EQUITABLE Trust

Trustees and Investment Advisors

THIS ISSUE

"People don't look back on their lives and remember the nights they got plenty of sleep."

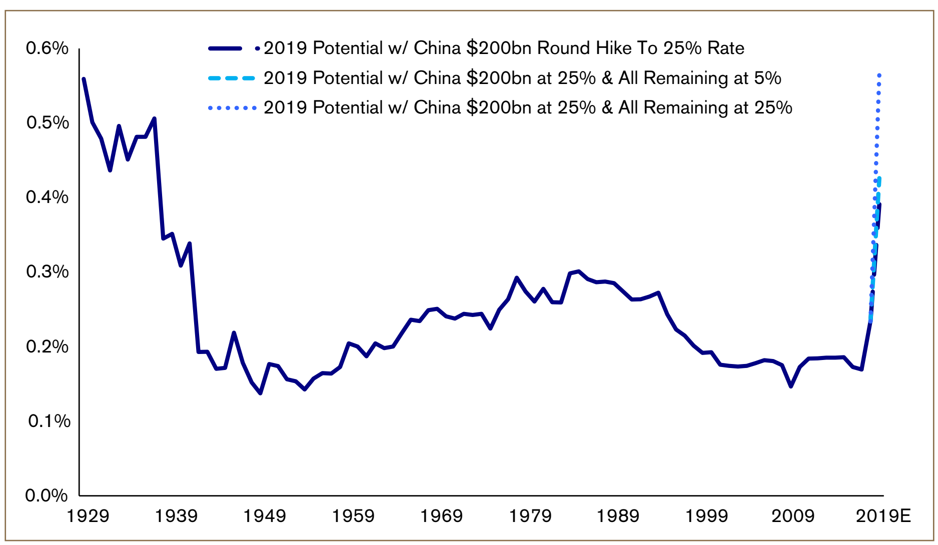
– Unknown

MARKETS PARTY ON DESPITE VOLATILITY'S RETURN

In sharp contrast to the quiet, steady gains of the first quarter, volatility returned in the second as concerns with U.S.-China trade relations, future Federal Reserve interest rate policy and the state of the economy led to a 6% retreat in the S&P 500 Index during May only to be followed by an outsized gain in June. When the dust settled, the market had closed near its all-time high. While corporate earnings have risen this year, a large portion of the market's 18.5% year-to-date return can be attributed to an expansion of the price/earnings multiple. Foreign stocks also earned positive returns for the quarter, but once again underperformed the U.S..

The renewed trade spat took investors by surprise as President Trump announced on Twitter, soon after he claimed both sides were close to a deal, he would be raising tariffs on Chinese goods already subject to tariffs and that he was considering adding duties to the remaining $325 billion worth of Chinese exports to the U.S. If all the current and threatened duties are imposed, they could match the proportion of the U.S. economy they represented in the runup to the Great Depression (see chart below).

Duties Collected As A Pct of GDP With Estimates For 2019
(USITC, BEA, Tax Foundation, Strategas)



Source: Strategas

The stock market found its footing and rebounded strongly in June as the U.S. and Chinese trade representatives issued conciliatory sounding press releases and as the Fed reversed course and signaled an interest rate cut in 2019, perhaps as early as July.

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MARKETS PARTY ON ... *(continued)*

