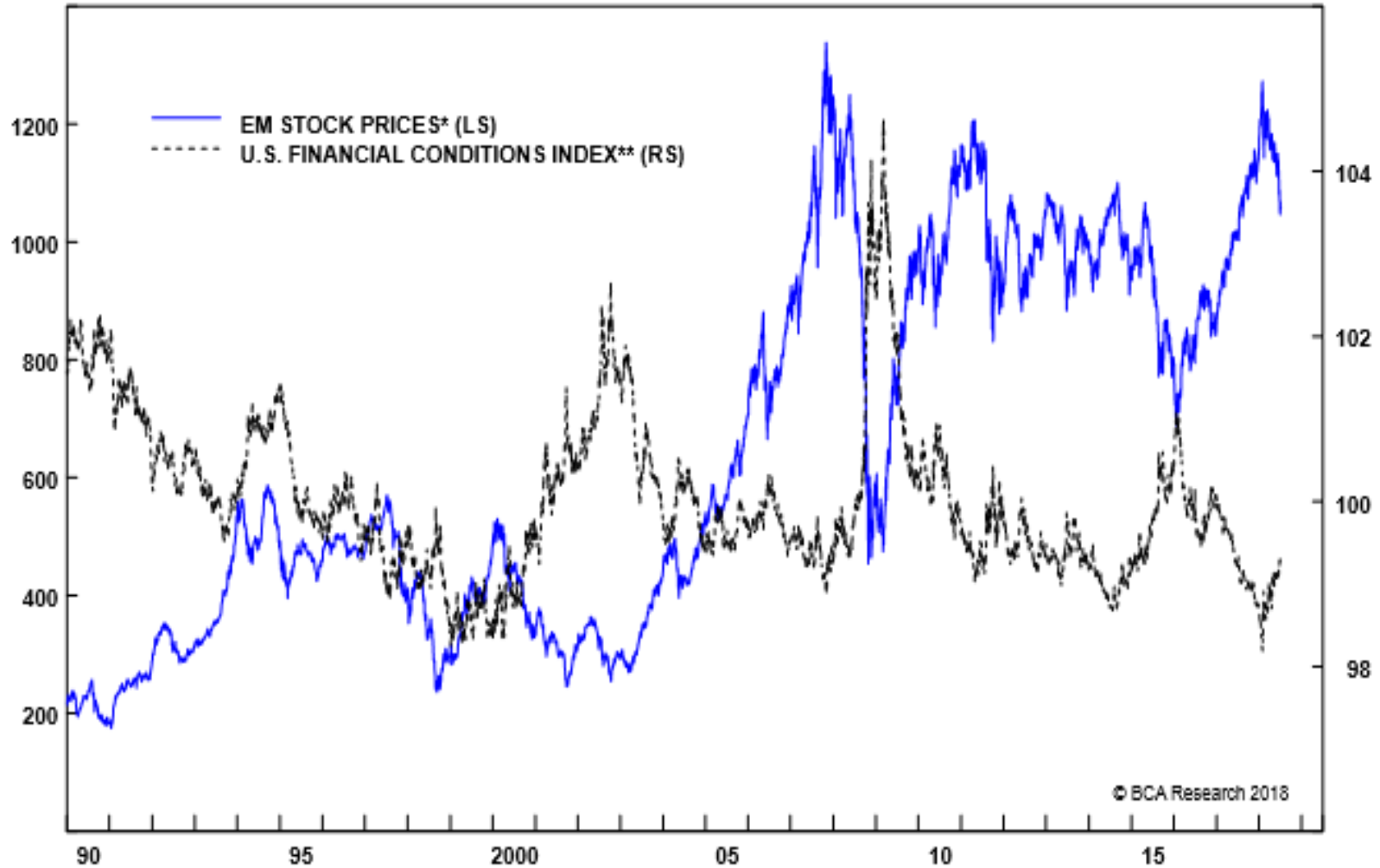
Source: Fidelity Investments

The U.S. Dollar has Strengthened



Source: BCA Research

Tightening U.S. Conditions do not Bode Well for Emerging Markets



Source: BCA Research

Heritage Market Views

Monetary Policy **Less Accommodating**

The Federal Reserve raised interest rates again in mid-June and signaled at least two more rate hikes are expected this year and three more increases in 2019. A stronger economy is giving the Fed leeway to increase rates. Thus far, inflation readings have remained tame even with the unemployment rate at multi-generational lows. Focus remains on wage growth and whether it starts to accelerate inducing the Fed to become more aggressive.

Fiscal Policy **Accommodating**

A lower corporate tax rate and deregulation have fueled a surge in small business optimism and bolstered earnings, particularly for small, U.S.-centric companies. Good news for stocks but it remains to be seen whether the incremental fiscal stimulus will give a jolt to longer-term economic growth and enable the government to address debt and deficits.

