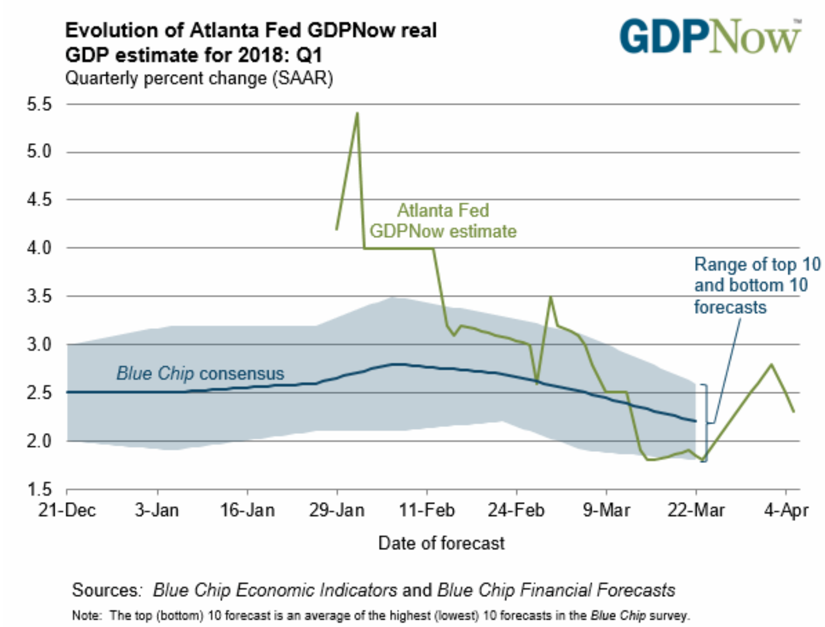
CLIENT BULLETIN

Cypress Capital Management

Economic Overview: GDP Growth Continues…

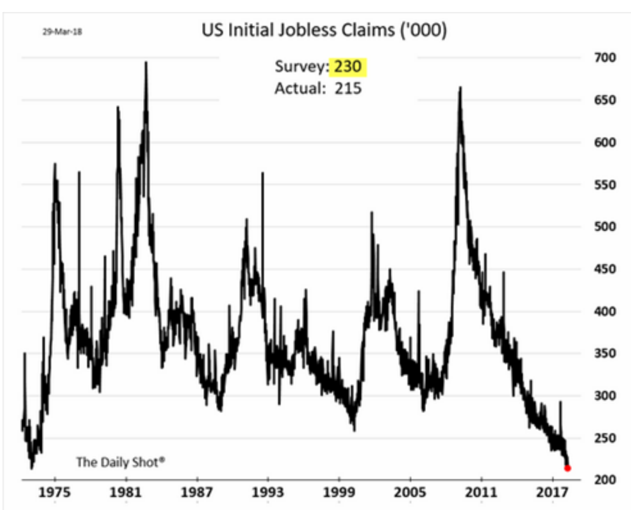
The economy probably started 2018 with growth of around 2.5%. Consumer spending is expected to lead the way as consumers are already spending the tax cut that was passed late last year. Expectations are for consumer spending to grow by 5.6% this quarter versus 3.9% in the fourth quarter of 2017.

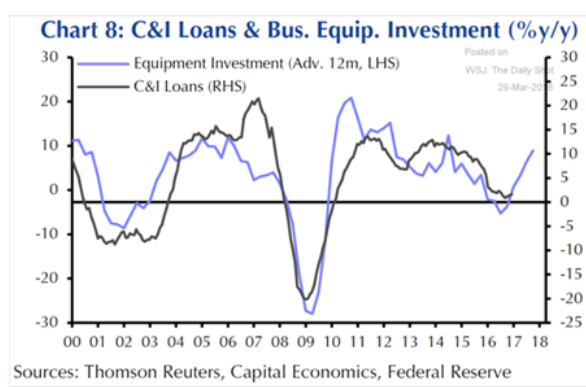


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

In recent years, the first quarter has been the slowest growth quarter of the year. We are not sure if this is due to poor seasonal adjustments by the government forecasters or the weather; maybe a little bit of both. The four Nor'easters that crippled the East Coast in March surely had some negative effects on GDP. As such, we remain optimistic for one or two 3% GDP growth quarters this year, as unemployment is low and business investment is strong.

