WILMINGTON TRUST

February | 2019

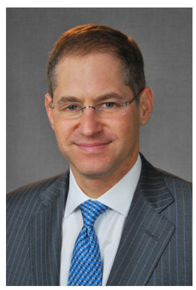
Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

ON THE RECORD

The Market's Wild Ride

In this issue:



Tony Roth
Chief Investment Officer

Volatile financial markets have taken us for a wild ride over the past four months. The S&P 500 fell almost 20% from September to December of 2018 on concerns about politics, the Federal Reserve, and global growth. During that time—as is our *modus operandi* when the headline noise risks overwhelming all other considerations—we kept our focus on economic fundamentals and maintained the view that the U.S. equity market was not reflecting those fundamentals. Cyclical sectors of the equity market (those more closely tied to the business cycle, such as industrials, consumer discretionary, and technology) were pricing in a recession we did not believe would occur in the near term. Markets looked deeply oversold in late December, and we expected the economy to perform better in 2019 than the market was discounting. We made no dramatic changes to our asset allocation and continued to hold a slight overweight to equities through the panic-driven selling. From December 24 through January 30, 2019, the S&P 500 has returned 15% and is now less than 8% off its all-time highs.

A U-turn as risks abate

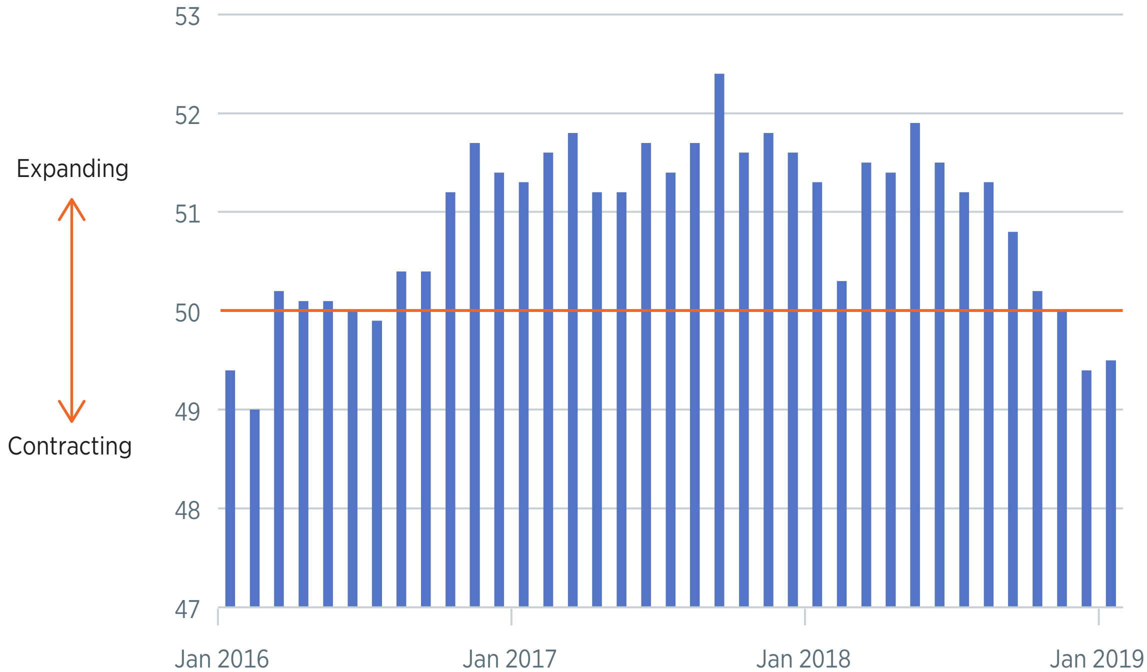
The market's U-turn has, in our view, been supported by an alleviation of two of the three major risks: politics and the Fed. On the political front, the U.S. government has now reopened temporarily, and we see it as unlikely—wall or no wall—that President Trump would allow for another shutdown to occur on February 15. Also related to politics, the U.S. and China are engaged in trade negotiations that seem to be moving in the right direction, though important differences remain. We continue to expect a resolution of trade tensions that avoids a further escalation of tariffs on March 1. While any deal or agreement may fall short on some of the more difficult issues, including intellectual property protections and joint venture requirements for

Continued

Figure 1

The global slowdown has emanated from China

(China Manufacturing Purchasing Managers Index)



Data as of January 31, 2019.

A number above 50 indicates expansion of the manufacturing sector, while a number below 50 indicates contraction.

Sources: Bloomberg, China Federation of Logistics and Purchasing.

The one risk that still looms relates to slowing global growth generally, and China's role in that phenomenon, specifically.

U.S. companies doing business in China, removal of the imminent threat of further tariffs would likely be enough to support the equity market in the short term. Removal of U.S.–China tariffs could, in our view, act as a powerful upside catalyst for global equities.

The Fed has also taken great pains to ease the market's jitters by sending a message of patience and flexibility related to both rate hikes and their balance sheet. (For more on this subject, see "Powell Preaching Patience from the Podium" by our Chief Economist Luke Tilley.) Chair Powell has alleviated concerns that the Fed will crush the U.S. economic cycle in anticipation of higher inflation that may never materialize. The Fed's actions are an important transmission mechanism for emerging markets (EM) currencies and equities as well. A more patient Fed suggests more limited upside for U.S. interest rates, which would limit capital flow into U.S. dollar-based assets (from EM assets) while taking the pressure off EM central banks to raise rates in order to stabilize inflation and local currrencies. This scenario improves the relative attractiveness of EM assets, and we have already seen EM equities outperform international developed market equities by 5.7% (in U.S. dollar terms) since December.

The one risk that still looms relates to slowing global growth generally, and China's role in that phenomenon, specifically. The slowdown in many ways emanates from China (Figure 1) and is having an outsized impact on Europe as well, where certain countries like Germany are heavily reliant on exports for economic growth. Chinese policymakers have responded to growth concerns with fiscal and monetary

Continued

Figure 2

The eurozone economy has continued to deteriorate

(Eurozone GDP Growth and Economic Sentiment Indicator)

Data as of January 30, 2019.

