

# Capital Perspectives

Monthly investment analysis and insights from Wilmington Trust Investment Advisors

## ON THE RECORD

### Of Rhetoric and Resilience

In this issue:

**Of Rhetoric and Resilience** 1

Tony Roth

**The Road More Traveled** 5

Luke Tilley

**Asset Class Overview** 9

**Investment Positioning** 12

**Disclosures** 14



**Tony Roth**  
Chief Investment  
Officer

One of the most challenging aspects of investing is distinguishing signal from noise—or, put another way—separating useful information from the cascade of irrelevant data in the news on a daily basis. Doing so can be the difference between building long-term wealth and chasing short-term market returns. Over the past two months, the noise—everything from hyperbolic headlines to Trump tweets—has been particularly amplified by both the media and the market itself. Through this volatility, we advised our clients against making drastic moves in their portfolios, as we believe markets will stabilize still quite away from bear market levels. Our forward-looking outlook calls for continued volatility with an upward drift in equity prices.

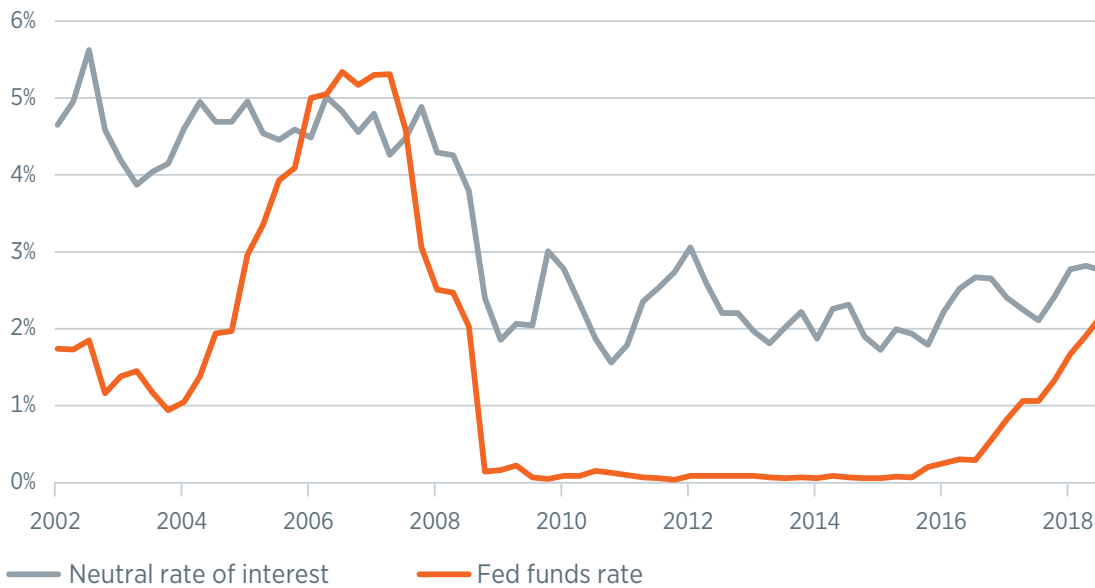
Two voices in particular have contributed to market volatility in the past few months: those of Federal Reserve Chair Jerome Powell and President Trump. On October 3, Chair Powell made comments interpreted by markets to mean that the Fed would be hiking rates more aggressively, risking inverting the yield curve and tipping the U.S. into recession. Shortly thereafter, President Trump and his closest confidants increased the pressure on China ahead of a meeting between Trump and Chinese President Xi to discuss trade issues. The administration made repeated, pointed threats about the likelihood of increased tariffs—from 10% to 25% on \$200 billion of Chinese goods, and even tariffs on the remaining \$267 billion of Chinese products imported to the U.S.—come the start of the new year. Understandably, investors were rattled.

However, the last week of November provided new informational content that we think is being overlooked by markets. Recent developments may be short on

Continued

Figure 1

**Fed funds rate and neutral rate of interest**



Data as of September 30, 2018.

Sources: Federal Reserve Bank of New York, Macrobond, WTIA.

The nominal neutral rate of interest is defined as the New York Federal Reserve’s Laubach-Williams model estimate of the real neutral (or natural) rate of interest, plus the year-over-year percent change in core PCE (personal consumption expenditures) inflation.

**Recent developments may be short on substance but, in our expectation, will prove to be important signals that both Powell and Trump are more likely to be guided by pragmatism than principles in the year ahead.**

substance but, in our expectation, will prove to be important signals that both Powell and Trump are more likely to be guided by pragmatism than principles in the year ahead.

