



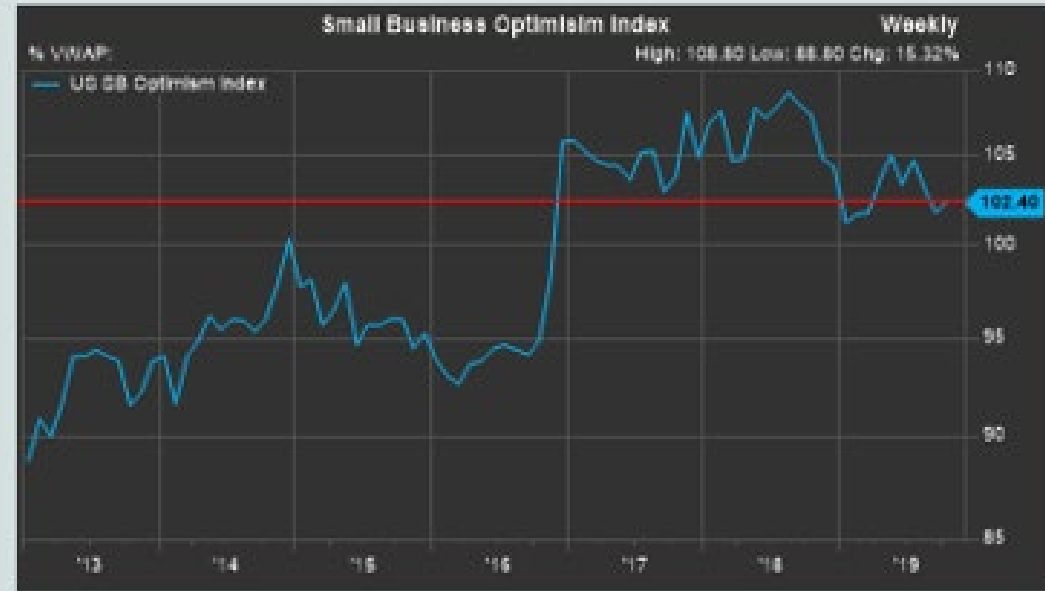
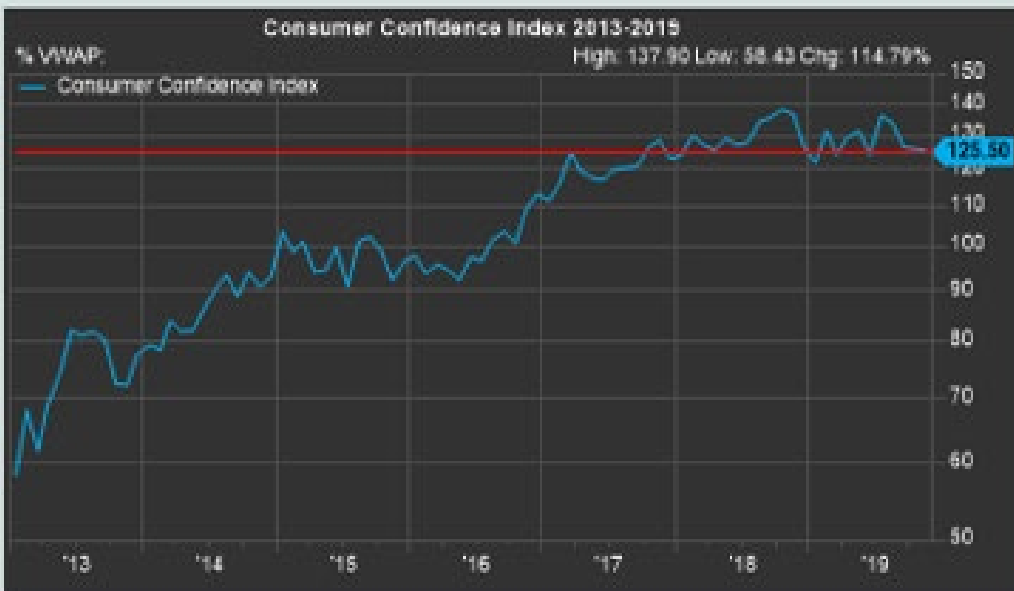
Macroeconomic Overview

