ONE CAPITAL MANAGEMENT, LLC

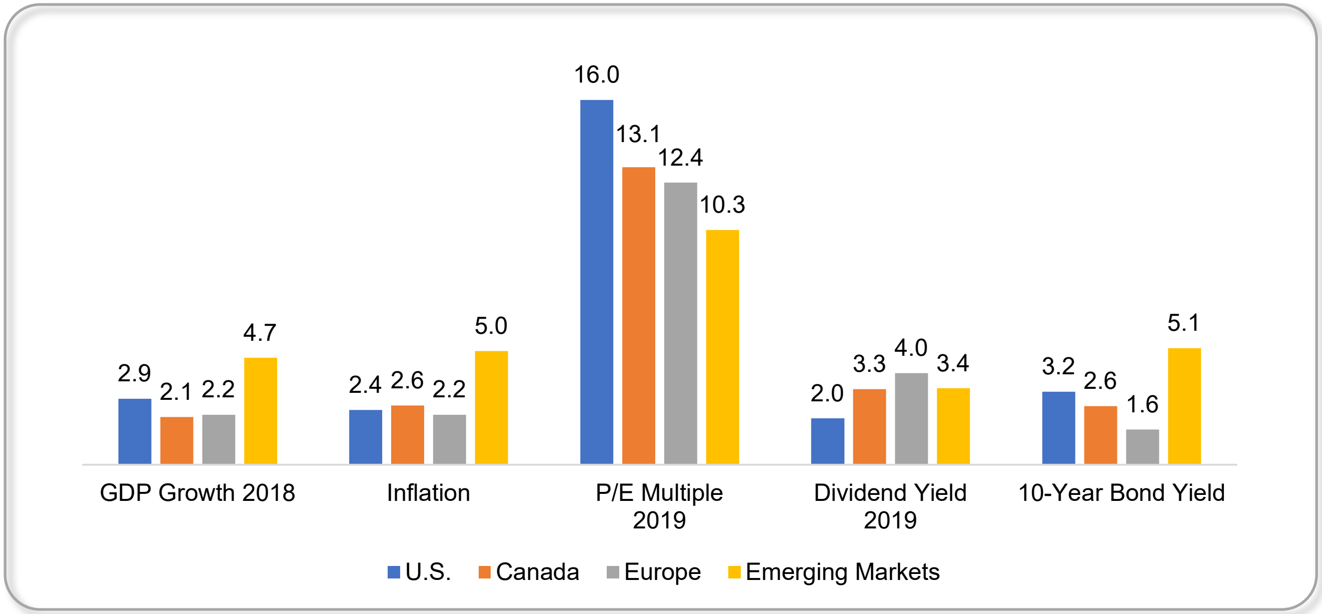
Playbook

Autumn 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.

Strong Growth at Reasonable Prices

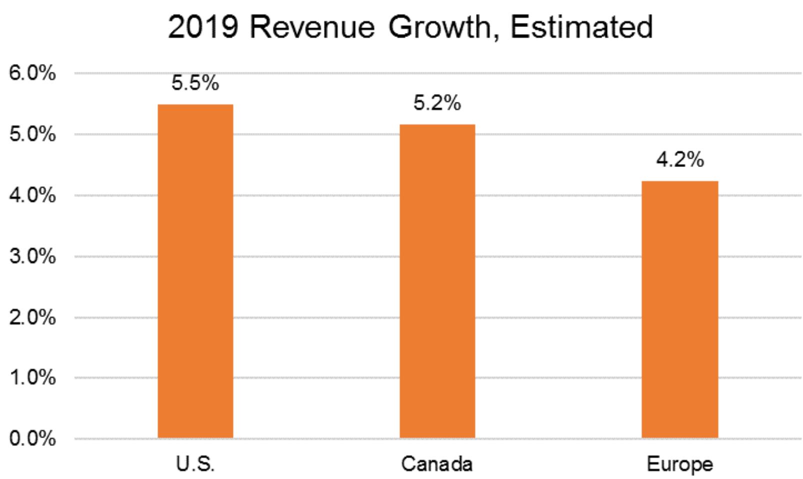
- *2018 GDP growth estimates are 2.9%, 2.1% and 4.7% for the U.S., Canada and Emerging Markets, respectively. Inflation looks under control, with 2018 estimates in the mid-2% range in North America and Europe.*
- *Stock valuation multiples appear reasonable compared to 10-year bond yields, even considering the possibility of multiple contraction after a multi-year stock market rally and increase in bond yields.*
- *Poor equity market returns in emerging markets, despite high growth, provides the most attractive return potential.*
- *Dividend yields remain higher in Europe than the rest of the world, while their bond yields are the lowest.*
- *Despite strong outperformance by U.S. equities relative to international stock markets this year, the argument for globally diversified portfolios remains with low inflation, high dividend yields and attractive valuations.*