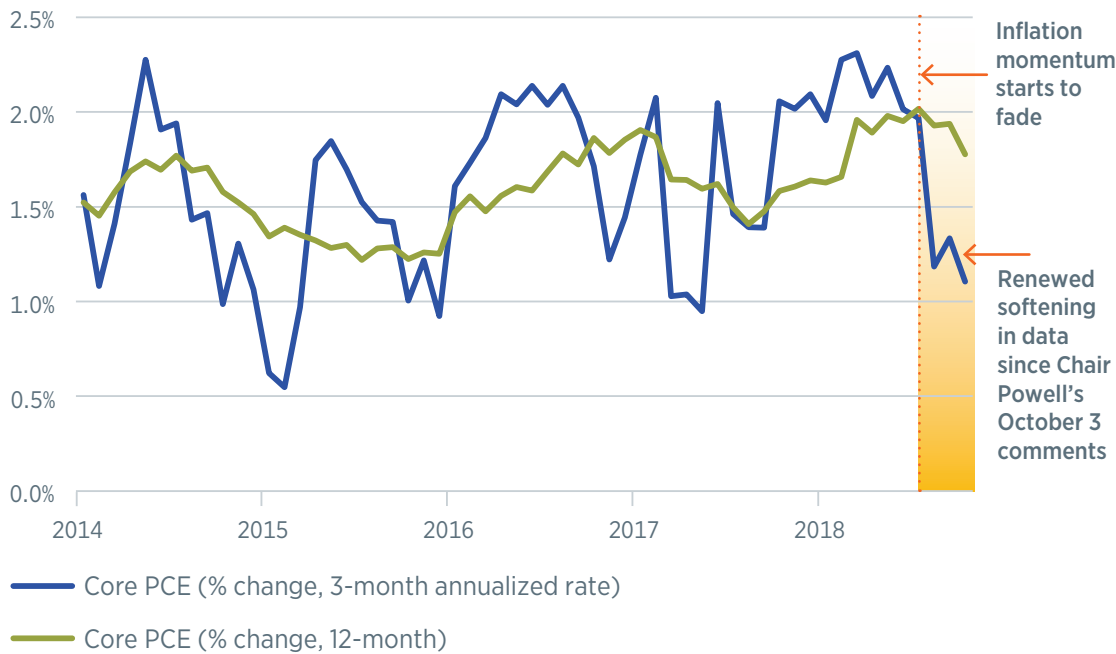
In terms of the Fed, Powell’s November 28 speech to the Economic Club of New York was an opportunity to tone down his rhetoric from the prior month, and he did just that. Investors seized on his reference to the Fed’s policy rate being “just below” neutral (meaning the rate that neither stimulates nor slows the economy), suggesting the Fed would only hike a couple more times before pausing (Figure 1). We think that the real message is that the Fed will remain data dependent. All economists, those at the Fed included, rely heavily on models of the economy to guide in setting policy. Many of those models suggest inflation will increase, given the tight labor market, and interest rates should be higher to avoid inflation “running away” from the Fed’s 2% target. However, those models do not always perfectly represent the true state of the economy, and recent inflation data have shown some meaningful softening (Figure 2). Prior to Powell’s November 28 speech, it was unclear whether he would trust the models or the data more, particularly when they tell different stories, as they have in recent months. We are confident that Powell will rely more on the incoming data, waiting for evidence that inflation has picked up rather than raising rates on a pre-set path in anticipation of inflation that may never materialize. This would be supportive for equities.

On trade, the signal is even more significant for what has been a huge wildcard for businesses and investors. Just four days after Powell’s speech, President Trump and President Xi came to a temporary truce on trade while attending the G20 summit in

Continued

Figure 2

**Inflation momentum slowing**



Data as of October 31, 2018.  
Sources: Bureau of Economic Analysis, Macrobond.

**On trade, the message is even more significant for what has been a huge wildcard for businesses and investors.**

Buenos Aires. To be fair, the truce resulted in no concrete trade terms with the exception of the postponement of higher tariffs beyond January 1. However, the gesture signals to us that both sides do not want to risk the health of their economies in an ideological battle, or worse: a tariff-induced cold war. Going forward, we see a reduced probability of higher tariffs being enacted between the U.S. and China in 2019. We are also of the view that global equities do not need a “grand deal,” one that solves all of the U.S./China trade issues, in order to climb higher. If we can avoid further escalation of trade tensions—via higher tariffs on the \$200 billion of Chinese goods or new tariffs on the additional \$267 billion—or see a removal of existing tariffs, it would likely provide enough of a tailwind for earnings and multiples to carry equities higher, particularly those of beaten-down regions like Europe and emerging economies.

