ONE CAPITAL MANAGEMENT, LLC

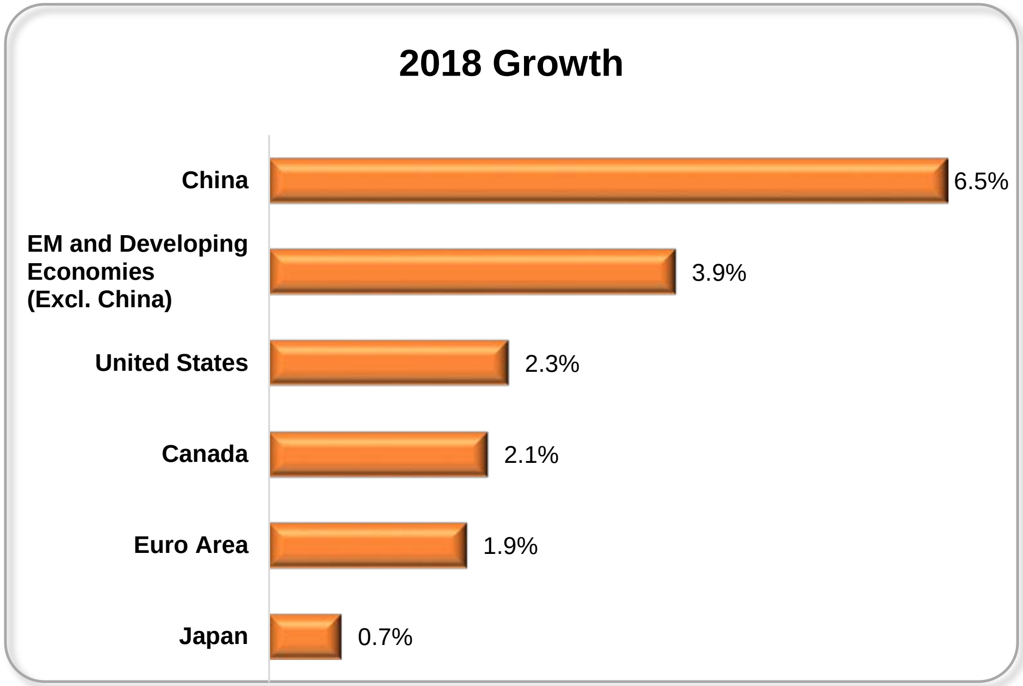
Playbook

Winter 2018

Our *Playbook* is designed to share our quarterly views in a visual presentation with comments providing context to what we believe are the pertinent issues of the most recent quarter and what we see moving forward.

Economic Growth Supports Positive Market Outlook

- *Global economic growth estimates for 2018 remain robust at 3.7%. Advanced economies including the U.S., Canada and Eurozone should grow about 1.9 – 2.3%.*
- *Emerging markets have a significant impact on global growth. China's economic output in 2017 was $11.2 Trillion, almost equal to the Eurozone at $11.9 Trillion, but is expected to grow 6.5% against 1.9%. China is also gaining on the U.S., which has $18.6 Trillion output and 2.3% expected growth. We expect emerging markets, including China, to account for over 50% of global economic growth in 2018 and to continue to grow faster in the coming years.*
- *Stable growth rates lay the foundation for positive investment returns in stocks, set against risk posed by tighter central bank monetary policies and higher interest rates.*