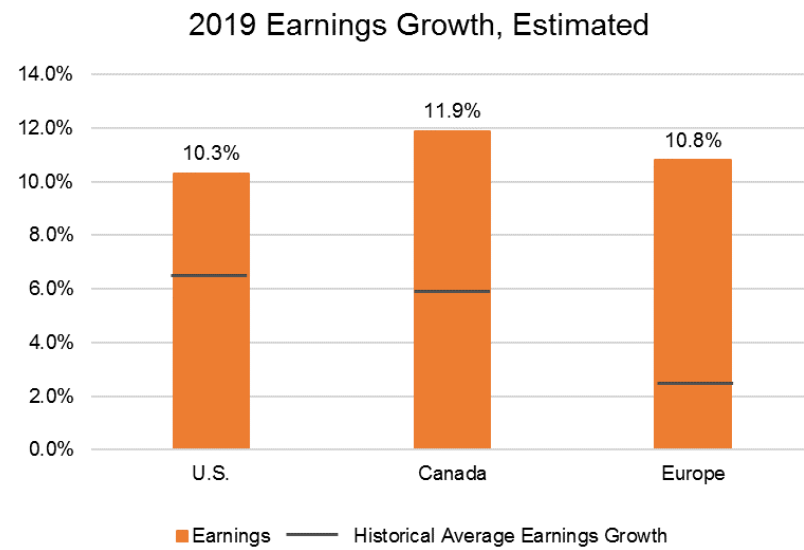


Source: GDP Growth and Inflation are 2018 estimates of IMF; P/E Multiples are 2019 estimates from Bloomberg for S&P 500 for U.S., S&P/TSX 60 for Canada, Stoxx 50 for Europe, and MSCI Emerging Markets for Emerging Markets; 10-Year bond yield uses the average of Germany, France, Italy, Spain, Netherlands, Belgium, Austria, Finland, Greece, Portugal, and Ireland for Europe, and a GDP weighted average of Brazil, Russia, India, China, and South Africa 10-year yield for Emerging Markets.

Healthy Developed Markets

- *Corporate profitability in 2018 has been extremely strong across the board, even if we exclude the positive impact of U.S. tax cuts. Consensus 2019 earnings growth is expected to continue in the 10-12% range with revenue growth in the 4-6% range.*
- *Cutting estimates to long-term historical averages of 6-7% earnings growth in the U.S. and Canada and 2-3% in Europe, as seen over the past 15 years does not make stock valuation multiples seem excessively high given where bond yields are likely to peak.*