The risks are still there. The yield curve has continued to flatten, with the yield on the 10-year Treasury now only 0.14% higher than the yield on the 2-year Treasury—a difference that has gone negative before each of the last nine recessions. This is a strong signal from the bond market, advising Powell to tread carefully. And trade uncertainty could still threaten the capital expenditure cycle. Looming tariffs make it very difficult for companies to make investments in new plants, new technologies, or expanded supply chains, which could weigh on economic growth in the U.S. and abroad.

Trade is likely to maintain its nonlinear progression, with the arrest of Chinese company Huawei’s CFO presenting the latest example. This is against a backdrop of slowing growth; we expect the U.S. economy to slow from 3% GDP growth in 2018

Continued

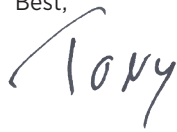
**This is a strong signal from the bond market, advising Powell to tread carefully. And trade uncertainty could still threaten the capital expenditure cycle.**

to around 2.0%–2.5% in 2019. As a result, we are maintaining our positioning to risk assets, with a neutral allocation to U.S. equities versus our long-term strategic benchmark and a slightly higher allocation versus our benchmark to non-U.S. developed equities, where we see more value and expect economic data to improve. While rhetoric may continue to drive short-term volatility in markets, we are confident that the data will guide us in separating the noise from the signal, anticipating the direction of monetary and fiscal policy, and delivering strong risk-adjusted returns.

In keeping with tradition, instead of publishing *Capital Perspectives* next month, we will be focused on our 2019 Capital Markets Forecast, “The Fourth Industrial Revolution: Digital, data, and debt disruption.” Its insights are compelling and will no doubt encourage you to kick off the new year by having a discussion with your advisors.

Wishing you a healthy, happy, and prosperous 2019.

Best,

A handwritten signature in black ink that reads "Tony". The signature is written in a cursive, flowing style with a large initial 'T'.

Tony

## The Road More Traveled



**Luke Tilley**  
Chief Economist,  
Wilmington Trust  
Investment  
Advisors

**The American Society of Civil Engineers gave the national infrastructure a grade of D+ in the most recent (2017) report card, with only one of the 16 categories better than a C+.**

**In the wake of the U.S. midterm elections, which split control of Congress between the two parties, the obvious question is what kind of policy actions can be expected in the next two years. In the lead-up to the election, we referred to this result as “gridlock” because hyper-partisanship in Washington is likely to lead to investigations of the executive branch, strategic stalling of legislation, pitched battles over funding the government, and of course the epitome of self-inflicted wounds: heated squabbles over the debt ceiling.**

We also highlighted several areas of possible progress, the most obvious of which is a bipartisan infrastructure plan. The need for better infrastructure is obvious and, fortuitously, both parties have put forth plans. Although, “everybody likes infrastructure” is a truism, the follow-up of “nobody likes paying for it” makes such a deal challenging. Here we lay out the state of play.

### The need

We have likely all seen evidence of the need for infrastructure investment in some manner, either on dilapidated bridges or roads, congested airports, train delays, or even recent high-profile cases of contaminated drinking water. The American Society of Civil Engineers gave the national infrastructure a grade of D+ in the most recent (2017) report card, with only one of the 16 categories better than a C+. The most oft-cited statistic is illustrative: Of the nation’s 614,387 bridges, about 40% are more than 50 years old and 56,000 of them are structurally deficient. For the entire national infrastructure, they estimate an aggregate shortage of \$2 trillion between expected investment over the next 10 years and what would be necessary to give each of the 16 categories a grade of B.

