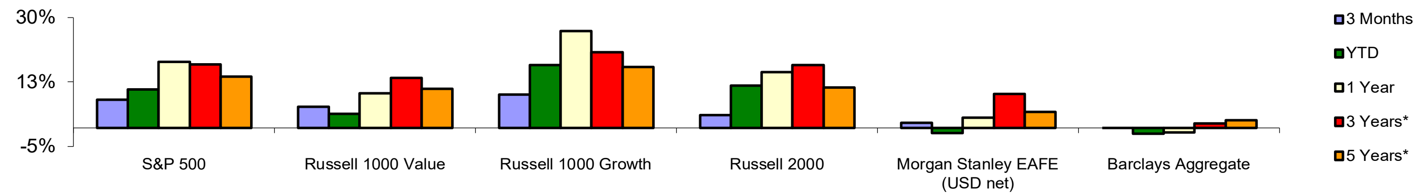
Timberline
Investment Management, LLC

MARKET OVERVIEW

09/30/18

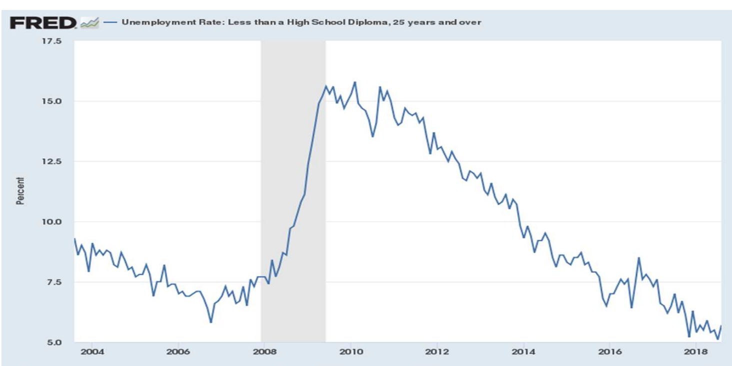
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	7.71%	10.56%	17.91%	17.31%	13.95%
Large Company Value	Russell 1000 Value	5.70%	3.92%	9.45%	13.55%	10.72%
Large Company Growth	Russell 1000 Growth	9.17%	17.09%	26.30%	20.55%	16.58%
Small Companies	Russell 2000	3.58%	11.51%	15.24%	17.12%	11.07%
International Stocks	Morgan Stanley EAFE (USD net)	1.35%	-1.43%	2.74%	9.23%	4.42%
General Bond Market	Barclays Aggregate	0.02%	-1.60%	-1.22%	1.31%	2.16%



ECONOMIC OVERVIEW

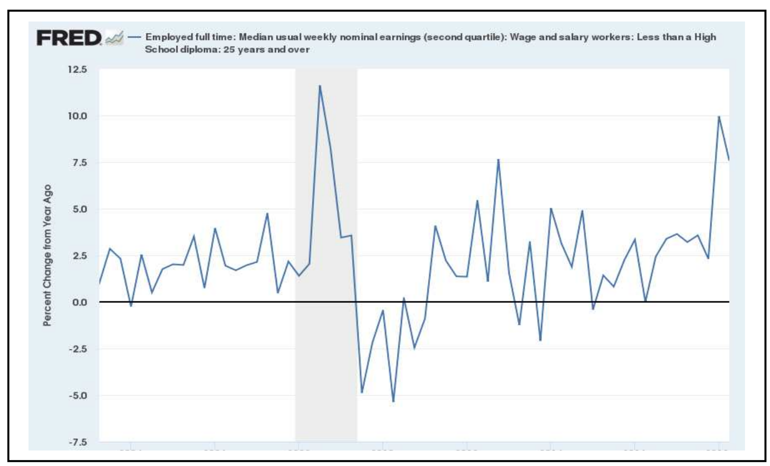
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	3.05%	2.85%	**7.02%**	2.33%	**30.90%**
Short-term Rates	Effective Fed Funds Rate	2.18%	1.91%	**14.14%**	1.06%	**105.66%**
Consumer Inflation	Consumer Price Index	252.146	251.588	**0.22%**	245.516	**2.70%**
Wage Growth	Average Hourly Earnings	27.24	26.99	**0.93%**	26.51	**2.75%**
Job Growth	Total Non-farm Payrolls	149,500	148,931	**0.38%**	146,963	**1.73%**
Average Workweek Hours	Avg. Weekly Work Hours	34.5	34.6	**-0.29%**	34.3	**0.58%**
Economic Output	Gross Domestic Product	20,412	20,041	**1.85%**	19,359	**5.44%**

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.



