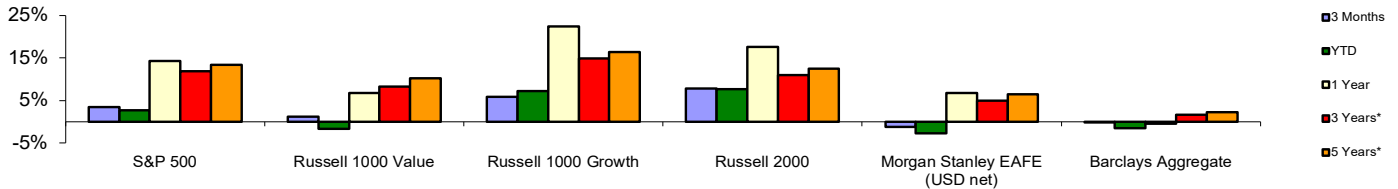


MARKET OVERVIEW

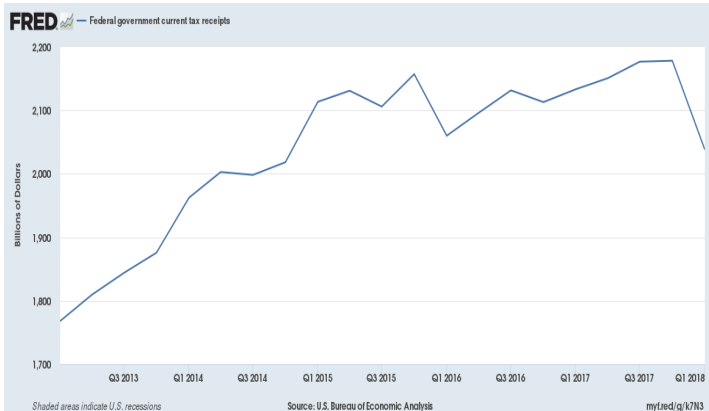
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	3.43%	2.65%	14.37%	11.93%	13.42%
Large Company Value	Russell 1000 Value	1.18%	-1.69%	6.77%	8.26%	10.34%
Large Company Growth	Russell 1000 Growth	5.76%	7.25%	22.51%	14.98%	16.36%
Small Companies	Russell 2000	7.75%	7.66%	17.57%	10.96%	12.46%
International Stocks	Morgan Stanley EAFE (USD net)	-1.24%	-2.75%	6.84%	4.90%	6.44%
General Bond Market	Barclays Aggregate	-0.16%	-1.62%	-0.40%	1.72%	2.27%



ECONOMIC OVERVIEW

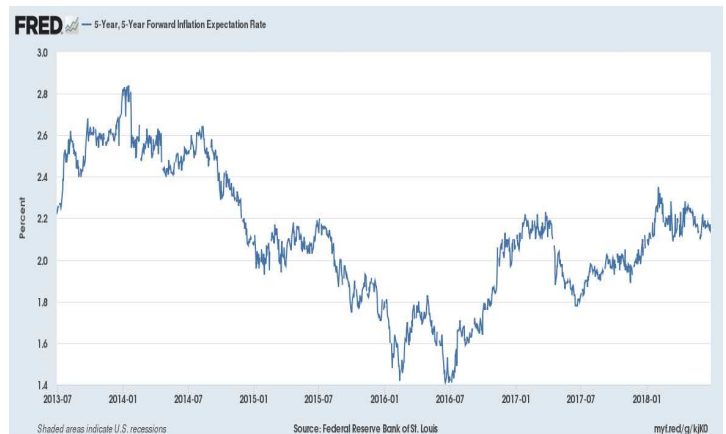
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	2.85%	2.74%	4.01%	2.31%	23.38%
Short-term Rates	Effective Fed Funds Rate	1.91%	1.67%	14.37%	1.06%	80.19%
Consumer Inflation	Consumer Price Index	251.588	246.669	1.99%	243.603	3.28%
Wage Growth	Average Hourly Earnings	26.98	26.80	0.67%	26.26	2.74%
Job Growth	Total Non-farm Payrolls	149,980	147,384	1.76%	147,578	1.63%
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.5	0.00%	34.4	0.29%
Economic Output	Gross Domestic Product	19,960	19,754	1.04%	19,058	4.74%

Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.



← **FEDERAL GOVERNMENT TAX RECEIPTS (Seasonally adjusted, quarterly, 5 years)** – 1q18 shows the impact of tax cuts. Receipts are now close to levels 3 years ago but above levels 5 years ago.

5-YEAR FORWARD INFLATION EXPECTATION - The expected inflation rate implied from Treasury bond indicators provide a relatively normal outlook at around 2%.



← **CREDIT SPREADS** – With trade issues in the wind, investors are asking for additional yield on corporate debt but not near a level that implies a major problem lies ahead.