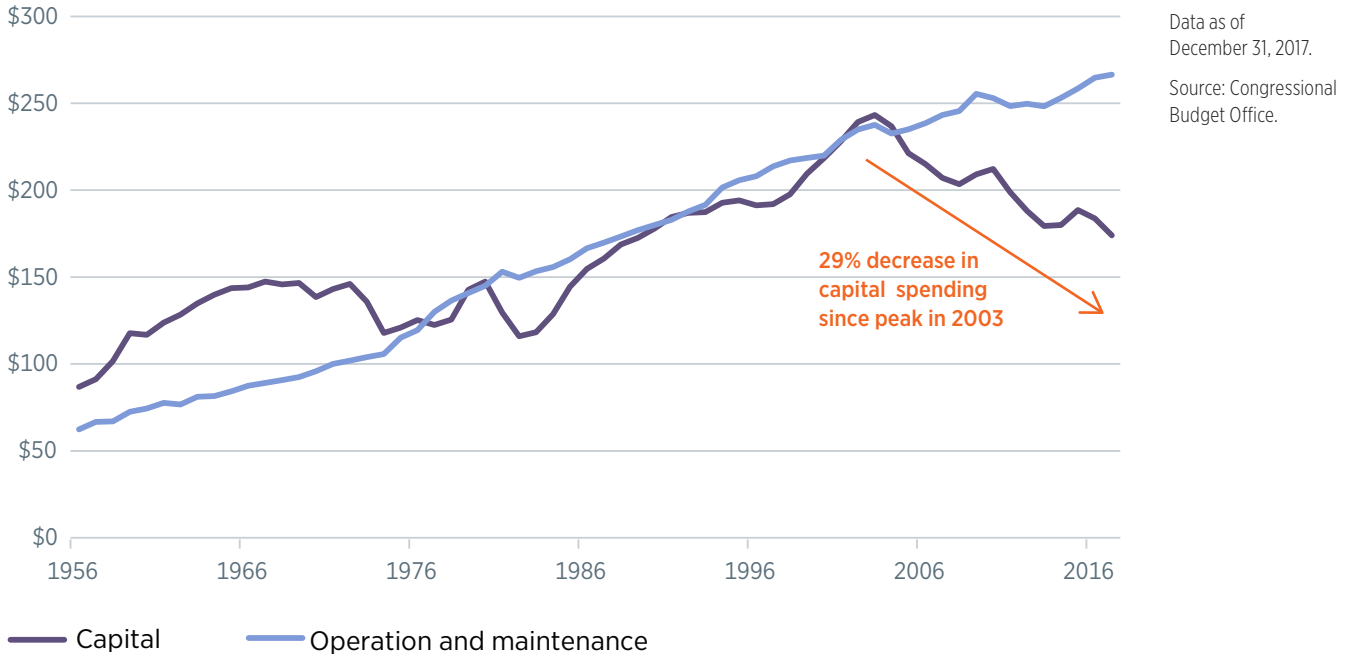
The underinvestment can also be seen in macroeconomic data. The Congressional Budget Office (CBO) estimated in a recent report that total public spending—the sum of federal, state, and local—on transportation and water infrastructure as a share of gross domestic product was 2.3% in 2017. That is the lowest share going back at least as far as 1956 (the earliest data point in the report). In fairness, the 2.3% is only slightly lower than the 2.5% average over the past 20 years, and the high was just 3% all the way back in 1959.

More worrisome is the nature of the spending. Using inflation-adjusted terms, capital spending on transportation and water infrastructure peaked in 2003 at \$243 billion and has since fallen by 29%, as shown in Figure 1. Capital spending includes new structures such as highways, dams, and water treatment facilities, and also spending on improvement of existing structures. Operation and maintenance spending has held up, but covers operations such as regular maintenance, air traffic

Continued

Figure 1

**Public spending on transportation and water infrastructure, by category of spending, 1956 to 2017** (billions of 2017 dollars)



**Capital**—Dollar amounts are adjusted to remove the effects of inflation using price indexes for government spending that measure the prices of materials and other inputs used to build transportation and water infrastructure.

**Operation and maintenance**—Dollar amounts are adjusted to remove the effects of inflation using price indexes for government spending that measure the prices of goods and services consumed by governments, including materials and other inputs used to operate and maintain transportation and water infrastructure.

control, research and development, and highway safety. The decline in capital spending is a prime reason for the subpar state of the country’s infrastructure. It is not keeping up with the current population’s needs and will clearly not be adequate for projected population increases of 23 million people over the next 10 years—and another 20 million over the following decade.

**What is to be done?**

There has been no public, meaningful discussion of a comprehensive infrastructure bill since the unveiling of the White House plan in February of 2018. The proposal competed with other headlines, and more importantly was never taken up in any serious way by lawmakers on Capitol Hill. House Speaker Paul Ryan threw cold water on the idea of a comprehensive plan shortly after its announcement, indicating that infrastructure funding would come through in “five or six different bills,” which sounded more like the routine appropriations process.

Nevertheless, the White House plan might provide a starting point, at least conceptually, for the administration. The distinguishing feature of the plan is an attempt to provide some federal funding (\$200 billion) in an effort to draw significant state, local, and private investment (\$800 billion to \$1.2 trillion) to finance the bulk of the effort over 10 years. Drumming up private investment naturally leads

Continued

Of the nation's  
614,387 bridges, about

40%

are more than 50 years old and

56,000

of them are  
structurally deficient.

