Fourth Quarter Investment Commentary

Looking Back: 2017 Market Review

December Benchmark Returns (Preliminary)	Dec	Q4	YTD
Larger-Cap Benchmarks			
Vanguard 500 Index	1.1%	6.6%	21.7%
iShares Russell 1000 ETF	1.2%	6.7%	21.5%
iShares Russell 1000 Growth ETF	0.9%	8.0%	30.0%
iShares Russell 1000 Value ETF	1.6%	5.5%	13.5%
Smaller-Cap Benchmarks			
iShares Russell 2000 ETF	-0.4%	3.3%	14.6%
iShares Russell 2000 Growth ETF	0.2%	4.5%	22.3%
iShares Russell 2000 Value ETF	-1.0%	2.0%	7.7%
Other Benchmarks			
Vanguard FTSE Developed Markets ETF	1.6%	4.3%	26.4%
Vanguard FTSE Europe ETF	1.5%	1.9%	27.0%
Vanguard FTSE Emerging Markets ETF	3.7%	5.9%	31.5%
Vanguard REIT Index	-0.2%	1.4%	4.8%
Vanguard Total Bond Market Index	0.4%	0.4%	3.5%
Vanguard Intermediate-Term Tax-Exempt	0.9%	0.3%	4.5%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	0.3%	0.4%	7.5%
S&P/LSTA Leveraged Loan Index	0.4%	1.1%	4.1%

The fourth quarter capped yet another stellar year for U.S. stocks. Larger-cap U.S. stocks (Vanguard 500 Index) gained 6.6% for the quarter and ended the year with a 21.7% total return. This was the ninth consecutive year of positive returns for the index. The market's 1.1% gain in December crowned 2017 as the first year *ever* that stocks rose in each and every month. The broad driver of the market's rise for the year was rebounding corporate earnings growth, supported by solid economic data, synchronized global growth, still-quiescent inflation, and accommodative monetary policy. U.S. stocks got an additional catalyst in the fourth quarter with the passage of the Republican tax plan, presumably reflecting investors' optimism about its potential to further boost corporate after-tax profits, at least over the shorter term.

Foreign stock returns were even stronger, with developed international markets gaining 26.4% (Vanguard FTSE Developed Markets ETF) and emerging markets up 31.5% for the year (Vanguard FTSE Emerging Markets ETF). In the fourth quarter, however, these markets couldn't match the S&P 500, gaining 4%–6%.

Moving on to bonds, the core bond index fund (Vanguard Total Bond Market Index) gained 3.5% in 2017. This return was close to the index's yield at the start of the year, as intermediate-term interest rates changed little during the year with the benchmark 10-year Treasury yield ending at 2.4%. Although the Federal Reserve raised short-term rates three times (75 basis points total), yields at the long end of the Treasury curve declined and the yield curve flattened. Corporate bonds across all credit qualities and maturities had positive returns. High-yield bonds gained 7.5% (ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index) and floating-rate loans rose 4.1% for the year (S&P/LSTA Leveraged Loan Index). Investment-grade municipal bonds (Vanguard Intermediate-Term Tax-Exempt) rebounded from a flat 2016, returning 4.5%.

Portfolio Positioning and Outlook

Our globally diversified balanced (stock/bond) portfolios generated strong returns for the year, consistent with the positive overall return environment for most financial markets and asset classes. Our portfolios benefited from meaningful exposure to developed international and emerging-market stocks, both of which had very strong absolute returns and also beat U.S. stocks for the year. Our decision at the beginning of the year to overweight emerging market also added value.

Equities

Entering 2017, investors worried that the forces that led to the election of US President Donald Trump would spill over into Europe and signal a continued rise in populism across Western economies. However, at Argent we chose instead to focus on the continued economic and earnings recovery around the world as the key driver for our asset allocation decisions throughout the year.

This focus created opportunities to add to our European equity exposure in the midst of the contentious French elections and to our emerging market and Japan allocation in spite of rumblings from the new US administration about the prospect of trade wars and armed conflict in Asia.

Equities, having rallied strongly in 2017, should see more modest returns in 2018 though with higher volatility. With the recoveries in the eurozone and key emerging economies entering mid-cycle whereas the US economy is nearing the end of its cycle, we believe investors will benefit from taking a greater non-US approach to equities in 2018.

Fixed-Income

In the fixed-income portion of our portfolios, our recent positions in flexible and absolute-return-oriented bond funds added value. Our tactical high yield and emerging market debt positions also handily beat core bonds. However with inflation expectations, long-term real interest rates, and credit spreads near historic lows we have begun paring back our credit exposure and duration across portfolios in the last months of 2017 as the risk-reward profile for 2018 warrants caution on the part of fixed income investors.