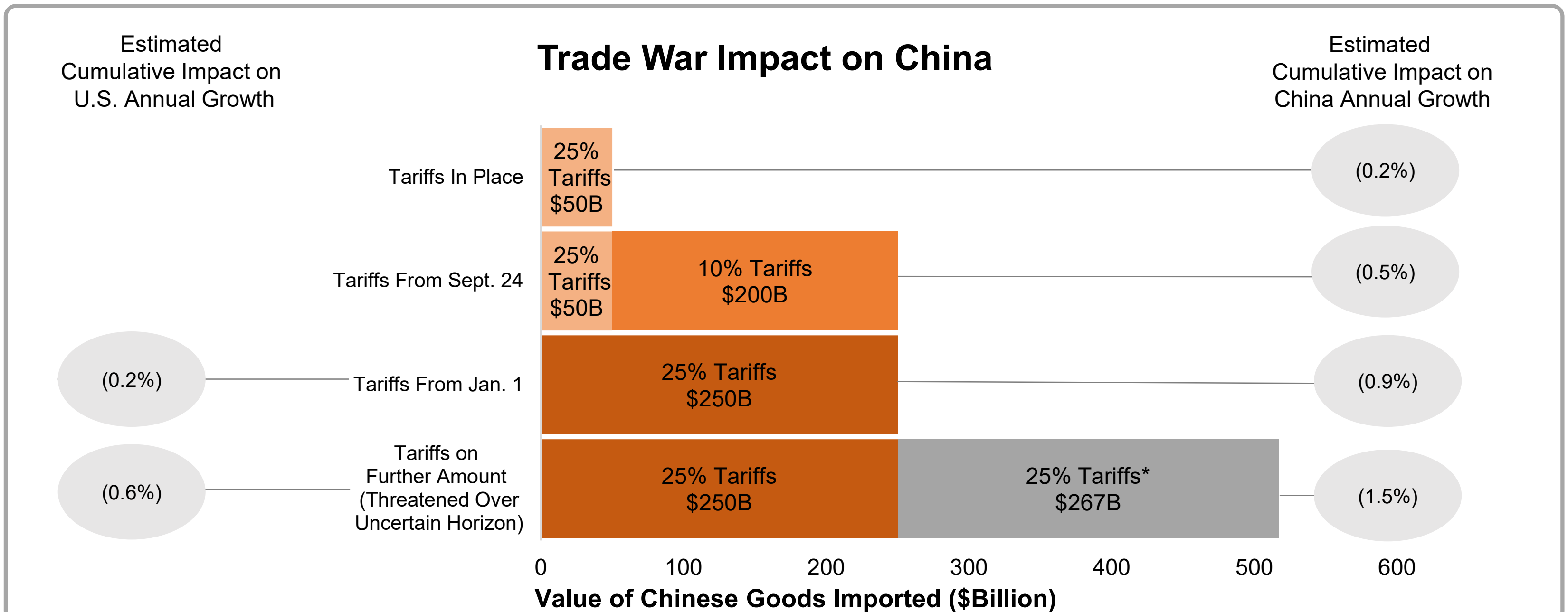




Source: Bloomberg as of 10/09/2018. Representative indices are S&P 500 for U.S., S&P/TSX 60 for Canada, and STOXX 50 for Europe. Growth represents from estimated figures of Fiscal Year of 2018 to Fiscal Year of 2019. Average earnings growth uses compounded average growth of earnings from 2003 to 3Q2018.

China Trade War: Risk to China Bigger than Risk to U.S.

- *Negotiations between the U.S. and China have not yet been successful, unlike Europe, Canada and Mexico. China's CSI 300 Shanghai and Hong Kong Hang Seng equity indexes are down 18% and 12% YTD, respectively.*
- *So far, the U.S. has imposed 25% tariffs on $50 billion of Chinese goods plus 10% on an additional $200 billion of goods with the rate scheduled to increase to 25% on January 1, 2019, and an additional $267 billion of Chinese goods are threatened if an agreement is not made. Sticking points include protection of intellectual property, technology transfer & reform of State-owned enterprises.*
- *The prospect of 25% tariffs on $517 billion of Chinese goods could have a major impact of up to 1.5 percent of Chinese GDP growth or almost one-fourth of their projected 2019 growth. By contrast, the estimated impact on U.S. GDP from retaliatory Chinese tariffs range from a decline of 0.2% to 0.6%. It is clear that China has more to lose than the U.S. in the worst case scenario. As a result, we expect a constructive agreement in the coming months.*



Note: As of October 10, 2018; Source: Chinese estimates are from Bloomberg Economics, where the 25% tariffs on $267B are assumed levels; U.S. estimates are from Tax Foundation, where the 0.2% effect includes effects from retaliation.