Source: 2017 Infrastructure Report Card,  
American Society of Civil Engineers.

to discussions about “public private partnerships” (PPPs), where private investors help fund the construction of roads, bridges, airports, internet infrastructure, and the like, in order to get a share of the ensuing revenues. While analysts mostly agree that PPPs can bring both dollars and efficiency, there is significant debate regarding the feasibility of attracting private dollars on the scale that the administration proposed. In private conversations, the president reportedly waffled on the large-scale use of private dollars, saying they might be “more trouble than they’re worth.” Another key pillar of the White House plan would be to expedite the process of obtaining permits for projects, sure to draw the ire of those concerned about the environment.

A roughly similar investment of \$1 trillion over 10 years is proposed in the Senate Democrats’ plan. As one might expect, it proposes a very different method of paying for such an investment, and one only needs to read the subtitle of the plan “Returning the Republican Tax Giveaways for the Wealthy to the American People” to understand how it aims to fund the investment. The specifics include reversing many of the initiatives of the recent tax overhaul, such as:

- Reverting to the top marginal tax rate to 39.6%
- Reinstating the previous alternative minimum tax rules
- Restoring the previous estate tax, which would close the so-called “carried interest loophole” that benefits high-income money managers
- Raising the corporate tax rate to 25%, which comes with the obvious drawbacks of risking consumer demand and business investment late in the cycle

### What to expect

We would be stepping far outside of our wheelhouse if we were to try and predict the outcome of complicated negotiations with multiple parties in a politically charged environment. But we are quite comfortable saying that it’s in everyone’s interest to compromise and make a deal. Both sides, as well as the public, generally agree that some kind of infrastructure initiative is needed. Working roads, bridges, waterways, and communications are not niceties, but are quite necessary and “table stakes” for the long-term health of an economy. A large plan of the scale floated by both sides would support economic activity and a significant number of jobs. We are dubious of any job impact figures presented by either side, but very simple math (and not using any “multipliers”) shows that a \$1 trillion investment over 10 years could directly support a million jobs per year. This should provide sufficient motivation for both sides to come to terms.

And any deal, as is likely obvious from this analysis, will come down to paying for the effort. The White House has officially floated using PPPs, though the president has expressed some doubts. Republican members of Congress have also floated looking for budget cuts elsewhere, and Democrats would like to raise taxes on high-income earners and corporations. One available option that has not been suggested is the

Continued

**Working roads, bridges, waterways, and communications are not niceties, but are quite necessary and “table stakes” for the long-term health of an economy.**

notion of borrowing. Deficit spending is a possibility, but likely not politically palatable given the worsening trajectory of the nation’s finances. The recently concluded fiscal year revealed a budget deficit of \$778 billion in 2018, and is expected to surely increase in the future, topping \$1 trillion as early as 2020.

As stated earlier, we would not be so bold as to make a precise prediction on how this will turn out. But at the highest level, both sides admit there is a growing problem with the nation’s infrastructure. Fixing the issue is desirable both for the good of the country and because it would be popular with voters. The issue is with financing, and there are three distinct options. In normal circumstances, one would expect a “compromise” to be exactly that, some kind of marriage of the two proposals. All that’s left to do is wait and see if we are indeed living in normal circumstances.



# Equities

November 2018 review

AS OF NOVEMBER 30, 2018

	Month to date	Year to date	Trailing 12-month return
S&P 500	2.0%	5.1%	6.3%
Russell 2000	1.6%	1.0%	0.6%
MSCI EAFE	-0.1%	-9.4%	-7.9%
MSCI Emerging Markets	4.1%	-12.2%	-9.1%

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

- Large cap modestly outperformed small cap while value outperformed growth
- Healthcare, real estate, and materials drove performance, while technology, energy, and communications underperformed
- Valuation is now much more reasonable, creating an opportunity for long-term investors
- While there have been some disappointments in earnings reports, managements are keeping guidance conservative due to the uncertainty on tariffs and interest rate expectations, as well as some evidence of moderate slowing from peak growth

- Longer term, questions about the length of this economic cycle are keeping investors wary of sharp moves to the upside and have developed more of a sell on strength moves, rather than a “buy the dip” mentality

