

US Economy



Led by strong capital investment and steady consumer spending, US economic growth is finally approaching the 3% level that economists expect from an economy growing at its full potential. If the Trump administration's proposed tax plan is passed, the resulting cuts in corporate tax rates could help shift 2018 GDP growth above full potential.

Monetary Policy



The Federal Reserve appears resolute about monetary policy normalization, but has made it clear the process will be gradual and changes will be communicated in advance. The Fed has also lowered its end-target rate levels, reflecting the difficulty of raising rates in the current disinflationary environment.

Bond Markets



The improving outlook for US economic growth, plus the growing probability that Congress will pass some pro-growth tax legislation, should maintain upward pressure on bond yields as we approach year-end.

The stable near-term outlook for energy prices will allow high yield investors to focus less on distress in the energy patch and more on the favorable economic outlook, healthy balance sheets and historically low default rates across the rest of the high yield market.

Equity Markets



The combination of strong earnings growth and still-low interest rates has driven US equities to above-average valuation levels. Any meaningful advance above current levels will likely require some progress on corporate tax reform, which could propel earnings growth higher than current estimates.

Economic Forecast provided by HPM Partners

	12-Mo		2017 est.	2018 est.
	Current	Forecast		
Fed Funds Rate	1.25%	1.75%		
Crude Oil WTI (\$/bbl)	\$51.67	\$50.00		
Gold (\$/ozt)	\$1,284.80	\$1,200.00		
US 10-Year Treasury Yield	2.31%	2.75%		
S&P 500 Index	2,519	2,610		
HY Fixed Income Spread**	357 bps	425 bps		
World GDP Growth Rate			3.50%	3.75%
US GDP Growth Rate			2.00%	2.50%

*Source: Factset
 **High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10-Year Treasury Bond.

Rate Environment

Treasury Statistics/Rates	Current	YTD %	Historical	
			52-Wk HI	52-Wk LO
US Treasury 2yr	1.45%	38 bps	1.48%	0.73%
US Treasury 5yr	1.93%	14 bps	2.14%	1.12%
US Treasury 10yr	2.31%	1 bps	2.62%	1.56%
US Treasury 30yr	2.87%	-16 bps	3.21%	2.28%
LIBOR - 3 Month	1.34%	72 bps	1.34%	0.85%
LIBOR - 6 Month	1.51%	66 bps	1.51%	1.24%
LIBOR - 12 Month	1.79%	61 bps	1.83%	1.55%

Treasury Statistics and Libor Curve provided by Factset

LBO Market

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	
Purchase Price Multiple																			
Large Corporate	8.40x	8.70x	9.20x	10.40x	9.70x	9.74x	11.98x	10.15x	10.03x	10.24x	10.19x	9.24x	11.09x	11.35x	11.85x	9.15x	9.91x	10.60x	
Middle Market	8.60x	7.80x	8.70x	8.10x	8.30x	8.62x	8.90x	8.52x	8.57x	9.56x	9.65x	10.08x	9.63x	9.70x	10.23x	9.64x	9.49x	9.63x	
Average Leverage Multiple (EBITDA < \$15M)																			
Senior Leverage	2.82x	3.30x	3.16x	3.30x	3.23x	3.24x	3.39x	3.35x	3.35x	3.62x	3.39x	3.63x	3.46x	3.78x	3.72x	3.43x	3.86x	3.86x	
Total Leverage	3.25x	4.09x	3.48x	3.96x	3.85x	3.86x	4.15x	4.01x	3.76x	4.16x	4.10x	4.09x	3.95x	4.28x	4.35x	4.07x	4.31x	4.37x	
Average Total Equity Contribution																			
Private MM	47.2%	49.0%	49.0%	49.3%	47.3%	48.0%	45.7%	48.4%	52.4%	51.0%	51.4%	52.9%	52.8%	51.9%	54.4%	51.7%	49.8%	49.8%	
Institutional MM	43.1%	43.0%	40.9%	42.0%	47.0%	40.4%	45.0%	45.7%	50.0%	44.8%	N/A	49.1%	40.5%	39.1%	42.3%	45.6%	45.6%	45.6%	
Large Corp.	30.8%	31.0%	35.0%	31.4%	40.2%	33.9%	38.5%	39.2%	39.1%	38.5%	43.7%	44.3%	45.5%	35.6%	40.3%	40.3%	40.3%	40.3%	

LBO Market Data was provided by Thomson Reuters

Equity Market Performance

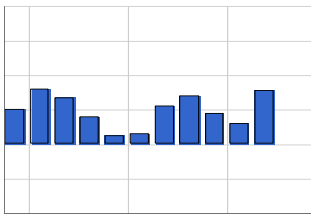
Index	Current	% Change			52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
		Last Week	YTD	52 Week					
DOW	21,948.10	1.41%	13.01%	31.65%	22,118.42	17,888.28	18.30	16.97	2.29%
S&P 500	2,471.65	1.98%	11.93%	25.32%	2,480.91	2,085.18	19.17	17.59	2.00%
NASDAQ	6,428.66	3.41%	19.42%	28.38%	6,428.66	5,046.37	25.41	22.27	0.00%
R2000	1,405.28	3.54%	4.42%	26.68%	1,450.39	1,156.89	19.77	22.90	0.00%
VIX (S&P)	10.10	-25.74%	-24.57%	-41.85%	22.51	9.36	N/A	N/A	N/A

*Source: Factset

Key Economic Data

REAL GDP

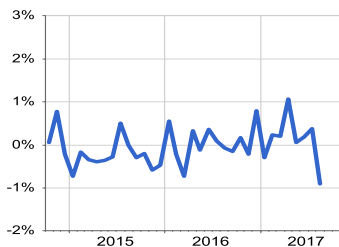
Change from previous quarter



Source: Department of Commerce

INDUSTRIAL PRODUCTION

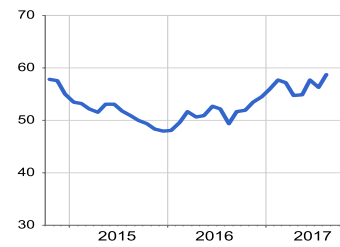
Change from previous month



Source: Federal Reserve

PMI

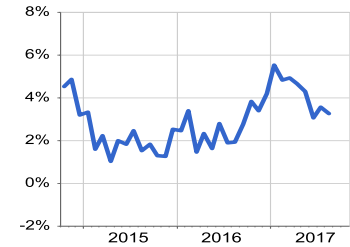
Reading above 50 indicates expansion in mfg. activity



Source: Institute for Supply Mgmt.

RETAIL SALES

Change from previous year



Source: Bureau of the Census

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