December 13, 2019



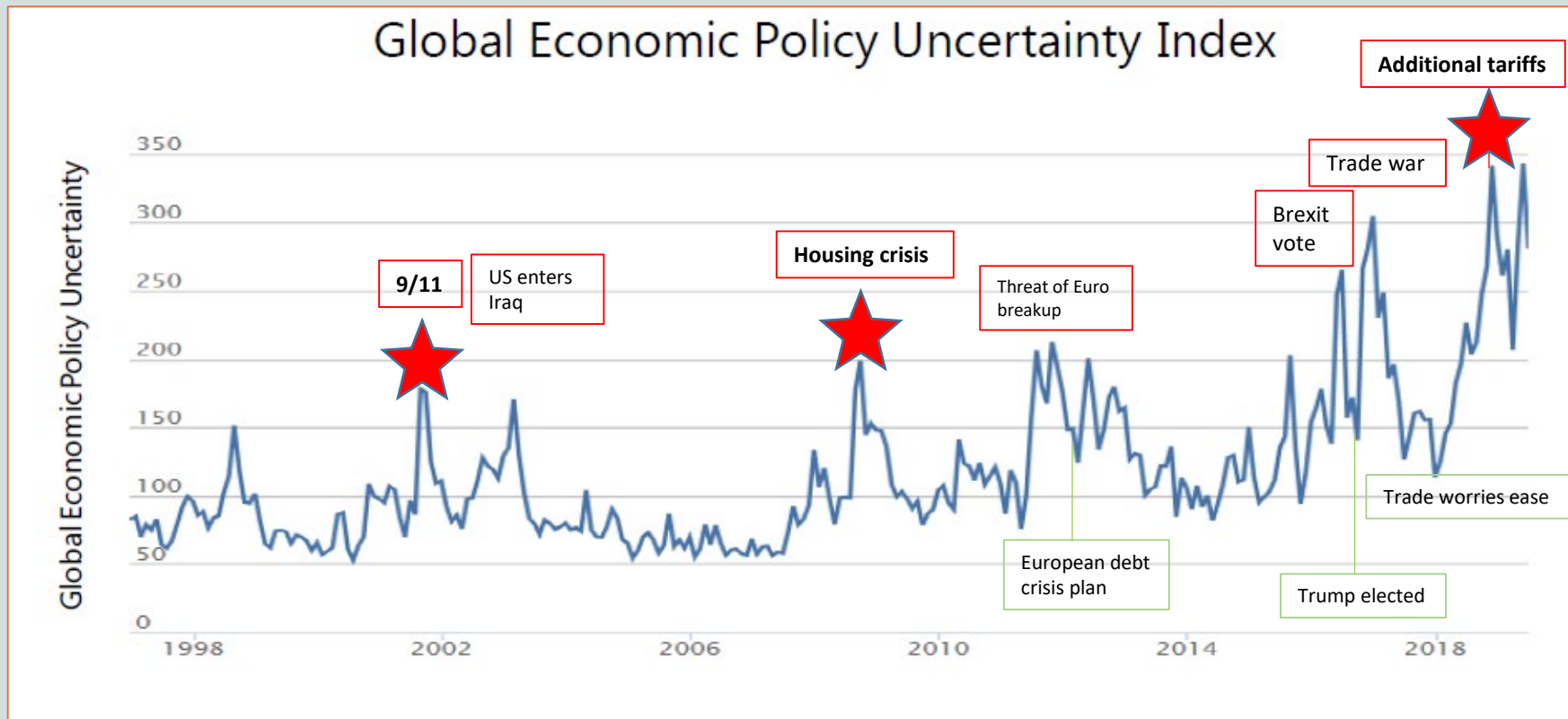
A LOOK BACK ECONOMIC OVERVIEW

- + US economy muddles along in the longest debt cycle in history
 - + Trade war coupled with low GDP growth in US and China
 - + Record low interest rates
 - + US household and mortgage fundamentals are strong
- + Consumer and small business confidence indices dipped in Q3 to 2018 Q4 levels and have since stabilized



