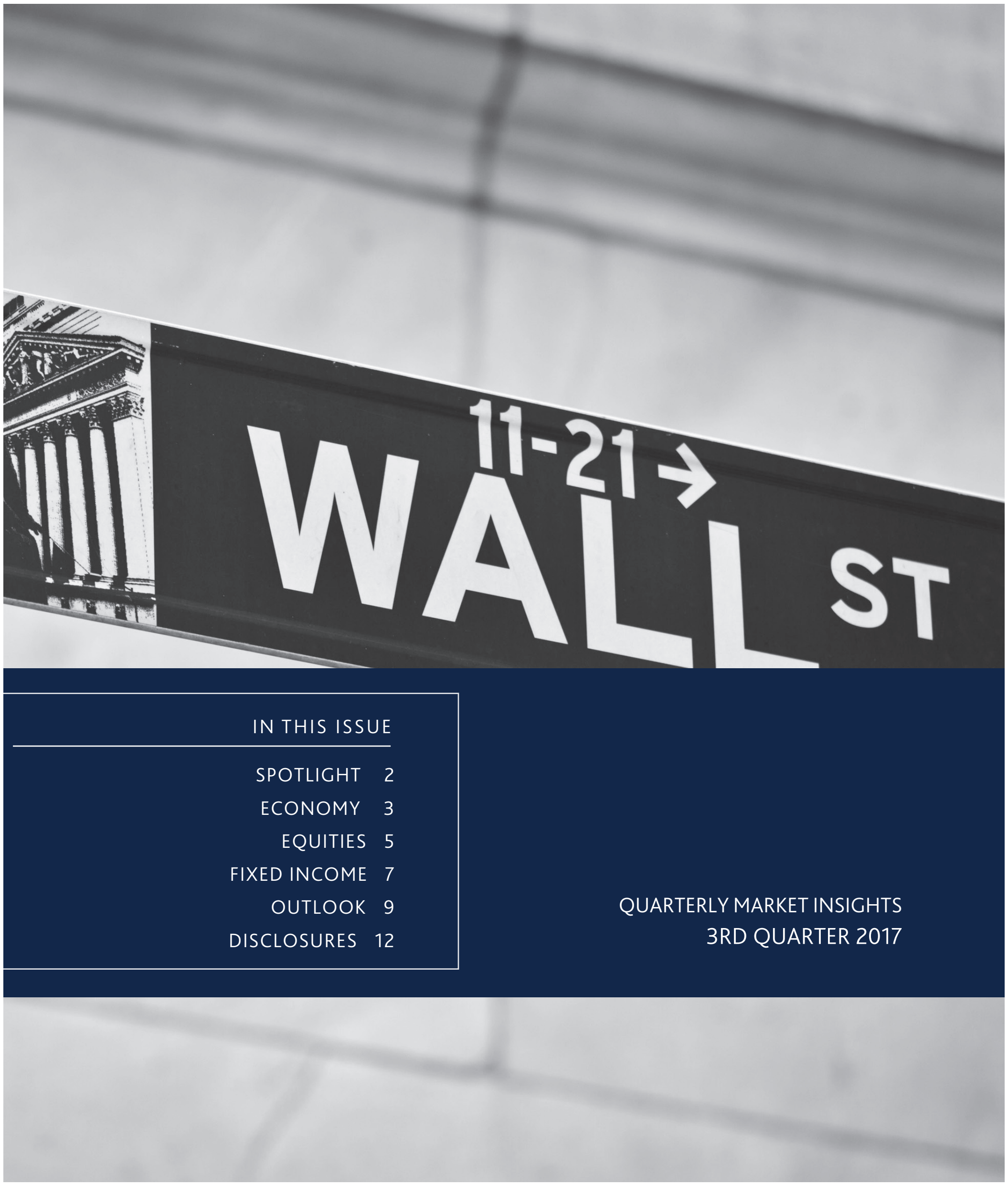

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3RD QUARTER 2017

TRUST COMPANY of NORTH CAROLINA

SPOTLIGHT

BITCOINS, BLOCKCHAINS, & BUBBLES

The last five hundred years of Western civilization are full of fascinating and painful examples of financial asset bubbles and crashes. Examples include tulip prices in 17th century Holland, South Sea Company shares in early 18th century Great Britain, railroad bonds amid the Panic of 1873 in Reconstruction Era America, shares of Japanese conglomerates in the 1980s, and U.S. technology stocks leading up to the turn of the millennium.

