The Quarter in Review

September 30, 2018

Maryland Capital Management

INVESTMENT TEAM

John F. Blair
President and Portfolio Manager

Frederick A. Allner, III
Principal and Portfolio Manager

Gregory G. Heard
Principal and Portfolio Manager

Jeffrey L. Caples, CFA
Senior Vice President and Portfolio Manager

800 N. Charles Street
Suite 500
Baltimore, MD 21201

3Q Returns

Global equities delivered positive results during the third quarter as the economy continued to exhibit strength and trade developments were not as bad as feared. Case in point, on the last day of September and after many headlines and prognosticators predicting failure, the US, Canada and Mexico reached an agreement to update the North America Free Trade Agreement (NAFTA). The S&P 500 Index and the tech-heavy NASDAQ posted quarterly gains of +7.71% and +7.41%, respectively. The Dow Jones Industrial Average (DJIA) had an impressive +9.63% total return for the quarter. Non-US equities underperformed their US counterparts again with developed foreign equities, as measured by the MSCI EAFE Index, returning +1.42% and emerging markets suffering a -0.95% decline. The bond market continues to grapple with short term interest rate increases, and fixed income indices struggle to keep pace. The Barclays Intermediate Government/Credit Bond Index and the Barclays 5-Year Municipal Bond Index returned +0.21% and -0.20%, respectively.

A Lot of Positives

Despite the divisive and contentious SCOTUS nomination proceedings and continued political headlines, all with less than positive connotation as we approach mid-term elections, asset prices have spent much of the year recovering from the correction that ended in February. Other than the housing sector, the US economy is firing on all cylinders. Federal Reserve Chairman Jerome Powell recently characterized the economic outlook among forecasters as "remarkably positive". The final reading on 2Q GDP growth was +4.2%, the highest since 3Q 2014, and roughly twice the pace of the last several years. Estimates for 3Q 2018 growth are in the low to mid +3% range. Jobs data continues to impress as well. Private payrolls grew by a better than expected +230,000 in September. According to Moody's estimates, the current pace suggests an unemployment rate declining to 3.0% from the current 3.7% by this time next year. The current rate is the lowest since 1969.

Consumer confidence recently hit an 18-year high, perhaps not surprising considering the positive undercurrents and tax cuts finally starting to flow through to individual's bottom lines. Confidence levels at small businesses, representing over 99 percent of employing organizations in our country, are also booming. In September, the National Federation of Independent Businesses (NFIB) optimism index reached 108.8, its highest level in nearly fifty years! Not since Ronald Reagan was President have plans to hire workers, raise wages or increase capital investment been higher. The NFIB, in conjunction with the release, stated the "groundbreaking numbers are demonstrative of what I'm hearing everyday from small business owners – that business is booming. As the tax and regulatory landscape changed, so did small business expectations and plans. We are now seeing the tangible results of those plans as small businesses report historically high, some record breaking, levels of increased sales, investment, earnings, and hiring."

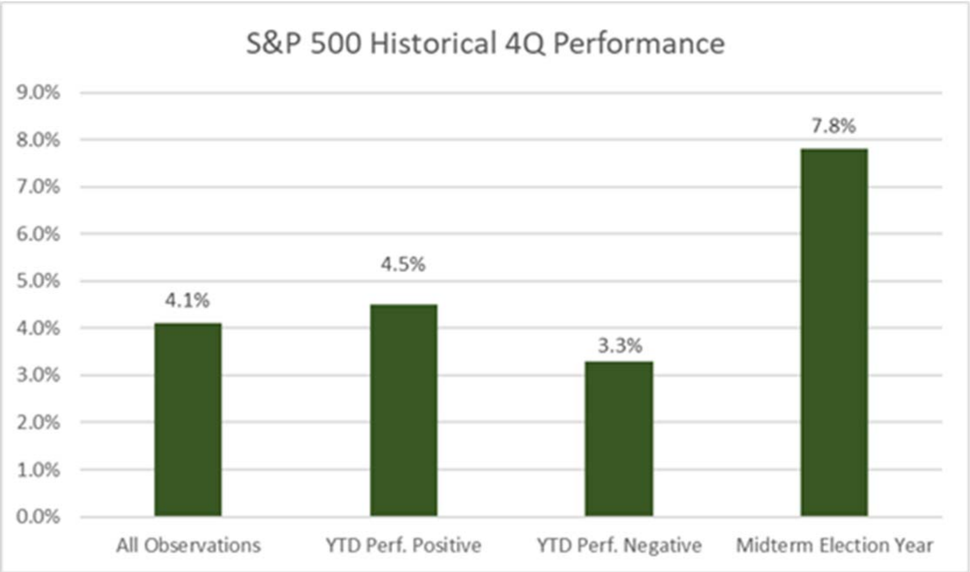
The positive developments are not just limited to small businesses. Amazon, one of the largest companies on the planet by market capitalization, and employer of more than

-continued on next page-

-continued from previous page-

a half million people, recently announced plans to increase their minimum wage to $15 an hour in response to criticism of its employment practices and some warehouse working conditions. The pay raises, which are set to start in November, are further evidence of the strong job market and inability to find good talent. Many other large businesses may be pressured to follow suit.

As we enter 3Q 2018 earnings season, expectations remain robust. According to FactSet, companies are expected to report earnings growth of +19.3% and revenue growth of +6.9% compared to the same quarter last year. For all of 2018, analysts are projecting earnings growth of +20.3% and revenue growth of +7.6%. There is also optimism for next year. Calendar year 2019 estimates currently expect earnings growth of +10.3% and revenue growth of +5.3%. Valuations remain reasonable with the forward one year price to earnings (P/E) ratio for the S&P 500 at 16.8x, slightly above its five-year average of 16.3x.



