FineMark National Bank & Trust

Fine Points

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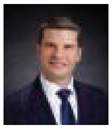
FIRST QUARTER REVIEW & COMMENTARY



By Christopher Battifarano, CFA®, CAIA
Executive Vice President & Chief Investment Officer

Domestic equity markets posted losses during the quarter, which was the first decline we have experienced since Q3 of 2015. We spilled a fair amount of ink in our 2017 newsletters, detailing the abnormally low levels of market volatility, coupled with what we believed was unsustainably high price appreciation. Throughout the entire year, there were only eight days with a one-day move greater than 1% on the S&P, the lowest level since 1965. So far this year, we have already experienced 27 such days. To put this in perspective, an average year is about 53 days, so we are running above normal.

Q1 2018 Returns	
S&P 500	-0.76%
Russell 2000	-0.08%
MSCI EAFE	-1.53%
MSCI EM	1.42%
Barclays US Aggregate	-1.46%
Barclays US 5-year Municipals	-0.57%
HFRX Equity Hedge	1.17%
Barclays BTOP 50	-2.37%
HFRX Global Hedge	-1.02%

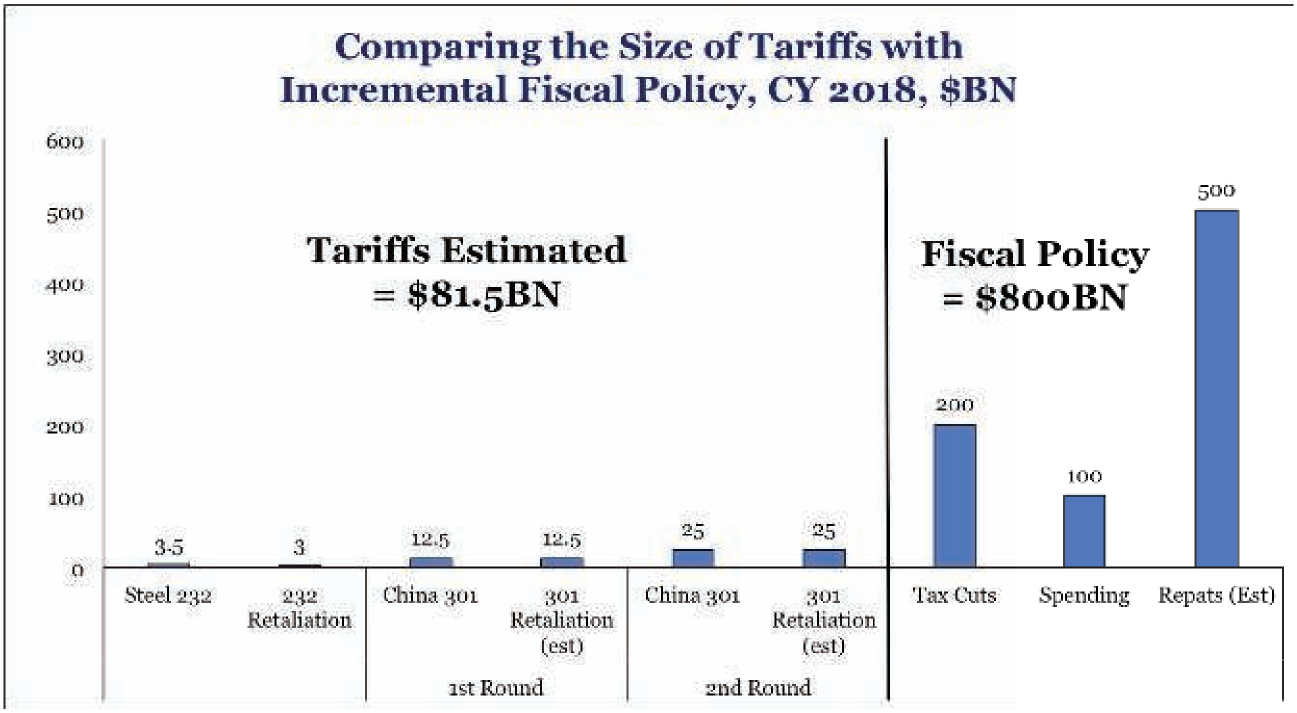
From a technical standpoint, the S&P 500 entered a correction phase (a decline of greater than 10%) beginning in January. While we remain in this phase today, we do not believe this current correction will accelerate into a full-fledged bear market (a decline of greater than 20%). We are closely watching a number of indicators, including the performance of the bond market. During bear markets, which are highly correlated with economic recessions, market participants tend to rotate out of equities and into the safety of bonds. This has not occurred thus far in 2018. In fact, bond market participants have also suffered losses during the quarter. Bond yields, as measured by the US 10-year treasury, have risen from 2.40% at year-end 2017 to 2.84% at the end of the quarter. Additionally, we continue to see strong macroeconomic data, including an economy operating at full employment, increasing GDP and continued corporate earnings growth.