Over the same five tumultuous centuries, certain elements of the Western world have remained relatively stable. For instance, over the last half-millennium there have really only existed three global reserve currencies that provided a framework for global trade and transactions. In chronological order, they are as follows: the Dutch guilder, the British pound and the U.S. dollar. So it is a bit surprising that a growing group of global financial community members have pointed to an esoteric new corner of the currency market as the area most likely to be spawning the next bubble. Enter digital currencies, and most notably bitcoin. Over the past several years (and especially in 2017) the hype and rollercoaster price action surrounding bitcoin has increasingly captivated investors, strategists, traders, journalists and economists. The price of bitcoin has blasted higher in 2017, as its transaction times have declined significantly and market participants, technologists, and some governments have granted it more legitimacy. As of the end of September, bitcoin prices have surged a mind-bending 338% after a 120% run in 2016.

Before we address the recent excitement, a few basics are probably in order. First, bitcoin (and all digital currencies) are a type of electronic token and the network on which those tokens are circulated and stored. These networks exist outside the reach of governments and banks. Each unit of bitcoin is simply a digital ledger entry, similar to debit and credit entries on an accountant's ledger. This online ledger tracks all bitcoin users' transactions and account balances. Each transactional record is linked, or blocked, to every other record using cryptographic coding. The ledger is maintained and constantly updated by the community of bitcoin users. It is open-source, similar to how entries for online encyclopedia Wikipedia are generated, edited and updated by its user community. All bitcoin users simultaneously record all transactions on the network. Power-users then serve as so-called maintainers of the ledger by voting on which version of the ledger is accurate. Power-users race to verify the correct version of the ledger by attempting to solve a computationally difficult math problem. The first power-user with the correct answer (and thus the correct version of the ledger) is awarded a small amount of bitcoin to serve as an incentive to help maintain the ledger.

Every time a math problem is solved, a small amount of bitcoin is added to the solver's balance and thus the global supply. This process, called bitcoin mining, serves to create new bitcoin, and to avoid counterfeiting and double-spending. Critically, it serves as the core of the widely acclaimed blockchain technology concept.

Bitcoin proponents champion digital currencies' ability to exist outside the realm of potential government and central bank intervention like inflationary money-printing. They also believe bitcoin could provide a much less expensive and efficient global payment and transfer system than the current version and its bank wire fees and credit card processing fees. While China has recently cracked down, other major economies including Japan have declared it a legitimate means of payment.

Detractors argue that the extreme volatility of bitcoin's price disqualifies it as a "store of value" or a "medium of exchange." These are criteria generally used to define a currency. In other words, since potential bitcoin users cannot be sure that its value will not fluctuate by 20% in a week, they will be less likely to have faith that it can be used for future consumption, tax payments, wealth transfers, etc. Notably, Jamie Dimon, CEO of JPMorgan Chase, recently called bitcoin "a fraud" and thundered that he would "…fire…in a second" any JPMorgan trader trading in bitcoin.

Thus far, 2017 has been an especially successful yet staggeringly volatile year for the fledgling digital currency during which it has certainly behaved like previous financial asset bubbles. Bitcoin prices experienced a 200% surge in the ten-week period ending June 6 after the Japanese parliament conferred some legitimacy by declaring it an authorized method of payment. Then, after consolidating for a month, prices jumped 125% over the six weeks ending September 1, driven by geopolitical concerns and hopes of an SEC approval of a bitcoin ETF. In the first two weeks of September, prices plummeted 30% after Chinese regulators outlawed new digital currencies being brought to market. In mid-September, BTC China, one of China's largest online exchanges, announced it would cease bitcoin trades at the end of the month. Commentators have suggested these moves from China were driven by concerns about capital outflows and potential financial market volatility ahead of the key leadership contests of the October Communist Party conference.

Bitcoin and other digital currencies may indeed be in a nasty bubble. They most likely fail some clear criteria of currencies described above. Yet, cynics may be overlooking the long-term utility and viability of the blockchain technology underneath digital currencies. This technology could one day serve as the core of a more efficient and less expensive decentralized global payment and financial transaction ability outside the scope of governments, global banks and credit card companies.