The economic sentiment indicator is a measure of industrial, services, retail, construction, and consumer confidence.

Source: Macrobond.

With policy rates still negative and strict European Union budget rules, there is little in the way of ammunition from monetary or fiscal stimulus if growth continues its downward trajectory.

measures that amount to an estimated 2.5% of GDP, with more stimulus likely to follow in the first half of 2019. If our base case for a benign outcome on trade materializes, the stimulus provided to China's economy should help growth stabilize not only in China and the EM region, but globally, as well.

Make no mistake, risks remain, particularly related to the Chinese, European, and Japanese economies, and valuations in these regions have become more attractive as a result. Some headwinds for European growth, like the slowdown in auto manufacturing from new emissions requirements and low levels of the Rhine River that impeded shipping, are expected to recede in 2019. However, even if these temporary factors do finally dissipate, it is looking increasingly likely that business and investor sentiment in Europe may take some time to fully recover, even with a U.S.-China trade deal (Figure 2).

We also see little in the way of positive catalysts but a slew of negative tail risks (think Brexit, Italy's debt, protests in France, an impending tax hike in Japan). Moreover, with policy rates still negative and strict European Union budget rules, there is little in the way of ammunition from monetary or fiscal stimulus if growth continues its downward trajectory. All of these considerations have turned us more negative on international developed equities.

Continued

Compared to December, when we saw global equity markets as pricing in all of the negative risks and few of the positives, we assess the market as now more appropriately reflecting the balance of risks both to the downside and the upside.

Taking some risk off the table

The most important (and challenging) part of investing is determining what is already priced into the market versus what is not priced in that could move financial assets one way or the other. Compared to December, when we saw global equity markets as pricing in all of the negative risks and few of the positives, we assess the market as now more appropriately reflecting the balance of risks both to the downside and the upside. In large part, this is due to the very strong January bounce in the market, which we do not expect sets the stage for a roaring year for equities (though we do think this year could deliver favorable returns for equities). Recognizing that this January has been the best start to the year for global equities since 1987, prudent risk management now calls for taking a bit of risk off the table.

As a result, we are modestly reducing our equities overweight and shifting into core municipal bonds, while retaining a slight overweight to equities versus our strategic benchmark (refer to positioning charts on pages 13 and 14). Within our equities exposure, we are also altering the composition, reducing our allocation to international developed to an underweight versus our benchmark and adding a bit more to U.S. large cap, where we see more attractive return potential over the next six to twelve months. Importantly, pockets of volatility this year could provide opportunities for long-term investors, and we will remain nimble as developments evolve.

Best,

Tony

Tony

IN FOCUS

Volatility and Your Portfolio

Meghan Shue
Senior Investment Strategist

The first thing we are taught in economics is that there is no free lunch. As it relates to finance, this means that, in general, higher returns can only be realized by taking more risk. Volatility is essentially the cost of the financial market buffet. Yet volatility is a dirty word, and the holy grail for us as investors is constructing a portfolio that can deliver outsized returns with minimal risk. Higher-volatility periods are usually associated with weaker coincident equity returns (though this is not always true), so we are preprogrammed to fear volatility. But in reality, for long-term investors, volatility is only as dangerous as you make it.

Volatility is a dirty word, and the holy grail for us as investors is constructing a portfolio that can deliver outsized returns with minimal risk.

Intro to volatility

Volatility can be defined in any number of ways, including standard deviation, value at risk, max drawdown, and more (see sidebar at the end of this article), all of which essentially quantify the risk taken in a given investment or portfolio. The most oft-cited measure of volatility is standard deviation, though this is a challenging concept for most people to get their arms around. It is also not necessarily aligned with how investors may think about risk in their portfolios. For example, a particular investor may be less concerned with how much their portfolio return is likely to fluctuate in a given year (a measure consistent with standard deviation) and more focused on the maximum they could stomach losing at any given time—a concept we feel is often a better measure of risk and one that is reflected by the maximum drawdown. Part of our job is homing in on the specific measure or set of measures that resonate with investors as part of gauging their appropriate risk tolerance.

Historical perspective

The year 2017 was the second-quietest for equities in the past 60, so the return of volatility in 2018 was particularly jarring (Figure 1). However, drawdowns, or pullbacks, are a normal part of investing in equities and does not have to spell doom for returns (Figure 2). Since 1980, the average maximum drawdown in any given year has been –14%, and the average drawdown in a year where equities deliver a positive return is –11%. In other words, even the best years for equities can come with considerable turbulence.

Riding through, not succumbing to, the volatility

One of the reasons volatility is feared is because short-term spikes in volatility (we use the Chicago Board Options Exchange Volatility Index, known as the VIX, as a proxy) tend to coincide with weaker short-term equity returns (Figure 3).

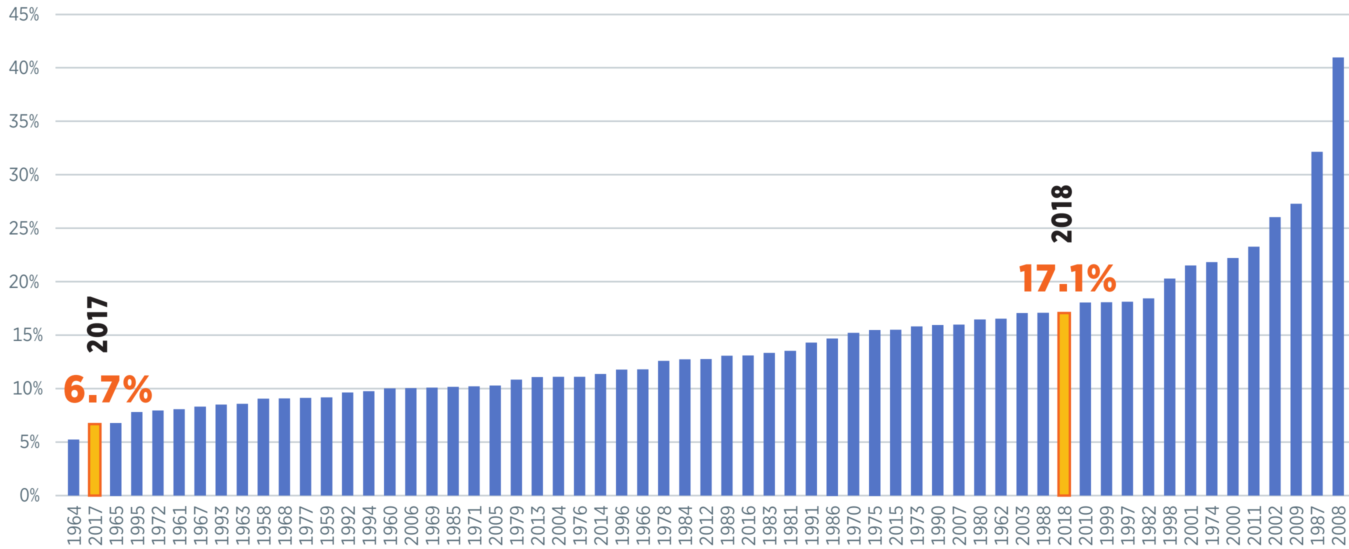
Volatility can weigh on compounded returns, and certainly large drawdowns like those we experienced in 2008 can take years to recoup, but volatility does not have to eat into a portfolio's long-term returns. We believe volatility is only truly