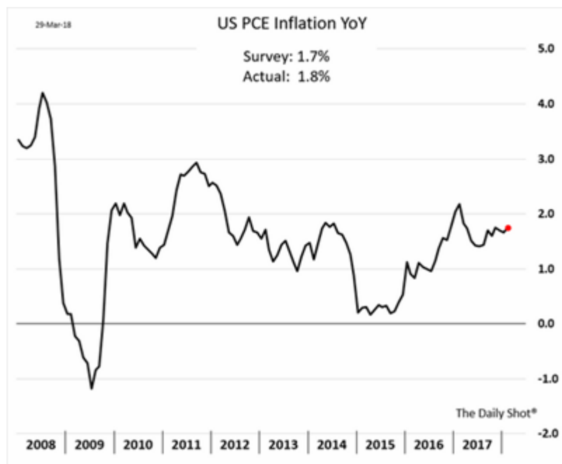




Monetary Policy: A Steady Path To Normalization...

On February 5, 2018, Jerome Powell became the new Chairman of the Federal Reserve for a four-year term. In March, he promptly lifted the federal funds rate to a range of 1.5% to 1.75%. That was an increase of a quarter of a percentage point. It was the sixth increase since December 2015, when the Fed started tightening monetary policy for the first time after the financial crisis. Chairman Powell believes the economy is strengthening and has opened the door to three more 0.25% increases in the fed funds rate. Most observers had expected only two more hikes this year after the March increase.

Despite a stronger economy and tight labor market, inflation has not materialized across the board, but it is causing problems in certain pockets of the economy. For example, the transportation industry, particularly trucking, has benefited from the rise in retail spending. The surge in e-commerce with all the transportation challenges it brings has been a boon for the industry. Shipments have soared, rates have soared, and dollars spent by shippers have soared. However, companies have been complaining about rising shipping costs and are trying to pass on those costs (usually unsuccessfully) via higher prices on their goods.



In addition to benign inflation expectations, the yield curve (US 10-2 year government yield) has flattened to about 0.5% from 0.8% in January, a sign the economy may be slowing. If Mr. Powell is wrong, and the economy is not as strong as he believes, the Fed could be on its way to making a "policy error." A "policy error" is when the Fed continues to raise interest rates into a slowing economy, thus causing a recession. We are closely monitoring this situation.

Fiscal Policy: Trade Tariffs Could Derail The Markets...

The Trump administration recently unveiled a list of 1,300 Chinese products, like flat-screen televisions, aircraft parts, and batteries that could be hit with 25% tariffs. Beijing responded with plans to target products made by American soybean farmers, car makers, chemical companies, and other corporations. While many believe the administration is rightly focused on restoring equity and fairness in our trade relationship with China, they stress that imposing taxes on products used daily by American consumers and job creators is not the way to achieve those ends. It is important to note that none of these tariffs have been enacted, only threatened. An escalating trade war can lead to stagflation and a stock market decline.

Fixed Income: Bonds Still An Important Asset Class.

About one year ago, we emphasized that bonds are an important part of asset allocation. We stated "when you buy a bond you collect a coupon for a number of years and then (this part is important) you get your money back when the bond matures, assuming the bond was bought at or below par. If interest rates have risen, you can re-invest the principal from your maturing bond into another bond that is paying a higher rate." This is still true today. At one point in the first quarter, the stock market declined about 10% from its January peak, while our bonds held their value.

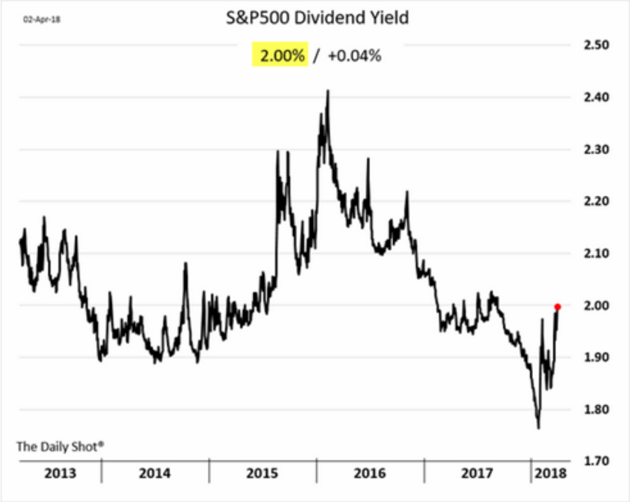
In our portfolios, we continued to reduce duration and increase credit quality. This was achieved by selling our longer-dated corporate bonds and replacing them with shorter-maturity US Treasuries. Since this change, corporate and high yield bond spreads widened, suggesting some stress in financial markets. We believe our two-pronged strategy of lower duration and better credit quality will help us maintain the value of our bond portfolios when/if interest rates rise.