ECONOMY

ECONOMIC GROWTH REMAINS STEADY BUT UNSPECTACULAR

U.S. economic growth was revised higher for the second quarter to an annualized growth rate of 3.1%, up from the prior 3.0% annualized rate. The 3.1% growth rate is the fastest pace since the first quarter of 2015. The revisions to growth came from stronger-than-expected consumer spending, led by outlays on housing, utilities, prescription drugs and cellphone services. Nonresidential fixed investment was up 6.7%, offsetting a 7.3% decline in residential investment. The current pace would need to be sustained or surpassed in the third and fourth quarters in order to achieve 3.0% growth for all of 2017. Analysts currently anticipate a weaker reading for third quarter GDP due to the uncertain effects of hurricanes over the past two months. GDP growth could strengthen by the end of the year due to stronger investment spending and an improving global economy, despite diminished prospects of significant fiscal stimulus.

Federal Reserve chair Janet Yellen delivered the keynote address at an economic policy conference in Cleveland in which she stated, “low inflation likely reflects factors whose influence should fade over time.” Yellen also expects inflation to return to the Fed’s 2.0% target rate as further labor market tightening brings wage increases. As such, Yellen reiterated her view that it would be imprudent to delay monetary tightening until inflation is back at 2.0%. The Fed chair’s comments likely helped push yields on the ten-year U.S Treasury to 2.33% at the end of September. She acknowledged, however, that the muted wage growth of recent years is tied to low productivity growth. During the month the Fed cited a labor market that has "continued to strengthen" and economic activity that has "been rising moderately so far this year" in its assessment that the U.S. stands on solid footing for the Fed to begin trimming its $4.5 trillion balance sheet. The gradual unwinding of the stimulus program, that is nearly ten years old, is expected

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	3.1%	1.2%	▲
TRADE BALANCE	-42.40	-46.40	▲
UNEMPLOYMENT RATE	4.2%	4.4%	▲
NON-FARM PAYROLLS	-33K	210K	▼
ISM MANUFACTURING	60.8	57.8	▲
ISM NON-MANUFACTURING	59.8	57.4	▲
RETAIL SALES (LESS AUTOS)	-0.1%	0.1%	▼
INDUSTRIAL PRODUCTION	-0.9%	0.1%	▼
HOUSING STARTS	1180M	1129M	▲
CONSUMER PRICE INDEX (YoY)	1.9%	1.9%	▲
CONSUMER CONFIDENCE	119.8	117.3	▲
EXISTING HOME SALES	5.35M	5.62M	▼
CONSUMER CREDIT	13.07B	18.11B	▲
CRUDE OIL PRICE	51.67	46.04	▼

Source: Bloomberg. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

ECONOMY CONTINUED

to start in October, with the Fed planning to shrink its balance sheet by up to a combined $10 billion of Treasury bonds and mortgage-backed securities each month. This amount will increase until $50 billion per month is shed from the Fed's books.

HOUSING

U.S. homebuilding fell for a second straight month in August as a rebound in the construction of single-family homes was offset by weakness in the volatile multifamily home segment. Housing starts slipped 0.8% to a seasonally adjusted annual rate of 1.18 million units according to the Commerce Department. U.S. home resales also fell to their lowest level in a year in August as Hurricane Harvey depressed activity in Houston. A persistent shortage of properties on the market also sidelined buyers. Existing home sales decreased 1.7% to a seasonally adjusted annual rate of 5.35 million units last month. This marks the third straight monthly decline in sales reported by the National Association of Realtors (NAR), and the lowest level since August 2016. The NAR stated that Harvey, which struck Texas in the last week of August, resulted in Houston-area sales falling 25% on a year-over-year basis. Excluding the Houston metropolitan area, existing home sales would have been unchanged in August.

EMPLOYMENT AND MANUFACTURING

The unemployment rate declined to 4.2% in September from 4.4% in the previous month, and total nonfarm payroll employment declined by 33,000, the U.S. Bureau of Labor Statistics reported. A sharp employment decline in food services and drinking places, and below-trend growth in some other industries, likely reflected the impact of Hurricanes Irma and Harvey. Economists had estimated the storms would result in a modest 80,000 employment increase, according to a Bloomberg survey. It marks the first time the economy has lost jobs since September 2010. Other economic indicators have been positive, and the weak showing is likely to be reversed in coming months. Initial jobless claims have remained near 40-year lows, notwithstanding hurricane-related increases.