Continued

Figure 1

Volatility returned in 2018, after an abnormally quiet 2017

(Standard deviation of daily S&P 500 returns over the past 60 years)



Data as of December 31, 2018.

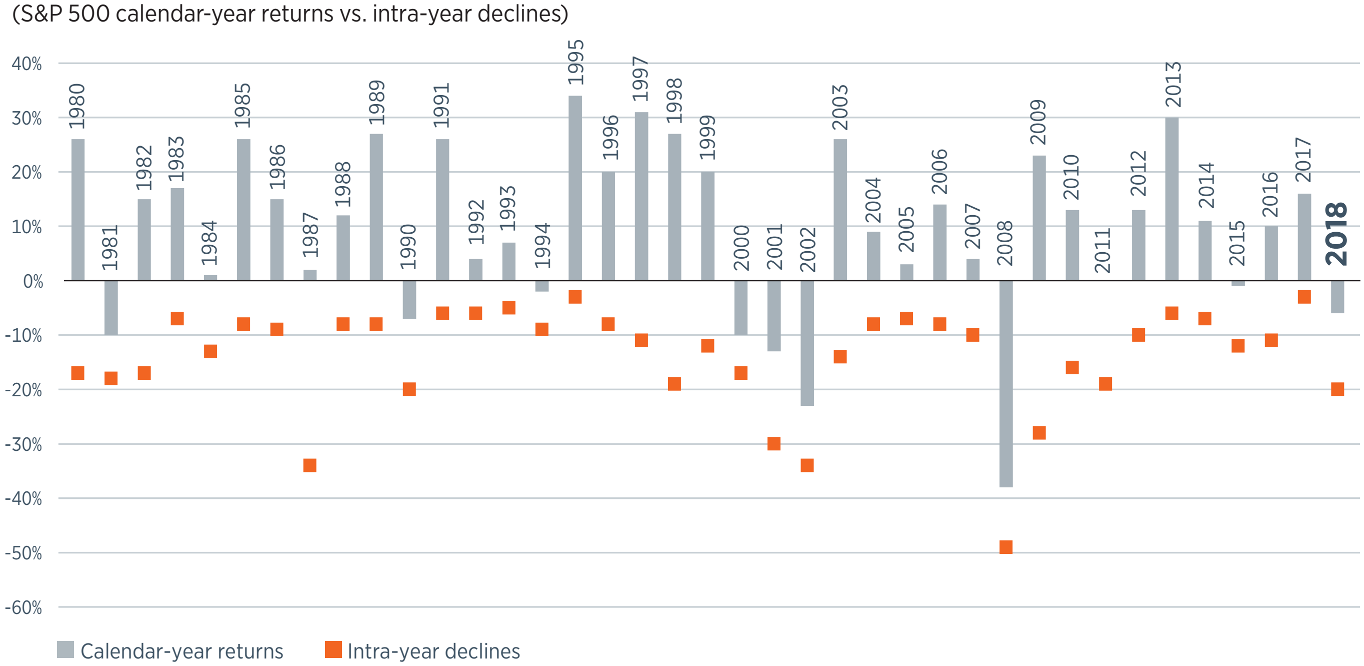
Represents standard deviation of daily returns. Past performance cannot guarantee future results.

Sources: Bloomberg, Standard & Poor's.

Figure 2

Intra-year pullbacks in the equity market are a normal occurrence

(S&P 500 calendar-year returns vs. intra-year declines)



Data as of December 31, 2018.

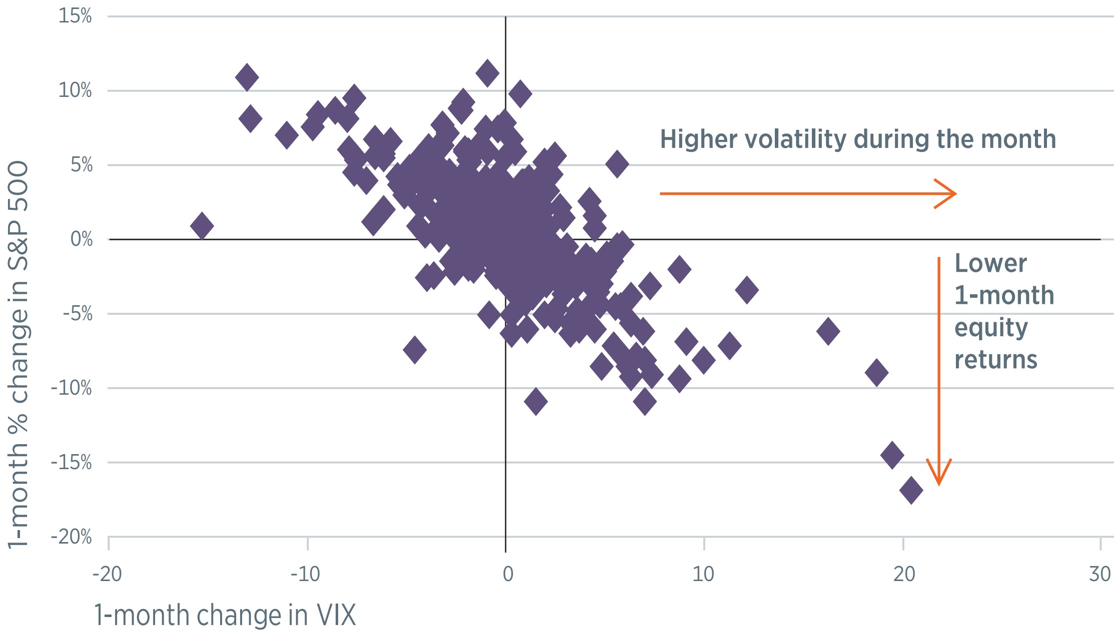
Intra-year declines reflect the maximum peak-to-trough drawdown in the S&P 500 during each calendar year.

