Quarterly Insight

Johnson Private Client Group | Johnson Trust Company | Johnson Institutional Management

Third Quarter 2017

Market Update

Stock Rally Continues through the Summer

Stocks jumped in the third quarter, with only a brief pause in August. Stocks in the U.S. continue to reach new highs despite several headwinds. A combination of natural disasters, threats of nuclear war, and a lack of progress on any legislation in the U.S. did little to slow the rally. International stocks continue to outperform in 2017 as growth has picked up overseas. Economic growth has been the driving force behind stock market gains around the world, enough to overwhelm political turmoil, international conflict, and uncertainty around central bank policy. Economic growth will need to continue for the market to maintain its rally.

The "Trump Trade" Returns

As the broader indices made their advances, trends in sector performance demonstrated some rotation within the stock market. Technology stocks were very strong, posting a 9% gain. Energy stocks were also big winners, gaining 8%. Other winners were emerging markets, financial stocks, material stocks, and small cap stocks. Consumer stocks, utilities, real estate, and health care stocks underperformed. Bond prices dropped slightly in September, but bond indices still finished the quarter with gains.

The recent rotation is reminiscent of the "Trump trade" that took hold post-election. These market moves are evidence of expectations for a reflationary environment. Reflation refers to higher economic growth, inflation rates, interest rates, and commodity prices. Reflation typically occurs at the start of an economic recovery, but now is occurring in the later stages of the economic cycle. Better expectations for global economic growth have driven this theme, but it remains to be seen if the pattern can hold for long given how far the economy has come from the depths of the Great Recession in 2008 and 2009.

Fed to Continue Tightening; Personnel Changes Coming

The Fed announced its plan to begin undoing the quantitative easing that led to its balance sheet ballooning to $4 trillion over several years. In addition, it plans to continue with interest rate increases in the coming quarters. Finally, the lineup of decision-makers is changing and it remains to be seen who will be appointed (or reappointed) as chairman. Janet Yellen's term expires in February 2018, and while at first it was widely believed she would not be reappointed, it now appears that Trump is at least reconsidering. The new chairperson will heavily influence the future of monetary policy. However, regardless of who is appointed, monetary policy is likely to stay relatively accommodative in the years to come, both in the U.S. and in other major economies around the world.

Featuring

TOTAL RETURNS

	3Q2017	2017
S&P 500	4.5%	14.2%
Dow Jones Industrial Average	5.6%	15.5%
NASDAQ	6.1%	21.7%
Russell 2000	5.7%	10.9%
MSCI EAFE (International)	5.5%	20.5%
Barclays Aggregate Bond Index	0.8%	3.1%

JOHNSON INVESTMENT COUNSEL

Market Update (continued from page 1)

Initial Tax Reform Proposals Released

Details of Republican and Trump Administration tax reform proposals emerged late in September. This is only the beginning, and these initial proposals are anything but certain to be made into the final law. They at least give some indication of the priorities and preferences of the Trump administration and Republicans in Congress.

Of the many details, corporate and individual income tax rates are key items in play. The initial indication is that the corporate tax rate could be lowered, and the number of individual income tax brackets could be reduced from seven to three. The plan also proposes changes to the current model of exemptions and deductions. It calls for a repatriation of foreign corporate earnings with a tax rate of 10%. It also tweaks the tax rates to pass-through entities, limiting the rate to 25% instead of the current 39.6%. Overall, the plan as proposed leads to an increase in the deficit, something many Republicans are likely to resist. Republicans' failure to pass health care reform shows that agreement on tax reform will not be easy. It is unlikely that any final agreement is reached before the New Year.

GOP Tax Reform Proposals

Tax Cuts	Revenue Increases
BUSINESS TAX CUTS - Lower corporate tax rate - Lower pass-through tax rate for business owners - Immediate expensing of capital expenditures	**BUSINESS REVENUE INCREASES** - Phase-in limits on interest deduction - Eliminate certain miscellaneous deductions - Repatriation of foreign earnings
INDIVIDUAL TAX CUTS - Lower personal income tax rates - Increase standard deduction - Increase child credit	**INDIVIDUAL REVENUE INCREASES** - Limit state and local tax deductions - Eliminate certain miscellaneous deductions