The Institute for Supply Management reported that its manufacturing index rose in September to 60.8 from 58.8 in August, the highest reading since May 2004. A reading above 50 signals that manufacturers are growing, and the ISM survey shows they have been on a 13-month winning streak. Some of the increase was attributed to the recent hurricanes which disrupted supplies but drove up demand for manufactured goods. New orders, production, hiring and new export orders all grew faster in September. Seventeen of 18 manufacturing industries reported growth, led by textile mills and machinery. Factories are benefiting from a strengthening global economy and a decline this year in the value of the U.S. dollar against other major currencies. A weaker dollar makes U.S. products less expensive in foreign markets.

EQUITY

EARNINGS AND VALUATIONS SEE A SUMMER GROWTH SPURT

Things seem to be falling into place for U.S. equities as the calendar turns toward autumn. Healthy second quarter corporate earnings growth and a synchronized improvement of economic fundamentals across the globe led to the eighth consecutive positive quarter for both the Dow Jones Industrial Average and S&P 500 Index. The second quarter was the first time since 2011 that the S&P 500 recorded two consecutive quarters of double-digit earnings growth. Analysts expect a moderation of earnings growth in the third quarter, but even a reduced growth rate could easily support further index price gains.

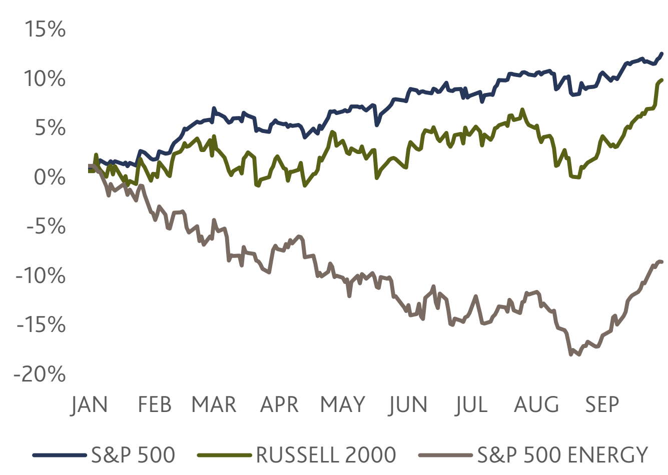
Looking across equity asset classes, areas of the market that benefited in the fourth quarter of last year from the so-called reflation trade and Trump trade returned to leadership positions this quarter. U.S. small cap companies were a prime example. After trailing the large cap S&P 500 by 2.9% in the first two months of the quarter, the small cap Russell 2000 snapped back to life to outpace the larger index by 4.2% in September alone. The small cap index has a larger weighting in banks than the S&P 500, which tends to benefit from higher interest rates and expectations of deregulation. Fed Chair Janet Yellen and her Federal Open Market Committee (FOMC) colleagues made it pretty clear that they expect to hike rates by another quarter point in December.

Cyclical areas of the market including the energy sector were also beneficiaries of a late summer resurgence of the reflation trade. Following a lackluster first half, a 12% rally in domestic crude oil prices during the quarter and a downward stabilization of oil inventories led to positive momentum in energy sector stocks. Outside of the U.S., the major oil exporting emerging market nations of Brazil and Russia saw their equity markets surge 23.0% and 18.1%, respectively, during the period.

Looking forward, more cyclical areas of the market could further benefit from a pick-up in broad inflation in coming quarters. Rebuilding from the recent hurricanes could spur above-trend fourth quarter growth. Meanwhile, the recent upward stabilization of crude oil prices around $50 a barrel and the moderate weakening of the U.S. dollar so far in 2017 could push core consumer inflation in the U.S. closer to the Fed's stated 2.0% year-over-year target.

While 2017's solid equity market gains have mostly been driven by earnings growth, the relatively steady rise of the U.S. stock market over the past several years has been fueled by many inputs. These include dovish policy from the Federal Reserve and

SMALL CAPS & THE ENERGY SECTOR SURGE IN SEPTEMBER
JANUARY 2017 THROUGH OCTOBER 2017



Source: Bloomberg. Past performance does not guarantee future results.