Made in North America

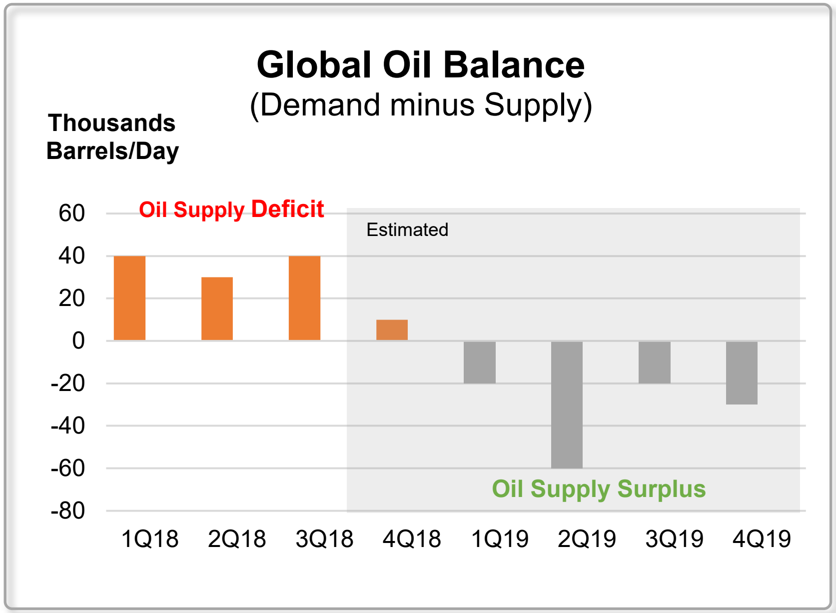
- *Canada reached an agreement with the U.S. and Mexico ending uncertainty around the North American Free Trade Agreement (NAFTA). The United States–Mexico–Canada Agreement (USMCA) addresses North American trade where a large percentage of Canadian and Mexican exports depend on integrated North American supply chains in manufacturing, agriculture and commodities.*
- *The new USCMA deal focuses on automobiles, dairy products, intellectual property and dispute resolution brings incremental changes from NAFTA. The deal represents a positive development in the continuing trade relationship between the three countries.*

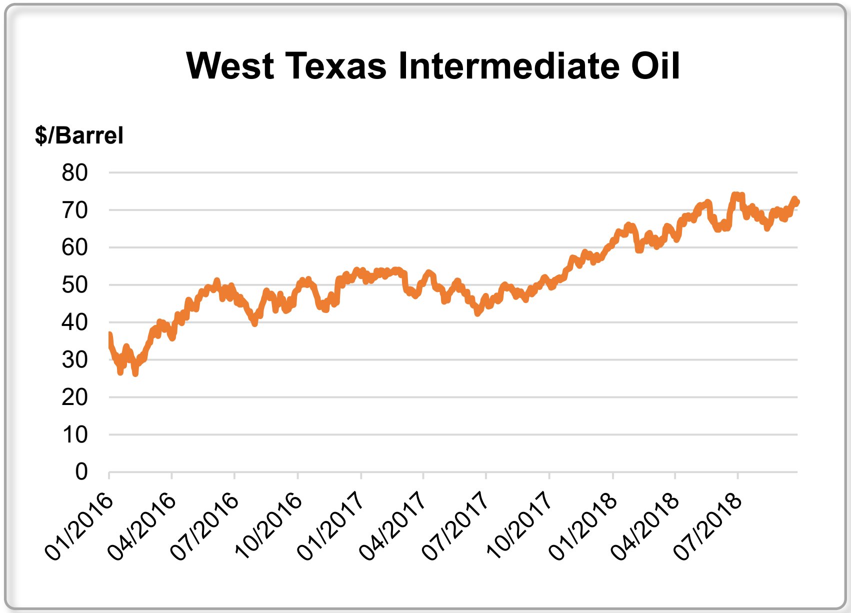
	"Before" (NAFTA)	"After" (USMCA)
Automobiles*	62.5% Auto Components to be built in North America	75% Auto Components to be built in North America
	Without $16 per hour minimum wage, production most likely takes place in Mexico, with min. wage of approximately $5 per day	40-45% of auto components to be made by laborers with the minimum wage of $16 per hour making U.S. and Canadian labor more competitive with Mexican labor
		If the U.S. imposes new auto tariffs, 2.6 million passenger vehicles each for Canada and Mexico, and $32.4 billion and $108 billion of auto parts for Canada and Mexico, respectively, will be exempted annually
Dairy Products	U.S. allowed to export 1% of Canadian dairy market/year.	Canada agrees to give U.S. Dairy Farmers access to about 3.5% of its $16 billion annual domestic dairy market
		Canadian government are allowed to compensate their dairy farmers hurt by the deal
	"Class 7" pricing system for processed milk products disadvantages to U.S. farmers	"Class 7" pricing system is abolished giving greater Canadian access to U.S. farmers
Intellectual Property	Copyright period of 50 year after creator's death	Copyright period of 70 year after creator's death
Dispute Resolution	A dispute-settlement system that allows member countries to bring grievances against other members over allegations of unfair trading practices	Terms mainly unchanged; viewed as a victory for Canada, as this is viewed as a way for them to defend against protectionist trade policies by U.S.