Sources: Bloomberg, WTIA.

Continued

Figure 3

Higher implied volatility coincides with weaker short-term equity returns



As of January 24, 2019. Reflects monthly data going back to January 31, 1990. The y-axis is a one-month percent change in the S&P 500, and the x-axis is a nominal change in the VIX over that same month.

Sources: Bloomberg, Standard & Poor's.

Volatility is a normal part of investing in equities and does not have to spell doom for returns.

dangerous if it is allowed to wreak havoc on an otherwise orderly investment plan. Consider the following:

1. **It is rarely profitable to sell when volatility spikes.** The average 1-year return in the S&P 500 after a spike in volatility—measured as a 1-standard deviation increase in the VIX over the past 30 years—has been 19%. Stocks have been higher one year later 86% of the time (that increases to 93% if you exclude recessionary periods). In other words, when not in a recession, an increase in volatility was a contrarian signal.

2. **Outside of recessions, sustained bear markets are very rare.** Our investment process is led by a focus on the economic fundamentals because, while pullbacks outside of a recession have occurred, they have often been short-lived (Figure 4), and investors risk doing more damage to their portfolio by getting out of the market and then trying to get back in. Our goal is to protect against severe and sustained market pullbacks, while retaining a level head during events precipitated more by panic than economic fundamentals.

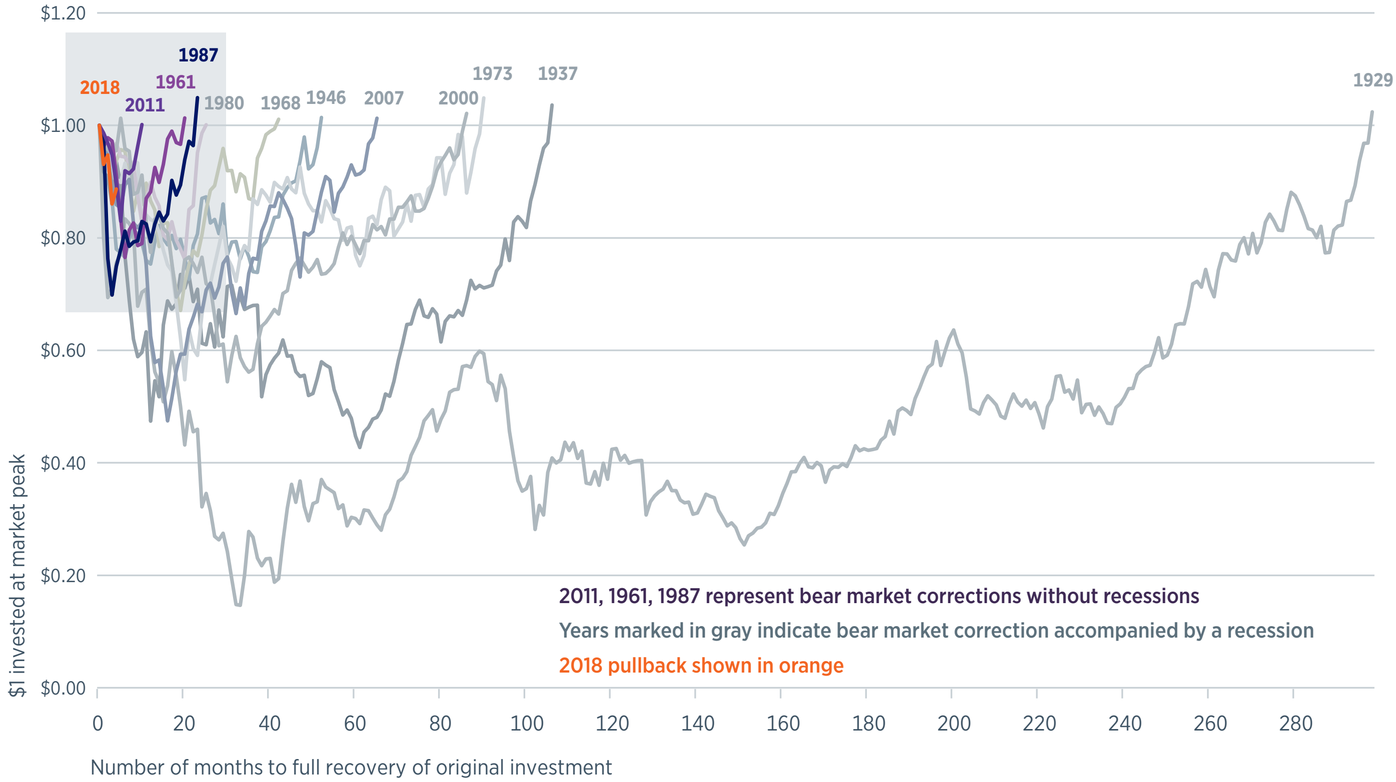
3. **Even if an investor could mitigate some downside by selling out of the market when things get choppy, that presumes an ability to get back into the market at the right time.** This is very difficult to do, both given the unpredictability of short-term market movements and the emotional difficulty of deciding when is the right time to jump back in. As an extreme example of the potential cost of trading in and out of the equity market, an investor with incredibly bad luck who had missed just the 10 best days over the last 30 years would have ended up with less than half as much money as someone who had remained invested the entire time (Figure 5).