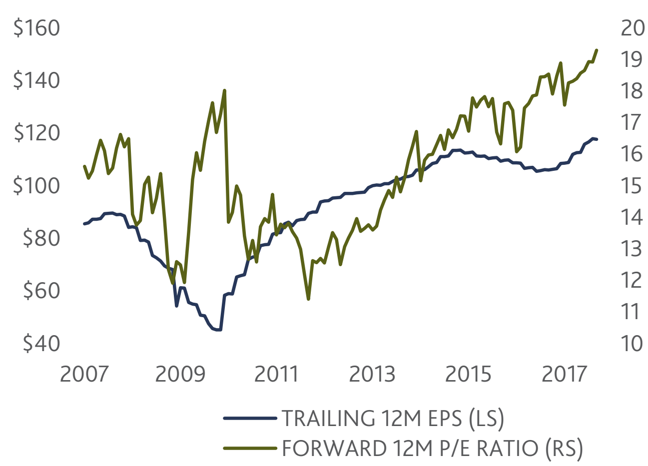
improving confidence from consumers and businesses in both current and future situations. However, ultimately, corporate earnings drive individual stock prices over the long run. Even though the broad economy was growing, earnings for the S&P 500 entered an 'earnings recession' that lasted almost 24 months, roughly coinciding with calendar years 2015 and 2016. Much of this 'recession' was driven by the collapse in energy prices beginning in summer 2014 and the subsequent collateral damage across most cyclical industries. A significant factor in earnings growth rates is simply whether the year-ago period (the 'comp' or comparable period) was easy or hard to beat. The current year has an easy comp because of negative annual growth rates for 2016, which makes the solid earnings performance so far in 2017 look even more robust, at well above 10%. If strong earnings growth rate forecasts into 2018 are accurate, we may see another earnings lull or decline in 2019 due to the 'tough comps' of 2017 and 2018.

Valuation, or the multiple of earnings that investors are willing to pay, is yet another factor that drives stock prices. Bloomberg reports that over the 24-month period ended September 30, 2016, the S&P 500 has advanced 31.2% while the index's aggregated earnings per share (EPS) over that period has risen just 8.9%. This implies about three-quarters of the gains in the S&P 500 over that period have been driven by an expansion of its valuation multiple. The forward price-to-earnings (PE) ratio, now approximately 19, is nearing its highest level in 15 years.

This steady rise has bucked the trend of declines to PE ratios in previous Fed rate-hike cycles. Theoretically, higher rates should be a drag on earnings due to balance sheet stress, and they should also make fixed income investments more attractive relative to stocks, encouraging rotation into bonds. However, PE ratios have only risen since the Fed began slowly hiking rates in December, 2015. We attribute this to the still very low absolute level of interest rates (which make stock dividends look attractive), as well as to the market doubting the Fed's willingness to carry out rate hikes as consistently as it has said it will.

S&P 500 INDEX: EARNINGS AND VALUATION

2007 THROUGH YEAR TO DATE 2017



Source: Bloomberg. Past performance does not guarantee future results.

FIXED INCOME

THE FED NORMALIZES, TRUMP SIGNALS STIMULUS

In the fixed income markets, little has changed over the course of the last quarter. Credit spreads remain tight, U.S. bond yields still offer pickup to the rest of the world, the yield curve remains relatively flat, though nowhere near an inversion, and on a relative basis, it seems that markets have priced in a more hawkish tone from the Fed compared to other global central banks. It also still holds true that inflation remains a key risk to fixed income portfolios that investors appear to be ignoring, or at least not taking very seriously. Nothing has really changed. In fact, some of those circumstances have actually deteriorated during the third quarter, most notably with spreads tightening further, though a buying opportunity existed in corporate structures in late August and early September. Both anticipated and unanticipated events drove the fixed income market during the third quarter, providing circumstances in which a relatively duration-neutral and credit defensive stance in fixed income makes sense at this time.

Late in the quarter the FOMC said it would start its balance sheet normalization process in October, a move the market expected. Yields on the ten-year U.S. Treasury note and the 30-year U.S. Treasury bond held steady around their pre-announcement levels. The market had, for the most part, priced in the normalization process, making it a virtual non-event. While some investors had feared the normalization process might spur a steepening of the curve and that the ten-year and 30-year yields would rise, that did not appear to happen after the FOMC revealed its plan. There are a couple reasons for this.

First, the primary tool the FOMC has utilized for modifying its monetary policy stance has traditionally been the federal funds target, and that is a lot easier for market participants to understand. In her statement after the last FOMC meeting, Fed Chair Janet Yellen said as much stating, “Finally, as we have noted previously, changing the target range for the federal funds rate is our primary means of adjusting the stance of monetary policy. Our balance sheet is not intended to be an active tool for monetary policy in normal times.” Second, as stated in the press release following their September 2014 meeting the normalization process will be “gradual and predictable.” The process will not involve the outright sale of securities, but the termination of reinvesting maturities. The pace will start at $6 billion of Treasuries and

10-YEAR HIGH YIELD SPREADS

JUNE 2017 THROUGH SEPTEMBER 2017

Barclays Capital US Corporate High Yield minus 10-Year U.S. Treasury. Source: Bloomberg. Past performance does not guarantee future results.

