MORSE ASSET MANAGEMENT, INC.
805 Third Avenue, Suite 1120, New York, NY 10022

July 19, 2018

2018 Q2 Investment Outlook-

Market corrections with a strong economy are largely temporary, resulting in flat prices for six to eight months, but they are "normal" despite headlines inflating risk perceptions. Static prices with improving earnings create cheaper valuations and increased demand for stocks.

Current real opportunities are ample in the American economy. There is potential GDP growth in the 3 plus percent range, with recent quarters of 4%. Digitization to enhance our lives through extraordinary and artificial intelligence is now coupling with rationalized traditional industries. This is a major and long-lasting change in behavior accompanied by favorable demographics. A broad part of socioeconomic activity is being touched by new trends in medical and life sciences, communication, manufacturing, construction, infrastructure, trade and cost savings from new data software.

We do not believe that current trade tariff noise will result in a lasting impact on our economy. The US is in a position of leverage and is using it to impact positive change not permanent barriers. There are and have been legitimate and documented trade aggressions from China that need to be resolved. While tariffs are a blunt tool, they impose immediate pressure and ultimately can quickly be reversed. The attached chart shows recent market reactions to the news in both the US and China. The market clearly views China as the loser which along with the documented trade abuses will ultimately push their hand to negotiate.

The US Dept of Labor's Bureau of Labor and Statistics July 6th report showed continued strength in the employment numbers. Strong payroll growth and the improving participation trends indicate that workers are returning to the workforce. These factors should continue to balance employment demand and hold the unemployment rate near 4% taking pressure off the Federal Reserve to change their course.

US equity earnings and revenue continue to increase at a strong pace. According to Factset's July 13th quarterly *Earnings Insight*, the year-over-year blended earnings growth rate for Q2 2018 is 19.9%. This quarter also marked the second highest number of S&P 500 companies pre-announcing positive EPS guidance for a since FactSet began tracking this data in 2006.

The forward 12-month P/E ratio is 16.6, marginally above the 5-year average of 16.2 and inline with valuations at the end of Q1 (see chart 1). The bottom-up yearend target for the S&P 500 is currently 3,096.40, which is 10.7% above Fridays closing price of 2,798.29.

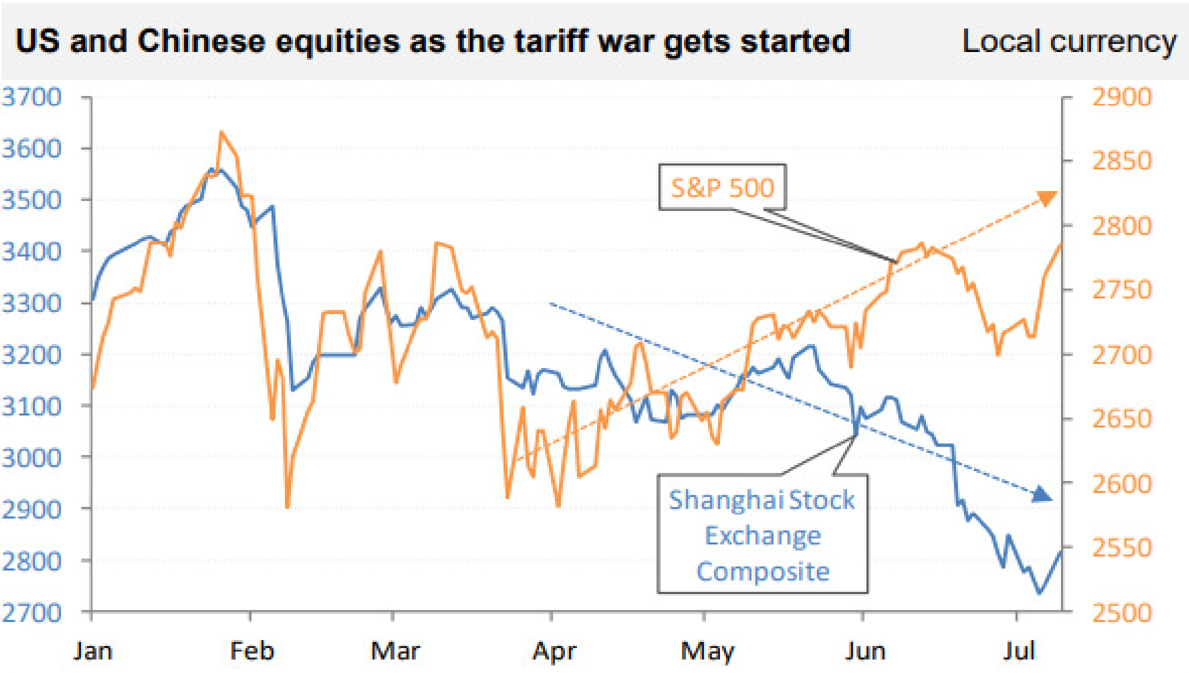
The US economy is steadily growing, driven by innovation, and trade fears are exaggerated. The Federal Reserve is not perusing inflationary activities and interest rate risk is low to moderate. Valuations are not stretched, but instead fair and supported by earnings growth. Our outlook remains bullish.

