Quarterly Review and Outlook

April 2016

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

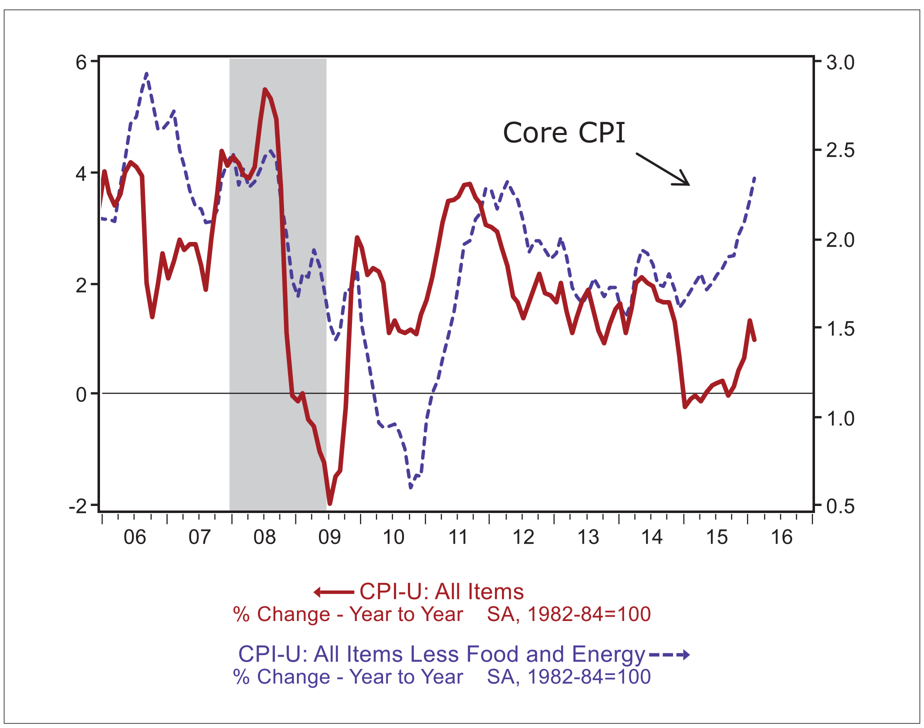
Market Jitters Hide Opportunities

The markets started 2016 with their worst performance in years but rebounded to end the quarter nearly at the levels at which they started.

Certainly, there were plenty of issues to concern investors, e.g. terrorist attacks, political uncertainties in the U.S., the upcoming "Brexit" vote in the U.K. and China's currency policies. More mundane anxieties were evident as well. Some equity analysts have warned about declining profit margins, above-average valuations and notions that the stock market is "overbought." We point out that bull markets are usually built by "climbing a wall of worry" and persistent overbought conditions.

We assess the chances of a 2016 recession in the U.S. as low. Fourth quarter 2015 GDP was revised higher. Core consumer prices are rising (see chart below) while consumer spending, which represents about

Consumer Price Index



Source: © 2016 Bureau of Labor Statistics

"I offer my opponents a bargain: if they will stop telling lies about us, I will stop telling the truth about them."

