ASTOR INVESTMENT MANAGEMENT | FUNDAMENTALLY DRIVEN.

PRE OUTLOOK

Astor Investment Management appreciates your business and we believe it's important to provide you with our latest economic insights. Here is a concise look at the ongoing economic expansion, current economic data, and our thoughts about portfolio construction for 2018.

Rob Stein's 2018 Outlook report with expanded commentary and philosophical thoughts will be available shortly.

ECONOMIC EXPANSION CONTINUES

The Astor Economic Index® (AEI), our proprietary index that tracks the health of the **U.S. economy, continues to be well above average and does not show many signs of short-term "cracks" or declines. Historically, we know the $19 trillion U.S. economy does not turn on a dime, which means the trends we see in the data today will most likely continue for the short term.** Based on AEI readings and Astor's analysis of major economic data points and Federal Reserve policy, we do not believe a major economic contraction or wealth-destroying event will likely be a concern in the next 6-16 months. This belief is based on what we currently see in the data.

Astor Economic Index® 2000 to 2018

Source: Astor calculations

Shaded regions represent recessions as determined by NBER.

The Astor Economic Index® should not be used as the sole determining factor for your investment decision. There is no guarantee that the index will produce the same results in the future. Please refer to the accompanying disclosure for additional information regarding the Index.

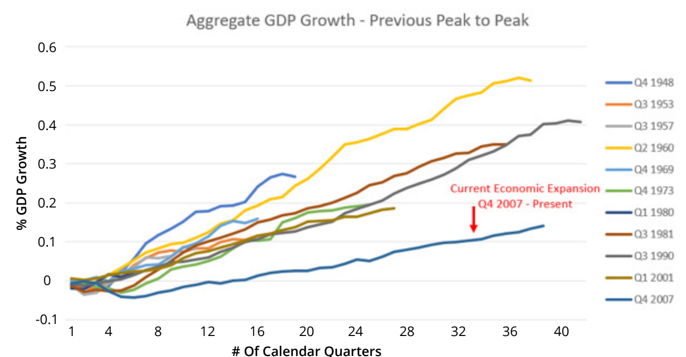
All information contained herein is for informational purposes only. Please refer to the important disclosure information at the end of the presentation for definitions, additional information and risks.

While our concern for 2018 is not wealth destruction, we do fear the most recent equity gains might be "on sugar"—meaning, in our view, it's looking a little hyperactive and could be subject to volatility or some form of risk payment. Following 2017's above-average returns, expectations for returns in 2018 are lower as risk premiums have come down. But make no mistake, the expected return for broad U.S. equity indices in 2018 is positive in our view.

The fact that the current economic expansion is longer than usual may have some people concerned. But, as we tell clients, time doesn't kill expansions. We focus on the data—not the calendar.

The below chart illustrates economic expansions from the mid 1900's moving forward. Currently, we are in one of the longest economic expansions. In the short-term, we will continue to look closely at how policy changes in Washington and the new pillars of the economy will impact economic data.

A Look at Current and Historical Economic Expansions
As of 9/30/17



Source: Data: Bloomberg Illustration: Astor

In Washington, a continued pick-up in manufacturing and industrial jobs is the focus. Improvements in productivity (from tech), as well as contributions from emerging and innovative segments of the economy, would improve the quality of jobs and the quality of the economy overall.

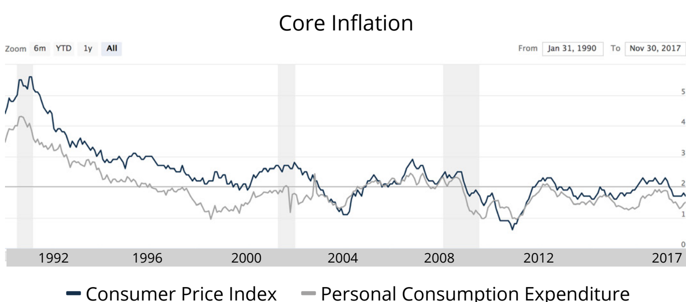
Meanwhile, global growth continues to be an important driver of GDP and equity prices. We are seeing the most coordinated global growth period since the recession and expect this will continue.

As we look back, 2017 was a good year with low volatility (i.e. risk) as the economic expansion increased in velocity (which is generally good for stocks). Geopolitical upheaval, fears sparked by nuclear rhetoric, and so forth may push stocks up or down temporarily, but we believe it is how the economy responds to various conditions that creates true value in stock prices. If economic data responds differently to conditions, we would expect that to effect asset prices. Our models aim to identify these economic changes, which would allow us to make portfolio adjustments accordingly.

Breaking down the economic data at a high level, employment trends are very healthy, GDP continues to beat expectations, wages are increasing, and global economies are as strong as they have been in many years. **However, there are things that make us wary:**

- **A flattening yield curve**
- **Fed is telegraphing at least three more hikes in 2018**
- **Inflation remains below the Fed's 2% target. While many investors (and the Fed) are preparing for an acceleration in inflation, my concern is that it won't happen.**

Core Inflation



Shaded blue area is FOMC's 2% target for PCE

Source: Bureau of Labor Statistics, Bureau of Economic Analysis

Shaded regions represent recessions as determined by NBER. Blue shaded region represents the FOMC inflation target for PCE.

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ECONOMIC INDICATORS: WHAT WE LOOK FOR

There are some very significant economic data points that we monitor closely to give us an indication of which way the economy is headed. For example, ISM Manufacturing took a breather after peaking at 60.8 in September, but has stayed over 58 for four consecutive months for the first time since 2011. **We are watching closely to see if the manufacturing sector will maintain its strength/momentum in Q1 2018. In our opinion, this will give clues to where the overall economy is headed, as recessions have tended to start here.** The service side of the economy, as important as ever, has been resilient, even when industrial/manufacturing faltered in 2015/2016. A substantial break in one of these data points would be worth noting.