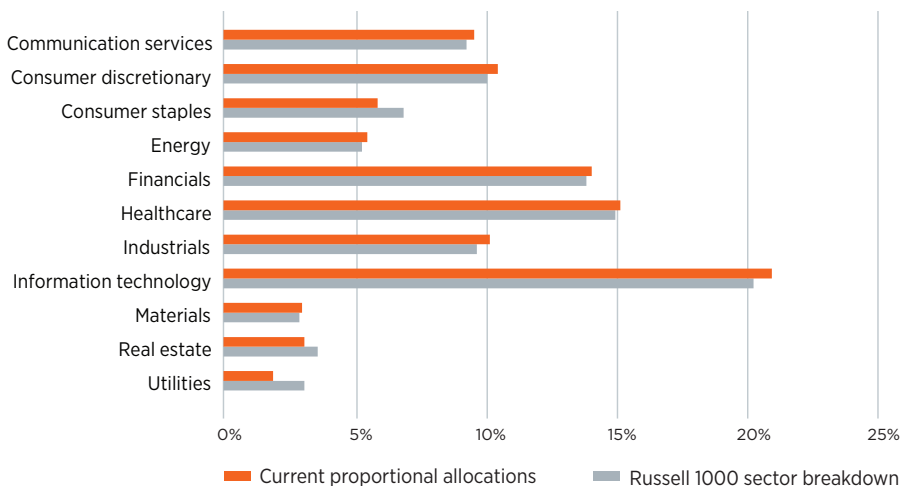
## International Equities

- Markets are interpreting the positive tone of recent trade discussions between Presidents Trump and Xi as a potential inflection point in the bilateral economic relationship
- Chinese stocks have jumped on the Trump–Xi trade talks, as have other Asian stocks and those of European and Japanese suppliers to the Chinese market; nevertheless, major issues over market access and technology will take

years to resolve, so the road ahead will likely be rocky

- On December 11, the UK Parliament votes on the Brexit deal which Prime Minister May negotiated with the EU; some British media are reporting the deal is headed for defeat, however, we believe there is a slightly greater-than-even probability the deal will pass; we expect opponents to either sign on or abstain, with the recognition that a “no deal” outcome is unacceptable and a new referendum is unrealizable
- Approval of the Brexit deal would boost sterling and European equities

## Our sector inputs and allocations, as of November 30, 2018



Sources: Bloomberg, WTIA.

# Fixed Income

November 2018 review

AS OF NOVEMBER 30, 2018

	Month to date	Year to date	Trailing 12-month return
Bloomberg-Barclays U.S. Aggregate Bond Index	0.6%	-1.8%	-1.3%
Bloomberg-Barclays U.S. Investment Grade Credit Index	-0.1%	-3.6%	-2.8%
Bloomberg-Barclays Ba High Yield Index	-0.3%	-1.12%	-1.0%
Bloomberg-Barclays 60% High Yield Total Return/ 40% Municipal Total Return Index	0.9%	2.3%	3.6%
Bloomberg-Barclays U.S. Mortgage Backed Securities Index	0.9%	-0.8%	-0.5%
S&P Municipal Bond Index	1.0%	0.2%	1.2%
S&P Municipal Bond New York Index	1.0%	-0.2%	0.7%
S&P Municipal Bond California Index	1.0%	0.0%	1.0%

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

- U.S. Treasuries yields fell as Fed Chair Powell backed away from hawkish comments made in October
- Fed fund futures fell significantly after the backtracking of the number of expected Fed rate hikes priced into the futures market in 2019 fell from 2.5 times in October to a little over once by the end of November
- The yield curve continued to flatten as inflationary expectations fell over the course of the month, in tandem with the drop in oil prices

## Investment-grade (IG) Corporates

- IG credit underperformed duration-matched Treasuries, driven by global growth concerns, plummeting oil prices, trade issues, and growing concerns over the elevated level of corporate leverage
- The OAS of the Bloomberg/Barclays U.S. Credit Index ended the month at 129 basis points, or bps (1.29%), 17bps wider from 112bps at the end of October; year to date, risk premiums have widened 40bps resulting in negative 184bps of excess returns; year to date, higher Treasury yields and wider spreads have resulted in -3.56% total returns

- Idiosyncratic risk had an adverse impact on market spreads, which widened materially for GE, one of the largest issuers, due to credit rating downgrades and growing liquidity concerns; GE's excess returns for the month of -6.51% materially under-performed the market; California wildfires increased credit risk for the investor-owned utilities operating in the state; bonds of Pacific Gas and Electric (sixth-largest issuer in the utility index) generated excess returns of -9.46%, also materially underperforming the market

