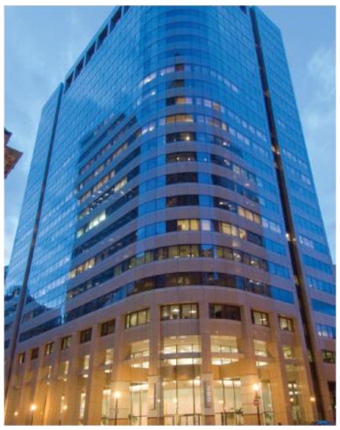
TFC FINANCIAL
The Financial Counselors

COMMENTARY | 1Q 2018
April 2018

OUR VIEW



First Quarter Review

The first quarter was turbulent, with the widespread exuberance of January replaced by a more uncertain outlook in February and March. Optimism about the global economy abounded in January, and individual investors were instrumental in driving U.S. equities to new records. Market momentum abruptly turned negative in early February, as inflation concerns and the collapse of some low volatility strategies led to a market correction. Although equities rebounded from the February correction, the quarter ended in negative territory as trade tensions and a reversal of fortune for technology stocks dampened investor sentiment.

Global equities, as represented by the MSCI All Country World Index, lost 0.9% for the quarter. U.S. equities fell from record highs, with the S&P 500 Index losing 0.8%. Frontier markets equities were the standout performer, gaining 5%. U.S. REITs were poor performers despite a rally late in the quarter, losing ground against a backdrop of rising interest rates. Value stocks trailed growth stocks, though the gap between value and growth narrowed toward the end of the quarter. Bonds generally fell during the quarter, as rising rates created losses. Short-term bonds weren't hit as hard as long-term bonds, and municipal bonds were slightly up for the quarter.

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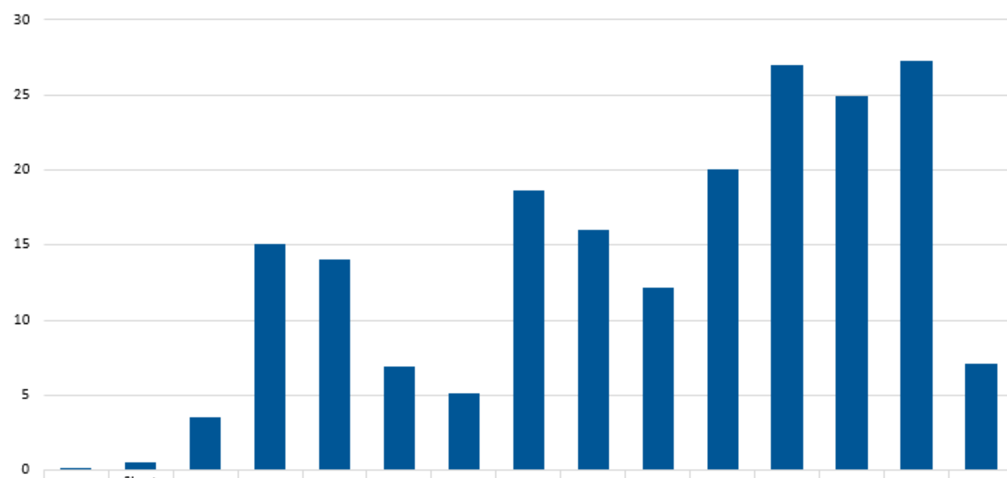
12 Month Asset Class Returns



	Short Term Bonds	Short Term Muni Bonds	Long Term Bonds	Global Equities	S&P 500	US Large Value	US Small Value	US Small Growth	Intl. Large Core	Intl. Large Value	Intl. Small Value	Intl. Small Growth	EM	Frontier Markets	Global Real Estate
QTD	-0.5	0.1	-3.3	-0.9	-0.8	-2.8	-2.6	2.3	-1.3	-2.0	-1.1	1.6	1.4	5.1	-3.7
12 Months	0.2	0.5	3.5	15.0	14.0	6.9	5.1	18.6	16.0	12.2	20.1	27.0	24.9	27.3	7.1
Full Cycle*	2.5	2.3	6.3	5.4	7.7	6.0	6.8	8.5	2.7	2.1	5.9	6.1	3.8	2.2	2.3

* Full Cycle is the annualized return from October 2007 peak to present.

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TFC client portfolios were pulled down by equity market losses, declining slightly for the quarter. TFC's investments in frontier and emerging markets equities helped performance relative to our benchmark. The underperformance of value stocks relative to growth stocks offset some of the benefit of being overweight to frontier and emerging markets. U.S. real estate holdings performed poorly for much of the quarter, but non-U.S. real estate picked up some of the slack. TFC's holdings in mostly high-quality, shorter-term fixed income investments only lost a small amount of ground in a tough market for bonds.