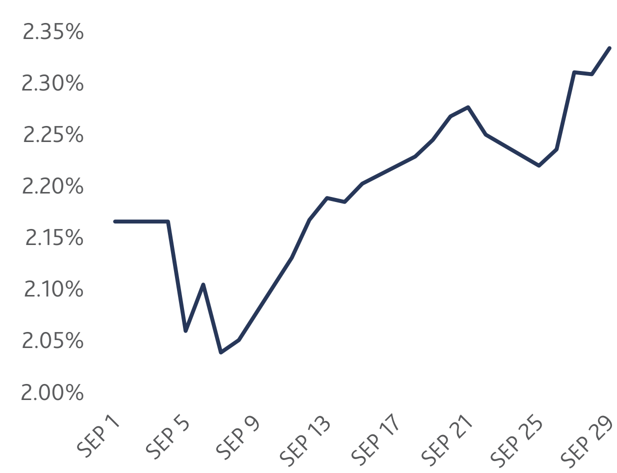
FIXED INCOME CONTINUED

$4 billion of agencies rolling off per month during the fourth quarter and over the course of 2018 will rise to $30 billion of Treasuries and $20 billion of agencies rolling off per month, where it will remain until the process concludes. The federal funds rate will remain the primary monetary policy tool used by the Fed, and the balance sheet normalization process will be happening in the background in a manner that the market will likely absorb with little disruption. If all goes according to plan, the entire process should be relatively uneventful, but as with anything that has never been done before, a misstep is entirely possible.

Given the Fed's stated commitment to continue normalizing its policy rates and current valuation levels, extending duration and piling into low quality spread product such as high yield corporates could be an unattractive move at the moment. A recent pickup in geopolitical tensions briefly highlighted the risk of continuing to invest in lower credit quality bonds at current valuation levels. High yield spreads widened quickly (+40 basis points) in the first full week of August as President Trump and Kim Jong Un exchanged explosive rhetoric, which caused high yield bonds to post a slight negative total return in August. Even though Chair Yellen reiterated her desire to raise rates in December, it was actually the release of Trump's tax reform plan the next day that drove bond yields markedly higher (and bond prices down) in September. The yield on the benchmark ten-year U.S. Treasury climbed 7.5 basis points on the day the administration announced the plan. The ten-year U.S. Treasury finished the quarter yielding 2.33%, or 30 basis points higher than it did near the beginning of September.

The events during the last quarter highlight the prevailing risks in today's fixed income market. They are dangers we have noted in prior quarters and ones we pay close attention to as we research and review our allocation and holdings. The spread and rate movements over the last two months underscore our position that a fairly neutral exposure to duration and credit compared to your benchmark make the most sense at this time.

10-YEAR U.S. TREASURY YIELD
SEPTEMBER 2017



Source: Bloomberg. Past performance does not guarantee future results.

OUTLOOK

CURRENT EVENTS VS. FUNDAMENTALS – WHAT REALLY MATTERS?

The third quarter of 2017 is in the books and the broad U.S. equity market appreciated by approximately 4% during the period, extending gains of about 8% in the first half of 2017. Following the March 2009 post sub-prime crisis low on the S&P 500, this bull market is now over eight years old. At such an advanced age, many are beginning to notice. As of late, increasing commentary on the length of the bull market has been focused on the recent spate of lower volatility.

To many, it may seem astonishing for stocks to continually advance higher with what seems to be nary a correction. Just focusing on the S&P 500, this characterization is true but for only two notable exceptions, the 5% pullback in August/September 2015 that was likely sparked by the devaluation of the Chinese yuan, and the 10% pullback in January/February 2016 on extreme oil price weakness and ill-received messaging from Federal Reserve Chair Janet Yellen. Yet, for those same periods, the small capitalization Russell 2000 index fared worse. Although most keen observers already know that while small caps are more volatile, they still adhere to the consensus views that the market has been rising with less risk than usual.

