

US Economy



Capital spending by businesses, a significant contributor to US growth in 2017, should continue to expand at a healthy rate in the coming year, following the recent cut in corporate taxes. Also, despite the recent decline in the savings rate, we expect consumer spending to rise, boosted by a combination of lower tax rates and the wealth effect of higher asset prices.

Monetary Policy



The recent ascension of Jerome Powell to Fed chair and wariness over the flattening yield curve may cause the Federal Reserve to move more slowly on rate normalization. We do not anticipate any further increases in the Fed funds rate until June.

Bond Markets



With GDP growth hovering around 3%, we expect the Fed to resume its moves towards policy normalization around mid-year. The expected reduction in Fed bond buying and rise in bond issuance to fund higher deficits should exert upward pressure on rates, both at the short end and across the yield curve. The potential emergence of inflationary pressures will control the magnitude of rate increases.

Equity Markets



With the earnings boost from tax cuts already priced in, US equities appear to be fully valued at year-end 2017. Any unanticipated rise in inflation could drive interest rates higher and cause volatility to spike above the current abnormally low levels. Without further help from multiple expansion, further stock price appreciation should correlate to earnings growth rates.

Economic Forecast provided by HPM Partners

	Current	12-Mo Forecast	2017 est.	2018 est.
Fed Funds Rate	1.50%	2.00%	3.50%	3.75%
Crude Oil WTI (\$/bbl)	\$60.42	\$55.00		
Gold (\$/ozt)	\$1,309.30	\$1,250.00		
US 10-Year Treasury Yield	2.43%	2.75%		
S&P 500 Index	2,690	2,800		
HY Fixed Income Spread**	357 bps	425 bps		
World GDP Growth Rate			3.50%	3.75%
US GDP Growth Rate			2.25%	2.70%

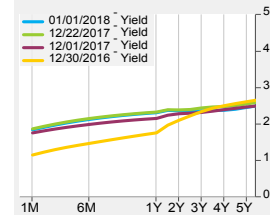
*Source: Factset
**High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10-Year Treasury Bond.

Rate Environment

	Current	YTD %	Historical	
			52-Wk HI	52-Wk LO
US Treasury 2yr	1.91%	65 bps	1.92%	1.15%
US Treasury 5yr	2.24%	22 bps	2.25%	1.62%
US Treasury 10yr	2.43%	-4 bps	2.62%	2.04%
US Treasury 30yr	2.76%	-32 bps	3.21%	2.66%
LIBOR - 3 Month	1.69%	70 bps	1.69%	1.00%
LIBOR - 6 Month	1.84%	52 bps	1.84%	1.32%
LIBOR - 12 Month	2.11%	42 bps	2.11%	1.68%

Treasury Statistics and Libor Curve provided by Factset

LIBOR Curve



LBO Market

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	
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	10.53x	
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	10.82x	
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	3.97x	
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	4.33x	
Average Total Equity Contribution																				
Private MM	47.2%	49.0%	49.3%	47.3%	48.0%	45.7%	48.4%	45.7%	48.4%	52.4%	51.0%	51.4%	52.9%	52.8%	51.9%	54.4%	51.7%	49.8%	55.3%	
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%	51.0%			
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%	37.6%			

LBO Market Data was provided by Thomson Reuters

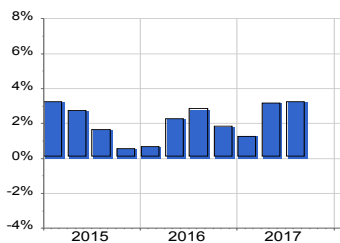
Equity Market Performance

Index	Current	% Change			52 Week		Trailing P/E	Forward P/E	Current Yield
		Last Week	YTD	52 Week	HI	LO			
DOW	24,773.77	0.25%	15.45%	28.11%	24,837.51	19,732.40	20.00	18.18	2.08%
S&P 500	2,690.46	0.72%	14.24%	21.83%	2,690.16	2,238.83	20.35	18.27	1.88%
NASDAQ	6,996.03	1.07%	20.67%	28.24%	6,994.76	5,383.12	26.57	22.47	0.00%
R2000	1,546.93	2.83%	10.94%	14.65%	1,548.93	1,345.24	19.77	22.90	0.00%
VIX (\$&P)	9.87	-0.83%	-32.26%	-21.37%	16.04	9.14	N/A	N/A	N/A

*Source: Factset

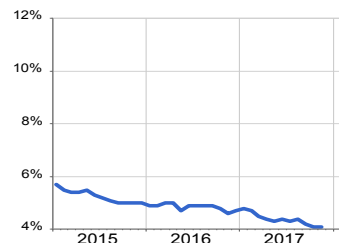
Key Economic Data

REAL GDP
Change from previous quarter



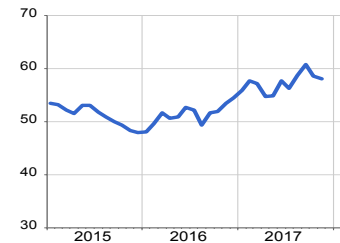
Source: Department of Commerce

UNEMPLOYMENT RATE
Monthly seasonally adjusted rate



Source: Bureau of Labor Statistics

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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