Economic and Market Outlook

TFC has highlighted trade policy as a major risk for the markets since the 2016 election campaign. President Donald Trump has posted thousands of tweets since taking office, many of which are about trade. Trump's approach to communication is not likely to change, so investors need to adapt to a world in which policy is framed in 140 or 280 character increments. Trump's 1987 book, The Art of the Deal provides insight for investors trying to understand the future path of government policy. According to Trump, "The point is that if you are a little different, or a little outrageous, or if you do things that are bold or controversial, the press is going to write about you. My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after. Sometimes I settle for less than I sought, but in most cases I still end up with what I want." Trump's tweets are often an opening "bid" in negotiation, and he has already scaled back plans to impose tariffs on steel and aluminum. Trade tensions with China are mounting, with Trump following his March directive to sanction China over intellectual property and market access with the announcement of 25% tariffs on $50 billion worth of Chinese goods. China has reacted quickly to both announcements, responding in kind with plans to impose tariffs on a wide range of U.S. products. Although we worry about the potential for trade tensions to escalate to a trade war that would be disastrous for investors and consumers, we are optimistic that cooler heads will prevail. Our expectation is that the confrontation between the U.S. and its trading partners, particularly China, will ultimately lead to negotiated compromises on a range of trade, tariff, access and intellectual property issues. However, we should assume that daily and weekly market volatility will remain high and keep investors on edge going forward.

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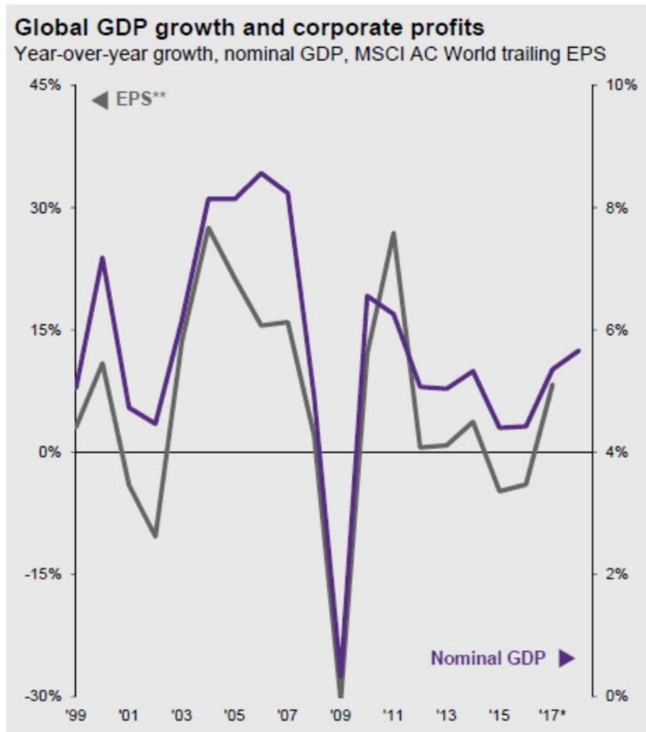
Technology stocks have lost some luster in recent weeks, with several high-profile stocks suffering significant reversals. Facebook faces scrutiny over the privacy of user data and is experiencing declines in user engagement. The fatality resulting from Uber's testing of a self-driving car creates uncertainty about the path forward for autonomous vehicles. Google and other social media companies may have to pay additional taxes on European revenue if proposed digital taxes are enacted by the European Union. Comparisons to the dot-com mania of 1999 are inevitable, as is speculation that there is a "bubble" that is about to burst. However, there are notable differences between today and 1999, reducing the likelihood that the technology boom will end in a meltdown. Contrasts between today's technology sector and the dot-com era are significant, including differences in business models, growth prospects and valuations. Although there are some technology companies that appear to be valued at unsustainable levels, many of today's top-performing technology companies are "platform" companies with an established "ecosystem" in which companies plug into the platform to add incremental value or gain access to a network of potential customers. Platform companies such as Google, Apple, and Facebook have far more sustainable business models than many of the darlings of the dot-com era. Business setbacks are inevitable for even the strongest of platform companies, but a repeat of the 2000-era dot-com bust is far less likely.