Continued

Figure 4

Sustained pullbacks are rare, outside of recessions

$1 invested in the S&P 500 at each market peak vs. the time to recover that original investment



Represents price return of the S&P 500 index going back to December 31, 1927. A bear market correction is defined as a decline in the index of more than –20% from local peak to trough, using monthly data. The only exception is 2011, which fell just shy of -20% using daily data but was included in this analysis for a more complete picture.

Data as of January 10, 2019.

Sources: Bloomberg, Standard & Poor's.

Our goal is to protect against severe and sustained market pullbacks, while retaining a level head during events precipitated more by panic than economic fundamentals.

Striking a balance

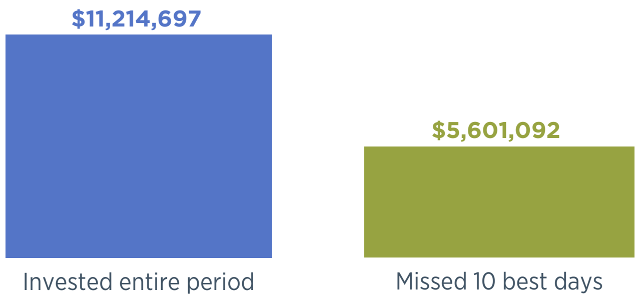
Our goal is to strike a fine balance when it comes to managing volatility. We want to mitigate volatility, but not necessarily minimize it, as this could result in a portfolio that is too conservative to meet long-term goals. We strive to protect against severe market drawdowns but not every market pullback, because volatility is a normal part of investing. We work with our clients to help them understand their tolerance for risk, so inevitable bouts of volatility do not become the tail that wags the dog. At the end of the day, volatility can make the ride bumpy, but for investors with a long investment horizon and sound plan, it does not have to result in a detour from one's final destination.

To help ensure that your portfolio's volatility is in line with your risk tolerance, please contact your relationship manager for more information about receiving a customized risk assessment.

Continued

Figure 5

Attempting to market time can come with great cost
(Value of $1 million invested in the S&P 500 index for 30 years)



The period shown is August 15, 1988 through August 30, 2018.

Represents the value of $1 million invested in the S&P 500 index for 30 years, versus missing the 10 best-performing days over that period.

Past performance cannot guarantee future results.

Indexes are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses such as management fees and transaction costs which would reduce returns.

Source: Bloomberg.

Definitions

Standard deviation
A statistical measure of the dispersion of portfolio returns around the mean; a higher standard deviation signals more historical variance of returns.

Example: Portfolio A and Portfolio B may have the same average monthly returns over the past three years, but Portfolio A has a standard deviation of 9%, and Portfolio B has a standard deviation of 13%. This means Portfolio A would be likely to see returns fall 9% above or 9% below its average 68% of the time, while Portfolio B would likely see returns fall 13% above or below the mean 68% of the time. Therefore, Portfolio B has a higher volatility.

Value at Risk (VaR)
Measures the maximum potential loss with a degree of confidence for a specified period.

Example: Portfolio A has a one-year 15% VaR of $1 million, meaning the portfolio has a 15% chance of losing more than $1 million over a one-year time horizon.

Maximum drawdown
The largest peak-to-trough decline in a portfolio or stock's value before a new peak is achieved.

Example: Portfolio A begins with an initial value of $100,000. The portfolio climbs to a value of $200,000 before declining to $100,000. The portfolio recovers and climbs to a value of $175,000 before falling again, this time to $75,000. Then the portfolio goes on to reach a value of $300,000. The maximum drawdown would be ($75,000/$200,000)-1= –62.5%.

Equities

January 2019 review

	AS OF JANUARY 31, 2019		
	Month to date	Year to date	Trailing 12-month return
S&P 500	8.0%	8.0%	–2.3%
Russell 2000	11.3%	11.3%	–3.5%
MSCI EAFE	6.6%	6.6%	–12.5%
MSCI Emerging Markets	8.8%	8.8%	–14.2%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indexes are not available for direct investment.

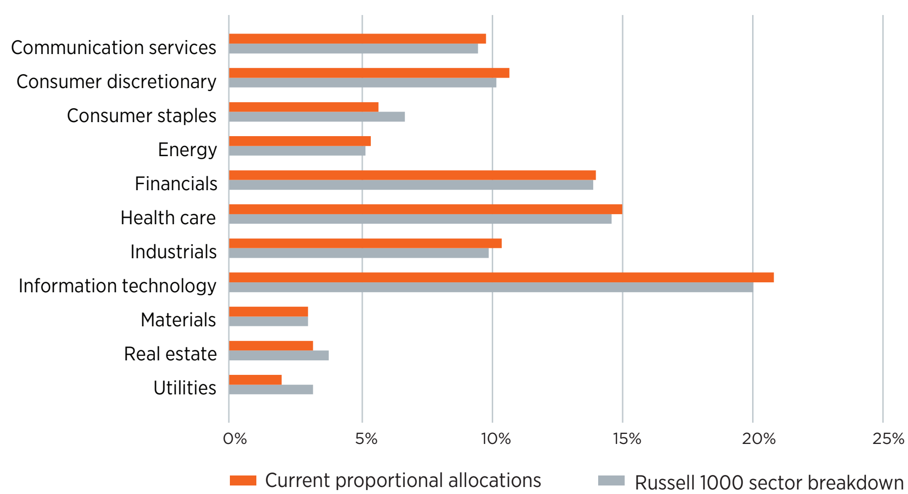
U.S. Equities

- U.S. equity markets rebounded after a steep setback in December, with the S&P 500 rising 8% in reaction to a possible trade resolution, a Fed rate pause, and oversold market conditions
- A mismatch between the depth of the market decline versus earnings pressure has been alleviated somewhat with 4Q 2018 earnings reports so far
- Small cap outperformed large cap by 3.2 points while growth outperformed value by 1.2 points
- All sectors rose as bear market concerns lessened with better-than-feared results during earnings season; best-performing sectors were industrials, energy, real estate, consumer discretionary and communication services, while underperformers were led by utilities, health care, consumer staples and materials
- Valuations remain reasonable for long-term investors with current 2019 and 2020 PE multiples at 15.8x and 14.3x; much of the focus will be on the ability to grow earnings this year in the mid-single-digit range