ISM purchasing manager indexes

Man: Manufacturing PMI, Svc: Services PMI

50 represents activity which is neither increasing nor decreasing

Source: Institute of Supply Management

Shaded regions represent recessions as determined by NBER.

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Meanwhile, we are very interested in how consumers respond to recent tax cuts. Spending numbers were up in December, but a single data point during a holiday season is clearly not enough to draw any conclusions. The trend is positive in both Consumer Confidence and Consumer Spending, which may be further supported by the tax cuts. However, it is not certain that will be the case moving forward.

Perhaps more important, the tax cuts provide a large benefit to major U.S. corporations, which would likely increase capital spending, buybacks, and hopefully lead to higher incomes and increased hiring. However, there is no "free lunch," and the deficit and other counterproductive components of the tax policies (education, mortgage and state tax deductions, etc.) need to be watched for their impact on spending and the economy.

PORTFOLIO CONSTRUCTION IDEAS FOR 2018

Using the Astor Economic Index™ (AEI), Astor closely monitors changes to the U.S. economy and we make appropriate adjustments to risk levels in our strategies. Astor seeks to capture a good portion of equity returns during bull markets, while seeking to avoid or substantially reduce losses during equity bear markets.

Investors who chase returns typically invest in risk mitigating strategies at the wrong time, e.g., at the depth of an equity market pullback. In our view, investors would be better off allocating to these types of strategies during an equity bull market, so they can realize the benefits of the risk mitigation. Using a sales analogy, you don't buy insurance after the tornado...

Unfortunately, there's no crystal ball, and we can't tell when a contraction will start, how deep/severe it will be, or when it will end. That's why investing in risk mitigating strategies throughout an entire cycle makes sense.

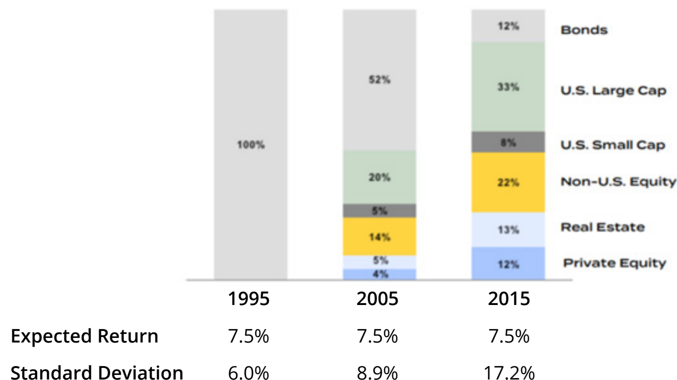
- We believe the equity markets will continue to rise in the short term, or until the economy slows.

- **The current expansion has gone on for a while, giving some investors concern. However, stocks and the economy don't watch a calendar; they react to economic data. Therefore, in our view, now is the time to increase allocations to risk-mitigating strategies that monitor economic data, which could change quickly at this stage.**

- Return and yields can be achieved, but at a cost. Risk premiums on equities and bonds are lower now than typical, thus limiting return expectations for traditional portfolios. Investors therefore need to have higher allocations to riskier assets to achieve returns once obtained with mostly fixed income. The risk to achieve 7.5% returns (see chart below) has changed drastically over the past years. As investors take on more risk, they need more risk mitigating strategies.

In our opinion, investors should continue to position their portfolios to take advantage of rising equity prices, but it should be done in a prudent manner. In our view, positioning a larger portion of one's portfolio to respond to economic fundamentals is critical at this point to potentially allocate risk correctly when the economic cycle hits an inflection point.

Estimates of what investors needed to earn 7.5%



Likely amounts by which returns can vary

Data Source: Callan Associates
Illustrations: Astor Investment Management
Disclosure: The Illustration does not depict the allocation or returns Astor Investment strategies seek to achieve

While the market's performance over the past few years may have made some investors complacent, we believe now is the time to increase exposure to risk-mitigating strategies and reduce exposure to pure beta or index strategies. The same is true of fixed income; rather than being complacent with bonds, considering recent rate hikes have had limited impact on bond prices, investors should not ignore reducing exposure to long-dated bonds and increasing exposure to risk mitigating strategies.

Overall, we believe investors should look for investment strategies that have a defined, reliable process to capture gains should the global equity markets continue to march higher, but with built-in flexibility to reduce risk in a methodical, easy-to-understand process. We are pleased with Astor's solution and with our approach that uses our proprietary AEI to adjust risk exposure based on the economic cycle.

While the economy has surged, at some point that picture will change. That's why having a macroeconomic trend focused manager is an important complement to low-cost, strategic portfolio positioning.

FOR MORE INFORMATION, PLEASE VISIT:

Website: **www.astorim.com**

Charts – AEI and current economic levels:
www.astorim.com/charts

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Please refer to Astor's Form ADV Part 2A Brochure for additional information regarding fees, risks and services.

The Astor Economic Index® is a proprietary index created by Astor Investment Management LLC. It represents an aggregation of various economic data points: including output and employment indicators. The Astor Economic Index® is designed to track the varying levels of growth within the U.S. economy by analyzing current trends against historical data. The Astor Economic Index® is not an investable product. When investing, there are multiple factors to consider. The Astor Economic Index® should not be used as the sole determining factor for your investment decisions. The Index is based on retroactive data points and may be subject to hindsight bias. There is no guarantee the Index will produce the same results in the future. The Astor Economic Index® is a tool created and used by Astor. All conclusions are those of Astor and are subject to change.

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