A LOOK BACK ECONOMIC OVERVIEW – Global Political Uncertainty Index

- + From trade to twitter, political uncertainty has reached all time highs
- + Cash holdings have increased dramatically



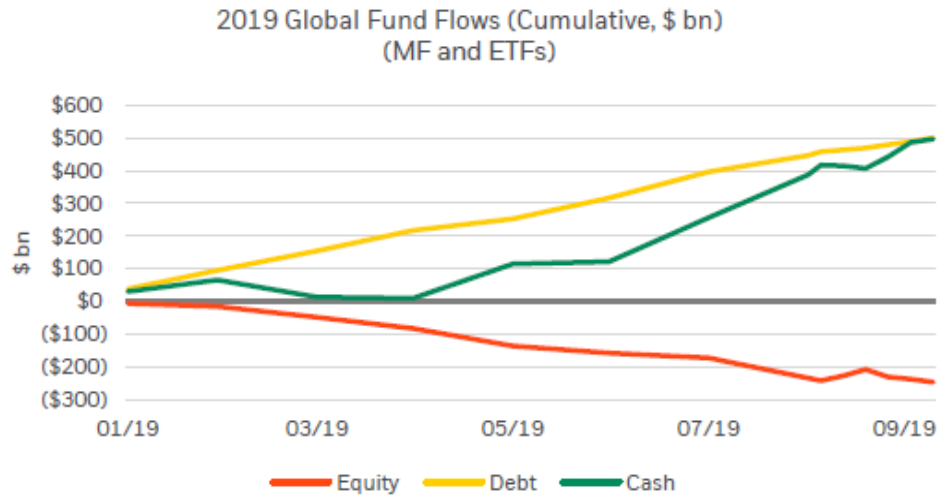
Source: Policyuncertainty.com and Biltmore Family Office



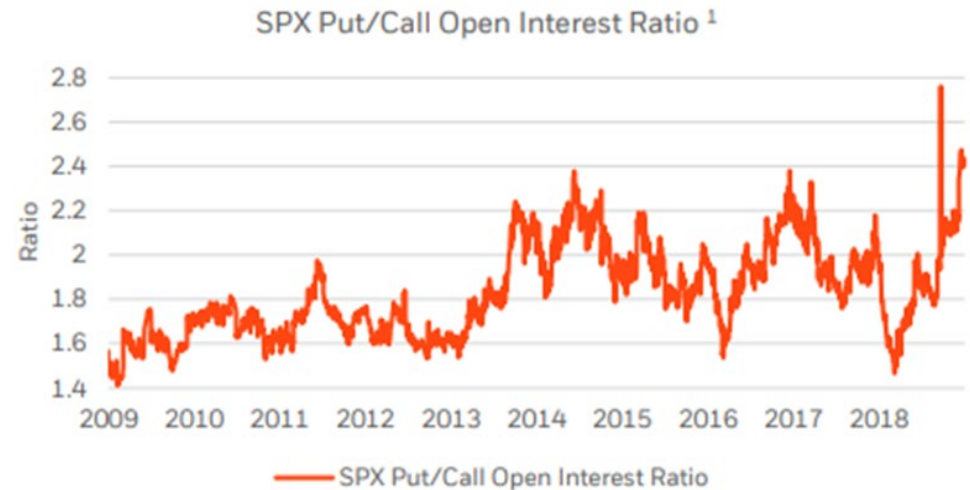
A LOOK BACK ECONOMIC OVERVIEW – Cash Holding on the Rise

- + Uncertainty on the rise, corresponding increase in cash
- + SPX Put/Call Open Interest Ratio spiked in 2019 to pre-crisis highs
- + Investor sentiment does not point to a bubble