LESS THAN HIGH SCHOOL EDUCATION, OVER AGE 25 UNEMPLOYMENT RATE (15 years) – It is encouraging to see the improvement of opportunities here.

LESS THAN HIGH SCHOOL, OVER AGE 25 NOMINAL EARNINGS GROWTH (15 years) - Recent earnings growth in this group is also encouraging.



EXPECTED INFLATION – Based on Treasury markets, expected inflation has moved higher but remains close to the important 2% level.

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

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In 3q18, the strong domestic economic backdrop continued. This drove investors toward growth opportunities in domestic equities (the S&P 500 up 7.71%) and away from low fixed income yields as seen in the 10-year Treasury yield climbing back above 3% and a minimal quarterly return in the Barclay's Aggregate fixed income index (+.02%). Vigor in the economy was also evident in CPI inflation moving a bit higher and the Federal Reserve's dual decision to modestly increase the overnight target rate and remove the word "accommodative" from its monetary policy statement. While economic and job opportunities were quite positive, wage growth remained relatively stubborn at under 3%.

As domestic equities did well, foreign equities were only able to generate modest gains for the quarter and remained negative YTD. Trade and tariff issues have played and continue to play a major role in this differential. Nevertheless, over the past quarter there was progress with a Mexico agreement, calls from certain European industries expressing interest in eliminating applicable tariffs, and a very recent and surprising agreement with Canada. It should be remembered that such agreements have yet to be officially ratified.

Elsewhere, trade issues with China remain open with tariff activity intensifying. For the US, there is an advantage with a sizable trade deficit providing a very high amount of goods to tariff, and a strong economy to weather the storm. For China, tariffs are challenging but a centralized government affords the ability to react differently and, perhaps, unpredictably. However, China has seen some slowing in their economy and have responded in a rather capitalistic manner by easing monetary policies with a resultant decline in its currency valuation. With this development, It is interesting to note some recent work from Richard Bernstein Advisors pointing out that (1) when considering exchange rates, a 25% tariff is currently discounted to around 15% and (2) China exports to the United States account for only 20% of total exports. Given these and other factors, the China situation may linger longer but I believe there will be an ultimate settlement. What may prompt a settlement may not be immediate tariffs but the process of business attrition where firms change their sourcing and production investment from China to locations not subject to tariffs. There are signs that this is starting but it is a process that could be lengthy.

A higher S&P 500 implies that corporate earnings will remain on a solid growth path. Current GDP expectations and analyst estimates are consistent with this expectation and we are now at a time where such outlooks will also give greater consideration to the potential of 2019 as well. Rocking the boat were the mentioned removal of "accommodative" from Federal Reserve policy and rather aggressive uptick in the 10-year Treasury yield in early 4q18. Such moves are significant but should not be viewed as onerous as nominal levels remain reasonable. Given that the current rate target is close to current inflation, I feel we are closer to the end of Fed rate increases than to the beginning. While another increase is expected in December, the Fed will probably need to give greater attention to some softening in housing and automobile markets that can be sensitive to the mentioned increase in long-term rates. As always, the Fed will also pay close attention to inflation indicators including the very important element of wage growth.

Looking ahead, politics will come into play and may impact markets depending on implications for current and future economic policies. There is little basis for prediction other than to obviously say that nothing will change in the executive branch. If change occurs on the congressional level, there is likelihood for gridlock which, in the past, has not always been a bad situation for the markets. Regarding valuation, domestic equities remain modestly above historical averages. As we have seen nice market advances and many wonder if conditions are getting frothy, I think it is a good idea to remember a couple powerful conditions that few are now talking about. The first is this country's energy independence meaning that we do not have to deal for such resources as we did a decade ago. Secondly, the cut in the corporate tax rate to 21% puts this country in parity with most of the developed world and removes an incentive to avoid business in the United States. Any further success in trade negotiations, which I think will happen over time, should bring further positives for the domestic economy. All said, there are uncertainties, but equity fundamentals appear to be sustainable, strong and worthy of continued involvement in my mind.

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