Data sources: Frank Russell, Ishares, St. Louis Federal Reserve, MSCI



2q18 contained some lingering themes. General bond market returns were slightly negative as interest rates moved a bit higher. Domestic equities saw strength in small-cap and technology companies. Also rolling into the period were negative international returns due greatly to trade war concerns. A robust domestic economy persisted with almost all indicators pointing to strength and optimism. Perhaps this is greatly illustrated in an abundance of job openings, an unemployment rate below 4%, projections of GDP growth that may exceed 4%, and a just-completed and very clean report on banking conditions.

Though a bit higher, long-term interest rates have not climbed in a way consistent with current economic strength and Fed policy that is not only raising short-term rates, but also selling bonds into the market. An indicator with historic relevance is the “yield curve” where a wide difference in higher long-term rates verses short-term rates usually points toward a strong economic outlook. The Fed has gradually raised short-term rates but long-term rates have acted, very roughly, with a cap at around 3% and finished the quarter at 2.85%. This flatter yield-curve has some investors worried that economic strength may not be as sustainable as many now think. On the other hand, low global rates are making U.S. Treasuries an attractive home for global capital. Japan 10-year rates remain close to 0% while Germany remains around .4%. As the U.S. remains attractive, fund flows may keep U.S. long-term rates in check which potentially weakens the strength of yield-curve analysis as a leading indicator. This also illustrates a source of potential volatility if foreign central banks start pushing rates higher.

Another interesting item is wage growth that has remained just above 2.5% despite job growth. A world of automation, globalization, and retiring workers appear to be keeping wage growth tame but it remains an important factor to watch. Accelerating wage growth could have inflationary implications and pressure for the Fed to accelerate short-term rate increases. On the other hand, factors previously mentioned lead me to believe this is a moderate issue at this time. In addition to this, Fed increases already have short-term rates close to expected inflation so we are not far from the goal of normalization. A more important threat lies in current trade arrangements and the threat of a trade war. This is tough to call but the following table (source: census.gov) points to some sizable and persistent imbalances that have reason to be addressed. Domestic economic strength offers the ability to engage in the issue from a position of strength but does not eliminate adverse consequences. I believe self-interests will eventually lead to both settlement and improvement in trade arrangements. With that, it is my thought that there could be some difficult moments but that economic and earnings outlooks remain favorable for long-term investors.

Part C: Seasonally Adjusted (by Geography)

Exhibit 20. U.S. Trade in Goods and Services by Selected Countries and Areas - BOP Basis

In millions of dollars. (-) Represents zero or less than one-half of measurement shown.

Country and Area	Fourth Quarter 2016	First Quarter 2017	Second Quarter 2017	Third Quarter 2017	Fourth Quarter 2017	First Quarter 2018	Annual 2015	Annual 2016	Annual 2017
Balance									
Brazil	5,400	6,108	6,762	7,417	8,192	7,881	24,696	21,555	28,479
Canada	-1,296	23	-501	2,800	439	4,154	4,165	7,406	2,760
China	-77,321	-80,992	-82,807	-83,153	-88,752	-93,405	-333,533	-308,363	-335,704
France	-2,766	-2,753	-3,721	-3,048	-4,294	-4,060	-14,676	-12,515	-13,816
Germany	-15,935	-16,521	-16,592	-16,544	-17,072	-18,745	-77,028	-67,072	-66,728
Hong Kong	7,386	10,016	8,253	8,484	8,307	10,033	31,588	28,867	35,060
India	-7,251	-6,587	-6,944	-6,791	-7,040	-5,879	-29,501	-29,641	-27,361
Italy	-7,849	-7,465	-8,679	-8,664	-9,931	-9,076	-29,755	-31,196	-34,739
Japan	-14,455	-14,229	-13,593	-14,698	-14,067	-15,146	-55,242	-56,398	-56,588
Korea, South	-2,741	-2,735	-1,057	-2,684	-2,821	-83	-18,252	-16,612	-9,297
Mexico	-15,870	-16,937	-17,812	-16,226	-17,770	-18,064	-58,033	-62,372	-68,745
Saudi Arabia	1,732	-406	1,668	2,844	1,186	925	6,478	9,183	5,292
Singapore	5,344	5,163	5,029	4,781	5,330	4,467	17,594	18,383	20,303
Taiwan	-2,400	-2,432	-4,145	-4,239	-3,580	-3,937	-9,947	-8,794	-14,396
United Kingdom	2,467	3,672	3,926	3,682	4,295	5,730	12,093	15,066	15,576
All other countries	-5,900	-5,402	-9,030	-7,565	-10,377	-16,064	30,826	-9,499	-32,373
CAFTA-DR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
European Union	-25,750	-22,415	-23,767	-24,544	-30,434	-30,359	-102,494	-92,068	-101,159
OPEC	533	316	2,732	4,504	1,398	551	30,581	16,526	8,950
South/Central America	15,715	18,185	18,159	19,825	22,145	20,999	87,750	68,233	78,315

Thank you again for your business, trust, and interest in Timberline.

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 Investment Advisor Representative
 Timberline Investment Management, LLC