— Adlai Stevenson IV, 1952

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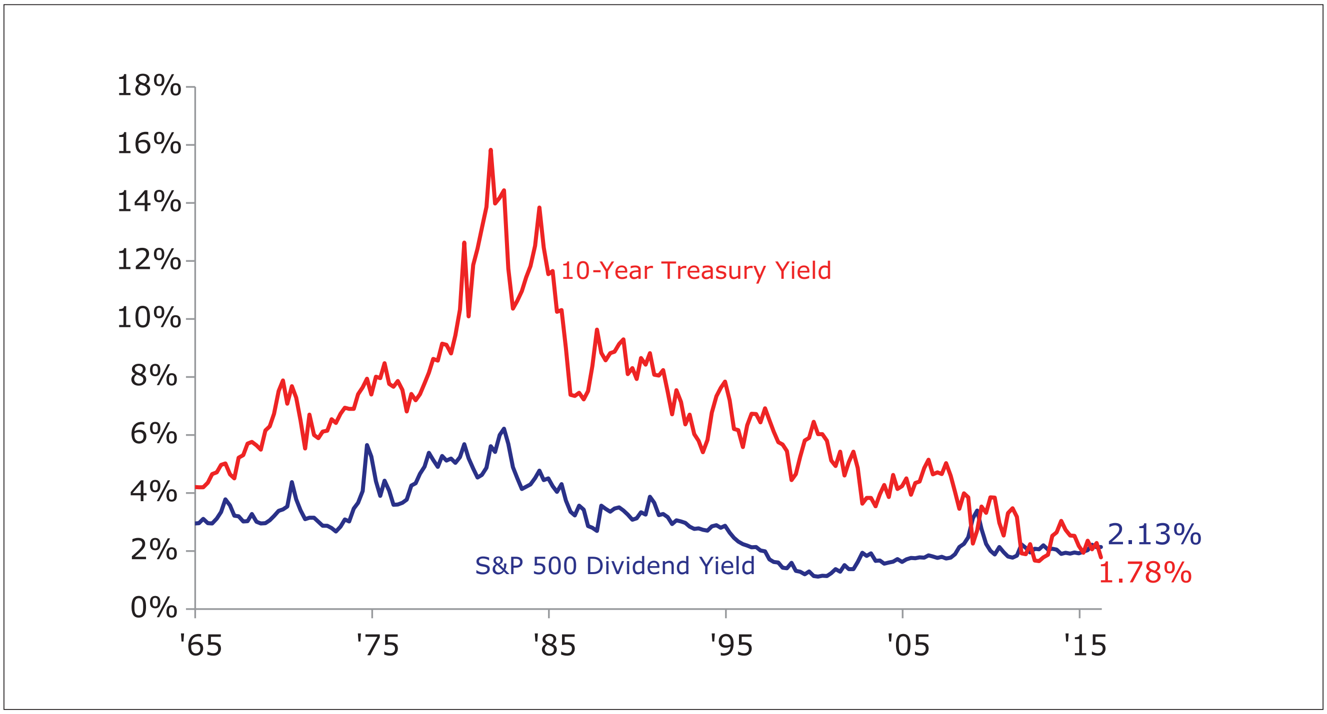
S&P 500 Dividend Yield vs. 10-Year Treasury Yield



Sources: © 2016 - Stategas Research Partners

70% of U.S. GDP, is being supported by continued low energy prices. Inflation-adjusted wages are beginning to grow again as low unemployment rates highlight the scarcity of certain categories of employees and draw working-age persons back into the labor force. Meanwhile, housing statistics are improving, and auto sales are strong. Politicians could also provide a tailwind for the economy with their usual election year promises of tax cuts and spending increases. With these observations, we continue to expect the Fed to raise rates again this year.

Economies are weaker overseas. The European Central Bank made rates on overnight cash deposits even more negative (now -0.4%), increased bond purchases to $87 billion per month and made corporate bonds eligible for purchase in addition to governments. All this is based on the theory that if cash is made too expensive to hold then bankers will lend it and consumers will spend it. The theory is called into question, however, by the fact that the countries with the most negative interest rates also have the highest current savings rates.

Central banks, by keeping interest rates abnormally low or even negative, are trying to encourage investors to take more risks and thus stimulate their economies. At the same time, investors have witnessed more volatility and might assume that risky assets have become even riskier. This perception might be true and can also be explained by the resulting shift of portfolio allocations away from traditionally stable assets like bonds in favor of equities. In fact, higher yields can be found in the S&P 500 stock index than the 10-year Treasury note (see chart above).

We will continue to apply sound processes and avoid emotions to help our clients maintain investment course without taking unwarranted risks. We continue to see corrections in the equity markets as opportunities to buy rather than causes for alarm.