The rotation out of equity into bonds and cash has been consistent ²



Investor appetite to hedge downside reached post-crisis highs ¹

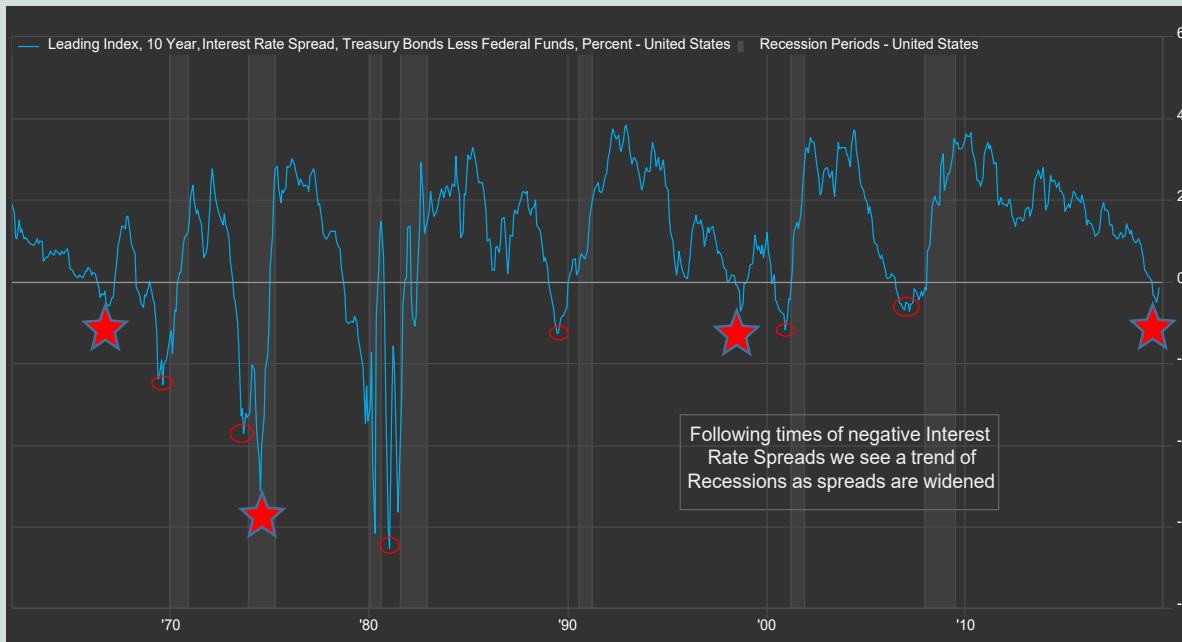


Source: Blackrock



A LOOK BACK ECONOMIC OVERVIEW – Interest Rate Indicators

- + The 9 largest recessions have been preceded by yield curve inversions, but inversions are not always followed by a recession
 - + Magnitude of the inversion matters
 - + Largest inversion in 2019 was -0.52, a 40% chance of recession using the Federal Reserve model
- + S&P estimates recession risk between 30-35%
- + Since then, the curve has un-inverted. Capital Economics has decreased the probability of a recession in 12 months to just over 10%



Estimated Recession Probabilities for Probit Model Using the Yield Curve Spread Four Quarters Ahead

| Recession Probability (Percent) | Value of Spread (Percentage Points) |
|---------------------------------|-------------------------------------|
| 5 | 1.21 |
| 10 | 0.76 |
| 15 | 0.46 |
| 20 | 0.22 |
| 25 | 0.02 |
| 30 | -0.17 |
| 40 | -0.50 |
| 50 | -0.82 |
| 60 | -1.13 |
| 70 | -1.46 |
| 80 | -1.85 |
| 90 | -2.40 |

Note: The yield curve spread is defined as the spread between the interest rates on the ten-year Treasury note and the three-month Treasury bill.