International Equities

- After declining throughout 2018, share prices finally found their trough in late December and have since been recovering
- At January's end, forward valuations for European and Japanese stocks were very cheap by historical standards
- Forward price-to-earnings ratios for eurozone, UK, and Japanese stocks are, respectively, 12.8%, 16.0%, and 12.5% below their 5-year averages
- European and Japanese stocks are currently "cheap for a reason;" in particular, local economies have decelerated, stocks dependent on the Chinese consumer market are struggling, and, while a no-deal Brexit is less likely, the UK's relationship with the European Union remains unresolved
- Forward price-to-earnings ratios for Asia-Japan stocks, including Chinese stocks, have all dropped well below their technology-driven early 2018 highs, but still remain slightly more expensive than their 5-year averages

Our sector allocations, as of January 31, 2019



Sources: Bloomberg, WTIA.

Fixed Income

January 2019 review

	AS OF JANUARY 31, 2019		
	Month to date	Year to date	Trailing 12-month return
Bloomberg-Barclays U.S. Aggregate Bond Index	1.1%	1.1%	2.3%
Bloomberg-Barclays U.S. Investment Grade Credit Index	2.2%	2.2%	0.9%
Bloomberg-Barclays Ba High Yield Index	4.2%	4.2%	1.7%
Bloomberg-Barclays 60% High Yield Total Return/ 40% Municipal Total Return Index	0.7%	0.7%	5.2%
Bloomberg-Barclays U.S. Mortgage Backed Securities Index	0.8%	0.8%	3.0%
S&P Municipal Bond Index	0.7%	0.7%	3.1%
S&P Municipal Bond New York Index	0.8%	0.8%	2.6%
S&P Municipal Bond California Index	0.7%	0.7%	2.8%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indexes are not available for direct investment.

U.S. Treasuries

- Treasuries rallied as the Fed moved to a more dovish posture indicating a pause in further tightening
- The 5-year note was the best performer, falling 8 basis points, or bps (0.08%) in yield as it benefited the most from the Fed monetary policy pivot
- A more dovish Fed and oil's rise in price lead to an expansion in TIPs' (Treasury inflation-protected securities) inflationary break-even rates; 10-year break-evens rose by 20bps to 1.89
- As a result of increased inflationary expectations, the 30-year bond's yield to maturity declined by just 1bp

Investment-grade (IG) Corporates

- IG credit significantly outperformed duration-matched Treasuries, reversing much of Dec.'s underperformance
- Technicals improved as investors spent cash at wider spreads; flows increased causing risk premiums to tighten
- The OAS of the Bloomberg/Barclays U.S. Credit Index ended Jan. at 121bps, 22bps tighter from 143bps at Dec.'s end
- IG returns were strong; total return for the Bloomberg Barclays U.S. Credit Index was 2.16%
- The IG primary market rebounded from December's dearth of supply, and new issue supply topped $104bn; Bloomberg estimates supply will total $90bn in Feb.
- Names we expect to come to market: Altria, Walgreens, Apple, and Whirlpool

High-yield (HY) Corporates

- HY provided a positive total return of +3.75%, the strongest start to a calendar year for HY investors on record
- Outperforming for the month were energy (+5.20%), health care (+4.73%), and food/beverages (+4.20%), while all industry categories produced positive results
- CCC-rated bonds produced a +4.10 return, compared with +3.95% for Bs and +3.45% for BBs
- In new issues, HY is returning, following one of the lightest periods of activity the last several months; for January, $16.8 billion priced, following no new issue pricing in Dec. due to market volatility

Municipals

- Risk-off sentiment continued to follow through from the final months of 2018, with the yield on the S&P Municipal Bond Index declining by 0.125% to end the month at 2.617%
- As a result of the resultant drop in yields, the broad market index served up a +0.735% total return, and its trailing 3-month performance is up to +2.942%
- New deals are pretty well bid; across the term structure, there is equitable sponsorship, especially out to the intermediate portion of the curve

International

- 10-year government bond yields have declined since recent highs in Oct. and Nov.—more or less in line with the trend in U.S. government bond yields
- Bond market expectations for economic growth and inflation have dropped; eurozone benchmark bond yields dropped from 0.57% to 0.17% as its fiscal dispute with the EU eased
- Italian yields dropped, from 3.68% to 2.68%; with a no-deal Brexit becoming less likely, UK yields also dropped, from 1.73% to 1.25%
- As the Chinese authorities injected some stimulus, yields declined from 3.70% to 3.11%; with a new Brazilian government taking office, its yields dropped from 12.5% to 8.9%

ASSET CLASS OVERVIEW

Real Assets, Hedge Funds, and Private Markets

January 2019 review

	AS OF JANUARY 31, 2019		
	Month to date	Year to date	Trailing 12-month return
S&P Developed Property	10.7%	10.7%	4.0%
Barclays Inflation	1.4%	1.4%	0.8%
Bloomberg Commodity	5.4%	5.4%	–8.2%

	AS OF JANUARY 31, 2019		
Hedge Fund Research Institute Indexes	Month to date	Year to date	Trailing 12-month return
Global	2.1%	2.1%	–7.0%
Equity Hedge	3.9%	3.9%	–9.0%
Event Driven	2.5%	2.5%	–11.0%
Macro	–1.9%	–1.9%	–8.6%
Relative Value	2.5%	2.5%	0.2%

Sources: FactSet, Bloomberg. Investing involves risks and you may incur a profit or a loss. Past performance cannot guarantee future results. Indexes are not available for direct investment.