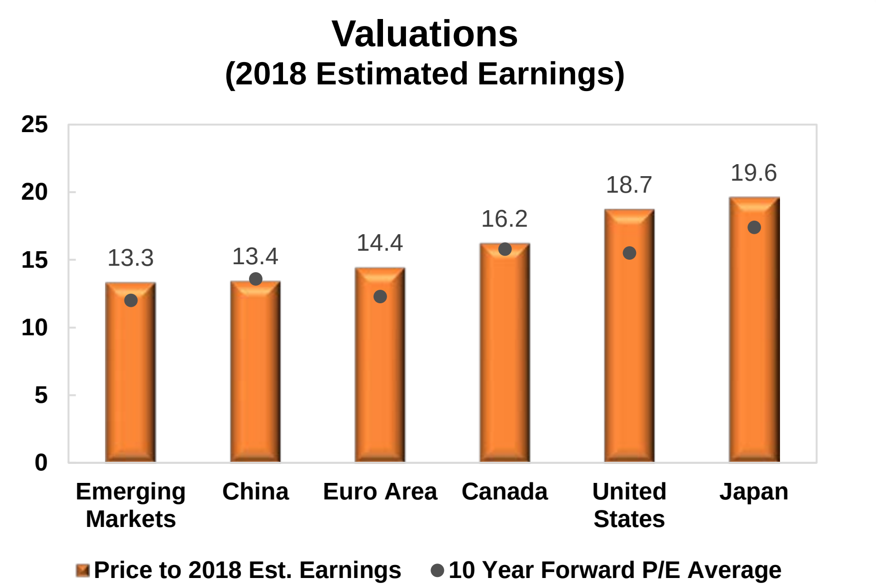


	Contribution to World GDP Growth 2018 Est.
Emerging Market and Developing Economies (Excl. China)	25.8%
China	26.5%
United States	15.2%
European Union	12.3%
Canada	1.2%
Japan	1.2%

Source: IMF Datasets. Estimates in real terms. Economic Growth Rate equals estimated percentage increase in Gross Domestic Product for 2018.

Equity Valuations Remain Reasonable

- *Equity values are elevated relative to the past 10 years, but appear reasonable relative to yields on long-dated government bonds when compared to earnings and dividend yields.*
- *The most significant risk to stock prices in 2018 would be downward revisions to earnings estimates coming from a slow down in economic activity, higher interest rates, and/or tighter central bank monetary policy around the globe.*