** Automobiles is cars and SUVs, not trucks. Timber, steel, and aluminum are not part of the USMCA deal.*

Oil Slick?

- *Oil prices have moved up as supply disruptions in Venezuela and Iran have been partially compensated with increased production in Saudi Arabia and Iraq. Gasoline prices and other energy costs have moved up concurrently.*
- *The International Energy Agency has cautioned that further increases in oil price could weaken global demand, which could lead to a subsequent oil price drop. This phenomenon has been observed in the past with conditions precedent. Accordingly, some analysts project oil balance to move from net deficit to net supply over the coming quarters.*

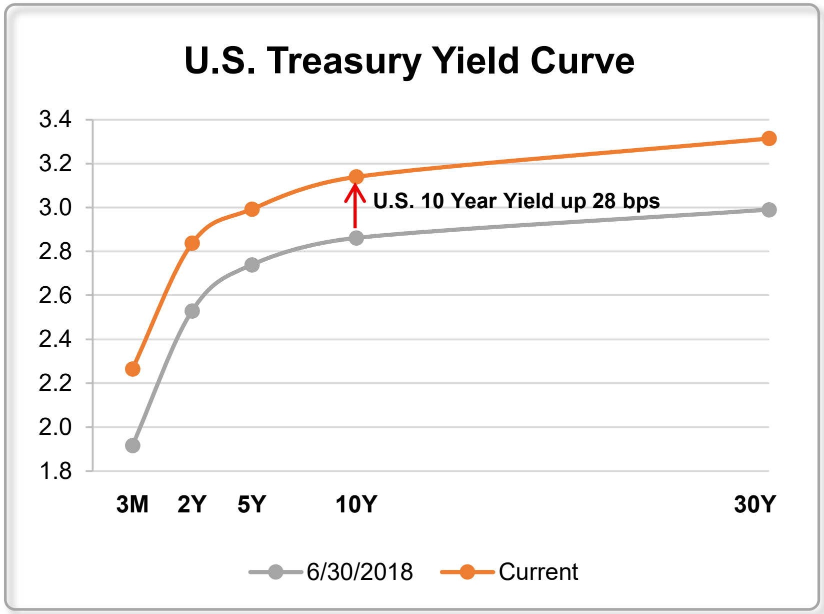


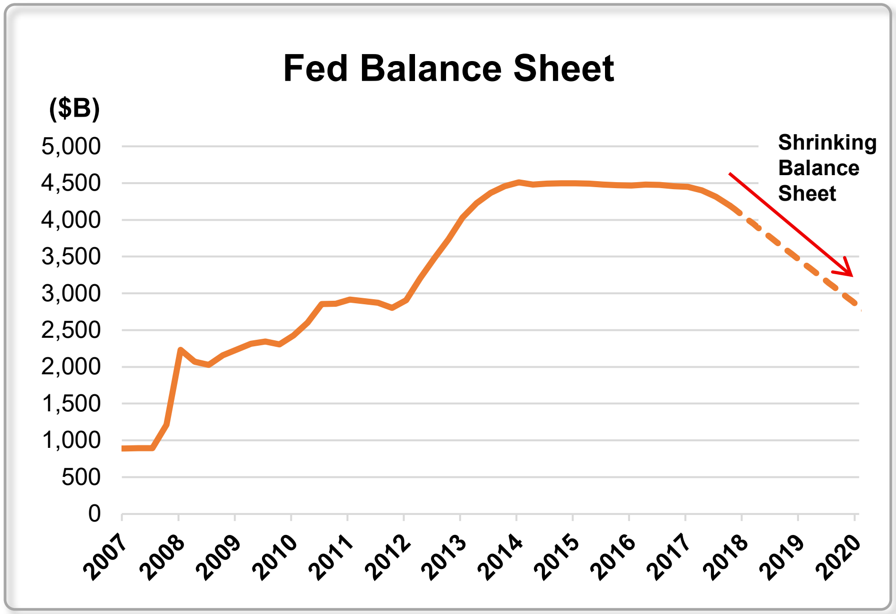


Source: Supply and demand data from Wall Street Journal; Bloomberg data for oil price data from 01/04/2016 to 09/28/2018

U.S.: Is This the End of Easy Money?

