

## US Economy

Tax reform, healthy labor market, and lagged impact of last year's dollar depreciation are fueling a marked increase in the US GDP growth rate. Maintaining this strong momentum is very much predicated on the expected rise in capital spending by corporations, many of which are flush with cash in this strong earnings environment.

## Monetary Policy

The continued flattening of the US yield curve is beginning to alarm a number of Fed governors, given the lack of a tangible pickup in inflation indicators. Two additional 0.25% hikes in the Fed funds rate should set the stage for ending the tightening cycle some time in 2019.

## Bond Markets

A US economy at full employment, an expected increase in business capital spending, and the need to fund growing deficits, should drive the 10-year Treasury note above 3% in coming months and prevent the yield curve from fully inverting, a worrying sign of impending recession.

The US high yield bond market appears fully to somewhat overvalued at current levels although the narrow spreads against like maturity Treasuries are an indication that economic growth should continue in the near term and that default rates will remain low.

## Equity Markets

The Q2 corporate earnings season is confirming the strong top and bottom line earnings dynamics, driving many US stock prices back to their January highs. Absent any intensification of protectionist trade policies, we expect US equity prices will reflect the explosive earnings growth forecast over the coming quarters.

## Economic Forecast provided by HPM Partners

	Current	12-Mo Forecast	2018 est.	2019 est.
Fed Funds Rate	2.00%	2.75%		
Crude Oil WTI (\$/bbl)	\$68.03	\$70.00		
Gold (\$/ozt)	\$1,228.60	\$1,250.00		
US 10-Year Treasury Yield	3.00%	3.25%		
S&P 500 Index	2,813	3,000		
HY Fixed Income Spread**	346 bps	400 bps		
World GDP Growth Rate			3.90%	3.80%
US GDP Growth Rate			3.00%	2.90%

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

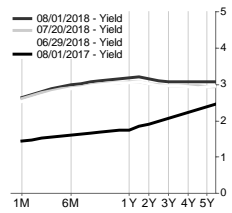
## Rate Environment

### Treasury Statistics/Rates

	Current	YTD %	Historical	
			52- Wk HI	52-Wk LO
US Treasury 2yr	2.68%	142 bps	2.69%	1.26%
US Treasury 5yr	2.87%	86 bps	2.93%	1.62%
US Treasury 10yr	3.00%	52 bps	3.10%	2.04%
US Treasury 30yr	3.12%	4 bps	3.24%	2.66%
LIBOR - 3 Month	2.35%	135 bps	2.37%	1.31%
LIBOR - 6 Month	2.53%	121 bps	2.53%	1.45%
LIBOR - 12 Month	2.83%	114 bps	2.83%	1.70%

Treasury Statistics and Libor Curve provided by Factset

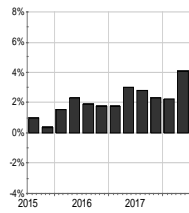
### LIBOR Curve



## Key Economic Data

### REAL GDP

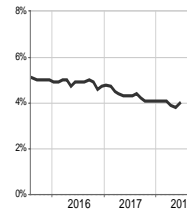
Change from previous quarter



Source: Department of Commerce

### UNEMPLOYMENT RATE

Monthly seasonally adjusted rate



Source: Bureau of Labor Statistics

### PMI

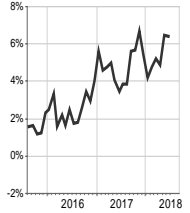
Reading above 50 indicates expansion mfg. activity



Source: Institute for Supply Mgmt.

### RETAIL SALES

Change from previous year



Source: Bureau of the Census

## Equity Market Performance

Index	Current	% Change			52 Week		Trailing P/E	Forward P/E	Current Yield
		Last Week	YTD	52 Week	HI	LO			
DOW	25,333.82	1.42%	4.07%	32.90%	26,616.71	21,674.51	17.83	15.55	2.1%
S&P 500	2,813.36	0.53%	6.47%	29.58%	2,872.87	2,425.55	18.77	16.57	1.9%
NASDAQ	7,707.29	-1.90%	11.13%	43.3%	7,932.24	6,213.13	25.25	21.73	0.00%
R2000	1,669.26	-1.52%	9.54%	25.48%	1,706.99	1,356.91	19.77	22.90	0.1%
VIX (S&P)	13.15	-0.23%	16.21%	-6.34%	37.32	9.14	N/A	N/A	N/A

\*Source: Factset

## LBO Market

1Q13 2Q13 3Q13 4Q13 1Q14 2Q14 3Q14 4Q14 1Q15 2Q15 3Q15 4Q15 1Q16 2Q16 3Q16 4Q16 1Q17 2Q17 3Q17 4Q17

### 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	10.3%
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	10.3%

### 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	3.8%
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	4.1%

### Average Total Equity Contribution

Private MM	47.2%	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%	55.3%	55.3%	55.3%	51.7%
Institutional MM	43.1%	43.0%	40.9%	42.0%	47.0%	40.4%	45.0%	45.7%	50.0%	44.8%	49.1%	40.5%	39.1%	42.3%	45.6%	51.0%	55.4%	55.4%	55.4%	49.8%
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%	37.6%	37.6%	40.3%

LBO Market Data was provided by Thomson Reuters

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