Source: FactSet, Federal Reserve

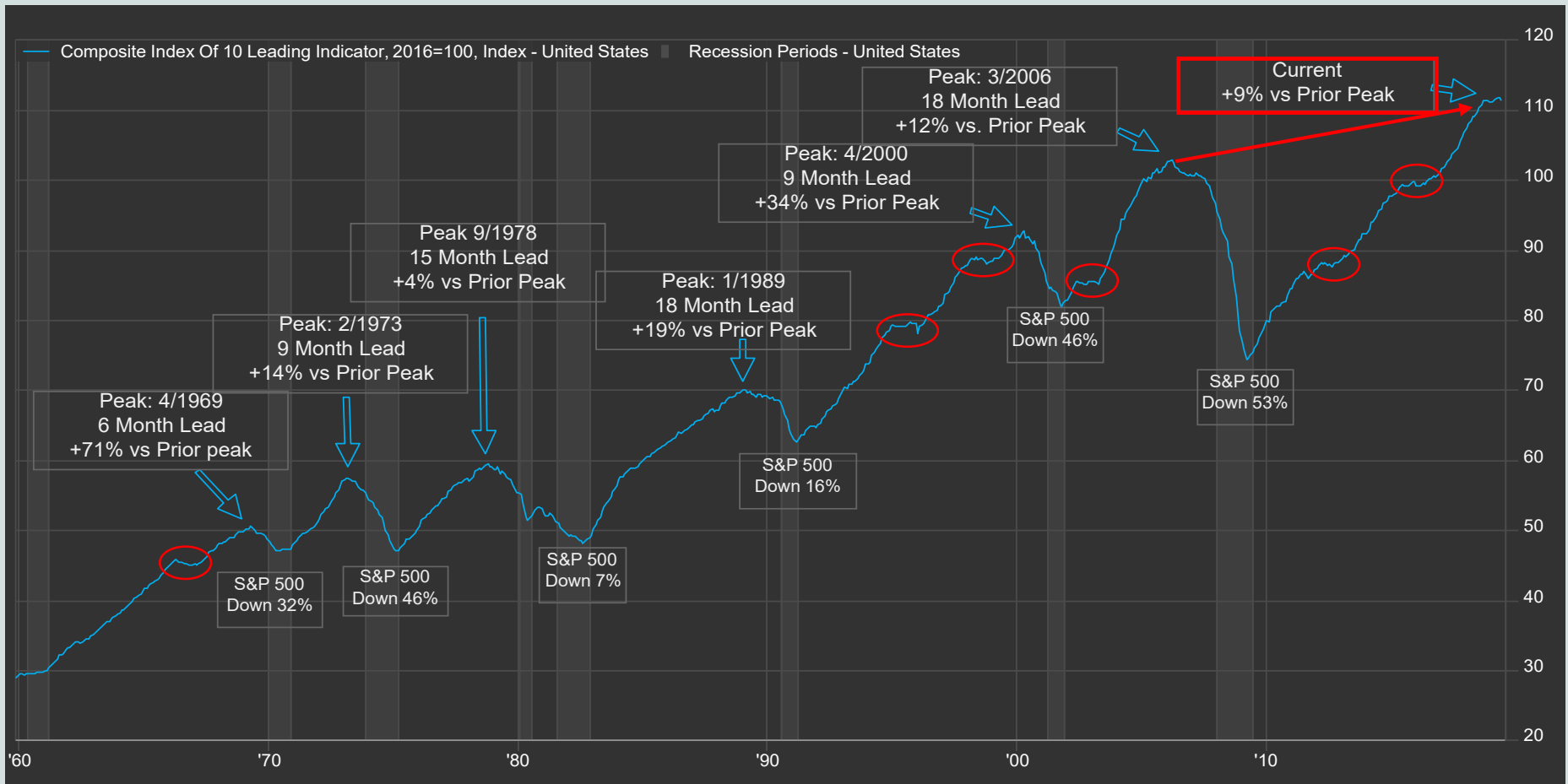


A LOOK BACK

ECONOMIC OVERVIEW – Leading Economic Indicators

+ Is the Expansion Over?