- *The U.S. Federal Reserve bank has ended its Quantitative Easing program where it purchased increasing amounts of bonds monthly in the open market. This has resulted in a net reduction of $400 billion in the Fed's balance sheet from a peak of $4.6 trillion to $4.2 trillion. The balance sheet reduction is expected to continue for the foreseeable future with a reduction of the reinvestment of proceeds from maturing bonds held by the Fed.*
- *At the same time, the Federal Reserve recently increased the Fed Funds rate by a quarter point to 2.25%. Rate hikes are expected to continue throughout 2019. The combination of lower demand for Treasury bonds due to less Fed buying plus higher supply driven by rising U.S. fiscal deficits due to tax cuts has led to a jump in yields. This has had the effect of increasing the cost of money and repricing risky assets such as equity, credit and real estate in the U.S. market. While fundamentals are strong, we expect the increase in yields to slow down the rate of appreciation in stocks. Unexpected sharp increases in yields, in contrast to steady, measured increases could lead to continued volatility in equity markets.*

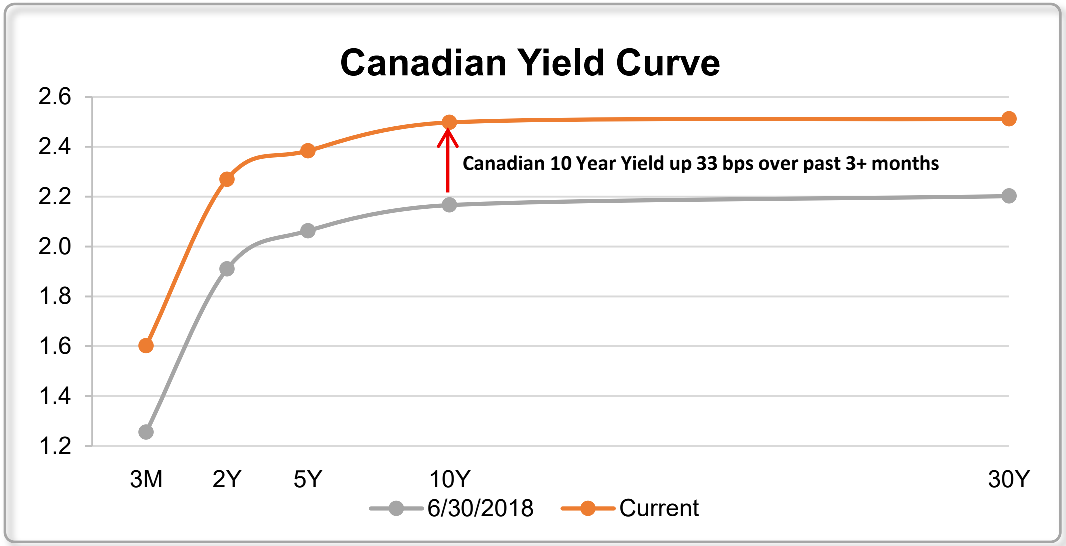




Source: Current U.S. Yield as of 10/12/2018. Federal Reserve Balance sheet data from Federal Reserve from 12/31/2007 to 09/26/2018, quarterly data; estimates based on Federal Reserve's guidance.

Canada: As Economy Goes, So Go Rates – Up

- *The Bank of Canada has raised the Overnight Lending Rate four times since July 2017 to its current level of 1.5%. The most recent two hikes in 2018 show an effort to slow down the rapid increase in housing prices, particularly in the Toronto and Vancouver areas, as well as prevent potential overheating in the Canadian economy.*
- *Canada's economy has been extremely strong with unemployment hovering at multi-decade lows below 6%.*
- *GDP growth is strong, most recently measuring 2.4% year-on-year in the September 2018 data release and inflation is measuring in at 2.8% year-on-year.*
- *The recent rise in oil prices adds to positive prospects for Canadian growth.*
- *The Canadian yield curve has shifted up significantly in the last quarter as the market prices in continued growth and rates hikes intended to dampen inflation pressure. Yield curve differentials between Canada and the U.S. may keep the CAD-USD exchange rate trading within a range over the medium term.*



Source: Current Canadian Sovereign Yield as of 10/12/2018

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