The stock market's resiliency seems even more impressive in light of recent geopolitical events over the summer. A series of missile tests by North Korea, three devastating hurricanes, and increasing social strife could be persistent memories. Historically, market watchers and financial news media outlets have exhibited a propensity to attribute equity declines of 5-10% over a few months' time to coincident military conflicts or natural disasters impacting major economic powers. An example may help illustrate the point. Prior equity pullbacks have been "blamed" on Hurricanes Andrew and Sandy as well as U.S. intervention in the Middle East.

Current events and popular sentiment are easy fodder for major media outlets. Conservative and prudent investing involves deeper analysis than scanning daily headlines.

Analyzing market conditions by avoiding the constant din of noise following current events can lead investors to focus on objective fundamental data. With regards to the most recent leg of the bull market, our view is that it has been based on a stronger-than-expected recovery in corporate earnings. With hindsight, it appears that corporate earnings bottomed in the summer of 2016 and have been accelerating since then.

In addition to believing that accelerating corporate earnings are behind the more recent move in stocks, other economic fundamental data can help us judge the prospects for continued equity strength over the next 12 months. The following table outlines the latest trends in economic and fundamental data that can influence returns for stocks in the near term. Being aware of these trends helps investors better understand how rewards and risks of investing in the securities markets evolve over time. Additionally, having a deeper understanding of the opportunities in the current market can

ECONOMIC INDICATOR	LATEST	SIGNAL
FED FUNDS POLICY	1.25%	BEAR
STEEPNESS OF YIELD CURVE	1.28%	BULL
UNEMPLOYMENT RATE	4.40%	BULL
WTI OIL PRICE	$ 51.59	BULL
S&P 500 INDEX	2159.36	BULL
S&P/CASE-SHILLER HOME PRICE INDEX	201.99	BULL
PRODUCER PRICE INDEX	2.40%	BULL
PHILADELPHIA FED SURVEY	23.80	NEUTRAL

Source: Bloomberg

help investors craft a customized portfolio better suited to their goals.

For an intermediate term read on how the economy can impact the equity markets, we track eight broad economic indicators. Consistent with our belief that security prices ought to reflect economic fundamentals, these eight factors cover everything from interest rate policy and inflation to unemployment and oil prices.

Our review indicates that six of these economic factors are historically associated with a rising stock market over the following twelve months. The Fed Funds Policy indicator reads bearish, as the latest move by the Fed was to hike. Despite the hikes in short term interest rates, the yield curve remains positively sloped, but could flatten if the Federal Reserve becomes too aggressive too fast. Unemployment is at historical lows and is closely monitored for a reversal, which would turn the signal bearish.

S&P 500 MOMENTUM

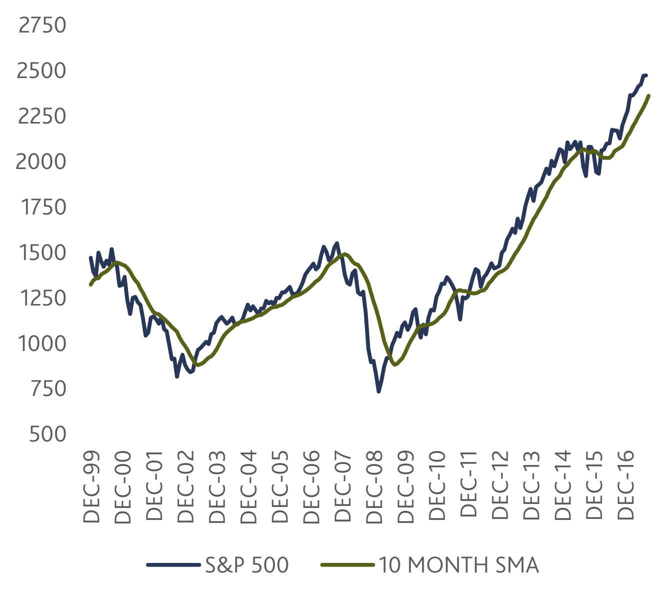
As the age of the bull market has risen, worries about its durability have emerged. Our historical factor of S&P 500 Momentum currently argues for the bull market to endure. The indicator reads bullish (bearish) for the next twelve months if the monthly close of the S&P 500 is greater (less) than the average of the previous ten months' monthly closing values. We refer to this as a simple moving average (SMA). Our research covering S&P 500 returns beginning in December 1970 confirms the usefulness of this indicator. Below, we show a graph of the S&P 500 versus its ten-month SMA from year-end 1999 through September 2017.