Real Assets

- U.S. Inflation-linked bonds rose in January as nominal yields remained steady and inflation expectations picked up after declining significantly in 4Q
- Real Estate shot up, actually outperforming equities in a strong month as fears of recession eased and the market became convinced that future rate hikes were likely off the table
- Commodities were also up strongly, led by energy as WTI was up nearly 18% and industrial metals also outperformed; each sub-category gained in price, with only a select few specific contracts, such as Cocoa and Natural Gas, showing losses

Hedge Funds

- Hedge Funds had a strong month after a difficult 2018
- Unsurprisingly, the top performers were directional strategies within equity hedge and event driven, which capitalized on the global equity rally
- Relative value also had a strong month, more than recapturing December's losses
- Macro, which provided protection during the turbulent fourth quarter of 2018, was the only strategy that lost money, as trend followers were positioned for further declines in risk assets

Private Markets

- With high valuations and slowing growth, it is useful to discuss private markets performance during periods of equity market stress
- While absolute returns for private equity during stock market downturns can be lower than returns during equity bull markets, outperformance has historically increased; comparing the Cambridge private equity benchmark to the S&P 500 since 1989 shows private equity outperforming by greater than 10% annualized in a period with negative returns, while outperforming by mid- to high-single digits during up equity markets
- Despite the popular view that private equity companies are inherently more risky than public companies, private companies, especially those backed by strong sponsors, often have more options to deal with financial difficulties, such as the ability to contribute additional equity without dilution, and additional flexibility on expenses

Investment Positioning

Portfolio targets effective February 1, 2019, for high-net-worth clients with Hedge Funds

	Aggressive			Growth & Income			Conservative		
	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)	Change this month	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)	Change this month	Strategic Asset Allocation (long term)	Tactical Asset Allocation (short term)	Change this month
Equities									
U.S. Large-Cap	46.0%	47.1%	▲ 0.5	32.6%	33.8%	▲ 0.5	15.2%	16.3%	▲ 0.5
U.S. Small-Cap	13.8%	13.8%	—	8.2%	8.2%	—	1.5%	1.5%	—
International Developed	19.5%	18.5%	▼ -1.0	12.7%	11.5%	▼ -1.3	5.0%	4.0%	▼ -1.0
Emerging Markets	9.7%	10.2%	—	3.6%	4.1%	—	1.0%	1.2%	—
Total Equities	**89.0%**	**89.6%**	**-0.5%**	**57.0%**	**57.5%**	**-0.8%**	**22.7%**	**23.0%**	**-0.5%**
Fixed Income									
U.S. Investment Grade–Tax-Exempt	0.0%	0.0%	—	30.0%	26.6%	▲ 0.8	64.3%	60.1%	▲ 0.5
High-Yield–Tax-Exempt	0.0%	0.0%	—	2.0%	2.0%	—	2.0%	2.0%	—
Total Fixed Income	**0.0%**	**0.0%**	**0.0%**	**32.0%**	**28.6%**	**0.8%**	**66.3%**	**62.1%**	**0.5%**
Real Assets									
U.S. Inflation-Linked Bonds	0.8%	0.7%	—	0.8%	1.0%	—	0.8%	1.0%	—
U.S. REITs	0.8%	0.5%	—	0.8%	0.8%	—	0.8%	0.8%	—
International REITs	2.5%	1.7%	—	2.5%	2.5%	—	2.5%	2.5%	—
Total Real Assets	**4.0%**	**2.9%**	**0.0%**	**4.0%**	**4.3%**	**0.0%**	**4.0%**	**4.3%**	**0.0%**
Hedge Funds	**5.0%**	**5.0%**	**0.0%**	**5.0%**	**6.0%**	**0.0%**	**5.0%**	**8.0%**	**0.0%**
Cash & Equivalents	**2.0%**	**2.0%**	**▲ 0.5%**	**2.0%**	**3.6%**	**0.0%**	**2.0%**	**2.6%**	**0.0%**
Totals	**100.0%**	**100.0%**		**100.0%**	**100.0%**		**100.0%**	**100.0%**	

Note: Totals may differ slightly from the allocation building blocks due to rounding.

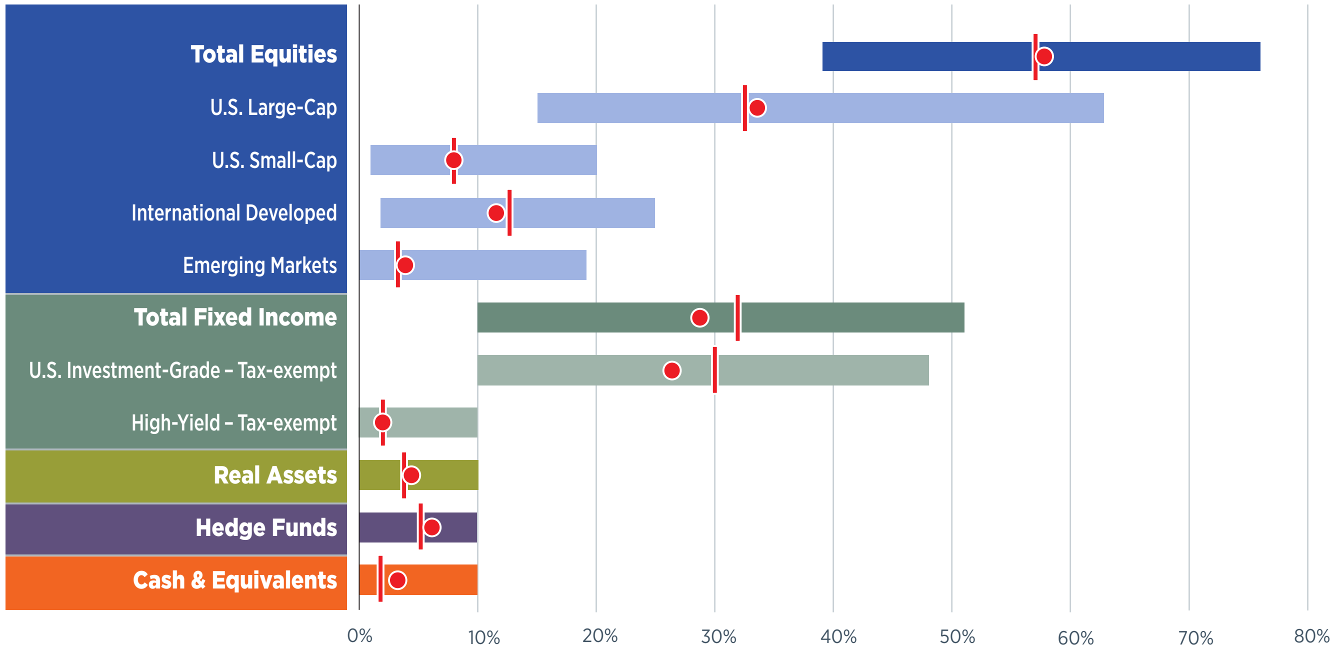
This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. Allocations presume a long-term investment horizon. Wilmington Trust's Capital Markets Forecast 2019 is available on www.WilmingtonTrust.com or upon request from your Investment Advisor. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