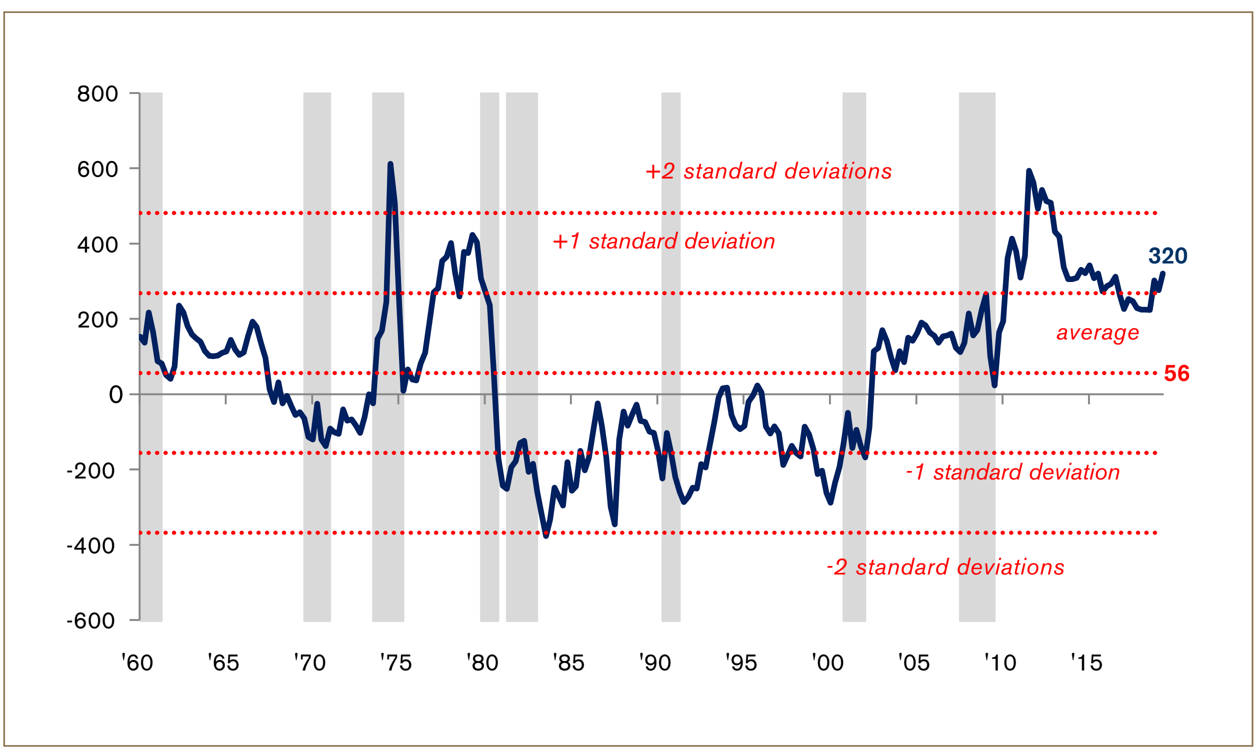
Fixed income markets celebrated the change in tone from the Fed, which was reminded once again, that in a world in which there is nearly $13 trillion in negative-yielding sovereign debt (up from $6 trillion in September), there is a limit to how far off the reservation America's central bank can go without causing trouble for risk assets. While markets were impressively resilient in the second quarter, our experience tells us not to become complacent. While interest rate cuts would be welcomed by some, we still face macroeconomic uncertainty on several fronts.

We expect volatility to ebb and flow as news and rumors affecting every concern continue to swirl. For many, the big question is the economy: is it pausing before a reacceleration or is it going to slow meaningfully? And, how will the Fed react? Also, plenty of geopolitical problems stubbornly remain to drive investors to distraction - Brexit, North Korea, Iran, ratification of the USMCA to replace NAFTA, the U.S. debt ceiling, possible indexing of capital gains, drug pricing and, of course, the U.S. presidential election.

The markets remind us daily that all of the above can lead to noise and confusion. They also remind us that over the long run solid fundamentals lead to opportunities. While no markets appear inexpensive, there are good reasons to believe that a rational investment plan can deliver long-term results. Stocks still seem reasonably priced when compared to low-risk assets (see chart below). Expectations for low inflation and rebounding profits make it difficult to see a U.S. recession coming soon. U.S. money growth has spiked over the last several months, which is usually powerful fuel for the U.S. economy.

Several market veterans we admire have offered maxims for navigating the markets. "Don't fight the Fed." "Don't fight the trend." "Beware of the crowd at extremes." With the Fed's accommodative stance, the continued uptrend of equity prices and a rising equity risk premium indicating there are still skeptics, we are inclined to remain bullish. Our years of experience in all types of markets, calm and volatile, has taught us that successful investing remains a marathon, not a sprint.

S&P 500 Equity Risk Premium
(Earnings Yield less 10-Year Treasury Yield, bps)



Source: Strategas

Market Diary Period Ending June 30, 2019

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.57	1.15	2.25	1.41	0.88	0.50
Barclays Aggregate	3.08	6.11	7.87	2.32	2.95	3.90
Barclays Municipals	1.64	3.88	5.49	2.06	2.55	3.37
Barclays High Yield	2.50	9.94	7.48	7.55	4.71	9.25
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	3.61	16.23	5.74	11.67	6.17	10.16
U.S. Stock Market (S&P 500)	4.30	18.54	10.42	14.25	10.73	14.72
U.S. Mid-Cap Stocks (S&P 400)	3.05	17.97	1.36	10.95	8.03	14.66
U.S. Small-Cap Stocks (S&P 600)	1.87	13.69	-4.88	12.02	8.43	15.01
International Stocks (MSCI AC World ex US)	2.98	13.60	1.29	9.43	2.17	6.55
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	1.36	4.62	1.75	2.22	0.69	2.29
Commodities (Bloomberg Commodity)	-1.77	3.83	-8.87	-3.59	-9.98	-4.22
Gold (S&P GSCI Gold Total Return)	9.01	10.01	12.06	1.48	0.70	4.05

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

THE KIDS ARE ALRIGHT: TRANSFERRING ASSETS TO MINOR CHILDREN

Clients often ask about the most effective way to leave assets to minor children. The answer depends on the objective. Is the goal to fund college? A tax mitigation strategy? Legacy planning as part of a broader estate plan? Are there special needs concerns? At what age, if any, should the child have full ownership of the assets?