There have been two distinctive periods when the S&P 500 fell below the ten-month SMA, and stock prices fell considerably further. These were the tech wreck of 2000 and sub-prime crisis of 2008. When observing the chart, there are indeed periods where the S&P 500 did not collapse as badly as these two periods after breaking through the SMA. Yet, by incorporating this indicator, investors may have been able to blunt some of the impact from two of the nastiest bear markets in the post-war era.

Though not part of the indicator measure, we have also assessed the degree to which the current index value may be higher than the ten-month SMA in an effort to determine if this may be a signal for a smaller interim pullback. The S&P 500 has at times been measured about 15-20% higher than the ten-month SMA. While the evidence is inconclusive, we point out that these peaks are fairly uncommon, and the latest reading is only about 5% higher – possibly indicating that the market is not nearly as stretched as some may think.

S&P 500 VERSUS 10-MONTH SMA

DECEMBER 1999 THROUGH DECEMBER 2016



Source: Bloomberg. Past performance does not guarantee future results.

ECONOMIC OUTLOOK

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	After relatively tepid growth through the first half of the year, the median forecast for U.S. GDP growth in 2017 remains at 2.2%.
Federal Funds Rate	After announcing an October start to their balance sheet unwind, the Fed continues to lean towards a December rate hike.
Inflation	Chair Yellen conceded that inflation may be lower than Fed officials anticipated, likely decreasing the rate of future rate hikes.
Employment	Job gains in excess of 100k per month should keep the unemployment rate below full employment and drive increases in labor force participation.
Consumer Confidence	While still historically high, consumer expectations eased somewhat in the wake of hurricanes Harvey, Irma, and Maria.
Oil	Rapidly growing U.S. oil exports, a weak U.S. dollar, and storm supply risks could be supportive of current prices through the end of the year.
Housing	Weakening affordability is having a cooling effect on the housing market, especially on the low end of the market where demand is the highest.
International Economies	Despite improving global growth, the IMF has warned that low interest rates and slowing U.S. growth could increase the risk of financial distress.

FIXED INCOME	UNDERWEIGHT		NEUTRAL		OVERWEIGHT
FIXED INCOME			●		
Core Bonds			●		
TIPS				●	
Non-Investment Grade		●			
International	●				

CURRENT OUTLOOK

We suggest a neutral allocation to core investment grade bonds, and expect this allocation to perform well in the event of a stock market sell off. We recommend an underweight to satellite fixed income, where spreads further narrowed in recent months. We still do not see much value in developed international government bonds given their low yields. On the contrary, we continue to own TIPs as a hedge against an unexpected spike in inflation as the economy approaches full employment. Municipal bonds should be utilized where appropriate, but ratios to Treasuries are relatively unfavorable.

Benchmark: BB BC Intermediate Government/Credit Index

EQUITIES	UNDERWEIGHT		NEUTRAL		OVERWEIGHT
EQUITIES			●		
Large Cap				●	
Mid Cap				●	
Small Cap				●	
Developed International		●			
Emerging Markets				●	

CURRENT OUTLOOK

The nearly simultaneous easing of political risk and improvement in economic indicators across the euro zone in recent months has led us to be less cautious towards developed market international equities relative to emerging market equities. Within an international equity allocation, we still believe a moderate overweight to emerging market equities relative to their developed market peers is appropriate given a backdrop of favorable demographics and significant pro-market reform efforts in key nations. Positive momentum surrounding the Trump Administration's tax plan underscores our constructive view on small cap and mid cap U.S. equities, due to their higher effective tax rates relative to their large cap peers.

Benchmark: MSCI All Country World Index (ACWI)

ALTERNATIVES*	UNDERWEIGHT		NEUTRAL		OVERWEIGHT
ALTERNATIVES*				●	

	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate				●	●
Global Infrastructure	●	●	●	●	●
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		
Strategic Income		●	●	●	

CURRENT OUTLOOK

Given our expectation for increased periods of both equity and fixed income volatility in 2017, we have moderately increased our weighting to alternative investments. It is our view that both equities and fixed income are approaching full valuation, and the early policy implementation challenges for the Trump administration may have appreciably increased the likelihood of downside volatility. In response, we have constructed diversified alternatives portfolios meant to decrease the risk profile of their respective recommended total AI portfolios, which are listed to the left (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above underweight/neutral/overweight calls represent the MainStreet Advisors current positions relative to market weights.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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TRUST COMPANY of NORTH CAROLINA

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