Despite the continued positive data flow, we have seen increased market volatility. Part of

(continued)

this higher market volatility has been a result of knee-jerk reactions by market participants to news about a possible trade war between the US and China. The proposed tariffs, however, pale in comparison to the fiscal stimulus created by the new tax bill in late 2017 (Figure 1).

Figure 1



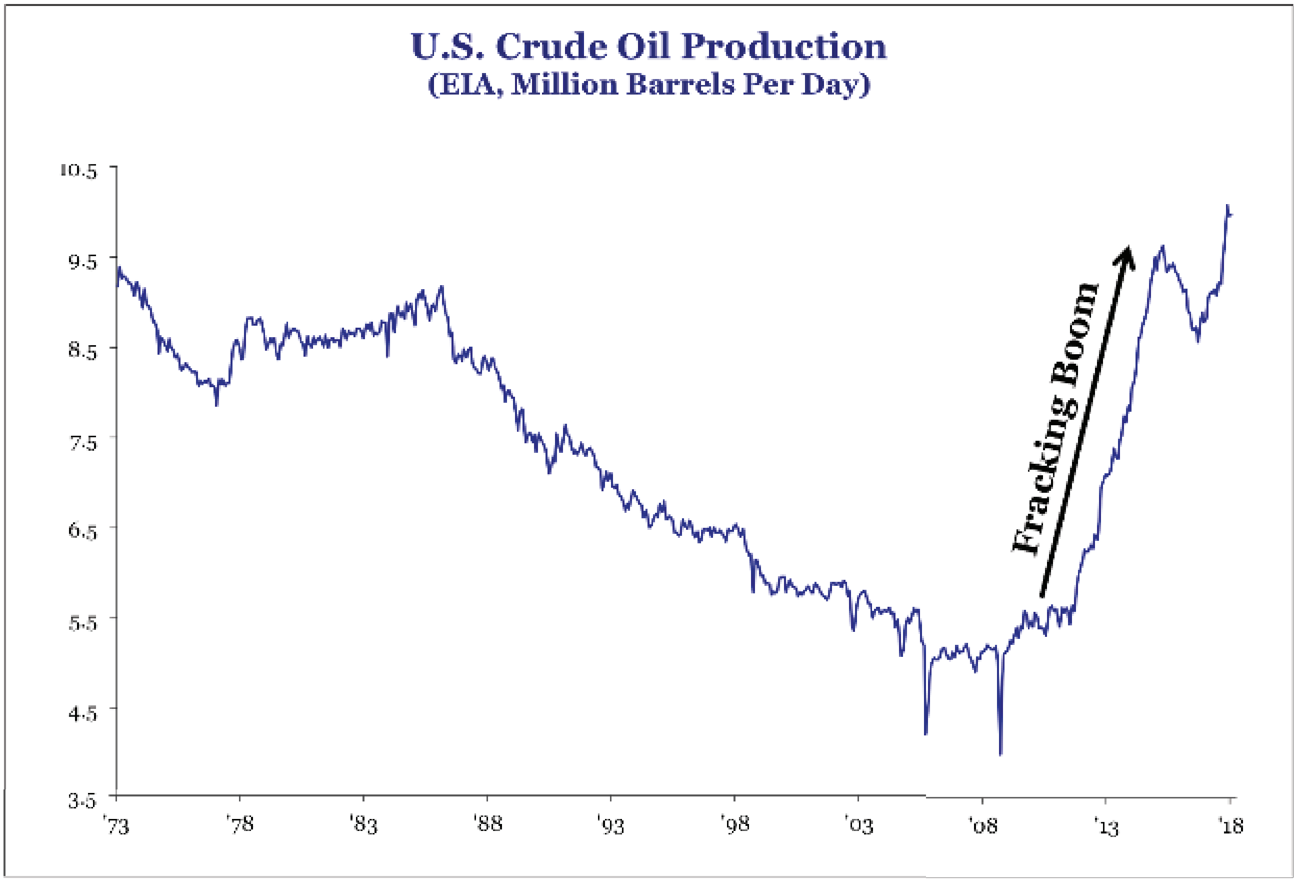
Source: Strategas Securities

Furthermore, economists have misinterpreted the president's statements about closing the trade gap because they are taking his statements at face value. Instead, we believe President Trump's objective has much less to do with US protectionism and the actual numerical value of the trade imbalance, and more to do with creating an equalized trade relationship between the two nations. Our current trade policy was established when China was a much smaller, emerging economy. At this juncture, China is a global economic powerhouse, and our relationship needs to evolve accordingly.