## High-yield (HY) Corporates

- HY bonds were down -0.80%, after declining -1.63% in October
- Year to date, HY bonds are up modestly at +0.04% with BB-rated bonds (-0.85%) underperforming single-B rated bonds (+1.15%) and CCCs (+1.95%)
- In new issue supply, the HY primary market was largely shut down throughout November due to market volatility; for context, November new issue volume of \$6.1 billion compares to a typical November monthly volume of approximately \$27.0 billion
- Year to date, new issue volume of \$187.4 billion is down 39% year over year

## Municipals

- November posted best S&P Municipal Bond Intermediate Index monthly return, up 1.17%; returns are back in positive territory year to date, at 0.33%
- Credit spreads widened slightly, causing AAA to outperform BBB for the month; however, municipal credit spreads were much more stable than corporate bond spreads; in the 10-year range, BBB municipal spreads are only 10bps off their tightest levels\*
- Flows have continued to be negative, but at a decelerating pace; November's good returns may help turn back the tide to inflows

## International

- Fed Chair Powell's softening of tone regarding rate hikes, coupled with a gradual withdrawal of accommodative monetary policy in the eurozone, may lead to a stronger euro, which would support euro-denominated bonds; however, higher U.S. 10-year yields are likely to continue to depress the prices of dollar-denominated emerging markets bonds

\* Please see page 15 for a description of bond quality ratings.

# Real Assets, Hedge Funds, and Private Markets

November 2018 review

AS OF NOVEMBER 30, 2018

	Month to date	Year to date	Trailing 12-month return
S&P Developed Property	3.6%	-1.0%	0.4%
Barclays Inflation	0.5%	-2.0%	-1.0%
Bloomberg Commodity	-0.6%	-4.7%	-1.8%

AS OF NOVEMBER 30, 2018

Hedge Fund Research Institute Indexes	Month to date	Year to date	Trailing 12-month return
Global	-0.6%	-4.9%	-4.2%
Equity Hedge	-0.6%	-5.4%	-4.4%
Event Driven	-0.9%	-10.6%	-10.3%
Macro	-0.2%	-4.0%	-3.2%
Relative Value	-0.7%	0.9%	1.5%

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 a declining yield environment, but trailed nominal bonds slightly as inflation expectations continued their decline, due in part to the accelerating sell-off in oil
- Global-listed real estate was up strongly, outperforming equity markets as investors sought safety in income during the volatile first half of the month, and pressure from rate hikes eased after Fed Chair Powell's speech late in the month
- Commodities were down slightly with oil off more than 20% on surging production in the U.S., weaker-than-expected sanctions on Iran, and increased fear of an economic slowdown; losses were tempered by a dramatic 40% price increase in natural gas as well as gains in industrial metals, precious metals, and certain agricultural products

## Hedge Funds

- Hedge Funds showed slightly negative returns across all major strategies
- Within equity long/short, managers were hit with negative stock selection results, as the top 50 long positions across the industry underperformed the top 50 short positions by over 300bps, according to prime brokerage reports

## Private Markets

- Private Markets strategies continue to show strong performance, with buyout, venture, and growth equity all strongly outperforming U.S. and global equity indices through June 30, according to Cambridge Associates private capital indices
- Real Estate showed the lowest results, returning mid-single digits; this meets the asset class' objectives, as the category has a heavy weighting to core strategies that seek steady income and downside protection rather than high absolute returns

- Long-term track record of private strategies is very strong, with U.S. and global buyout, venture, and growth strategies all achieving double-digit IRRs (internal rates of return) for all-time periods, including from the trailing one year to trailing 25 years