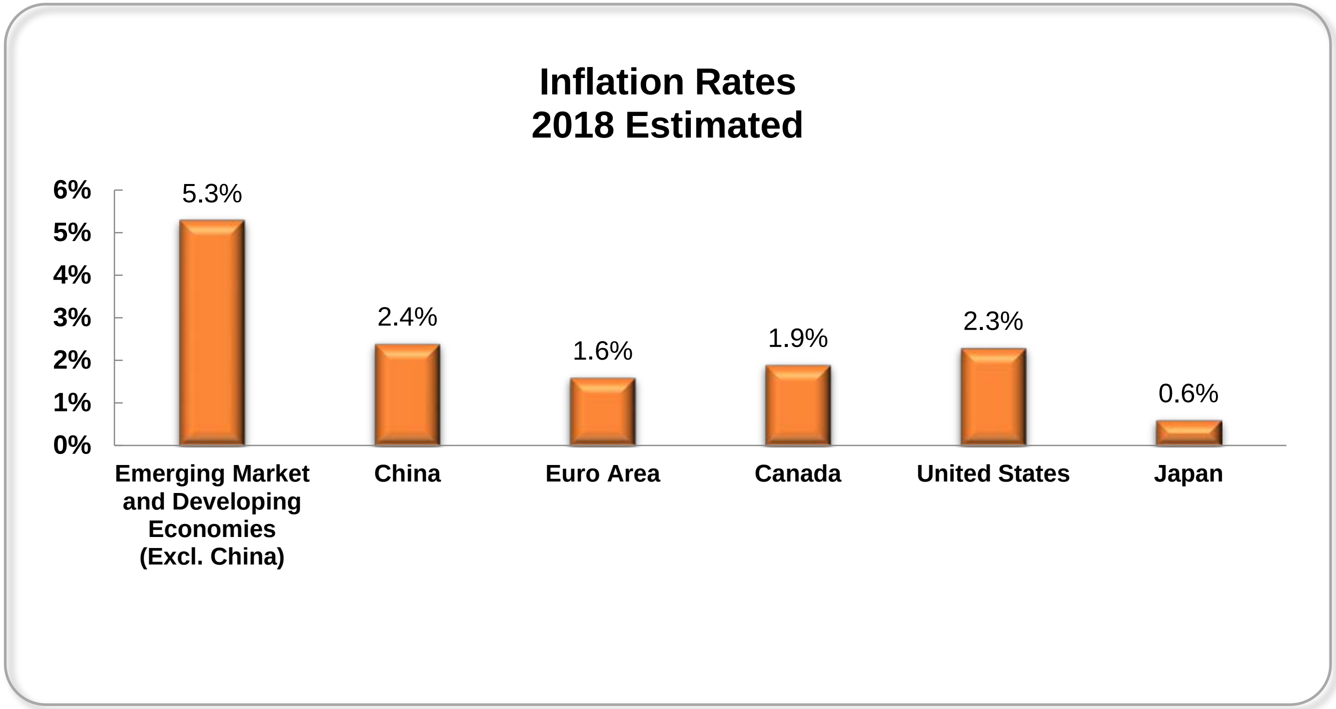
Yields

	10-Year Government Bond Yield	Earnings Yield	Dividend Yield
U.S.	2.5%	5.3%	1.9%
Canada	2.2%	6.2%	2.9%
Germany	0.6%	7.2%	3.0%
China	3.9%	7.5%	2.1%
Japan	0.1%	5.1%	1.7%

As of January 17, 2018. Source: Bloomberg. Note: We used Bloomberg's estimates of the following indexes to obtain the Price to 2018 Estimated Earnings: Nikkei 225 Index, Euro Stoxx 50 Price Index, DAX Index, S&P/TSX Composite Index, S&P 500 Index, Shanghai SE Composite Index, and MSCI Emerging Markets Index. Earnings Yield equals 2018 estimated E/P.

Eye on Inflation (Wages in Particular)

- *We expect 2018 Inflation in Developed Economies to remain balanced in the 1.6% - 2.3% range and Developing Economies to have almost double that rate of inflation.*
- *The U.S. unemployment rate of 4.1% is at low levels not previously seen since Dec. 2000 and Dec. 1969. European unemployment rate of 5.9% is at 10-year low.*
- *One of the major components affecting inflation is wages. U.S. Average Hourly Earnings increased 2.5% year-on-year in 4Q2017. If wage inflation picks up substantially as labor markets tighten, it could prompt central banks to raise interest rates more aggressively.*



Source: IMF Datasets.

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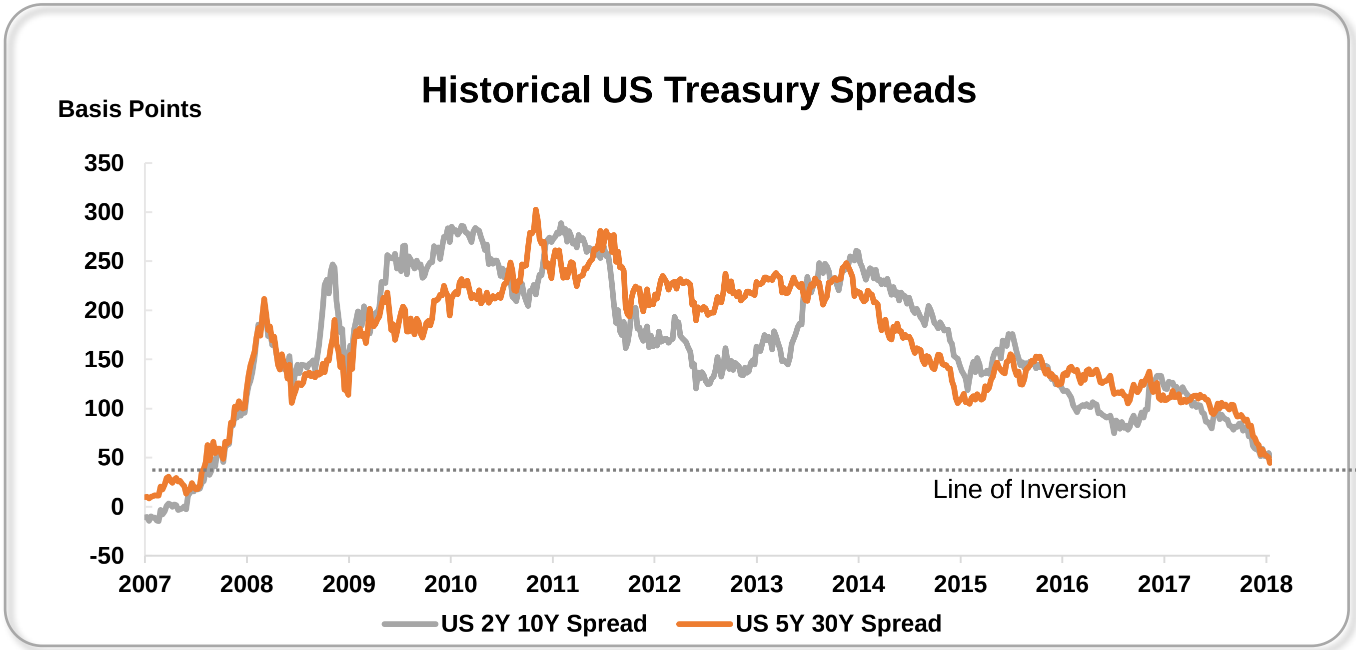
Inverted USD Yield Curve Possible in Late 2018 or Early 2019?