Source: Cornerstone Macro and The Tax Foundation

Hurricane Economic Impact

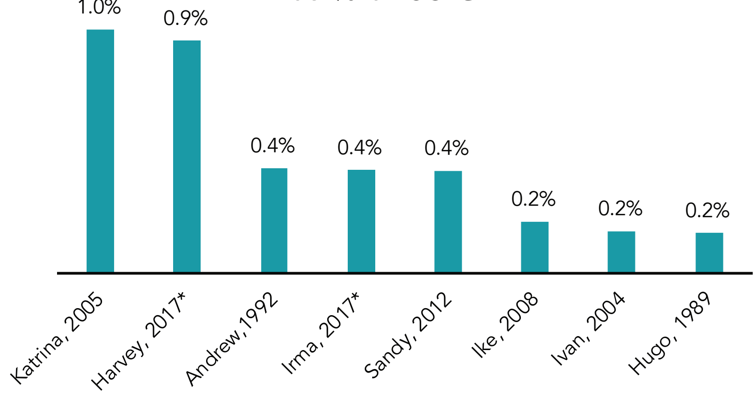
Hurricane Harvey, which pounded the Texas coastline in September, was one of the most devastating natural disasters in the history of our nation. It is estimated to be worse than Hurricane Sandy in 2012, but still not as costly as Hurricane Katrina in 2005. Just a few days later, Hurricane Irma pummeled the Caribbean and then delivered a direct hit to the state of Florida. It too ranks as one of the 20 worst natural disasters ever. Both hurricanes caused billions of dollars of damage from flooding, wind, debris, and power outages.

The severity of the 2017 hurricane season has led many to wonder about the extent of the economic impact. Major natural disasters not only affect the region where the disaster strikes, but often they also lead to temporary slowdowns in economic activity nationwide. Typically, natural disasters initially reduce consumption, damage or destroy inventories, and affect the supply and demand of the housing market and energy supplies. In this case, some estimates have third quarter GDP reduced by up to one percentage point, and corporate earnings are also likely to be lower as a result of the storms.

As things normalize, the economic rebound takes hold. This occurs as the rebuilding, restocking, and rebalancing of supply and demand leads to a boost in activity. Perhaps counter-intuitively, when the affected area is larger and the extent of the damage is worse (as with Hurricanes Katrina, Harvey, and Irma) the rebound is typically much quicker. As a result, fourth quarter GDP will likely see a boost as the recovery takes hold.

Ultimately it will be a long time before the full impact of Harvey and Irma is known. In the meantime, economic data is likely to be choppy. Negative surprises are likely to be blamed on the hurricane damage, and the rebuilding will get credit for positive surprises. In the end, the net impact is often somewhere close to zero as the short-term disruption is offset by the short-term stimulus that follows.

Property Damages by Disaster as % of US GDP



** Preliminary estimates*

Source: NOAA, FRED, Moody's

Year-End Financial Planning

Another new year is right around the corner, so now is a great time to tackle important financial planning items that need attention before the rush of the holidays. Here is a list of items to consider:

Retirement Savings

IRA contributions for 2017 can be made until the tax deadline in April 2018, but that is not true of company retirement plan contributions. Before December 31st, make sure to contribute enough to your 401(k) to receive the employer match, and if possible to maximize contributions. The limit for 2017 is $18,000, and anyone 50 or older can contribute an additional $6,000. Review savings levels, and if necessary, increase the amounts to get on track for retirement. Some need to save more than the 401(k) maximum and should also be contributing regularly to a non-retirement account.

Taxes

Review federal and state tax withholding for the year, ensuring both are reasonably close to your estimated liability to avoid large tax bills or refunds. Consider ways to reduce taxable income such as retirement savings contributions, charitable gifts, or harvesting capital losses in taxable investment accounts.

Insurance

Review coverages, premiums, provisions, and other details of property/casualty, life, health, disability, long term care, and umbrella policies. Consider contributing to a Health Savings Account, and remember to use up any cash in a Flexible Spending Account as it does not carry over to next year.

Charitable Giving

Consider donating cash or appreciated securities to your favorite charity or to a Donor-Advised Fund to benefit causes you care about and reduce your tax liability. IRA owners in Required Minimum Distribution status have the opportunity to make Qualified Charitable Distributions (QCDs). QCDs are non-taxable with a limit of $100,000, as long as the distribution is made directly to a 501(c)(3) organization. Consider involving the next generation in choosing charities to cultivate an awareness and interest as well as to prepare them for future charitable giving responsibilities.

Estate Planning

Review your estate plan documents to ensure they are in alignment with your intentions. For most people this includes a review of the last will and testament, trusts, beneficiary designations of retirement accounts and life insurance policies, powers of attorney, health care powers of attorney, and living wills.

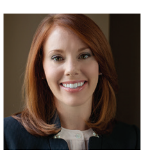
Planning/Goal Setting

Plan ahead for holiday expenses to avoid overspending. Consider budgeting large 2018 expenditures in advance. Set priorities and goals for 2018 so you'll be ready when the calendar turns. Write them down and review periodically to check your progress. Goals that are written are much more likely to be achieved than those that aren't.

