

US Economy

Healthy consumer and business balance sheets should keep U.S. GDP growth at approximately 2.7% in 2019, down from its peak this year but still a relatively high number. The probability of a U.S. recession over the next 18 months is very low. A sustained increase in business capital spending could extend this expansion cycle even further.

Monetary Policy

Even though the Fed is almost certain to raise rates another 0.25% in December, the end of the tightening cycle appears near as the fed funds rate approaches the elusive "neutral" rate. Continued low inflation and a strong dollar should provide sufficient rationale for a pause in quarterly increases early next year.

Bond Markets

Continued economic growth into 2019 should cause the entire Treasury yield curve to shift higher and remain upward sloping, a reassuring sign for investors worried about the recessionary implications of a downward sloping (inverted) yield curve.

The dramatic fall in energy prices and heightened equity market volatility have placed further pressure on highyield bond prices. Recent spread widening has corrected a good portion of the valuation excesses in this asset class. We do not anticipate a significant rise in expected default rates.

Equity Markets

After explosive earnings growth this year due to corporate tax reform, the growth rate for U.S. companies should settle in the mid to high single digit range for 2019. Maintenance of the current multiple on that growth should lead to similar price returns for U.S. equities over the coming year.

Economic Forecast provided by HPM Partners

	Current	12-Mo Forecast	2018 est.	2019 est.
Fed Funds Rate	2.25%	2.75%		
Crude Oil WTI (\$/bbl)	\$50.93	\$70.00		
Gold (\$/ozt)	\$1,226.00	\$1,250.00		
US 10-Year Treasury Yield	3.01%	3.25%		
S&P 500 Index	2,775	3,000		
HY Fixed Income Spread**	429 bps	400 bps		
World GDP Growth Rate			3.90%	3.80%
US GDP Growth Rate			3.00%	2.90%

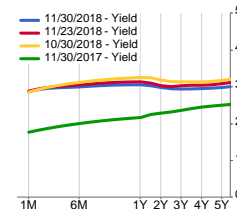
*Source: Factset
**High Yield Spread is the BofA Merrill Lynch High Yield Master II relative to the US 10Year Treasury Bond.

Rate Environment

Treasury Statistics/Rates

	Current	YTD %	Historical	
			52- Wk	HI 52-Wk LC
US Treasury 2yr	2.82%	156 bps	2.97%	1.76%
US Treasury 5yr	2.85%	83 bps	3.09%	2.10%
US Treasury 10yr	3.01%	54 bps	3.23%	2.34%
US Treasury 30yr	3.31%	23 bps	3.46%	2.69%
LIBOR - 3 Month	2.74%	174 bps	2.74%	1.49%
LIBOR - 6 Month	2.89%	158 bps	2.89%	1.67%
LIBOR - 12 Month	3.12%	143 bps	3.14%	1.95%

LIBOR Curve

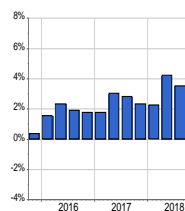


Treasury Statistics and Libor Curve provided by Factset

Key Economic Data

REAL GDP

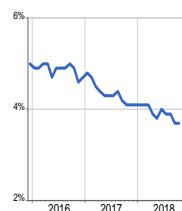
Change from previous quarter



Source: Department of Commerce

UNEMPLOYMENT RATE

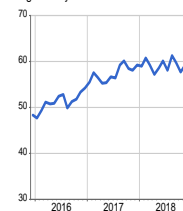
Monthly seasonally adjusted rate



Source: Bureau of Labor Statistics

PMI

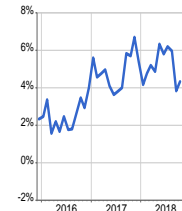
Reading above 50 indicates expansion mfg. activity



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	25,682.45	5.32%	5.59%	35.27%	26,828.39	23,533.20	16.51	15.00	2.12%
S&P 500	2,775.03	4.91%	5.11%	28.05%	2,930.75	2,581.00	17.36	15.82	2.01%
NASDAQ	7,405.42	5.64%	6.19%	36.18%	8,109.69	6,762.22	23.07	20.33	0.00%
R2000	1,535.92	3.04%	0.98%	15.77%	1,740.75	1,463.79	19.77	22.90	0.00%
VIX (S&P)	17.14	-16.03%	63.68%	28.70%	37.32	9.15	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 3Q18

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	11.30x
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	10.86x

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	4.01x
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	4.39x

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%	56.4%
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%	51.2%
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%	36.4%

LBO Market Data was provided by Thomson Reuters

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