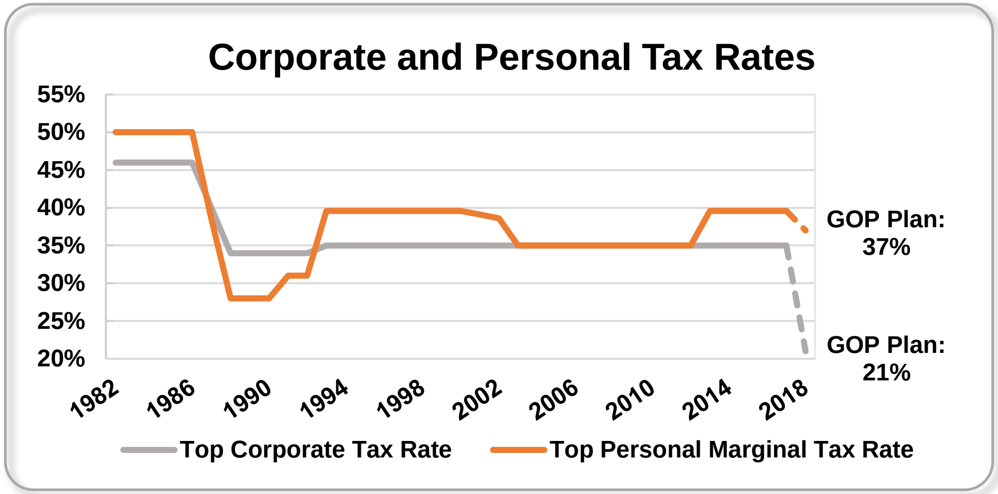
- *Spreads between 2 and 10-year, and 5 and 30-year U.S. Treasury yields have fallen to the lowest levels since 2007.*
- *Fed Fund Futures currently indicate that that the Fed will raise rates by 25 basis points each in March, June and possibly September. Three hikes would put the Fed Fund target rate at 2.25% compared to the yield of 2.4% on the US 5-year Treasury. Further rate hikes with stable long-bond yields may flatten the yield curve further and could make it inverted, although not our base case.*
- *Inverted yield curves are typically associated with a negative 2Y-10Y yield spread, and have been indicators of recessions in the past, including 2001 and 2007-2008. Since 1980, there have been five periods with inverted yield curves leading to four recessions.*
- *Inverted yield curves hurt bank earnings and reduce credit availability to companies and consumers.*



Source: Bloomberg. Weekly levels of US 2-year & buy 10-year bond yield spread and U.S. 5-year & 30-year bond yield spread from January 5, 2007 to January 17, 2018 were used to produce this graph.