Economic Fundamentals **Positive**

First quarter GDP growth registered 2.3%, not dissimilar from the trend of recent years. However, early indications about Q2 GDP growth are above 4%. There are no signs of recession in the U.S. with manufacturing activity, consumer spending, housing, and employment all still rising. Outside the U.S. the picture is a bit different as the synchronous global recovery has hit a stumbling block. Tariffs and looming threats of a trade war with the likes of China will only damage the outlook for many countries.

Market Dynamics **Positive**

The S&P 500 is up about 5% this year but remains below the all-time high set in early January. Small cap stocks, as measured by the Russell 2000, are up about 10%, but not to be outdone, the NASDAQ has risen nearly 13%. The outperformance of growth stocks versus value stocks has been extreme. Foreign markets are lagging with developed markets about flat YTD and emerging markets down 3%. A less accommodating Fed and ongoing threats of tariffs have yet to derail equities.

U.S. Equities **Positive**

The S&P 500 is trading at 16.6x 2018 earnings, about in-line with the long-term average multiple. Interestingly, even with the S&P up YTD the multiple has contracted a bit. Earnings are strong, trends are positive, and valuations are reasonable. With no sign of recession, a bear market is unlikely even after a long run in stocks. The Russell 2000 is trading at 23.4x earnings, which is a bit high compared to historic average, but small cap leadership has been an important leading indicator for stocks.

International Equities **Neutral**

The MSCI EAFE index is trading at a discount (13.9x) to the long-term average of around 16x. Emerging market stocks are struggling this year as the US Dollar has strengthened and the ongoing threat of tariffs loom. EM stocks trade for 11.7x earnings, but we would expect EM stocks to trade at a meaningful discount to the developed markets.

Bond Yields & Credit **Negative**

Ten-year yields breached 3.0% earlier in the year and seemed to be heading higher before falling back below 3% on tamer inflation data. The expanded opportunity set to add income through country selection, including EM, and credit selection remains an attraction for global bonds. High yield spreads are meaningfully below their long-run average and do not appear to be appropriately compensating investors for the risk. We eliminated HY exposure in client portfolios earlier this year.

Commodities **Neutral**

Oil inventories have become more favorable, and OPEC seems inclined to keep cuts in place. Global demand is trending closer to 2% than the historic average of about 1.2%. These factors have pushed oil in to the mid-\$60/bbl. There has been underinvestment in legacy fields worldwide with fracking and technological advances filling the gap.

U.S. Dollar **Positive**

Accelerating growth outside the U.S. was attracting capital, likely explaining the surprise dollar weakness last year. Ongoing improvement in the US economy, rising US interest rates and slower activity overseas have conflated to push the dollar higher this year. These factors are likely to remain in place for the near term.

Disclosures

Past performance is no guarantee of future results. No assurance can be given that an investor will not lose invested capital. This performance is neither a composite performance nor actual performance experienced by any past or present client.

The "Hypothetical" or "Historical" performance is a simulated historical calculation of how this portfolio of managed assets would have performed over the period indicated. Performance calculations are based on the indicated asset weights presented and assume annual rebalancing. No annual rebalance is captured for time analysis periods less than one year in length. "Hypothetical" or "Historical" performance of the portfolio is shown Gross of the manager fees and Gross of Investment Advisory Fees. Performance of mutual funds is shown net of fees based on published expense ratios.

Definitions:

S&P 500: The Standard & Poor's 500 Index is an index of 500 stocks seen as a leading indicator of US equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

Russell 2000: The Russell 2000 index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

MSCI ACWI: A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

MSCI EAFE: The MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

Emerging Markets: Emerging Market Equity is represented by the MSCI Emerging Markets Index. The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

Investment Grade Corporates: Investment Grade Corporate bonds are represented by the iShares iBoxx \$ Investment Grade Corporate Bond ETF. The iShares iBoxx \$ Investment Grade Corporate Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment grade corporate bonds.

Global Bonds: Global bonds are represented by the BoAML Global Broad Market Index. The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including global bonds.

TIPS: Treasury Inflation Protected Securities are represented by the BBgBarc US Treasury US TIPS Index. The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

High Yield Corporates: High Yield Corporates are represented by the BBg US Corporate High Yield Index. The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested.

Preferred Stock: Preferred stock is represented by the BoAML: Preferred Stock Adjustable Rate Index.

US Treasuries: US Treasuries are represented by the BBgBarc Aggregate Bond Treasury Index.

Commodities: Commodities are represented by the Bloomberg Commodity Index.