** Source: Strategas Research Partners, MCM. Data for S&P 500 Index 4Q returns going back to 1950.*

Rates Move Higher

As expected, the Federal Reserve raised rates again in September to a target rate of 2.00 - 2.25%, marking the eighth consecutive quarter-point increase since the FOMC began normalizing policy in December 2015. The word “accommodative” as it relates to policy stance was removed from official committee minutes. Believe it or not, the removal of these thirteen letters did not go unnoticed and caused quite a stir within the investment community and financial media. In response to questioning, Chairman Powell remarked that rates are still spurring growth but that the term was no longer useful. He went on to say that the word accommodative “doesn’t really say anything that’s important to the way the committee is thinking about policy going forward”. Refreshing response from the first non-economist Federal Reserve Chair since William Miller in 1979.

Outlook

We see very little risk of a recession on the horizon. U.S. and global economies remain in expansion mode. Our Investment Committee continues to monitor trade tensions, geopolitical risks, rising interest rates and wage pressures, along with the potential for a monetary or fiscal policy mistake. None of these are currently presenting undue risks to the financial markets. We continue to predict increases in real GDP, earnings, bond yields, inflation, and stock prices for the rest of 2018. We also anticipate increased volatility for equities as bond yields continue their ascent. The fourth quarter has traditionally been good to equities. Analysis performed by Strategas Research Partners suggests that the average 4Q return for stocks, as measured by total return for the S&P 500 Index, going back to 1950 is +4.1%. In mid-term elections years, of which we are currently in, the average has been even better – a total return of +7.8%. Of course past performance is no guarantee of future results, but if history is any guide we could be in for a solid end to the year as uncertainty surrounding mid-term election results fades and markets inflect positively into 2019.

Market Review

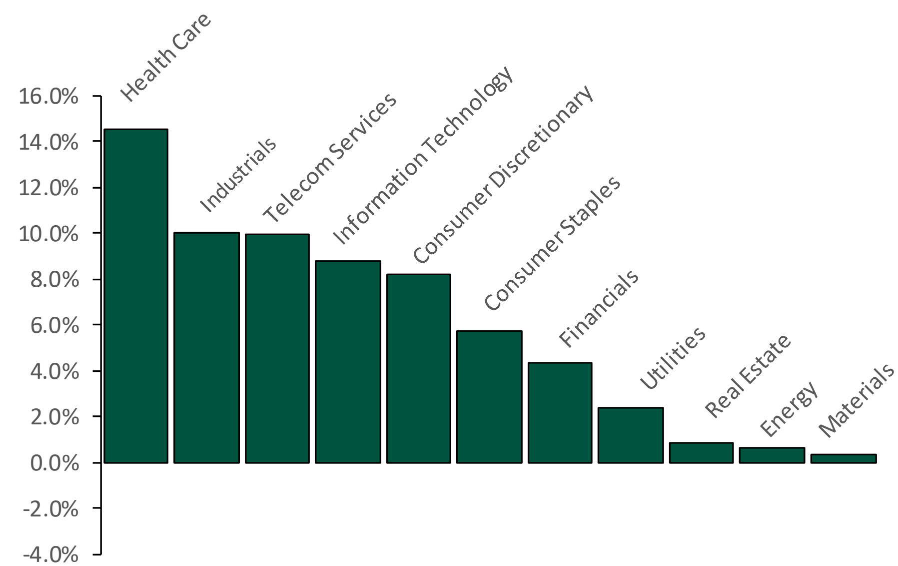
September 30, 2018

Ranked by 3rd Qtr Returns	Jul	Aug	Sep	Qtr	YTD
DJIA	4.83%	2.56%	1.97%	9.63%	8.83%
Russell 1000 Growth	2.94%	5.47%	0.56%	9.17%	17.09%
S & P 500	3.72%	3.26%	0.57%	7.71%	10.56%
NASDAQ Composite	2.19%	5.85%	-0.70%	7.41%	17.48%
Russell 1000 Value	3.96%	1.48%	0.20%	5.70%	3.92%
Russell 2000 (Small Cap)	1.74%	4.31%	-2.41%	3.58%	11.51%
MSCI EAFE (International)	2.47%	-1.92%	0.91%	1.42%	-0.98%
NAREIT All REIT	0.77%	2.33%	-2.36%	0.69%	1.80%
Barclays Int G/C (Bond Ind)	0.03%	0.59%	-0.40%	0.21%	-0.76%
Barclays Cap Muni Bond - 5 Year	0.39%	-0.04%	-0.55%	-0.20%	0.10%
MSCI Emerging Markets (EM)	2.28%	-2.67%	-0.50%	-0.95%	-7.39%

U.S. Industry Groups	Jul	Aug	Sep	Qtr	YTD
Health Care	6.61%	4.37%	2.93%	14.53%	16.63%
Industrials	7.32%	0.30%	2.19%	10.00%	4.84%
Telecom Services	2.33%	3.05%	4.26%	9.94%	0.75%
Information Technology	2.09%	6.93%	-0.33%	8.80%	20.62%
Consumer Discretionary	1.83%	5.13%	1.04%	8.18%	20.64%
Consumer Staples	4.07%	0.52%	1.04%	5.70%	-3.34%
Financials	5.27%	1.39%	-2.22%	4.36%	0.09%
Utilities	1.86%	1.12%	-0.60%	2.39%	2.72%
Real Estate	1.08%	2.49%	-2.65%	0.86%	1.67%
Energy	1.42%	-3.30%	2.59%	0.61%	7.46%
Materials	2.96%	-0.45%	-2.09%	0.36%	-2.73%

Third Quarter Index Returns

Third Quarter Industry Group Returns



Source: FactSet