Tax Cuts

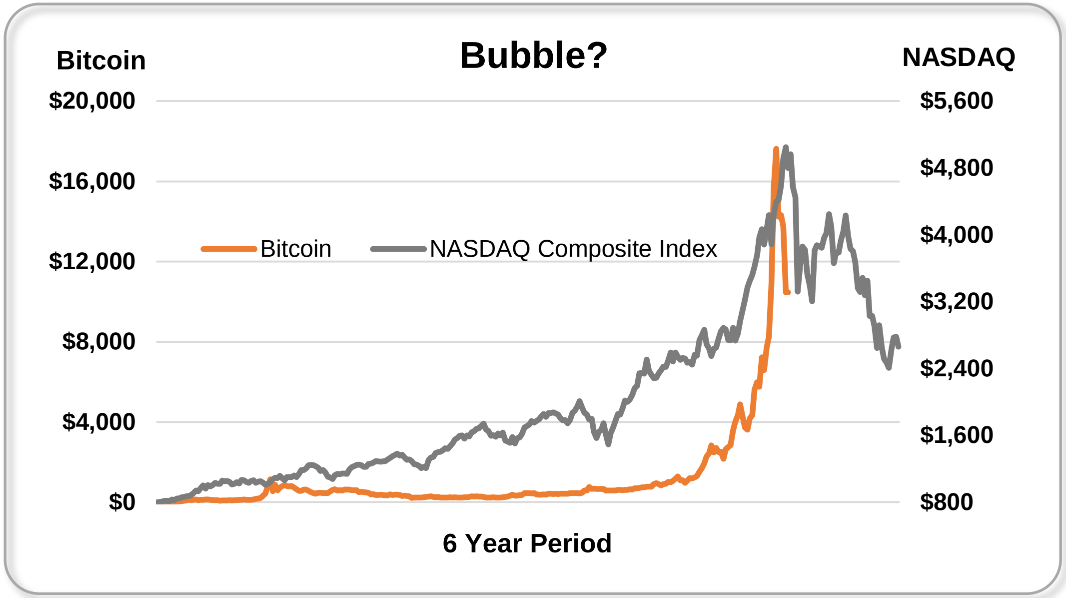
- *The U.S. Tax Cut and Jobs Act was signed into law in December 2017. The law significantly reduces the U.S. Corporate tax rate from 35% to 21%. This brings it closer to Canada and Ireland which have 15% and 12.5% corporate rates, respectively. The Act also reduces tax on the repatriation of overseas corporate earnings, which should result in billions of dollars of earnings being repatriated to the U.S. from companies like Apple, Microsoft, Amgen and others.*
- *Some companies have responded to the lower corporate tax rate by announcing an increase in wages and/or one-time employee bonuses. For example, Wal-Mart plans to increase the starting wage rate for employees to $11/hour and will pay a one-time cash bonus of $1,000 to eligible employees. AT&T will pay a $1,000 bonus to more than 200,000 workers. The impact of lower taxes should stimulate corporate profits overall. However, the Congressional Budget Office estimates the current effective corporate tax rate at 18.6% on a comparative basis anyway, and we estimate that stock prices have already priced in a significant amount of the expected tax benefit already.*
- *Individual tax rates will decrease under the new tax plan which should also be positive for consumer spending and economic growth.*



Sources: Top Corporate Tax rate 1982 to 2001 : World Tax Database, Office of Tax Policy Research. Top Corporate Tax rate 2002-2016: Internal Revenue Service, Instructions for Form 1120. Top Marginal Tax Rate: Eugene Steuerle, The Urban Institute; Joseph Pechman, Federal Tax Policy; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 22, 2003; IRS Revenue Procedures, various years.

Bubble in Bitcoin?