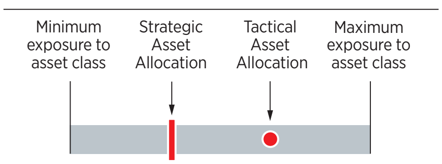
For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Positioning in Response to Our Outlook

A big-picture glimpse of our overall positions, as of February 1, 2018 (high-net-worth investors)





Based on current Growth & Income Strategy for High-Net-Worth with Hedge Funds, this chart represents current weights relative to our strategic asset allocations with high and low boundaries reflecting maximum and minimum weightings.

This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. There is no assurance that any investment strategy will be successful. Investing involves risks and you may incur a profit or a loss.

For an overview of our asset allocation strategies, please see the disclosures.

Source: WTIA.

Disclosures

Wilmington Trust is a registered service mark. Wilmington Trust Corporation is a wholly owned subsidiary of M&T Bank Corporation. Wilmington Trust Company, operating in Delaware only, Wilmington Trust, N.A., M&T Bank, and certain other affiliates provide various fiduciary and non-fiduciary services, including trustee, custodial, agency, investment management and other services. Wilmington Trust Investment Advisors, Inc., a subsidiary of M&T Bank, is an SEC-registered investment adviser providing investment management services to Wilmington Trust and M&T affiliates and clients. Brokerage services, mutual funds services and other securities are offered by M&T Securities, Inc., a registered broker/dealer, wholly owned subsidiary of M&T Bank, and member of the FINRA and SIPC. Wilmington Funds are entities separate and apart from Wilmington Trust, M&T Bank, and M&T Securities.

These materials are based on public information. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of Wilmington Trust or M&T Bank who may provide or seek to provide financial services to entities referred to in this report. As a result, M&T Bank and Wilmington Trust do not disclose certain client relationships with, or compensation received from, such entities in their reports.

The information in Capital Perspectives has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. The opinions, estimates, and projections constitute the judgment of Wilmington Trust and are subject to change without notice. This commentary is for information purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or as a recommendation or determination that any investment strategy is suitable for a specific investor. Investors should seek financial advice regarding the suitability of any investment strategy based on the investor's objectives, financial situation, and particular needs. The investments or investment strategies discussed herein may not be suitable for every investor. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will succeed.

Any investment products discussed in this commentary are not insured by the FDIC or any other governmental agency, are not deposits of or other obligations of or guaranteed by M&T Bank, Wilmington Trust, or any other bank or entity, and are subject to risks, including a possible loss of the principal amount invested.

Some investment products may be available only to certain "qualified investors"—that is, investors who meet certain income and/or investable assets thresholds.

Any positioning information provided does not include all positions that were taken in client accounts and may not be representative of current positioning. It should not be assumed that the positions described are or will be profitable or that positions taken in the future will be profitable or will equal the performance of those described.

Indexes are not available for direct investment. Investment in a security or strategy designed to replicate the performance of an index will incur expenses, such as management fees and transaction costs that would reduce returns.

An overview of our asset allocation strategies: Wilmington Trust offers seven asset allocation models for taxable (high-net-worth) and tax-exempt (institutional) investors across five strategies reflecting a range of investment objectives and risk tolerances: Aggressive, Growth, Growth & Income, Income & Growth, and Conservative. The seven models are High-Net-Worth (HNW), HNW with Liquid Alternatives, HNW with Private Markets, HNW Tax Advantaged, Institutional, Institutional with Hedge LP, and Institutional with Private Markets. As the names imply, the strategies vary with the type and degree of exposure to hedge strategies and private market exposure, as well as with the focus on taxable or tax-exempt income.

Model Strategies may include exposure to the following asset classes: U.S. large-capitalization stocks, U.S. small-cap stocks, developed international stocks, emerging market stocks, U.S. and international real asset securities (including inflation-linked bonds and commodity-related and real estate-related securities), U.S. and international investment-grade bonds (corporate for Institutional or Tax Advantaged, municipal for other HNW), U.S. and international speculative grade (high-yield) corporate bonds and floating-rate notes, emerging markets debt, and cash equivalents. Model Strategies employing nontraditional hedge and private market investments will, naturally, carry those exposures as well. **Each asset class carries a distinct set of risks, which should be reviewed and understood prior to investing.**

Continued

Disclosures Continued

All investments carry some degree of risk. Return volatility, as measured by standard deviation, of asset classes is often used as a proxy for illustrating risk. Volatility serves as a collective, quantitative estimate of risks present to varying degrees in the respective asset classes (e.g., liquidity, credit, and default risks). Certain types of risk may be underrepresented by this measure. **Investors should develop a thorough understanding of the risks of any investment prior to committing funds.**

Quality ratings are used to evaluate the likelihood of default by a bond issuer. Independent rating agencies, such as Moody's Investors Service and Standard & Poors, analyze the financial strength of each bond's issuer. Ratings range from Aaa or AAA (highest quality) to C or D (lowest quality). Bonds rated Baa3 or BBB and better are considered "**Investment Grade.**" Bonds rated Ba1 or BB and below are "**Speculative Grade**" (also "**High Yield**.")

Limitations on use:

This publication is intended to provide general information only and is not intended to provide specific investment, legal, tax, or accounting advice for any individual. Although information contained herein was prepared from sources believed to be reliable, Wilmington Trust does not make any representations concerning the completeness or accuracy of such information. Opinions are subject to change without notice. Before acting on any information included in this publication you should consult with your professional advisor or attorney.

Third-party trademarks and brands are the property of their respective owners.