Market Diary Period Ending March 31, 2016

	RATES OF RETURN					
Equities	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	0.39	0.39	-3.77	6.16	5.85	4.72
U.S. Stock Market (S&P 500)	1.35	1.35	1.77	11.80	11.56	7.00
U.S. Small-Cap Stocks (Russell 2000)	-1.53	-1.53	-9.77	6.83	7.20	5.24
International Stocks (MSCI EAFE)	-2.86	-2.86	-7.76	2.87	2.95	2.50
Emerging Markets Stocks (MSCI Emerging Markets)	5.69	5.69	-11.71	-4.18	-3.81	3.33
Alternatives	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (HFRX Global Hedge Fund)	-1.90	-1.90	-7.40	-0.90	-1.20	-0.50
Global Real Estate (FTSE/EPRA NAREIT)	5.08	5.08	0.59	5.06	7.48	4.28
Commodities (Bloomberg Commodity)	0.42	0.42	-19.56	-16.85	-14.13	-6.16
Energy (Bloomberg Commodity - Energy)	-9.31	-9.31	-39.61	-30.86	-24.07	-20.55
Gold (Gold Spot)	16.41	16.41	4.32	-8.19	-3.02	7.81
Fixed Income	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Barclays Aggregate	3.03	3.03	1.96	2.50	3.78	4.90
Barclays Municipals	1.67	1.67	3.98	3.63	5.59	4.86
Barclays High Yield	3.35	3.35	-3.66	1.86	4.92	7.03

Rates of Return for periods longer than 12 months are annualized. Data is provided by Northern Trust and Hedge Fund Research.

Trust Protectors: Why They Are More Widely Used Than Ever Before

The fundamental structure of American trusts developed on the firm foundation of a three-legged stool: the settlor, the person who creates the trust; the trustee, who manages and holds legal title to the property; and the beneficiaries, who enjoy the benefits and protections offered by a trust. Today, the trust protector is an increasingly popular addition to this trio. Although the trust protector was once employed only in rare circumstances, the role is now becoming commonplace as trusts are often created to last longer than ever before and therefore are called upon to evolve with changing circumstances and the law.

A trust protector is a watchdog whose chief purpose is to ensure the intentions of the settlor are preserved during the term of the trust. Unlike trusts of the past, a trust written in Tennessee today can last for as long as 360 years and therefore is more likely to face unforeseeable challenges. Changes in the law may impact taxation of the trust, and beneficiaries can become incapacitated and unable to enforce their rights. Through it all, the trust protector monitors changes in the law and family dynamics to guarantee the settlor's intentions toward his or her assets and loved ones are fulfilled.

Although the trust protector's role is similar to that of a trustee, like the fourth leg of a stool, the protector provides a different aspect of support. The protector can be empowered to act almost as the settlor would have, policing the actions of the

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trustee to provide another powerful advocate for accomplishing the settlor's intent — even when the shifting sands of time, circumstances, taxes and law cause the settlor's original words to have unforeseen and undesirable consequences. An estate planning attorney can define the protector's role broadly or narrowly, depending on how much power the settlor wants the protector to have. The protector can even be granted powers to modify the trust in important ways or to overrule and remove the trustee in circumstances defined by the settlor.

Not all trusts need a protector, but there can be many reasons to have one. Trust protectors can be granted powers that switch income tax liability from the settlor to the trust in order to take advantage of the most favorable tax exposure and changing circumstances of the settlor and/or beneficiaries. A protector may have special skills to monitor and manage unique assets like closely-held stock or mineral interests. Because a protector can have numerous and weighty responsibilities, it is important not only to choose a protector who will faithfully and knowledgeably monitor changes affecting the trust for years to come but also to include a forward-thinking plan for the selection and services of a successor protector. While a court can remove a trustee or make changes to a trust, the protector can make these moves without exposing private details surrounding the changes on the public stage of a courtroom.

While no one can predict how outside forces will later impact an estate plan, the foundation of a trust that is expected to endure for generations may well be on a firmer footing with an extra leg on the veritable three-legged stool.

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