As a result of this favorable trading relationship that is skewed in favor of China, it has gradually become the manufacturer of the globe. Meanwhile, the evolution of the US economy has displaced US workers who do not possess a skill set that comports with the demands of a high-tech economy. This skills gap is not a unique problem to the US, but is endemic of other industrialized nations as economies move away from a manufacturing economy to a service-based economy. Europe has suffered this same path as lower skilled jobs have moved into lower-cost Asian jurisdictions. The Trump administration, like other prior administrations, is trying to find ways of coping with this issue.

We see a strong corollary between this structural unemployment dilemma and America's previous reliance on Middle Eastern oil, highlighted by the two US oil embargoes of the 1970s. Without a way to bring oil to the market quickly, the US was forced to use its military might to defend its supply that came from Saudi Arabia and the surrounding gulf nations. As we know, this led to two full-fledged wars (Gulf War I and II) as well as numerous lesser known military conflicts in the region. The US eventually solved this issue using technology. In this case, it was a combination of creating supply through hydraulic fracturing (aka fracking) coupled with greater energy efficiency (Figure 2). These developments led to radically changing our military policy in the Middle East.

Figure 2



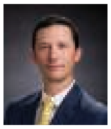
Source: Strategas Securities

While it is hard to know what the ultimate solution will be for our domestic labor/skills gap predicament, it is our view that the trade policies being pursued by the Trump administration are an effort to cause the Chinese government to enact policies that would allow for more fair trade between the two nations. The proposed tariffs are not being put forth due to a lack of understanding of global trade or macroeconomics as some have suggested. This is why the current spat between the US and China has not caused us to change our asset allocation thus far in 2018, nor has it shaken our confidence in the continued global economic expansion.

Part of our job, as your trusted advisor, is to think critically about current events and historical facts. Simply reacting to market volatility will lead to suboptimal investment results. While we are highly attuned to current events, we believe that much of the negative news over the trade tariff situation has been overblown. From an asset allocation perspective, we remain positively oriented toward equities. While this current expansionary period is very well developed, we believe there is more room to run. Because of the advanced nature of this current economic recovery and equity bull market, we believe additional equity price appreciation in the US will be driven by growth in corporate earnings and not through multiple appreciation as it was early on in the recovery. Moreover, we continue to believe today, there is more fertile opportunity abroad, owning to more attractive equity market valuations as compared to those in the US.

Should you have any questions about your personal portfolio or financial circumstances, please reach out to your FineMark private wealth advisor. We thank you for your continued confidence.

ARE CHARITABLE PLEDGES ENFORCEABLE AGAINST AN ESTATE?



By Read Sawczyn
Senior Vice President & Private Wealth Advisor

As with most legal questions, the answer to the question above is "it depends." A charitable pledge (oral or in writing) is defined as a contract between a donor and a charity in which the donor promises to make a contribution in the future, such a pledge may be enforceable. In *Mt. Sinai Hospital, Inc. v. Jordon*, 290 So. 2d 484 (Fla. 1974), the Florida Supreme Court set forth a two-prong test to determine if a charitable pledge is enforceable. To be enforceable, "the pledge must recite with particularity the specific purpose for which the funds are to be used" and "the [charity] must affirmatively show actual reliance of a substantial character in furtherance of the specified purpose set forth in the pledge instrument."[1] While this two-prong test is Florida specific, many other states require proof of at least the second prong of the test before they will enforce a charitable pledge.

An example will help explain the requirements in Florida. If a written pledge states that the donation is for the construction of a school and prior to the donor's death the charity shows it had started construction of the school in reliance on the pledge it will likely be enforceable against the donor's estate. Many pledges, however, are not as specific and a charity cannot always show that it relied on a specific pledge before commencing construction, hiring additional staff or committing funds to a new outreach program.

Whether you live in Florida or another state, it is the gray areas that place your trustee or personal representative in a difficult position should your heirs disagree with the fulfillment of your charitable pledge after your death. To avoid any issues if you die before fulfilling a charitable pledge, you should inform your estate planning attorney of the pledge and discuss if it should become part of your last will and testament or your revocable trust. By doing so, you clearly outline your intention to fulfill the charitable pledge and thereby ensuring its enforceability against your estate.

[1]*Mt. Sinai Hospital, Inc. v. Jordon*, 290 So. 2d 484 (Fla. 1974).