# Investment Positioning

## Portfolio targets effective December 1, 2018, 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
<b>Equities</b>									
U.S. Large-Cap	46.0%	46.0%	—	32.6%	32.6%	—	15.2%	15.2%	—
U.S. Small-Cap	13.8%	13.8%	—	8.2%	8.2%	—	1.5%	1.5%	—
International Developed	19.5%	20.1%	—	12.7%	13.5%	—	5.0%	5.7%	—
Emerging Markets	9.7%	10.2%	—	3.6%	4.1%	—	1.0%	1.2%	—
<b>Total Equities</b>	<b>89.0%</b>	<b>90.1%</b>	<b>0.0%</b>	<b>57.0%</b>	<b>58.3%</b>	<b>0.0%</b>	<b>22.7%</b>	<b>23.5%</b>	<b>0.0%</b>
<b>Fixed Income</b>									
U.S. Investment Grade—Tax-Exempt	0.0%	0.0%	—	30.0%	25.8%	—	64.3%	59.6%	—
High-Yield—Tax-Exempt	0.0%	0.0%	—	2.0%	2.0%	—	2.0%	2.0%	—
<b>Total Fixed Income</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>32.0%</b>	<b>27.8%</b>	<b>0.0%</b>	<b>66.3%</b>	<b>61.6%</b>	<b>0.0%</b>
<b>Real Assets</b>									
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%	—
<b>Total Real Assets</b>	<b>4.0%</b>	<b>2.9%</b>	<b>0.0%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>0.0%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>0.0%</b>
<b>Hedge Funds</b>	<b>5.0%</b>	<b>5.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>6.0%</b>	<b>0.0%</b>	<b>5.0%</b>	<b>8.0%</b>	<b>0.0%</b>
<b>Cash &amp; Equivalents</b>	<b>2.0%</b>	<b>2.0%</b>	<b>0.0%</b>	<b>2.0%</b>	<b>3.6%</b>	<b>0.0%</b>	<b>2.0%</b>	<b>2.6%</b>	<b>0.0%</b>
<b>Totals</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	

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

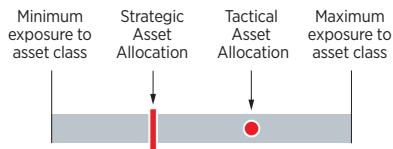
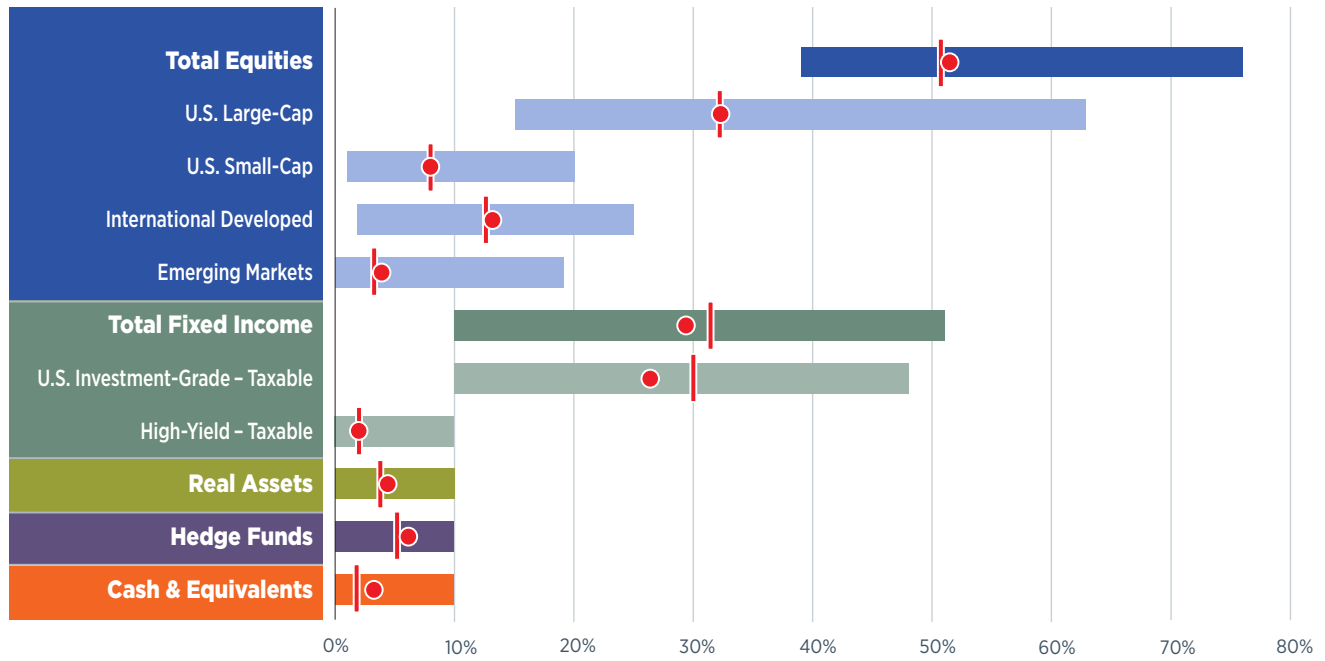
This material is for informational purposes only and is not intended as an offer or solicitation for the sale of any financial product or service or a recommendation or determination that any investment strategy is suitable for a specific investor. Opinions, estimates, and projections constitute the 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](http://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 December 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.

Past performance cannot guarantee future results. Investing involves risk and you may incur a profit or a loss.

## **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.