Source: J.P. Morgan Asset Management, FactSet, MSCI

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A severe slowdown in global growth does not appear imminent, even though growth may have peaked in much of the world. April will represent the start of the 106th month of expansion for the U.S. economy, tied for the second-longest in history. Although the expansion has been impressively long in duration, it has fallen short of prior expansions by most measures. Federal Reserve policy is one of the risks we worry about, as aggressive Fed policy action could derail economic momentum. Inflation fears were a catalyst in February's market decline and there are signs of wage pressures mounting in segments of the economy including manufacturing, construction and technology. However, it is unlikely that wages and prices will rise at the pace of the 1970s given the decline in union employment, the influence of technology, and far greater transparency of consumer prices. Inflation may become more of a challenge as entitlements get closer to a tipping point in the mid to late 2020s, but for now there may be a limit to how high U.S. interest rates and inflation may go. The market expects the Federal Reserve to raise rates three times this year, and for the 10-year Treasury to peak somewhere between 3% and 3.5%. Interest rates and inflation are reasonably low relative to history and near-term economic growth should not be disrupted too much by moderate rate increases.

Chinese growth is another potential risk for the global economy. China is prioritizing financial sector deleveraging, a crackdown on corruption, and ongoing (and somewhat unappreciated) restructuring of the industrial sector. China is gradually reducing leverage at financial institutions and state-owned enterprises, while slowing the pace of real estate speculation. The risk to the global economy is that China fails to effectively manage the tension between growth and reform. Overly aggressive reforms might satisfy the more austere economists around the world, but potentially at the cost of a severe slowdown in growth within China. If China is too cautious in economic reforms, the risk of economic overheating increases and China's long-term economic challenges will become more difficult to resolve. Consensus expectations are for a "soft" landing in China, but we are monitoring leading indicators to identify indications of a policy-induced slowdown or acceleration.

Closing Thoughts

The final stage of a bull market is typically highly rewarding, and unless there is a high degree of confidence that a recession is imminent, we caution clients to avoid the temptation to try to time the market by dramatically reducing equity positions.

Longer-term, tax cuts and increased government spending in the U.S. may lead to a more pronounced boom/bust cycle in which the current expansion eventually gives way to a deeper economic recession than we previously expected. However, the positive economic impact of fiscal stimulus may delay the recession to late 2019 or 2020. The final stage of a bull market is typically highly rewarding, and unless there is a high degree of confidence that a recession is imminent, we caution clients to avoid the temptation to try to time the market by dramatically reducing equity positions. Given heightened volatility, however, TFC has raised cash for many clients who anticipate having near-term liquidity needs.

All good things must come to end, and a bear market is likely when we think beyond the near-term time horizon. We continue to be aware of the potential for an economic downturn, policy mistakes, or geopolitical conflict that spills over into the markets. We monitor the risks outlined above and will incrementally adjust the portfolio based on new information. As always, we welcome your comments and questions.

Michelle Herd and Dan Kern will be hosting TFC's quarterly market outlook webinar on April 23 at 9:00 a.m. We will send out a formal invitation separately.

Availability of Updated Form ADV Part 2A Brochure and Part 2B Brochure Supplement

Annually, at this time of year, Registered Investment Advisors (RIAs) like TFC are required to update our SEC disclosure reports. Please refer to page 6—"Notice of Availability of Updated Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement." The firm takes these compliance requirements and our fiduciary responsibilities seriously. If you have any questions about these reports, please don't hesitate to contact us directly.

Sincerely,

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Chief Investment Officer

Renée Kwok, CFP®
President and CEO

James L. Joslin, CFP®
Chairman

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Notice of Availability of Updated Form ADV Part 2A Brochure
And Form ADV Part 2B Brochure Supplement

As an SEC-registered investment adviser, we are required to update annually in the first quarter of each calendar year our Form ADV, which includes our Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement. If, in connection with our annual update, we make material changes to our Brochure or Brochure Supplement since the date of our last annual update, we are required to provide (or offer to provide) our clients with copies of them.

In connection with the just completed annual update of our Form ADV, there were no material changes to our Brochure or Brochure Supplement.

By this notice, we are offering to provide you a copy of our Brochure and Brochure Supplement, both dated March 10, 2018. You may obtain copies by sending an email to Constance Wyllie, Chief Compliance Officer and Director of Client Service & Operations, at cwyllie@tfcfinancial.com, or by calling Ms. Wyllie at 617-210-6700. Our updated Brochure and Brochure Supplement are also available on our website: www.tfcfinancial.com.

You can also find our Brochure and Brochure Supplement, as well as other information about us, through the SEC's Investment Adviser Public Disclosure (IAPD) portal: www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm CRD number is 105062.

Please do not hesitate to call us if you have any questions.

Notice dated April 10, 2018