- + Composite Index of 10 leading indicators historically surpasses the prior expansion's peak, before declining
- + We are currently 9% above the prior peak, and flattening

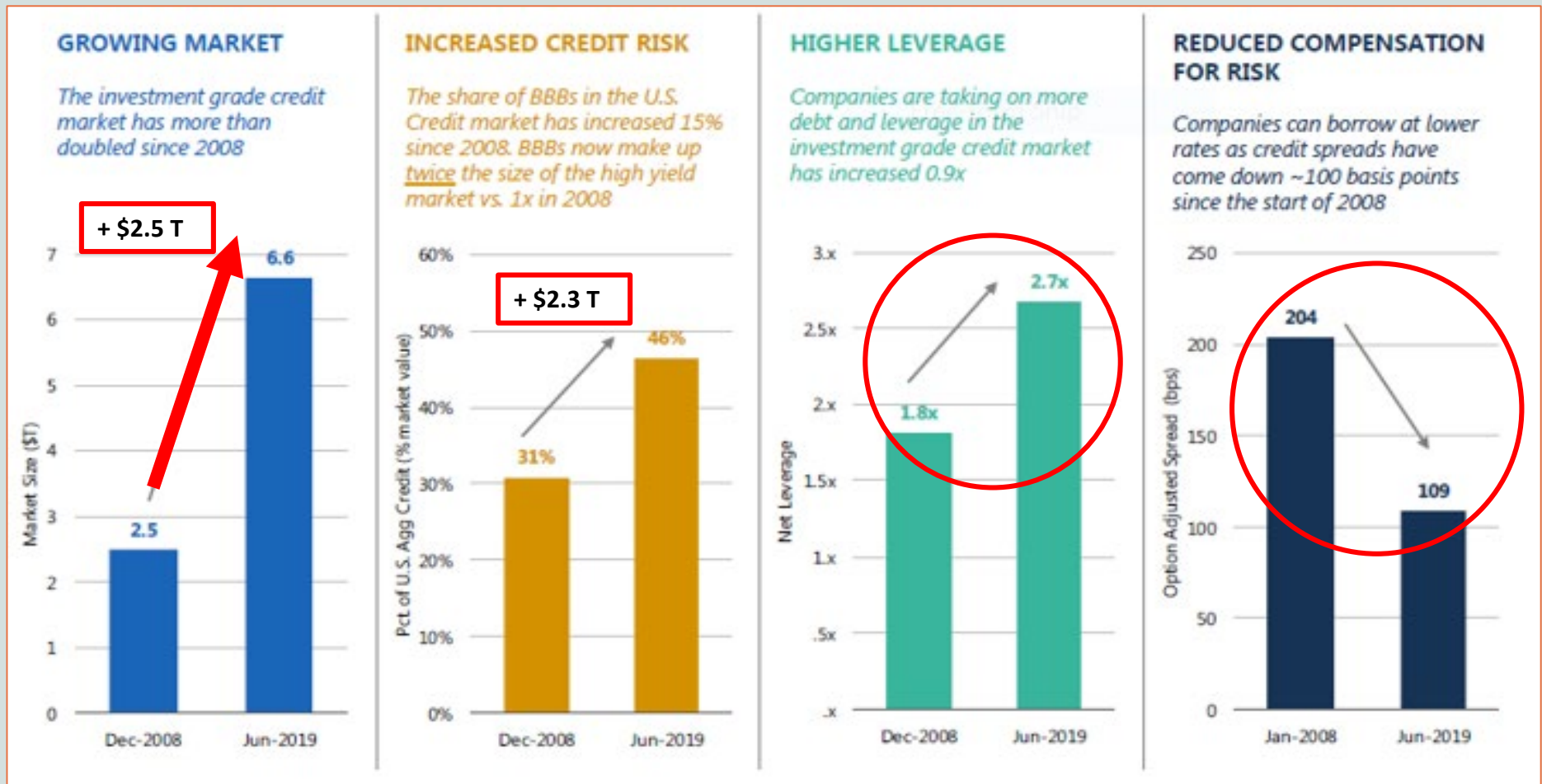


Source: FactSet



A LOOK Forward CORPORATE CREDIT: A Debtors World

- + Size of BBB credit market has tripled since December, 2007
- + Low rates encourage continued corporate leveraging



