HOUSTON TRUST COMPANY

Market Commentaries

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- Current situation of slow, steady growth combined with low interest rates and glum sentiment actually offers a fairly supportive environment for equity returns.
- Executives have concentrated more on returning cash flow to shareholders via share buybacks and dividends.
- Companies and investors are behaving conservatively, which should prolong the economic and market cycle.
- Two headwinds—the substantial appreciation of the U.S. dollar relative to foreign currencies and the fall in the price of oil—emerged in the fall of 2014 and conspired to stall profit growth for the S&P 500 and a typical Sarofim portfolio.
- 1st quarter of 2016 may have been the bottom in terms of earnings growth and the level of S&P profits will begin to grow in the 2nd half of the year.
- Weak growth, volatile markets, and record low interest rates has made it more difficult to achieve the goals that most investors are targeting.
- Our investment portfolios emphasize companies with strong balance sheets, stable demand characteristics, high levels of profitability and resilient dividend and capital allocation policies.
- Increased emphasis on companies whose growth plans are more structural and less dependent on the overall level of economic activity. (July 7, 2016)

Luther King Capital Management[1]

- Negative interest rates will become more apparent over time, which punish savers while at the same time compel individuals to set aside even greater sums of money. This will have negative repercussions for economic growth over time, contrary to the intent of the exercise.
- Over the past 18 months, corporate profits have been hindered by negative earnings in the energy sector as well as the negative impact of a stronger U.S. dollar. These headwinds are fading and will result in the resumption of corporate earnings growth in 2017 and has the potential to boost equity markets in the 2nd half of this year.
- Further easing in Europe is likely to keep U.S. interest rates lower for longer.
- We favor equities over bonds as a tightening labor market contains the potential to accelerate wage growth. This could lead to higher inflation readings, which would have negative implications for the bond market. (July 6, 2016)

Cypress Asset Management[1]

- Markets have proved surprisingly resilient to a number of uncertainties around the world which has led the central banks and policy makers to continue to stimulate monetary and credit polices, providing upward pressure to not only bond prices and equity prices, but asset prices from real estate to art work to gold.
- Economic growth is very modest and remains challenged worldwide.
- Another 3% rise in the S&P 500 in the 2nd half of the year, matching the 1st half, produces a 6% gain, plus the current dividend yield of 2.1%, would represent an attractive total return of 8.1% when compared to most conventional investment alternatives.
- Inflation and interest rates shall continue to stay lower for longer due to a combination of factors including demographics, high debt levels, European structural and financial crisis, decline in confidence levels and concurrent rise in populist discontent should continue to dampen global growth rates.
- Strong dividend growth and share buybacks are supporting stocks in the absence of fundamental growth.
- Equity markets are trading at 17.5 times projected forward earnings compared to the historic average of about 16.25. However, low interest rates and the outlook for continued low rates support higher equity values. In a sense, below average rates and an above average multiple go together. (July 2016)

[1] Manager commentary published for 2nd Quarter of 2016.