Alternative strategies

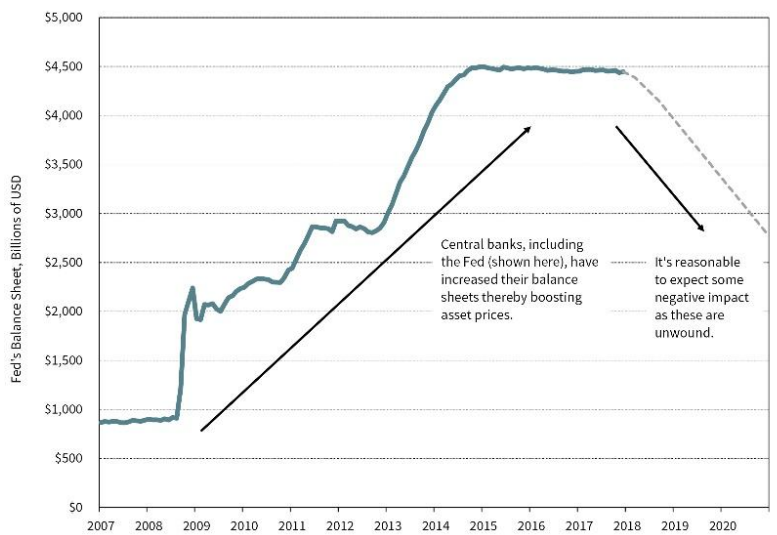
Our investments in non-traditional strategies fulfilled their portfolio diversification roles while generating mid- to high-single-digit returns. These funds beat core bonds but, not surprisingly, trailed the 20%-plus stock market returns. As with the past several years, it didn't pay to be somewhat defensively positioned or to diversify away from U.S. stocks with these alternative strategies. We remain confident their relative-performance day will come and their "insurance" value within our portfolios will be realized.

A Quick Word on the Macro Outlook

In terms of the near-term macro outlook, the consensus view is that there is little risk of a U.S. or global economic recession in 2018. The market expects the in-sync global growth that we saw in 2017 to continue. Most of the investors and strategists we respect seem to share this view. And without a recession, a bear market in stocks is unlikely—although a 5% to 10% "correction" can happen at any time and an unexpected macro/geopolitical shock could cause a larger drop.

Given this sanguine near-term macro backdrop, one might ask why we aren't more heavily invested in global stocks. The simplest answer is that we have little confidence in anyone's ability to forecast the timing/onset of recessions. Moreover, when an outlook becomes the strong consensus view, one should assume it is *already discounted* to a meaningful degree in current market prices. This is where our investment discipline comes in.

Central Banks are Set to Unwind Their Unprecedented Policies



Source: Federal Reserve. Data as of 12/31/17. Unwinding projections based on stated Fed policy: $10 billion per month starting October 2017, rising $10 billion each quarter until $50 billion per month.

This market cycle has the added "feature" of an unprecedented unwinding of unprecedented monetary policies put in place after the financial crisis: trillions in central bank asset purchases and negative interest rates that have yet to be normalized. Given the boost to asset prices from these policies, it is reasonable to expect some negative impact as they stop and then reverse course (i.e. quantitative tightening). So far so good, with the Fed's gradualist and well-telegraphed steps. But there's a lot of road to go. There will also be a new Fed chair and several new voting FOMC members in 2018, creating more potential for a market surprise. PIMCO put it this way in a recent commentary: "With markets having become used to and addicted to easy monetary policies, this turn in the tide of global central bank policies poses significant risks to markets and economies, particularly as the new and still-evolving Fed leadership is untested." At the very least, it raises the potential for increased market volatility.

Putting it All Together

We expect 2018 to be an interesting year for investors. The next few quarters will throw up plenty of opportunities and hurdles, including the implementation of US tax reform, NAFTA negotiations, Brexit talks in Europe, how deftly China slows credit expansion without hurting growth, etc. Through it all, we believe that monitoring the developing trends in growth and inflation will remain critical in 2018 and beyond. The balance of risks seems much more skewed to an emergence of faster-than-expected inflation in our view, but we remain open to multiple economic scenarios developing. As always, it will be critical to take an active and opportunistic approach to asset allocation.

Thank you for your continued confidence and trust. All of us at Argent wish you and yours a very happy, healthy, peaceful, and prosperous New Year.