Three of the most common and popular accounts used to hold assets for minors are discussed below, with respective advantages, disadvantages, and planning tips.

529 Plans. Qualified Tuition or "529" Plans are popular education savings vehicles authorized by section 529 of the Internal Revenue Code, and sponsored by individual states and educational institutions. 529 Plans include Prepaid Tuition Plans, which allow account holders to pay future tuition at participating institutions at current tuition levels, as well as the more widely used Educational Savings Plans. Educational Savings Plans allow tax-free growth of funds and distributions, provided that they are used for qualified higher education expenses, such as tuition, room, books, and board. As a result of the Tax Cuts and Jobs Act of 2017, 529 plans may now pay up to $10,000 a year on tuition at a public, private, or religious secondary school.

529 Plans have a donor, an owner (typically a parent or grandparent) and a beneficiary. Unlike custodial accounts or trusts, the owner owes no fiduciary duty to the named beneficiary, and may withdraw the funds (subject to taxes and penalties) at any time. An account owner may also change the beneficiary of a 529 account to another qualified family member at any time, without adverse consequences. Unlike custodial accounts or many trusts, 529 plans are considered marital property subject to equitable division in divorce. Under Tennessee law, they are generally not subject to the claims of creditors.

Contributions to 529 plans qualify for the annual gift tax exclusion, so donors may contribute up to $15,000 a year ($30,000 per couple) tax free. A unique tax rule allows donors to "front-load" 529 plans by using five years of annual gift exclusion in the first year, with no gift tax consequences. This effectively allows for a $75,000 ($150,000 per couple) contribution in 2019. Additional contributions over the annual exclusion or the front-loading limits may still be made but would count against the donor's lifetime exemption (currently $11.4 million per individual). These contributions are also subject to maximum aggregate contribution limits, which vary by plan and state.

Custodial Accounts. Tennessee's Uniform Transfer to Minors Act (UTMA) allows for assets to be held in a custodial account for the benefit of a minor beneficiary until

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the minor turns 21. In some instances, an account instrument may provide for the UTMA account to terminate as late as the minor's 25th birthday. When the UTMA terminates, the beneficiary has the right to take the funds outright and free from the oversight of the custodian.

UTMA account custodians are considered fiduciaries who must act in the minor beneficiary's best interest. As fiduciaries, parent-custodians must exercise caution in ensuring that UTMA funds are used solely to benefit the specific child-beneficiary. As long as these fiduciary obligations are not breached, unlike 529 accounts, UTMA distributions are flexible and are not limited to educational expenses.

Beginning in 2018, UTMA income is taxed at the trust and estate rate, which imposes the highest marginal tax of 37% on income exceeding $12,500. Gifts to UTMA accounts qualify for the $15,000 annual exclusion, provided the account terminates at the beneficiary's 21st birthday. Lifetime transfers to UTMA accounts that extend between age 21 and 25, while permitted by Tennessee law, are considered future interest gifts and do not qualify for the annual exclusion.

Trusts. While slightly more expensive to set up and complex to administer, trusts provide maximum levels of flexibility and control. Trusts may be set up to endure well beyond the beneficiary's age of majority, including for the entirety of his or her life. Like UTMA accounts, the trustee of the trust owes a fiduciary duty to the beneficiaries. The trust grantor can fully dictate the terms in the trust instrument, including under what circumstances trust funds may be distributed, who may serve as trustee, and how funds should be managed.

Like UTMA accounts, trusts are generally taxed at the compressed trust and estate tax rate, although a trust can be intentionally created as a grantor trust, which allows the income to be taxed to the grantor (creator) of the trust at his or her individual rate. In addition to potentially lowering the net income tax burden, this may also provide additional gift and estate tax benefits.

In some instances trusts may qualify for the $15,000 annual gift tax exclusion; however, care must be taken in both the drafting and administration of the trust to ensure compliance with gifting rules. The most common method is to expressly allow the beneficiary the right to withdraw the gifted funds over a limited period of time, such as 60 days following the date of the gift. If this withdrawal right is not exercised, the right lapses and the funds become part of the trust.

While not an exhaustive list, 529 plans, custodial accounts, and trust accounts are all effective ways of transferring and holding assets for minors, with differing rules and requirements. It is important to note that dying and leaving significant assets outright to a minor beneficiary may result in a court-appointed guardian, which could be costly, intrusive, and may give the beneficiary unfettered access to the inherited assets at 18. Clients are urged to review their estate documents and beneficiary designations carefully to ensure that assets pass to minors in the way intended.

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