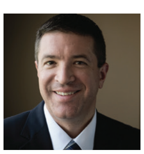
JIC News

Promotions

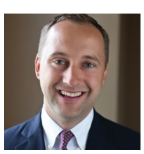
We are pleased to announce that the following individuals have been promoted to the new positions listed below:



Adams



Basinger



Gusty

Russell

> Tara N. Adams, CTFA
Vice President of Trust Services and Compliance, Senior Trust Officer

> Josh B. Basinger, Esq.
Manager of Trust Services, Senior Trust Officer

> Daniel P. Gusty, CPA, CFP®
Director of Columbus Market, Portfolio Manager

> Vincent L. Russell
Director of Dayton Market, Portfolio Manager, Principal

Barron's Ranks JIC #15 in the Nation

We are excited to share the news that *Barron's*, the country's leading financial industry magazine, has ranked Johnson Investment Counsel 15th among all independent advisory firms in the U.S.

This award puts us in rare company, as there were only 30 firms selected. The ranking is based on stringent criteria including assets under management, client retention, and various factors that reflect the firms' ability to provide broad and consistent services to clients. We believe this ranking reflects the trust our clients have placed in us for over 50 years.

Please contact us for more information as it pertains to this ranking.

Expanding Our Presence in Northeast Ohio

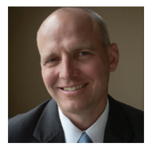
We recently completed the acquisition of Magis Wealth Planning, a Cleveland-based wealth management firm. Over the past several years our strong reputation for serving clients has enabled us to grow organically in Northeast Ohio. Along the way we began to look for a partner in the region who shares our values and commitment to service excellence. In that regard, Magis Wealth Planning was a perfect fit. This acquisition gives us our first physical location in the Cleveland area and our fifth office in Ohio.

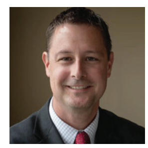
As a result of the acquisition, we are excited to welcome three new employees to the JIC team:

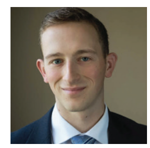
> Anthony C. Kure, CFP®
Director of Northeastern Ohio Market,
Portfolio Manager

> Joseph K. Radigan, CFP®
Director of Northeastern Ohio Market,
Portfolio Manager

> Christian J. Brandetsas
Portfolio Manager Assistant


Kure


Radigan


Brandetsas

New CFA Charterholder

We are pleased to announce that Ryan Martin passed the Level III exam of the Chartered Financial Analyst (CFA) Program. JIC currently has a total of 34 CFA Charterholders on staff.


Martin

JIC Named Top Workplace

Johnson Investment Counsel was named one of "Cincinnati's Top Workplaces in 2017" by Enquirer Media for the fourth year in a row. Based upon employee feedback, companies were evaluated on the following criteria: opportunities for career development, balance between work and personal life, compensation, manager performance, and overall job satisfaction.

New Additions to the Team

We are pleased to announce that the following individuals have joined our team over the last several months:

> David Christian
Portfolio Manager Assistant

> Emily Fox
Director of Institutional Sales

> Gwen Keihl
Operations Associate

> Bobbie Laker
Receptionist

> Brad Morrissey
Junior Research Analyst

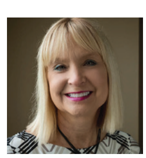
> Sonal Supriya
Institutional Operations Associate

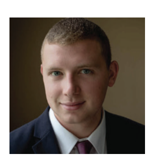
> Lia Vissing
Operations Associate

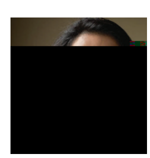
Christian

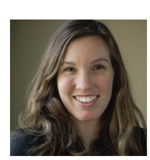

Fox


Keihl


Laker


Morrissey


Supriya


Vissing

Locations

Cincinnati | Cincinnati-Kenwood | Cleveland-Akron | Columbus | Dayton

About Us

Johnson Investment Counsel, Inc. is Ohio's largest independent wealth management firm, managing over $9 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs and more. Johnson Investment Counsel has built strong, long-term relationships with individuals and families, charitable organizations, foundations and corporations through three divisions: Johnson Private Client Group, Johnson Trust Company, and Johnson Institutional Management.

Divisions

- Johnson Private Client Group
- Johnson Trust Company
- Johnson Institutional Management

Services

- Stock Portfolios
- Bond Portfolios
- Balanced Portfolios
- Integrated Wealth Management
- Trust Accounts
- Pension & Profit Sharing Plans
- Individual Retirement Accounts
- 401(k) Plans
- Foundations
- Endowments
- Johnson Mutual Funds
- Johnson Charitable Gift Fund

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