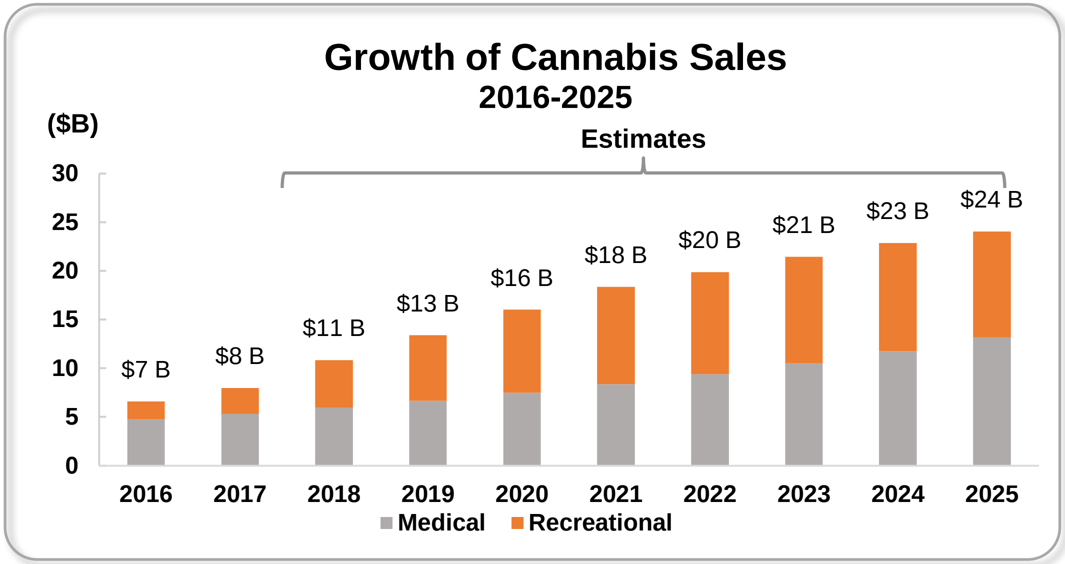
- *Cryptocurrencies have captured the imagination of speculators and the business media in recent months. After years of nascent popularity, the price of Bitcoin has appreciated over 3,000% in the past two years.*
- *Created in response to the 2007-2008 financial crises that caused central banks to support economies by purchasing their own government bonds, Bitcoin and other cryptocurrencies have as their primary characteristic limited supply. This gives them value to the extent that such currencies are accepted as a means of payment to facilitate trade.*
- *Widespread acceptance of Bitcoin or other digital currencies could be a indicator of future change in global currency markets. However, with no legal status, no regulation, and no government support, investment in such currencies can only be considered highly risky speculation at this point in time. Recent announcements of potential regulation by the China and possibly Japan and South Korea have led to a significant pullback the value of Bitcoin, posing additional future uncertainty.*



Source: Bloomberg. Weekly levels of Bitcoin/USD cross from January 4, 2013 to January 17, 2017 and NASDAQ Composite Index from March 3, 1995 to February 2, 2001.

High or Just Up in Smoke?

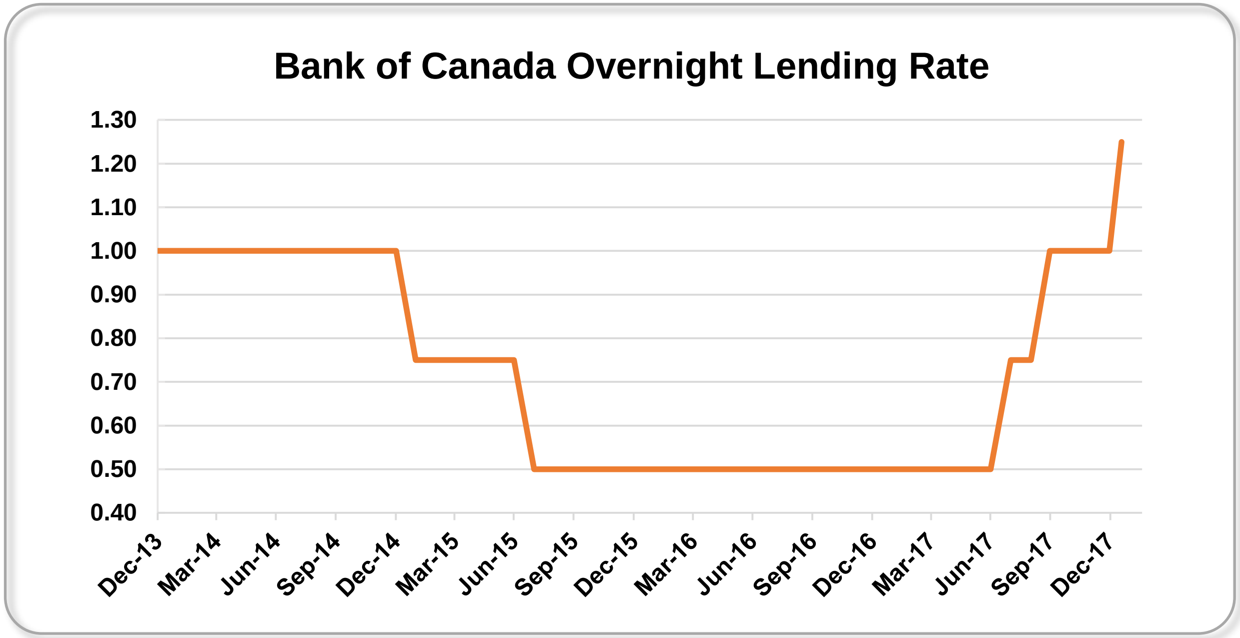
- *On January 1, 2018, California legalized recreational use marijuana, which is a significant development in the most populous U.S. state. In total, eight U.S. states plus the District of Columbia have legalized recreational use of cannabis. An additional 13 states have approved medical use.*
- *The trend of legalization has caused market analysts to estimate significant future market growth. Considering combined medical and adult recreational use, industry experts expect cannabis sales in the U.S. to triple within the next ten years.*
- *However, investable themes and companies are much harder to discern within the space. Despite legalization by U.S. states, cannabis remains illegal at the federal level. Possible enforcement actions by U.S. federal authorities make the regulatory environment highly uncertain and introduce substantial risk into industry forecasts and company business plans.*
- *Many publicly-listed Cannabis companies are trading at 50-100x forecasted earnings and the environment remains uncertain for reliable investments in the sector.*