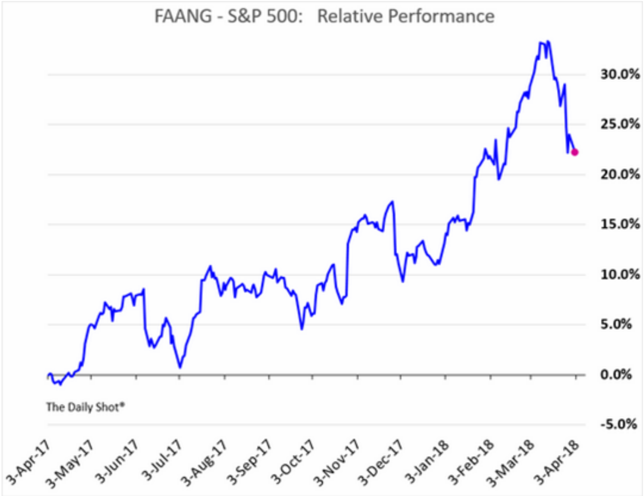
Equity Markets: Volatility Returns...

If you fell asleep in the woods for 3 months a la Rip Van Winkle, you would think nothing happened in the equity markets from January through March, as the S&P 500 finished the quarter essentially flat. But under the surface a lot happened. After gaining almost 7% in January, the S&P fell 10% in February and was actually down for the year. More volatility ensued in March, but when the dust settled the market was about break-even. Consumer Staples, Energy, Materials, Real Estate, and Utilities were laggards, while Technology and Consumer Discretionary (mostly Amazon) performed best. As a result of the decline from the peak and continued earnings growth, the S&P 500 dividend yield is back up to 2.0% and the forward P/E ratio is at a reasonable 16.5X, a level not seen since 2016. As March turned to April, the FAANG stocks have started to significantly underperform the S&P 500, a hopeful sign for conservative, dividend investors.

Financial Market Scoreboard 1st Quarter 2018

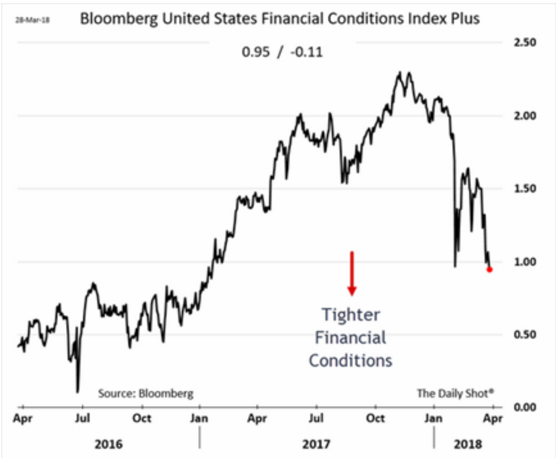
Equity Indices	
S & P 500:	-0.8%
Dow Jones:	-2.0%
Nasdaq Composite:	+2.6%
Fixed Income Indices	
Long Term Treasury ETF:	-3.5%
Barclay's Govt/Credit:	-1.6%





INVESTMENT OUTLOOK: CAUTIOUSLY OPTIMISTIC. We continue to believe the equity markets offer the best value to investors. Earnings growth should be around 10% as a result of continued economic growth augmented by stock repurchases. Also, valuations are within historic ranges, so a mid-single digit return is not unreasonable. Fixed income markets will do well to earn their coupon this year as interest rates should begin to inch higher. Due to the increased volatility many clients have asked "what would cause us to change our mind on this rather rosy investment outlook?"

1) The yield curve is flattening. In January the US 10-2 year government yield was 80 basis points; it declined to 50 basis points. If this flattening continues, we will be forced to take action and reduce equities.
2) We monitor the financial stress indices and while they are rising, they have not hit levels that we view as dangerous.
3) In mid-to-late April, companies will report first quarter earnings and give their outlooks for the remainder of the year. If we sense caution or concern among companies, we will have to re-evaluate our bullish thesis.



As it stands now, we remain cautiously optimistic, finding opportunities in both the energy and health care sectors. In energy, the price of oil has risen by over 35% since last June, but energy stocks have been treading water. We have taken this opportunity to add to current positions and/or initiate new positions. In health care, earnings continue to grow, but the stocks have marked time compared to the major averages. This may be due to the turbulence in the drug distribution space, concerns over the backlash to the opioids crisis, and the possible entry of Amazon into the health care market. We believe existing health care companies remain well-positioned in a growing sector that is not economically sensitive. As in energy, we have taken this opportunity to add to current positions and/or initiate new positions in this space.

ADMINISTRATIVE: As required by the SEC, we are notifying you that there were material changes to our ADV Part 2A filed on March 31, 2018. Clients will receive the Form ADV Part 2A and 2B via email or direct correspondence.

DISCLAIMER: Any projections, outlooks, or assumptions should not be construed to be indicative of the actual events which will occur. Discussions, market conditions, objectives, and strategies set forth herein are specifically subject to change if market conditions change, or if the Adviser believes in its discretion, changes and/or modifications are warranted accordingly.

April 2018