Sincerely,

Morse Asset Management Investment Team

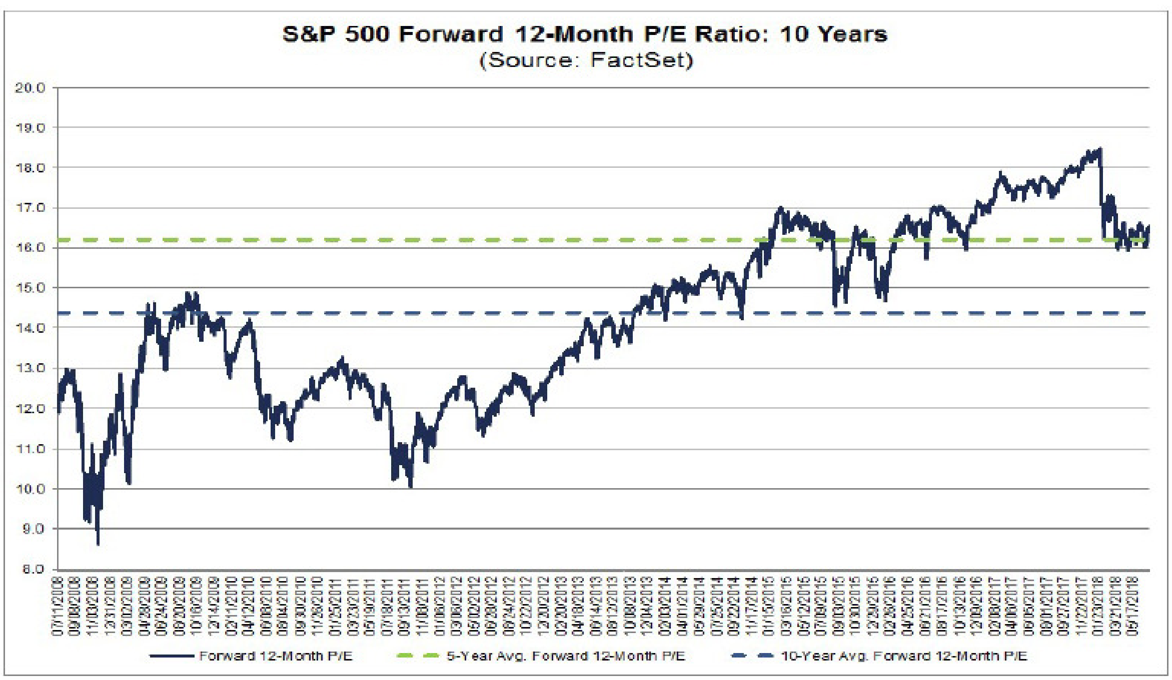
Robert P. Morse, Robert B. Morse, Jian Wang, James Cushing

1. US & Chinese Stock Markets Since Tariff Announcements.



TrendMacro - *Did China Just Run Up the White Flag in the Trade War?* July 10, 2018

2. S&P500 Forward Looking Valuations



Factset – *Earnings Insight*. July 13, 2018