Source: New Frontier Data and One Capital Management Analysis.

Canada First

- *The Bank of Canada (BOC) has increased the benchmark overnight rate to 1.25 percent, the highest since the global recession. It is the first major central bank to raise rates in 2018.*
- *Canadian inflation has picked up and the BOC seeks a balance between increasing interest rates to normal levels and not triggering an economic slowdown against faster than expected growth and employment boom in the Canada.*
- *The recent appreciation of the Canadian Dollar may lead to a drag on exports.*



Source: Bloomberg. Month-end values of Bank of Canada overnight lending rate from December 2013 to January 2018.

Risk Factors

- ***Central Bank Policy.*** *Aggressive monetary tightening by global central banks could pose risk to stock and bond valuations in coming months. This could take the form of faster-than-expected interest rate hikes or a more rapid reduction in Quantitative Easing (bond purchase programs) than currently priced in by the U.S., European and Canadian investors.*
- ***U.S. Debt Ceiling.*** *In December 2017, Congress passed a short term spending bill that expires January 19, 2018. House Republicans recently put forward a stopgap bill that would fund the government through February 16. This could set up a showdown between conservative lawmakers who advocate fiscal responsibility and liberal lawmakers who would like to see the debt ceiling abolished altogether to reduce its leverage in political negotiations. Lawmaker disagreements on debt ceiling increases has in past years have prompted credit rating agencies to downgrade U.S. government bonds and could present a risk factor if not resolved smoothly.*
- ***Oil Market.*** *Recent increases in oil prices are beneficial to the oil and gas sector. At the same time, higher oil prices may also be a driver of short-term inflation in petrochemical and fuel supply chains, which could impact central bank policy and have an indirect effect on securities prices and investment portfolios.*
- ***U.S. Midterm Elections.*** *A series of political contests for U.S. Congressional offices, including the whole of the House of Representatives, a third of the Senate, 36 governorships, and many state legislature seats will be on the ballot in November 2018. The results will strongly influence the Republican legislative agenda and may bear on investigations into Trump's administration introducing political and legislative uncertainty.*
- ***Corporate Bond Default Rate.*** *In 2017, Moody's recorded a total of 90 U.S. defaults, down from 143 defaults in 2016. In the fourth quarter of 2017, 24 corporate issuers defaulted, which represents an increase from 15 defaults in the third quarter, but is still down from 29 defaults in the second quarter. Oil and gas companies contributed nine of the fourth quarter defaults. Moody's expects the default risk for US-based oil and gas firms to continue declining in 2018. The firm is forecasting that the consumer durable goods sector will be the most troubled in the U.S. in 2018. By the end of 2018, Moody's is projecting a 2.4% default rate in the U.S., and just 1.2% for Europe. An increase in the estimated default rate could pose some risk for corporate bond markets and, by extension, stock prices.*
- ***North Korea.*** *Escalation of tensions with North Korea could frighten investors and pose risk to stocks and corporate bonds, depending on the nature and severity of the developments. Recent cooperative statements between North and South Korea regarding the Winter Olympic Games may postpone tensions beyond Feb. 2018.*

Source: Bloomberg, OCM analysis.