US Economy

Capital spending on business equipment by US companies is showing notable improvement in both the office equipment and energy sectors. To the extent these expenditures help boost the layering productivity experienced this decade, the US economy should continue to grow well into 2020.

Monetary Policy

Despite growing concerns over the flattening yield curve, the Federal Reserve appears resolved to continue its rate normalization policy, with 25 basis point hikes highly probably both this month and again in December. Lack of inflationary pressure is causing some FOMC members to question whether the tightening program should be paused or terminated at that point.

Bond Markets

Longer term US bond yields are being pulled lower by strong foreign demand and concerns that the Fed may be raising short term rates too aggressively, given the benign inflationary environment. Sustained GDP growth of over 3% in the coming quarters should push yields higher across the maturity curve as we move to year end.

The recent acceleration in US economic growth has forestalled fears of an impending recession and allowed high yield bond spreads to narrow further over the summer. With default rates expected to remain low, we believe the favorable environment is fully priced in at current levels.

Equity Markets

US equity markets are now back above their January highs, but have not matched the explosive earnings growth experienced this year. With corporate earnings estimates now reflecting robust sales growth and the large benefit from the corporate tax cuts, we believe the bull market in US equities should be sustained into 2019.

Economic Forecast provided by HPM Partners

	Current	12-Mo Forecast
Fed Funds Rate	2.00%	2.75%
Crude Oil WTI ($/bbl)	$69.80	$70.00
Gold ($/ozt)	$1,206.70	$1,250.00
US 10-Year Treasury Yield	2.85%	3.25%
S&P 500 Index	2,896	3,000
HY Fixed Income Spread**	349 bps	400 bps

	2018 est.	2019 est.
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 10 Year Treasury Bond.

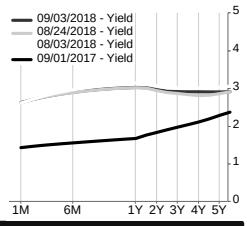
Rate Environment

Treasury Statistics/Rates

	Current	YTD %	Historical 52- Wk HI	52-Wk LO
US Treasury 2yr	2.62%	137 bps	2.69%	1.26%
US Treasury 5yr	2.73%	72 bps	2.93%	1.62%
US Treasury 10yr	2.85%	38 bps	3.10%	2.04%
US Treasury 30yr	3.01%	-7 bps	3.24%	2.66%
LIBOR - 3 Month	2.32%	132 bps	2.37%	1.31%
LIBOR - 6 Month	2.54%	122 bps	2.54%	1.45%
LIBOR - 12 Month	2.84%	115 bps	2.84%	1.70%

Treasury Statistics and Libor Curve provided by Factset

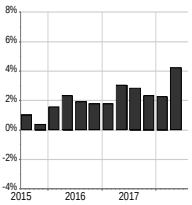
LIBOR Curve



Key Economic Data

REAL GDP

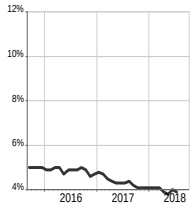
Change from previous quarter



Source: Department of Commerce

UNEMPLOYMENT RATE

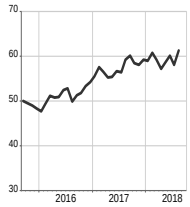
Monthly seasonally adjusted rate



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 Last Wee	YTD	52 Week	52 Week HI	52 Week LO	Trailing P/E	Forward P/E	Current Yield
DOW	25,898.46	0.79%	6.73%	36.73%	26,616.71	21,753.31	17.75	15.74	2.09%
S&P 500	2,896.41	0.98%	9.94%	33.94%	2,914.04	2,457.85	18.86	16.92	1.87%
NASDAQ	8,083.23	2.06%	17.47%	50.65%	8,109.69	6,360.19	25.88	22.79	0.00%
R2000	1,732.44	0.91%	14.26%	31.00%	1,740.75	1,398.67	19.77	22.90	0.00%
VIX (S&P)	13.74	7.26%	16.49%	-8.40%	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	1Q18	2Q18
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	13.20x	10.69x	10.10x
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	10.29x	10.45x	10.66x
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	3.83x	4.03x	4.00x
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	4.22x	4.45x	4.45x
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%	50.4%	51.9%	55.1%
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%	55.4%	48.4%	44.0%
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%	47.2%	36.3%	35.0%

LBO Market Data was provided by Thomson Reuters

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