Source: PIMCO



A LOOK Forward CORPORATE LEVERAGE – Borrowers Dictating Terms

- + Crisis regulation shifted swaths of lending from big banks to CLOs, BDCs and private lending funds
- + Covenant-lite issuances becoming the norm

2007 - 2019

+1000%

- Covenant-lite issuances

+899%

- Size of private middle market

+105%

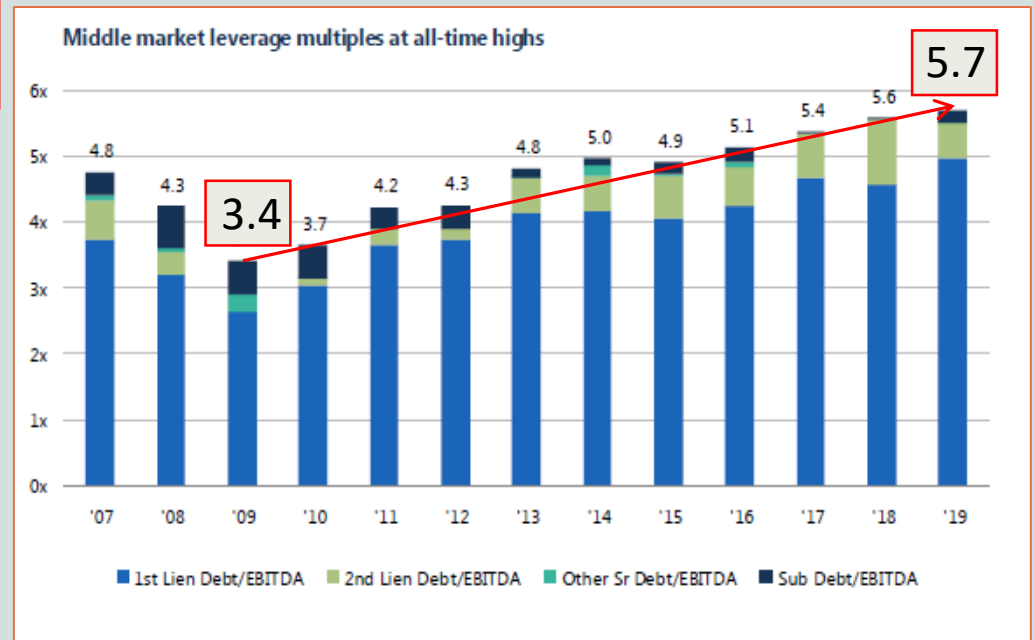
- Size of bank loan & high yield market

+24%

- Middle market & large cap syndicated leverage

-30%

- Bank participation in primary senior secured loans

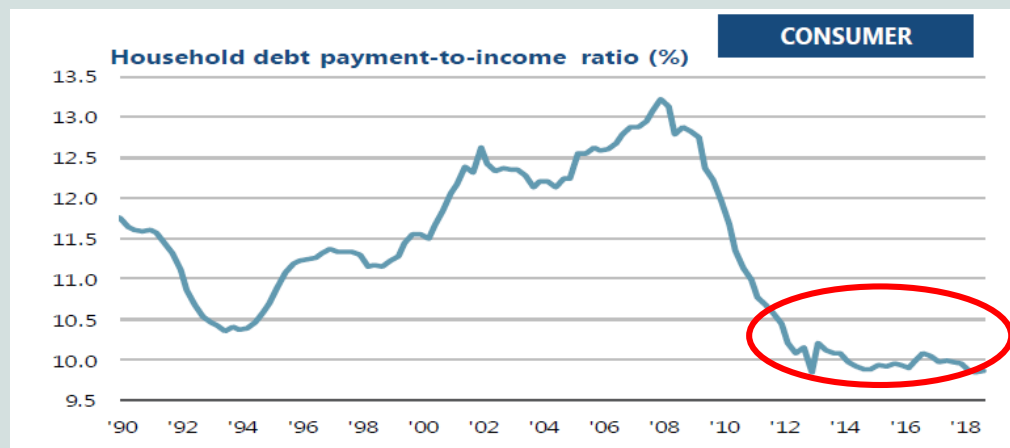
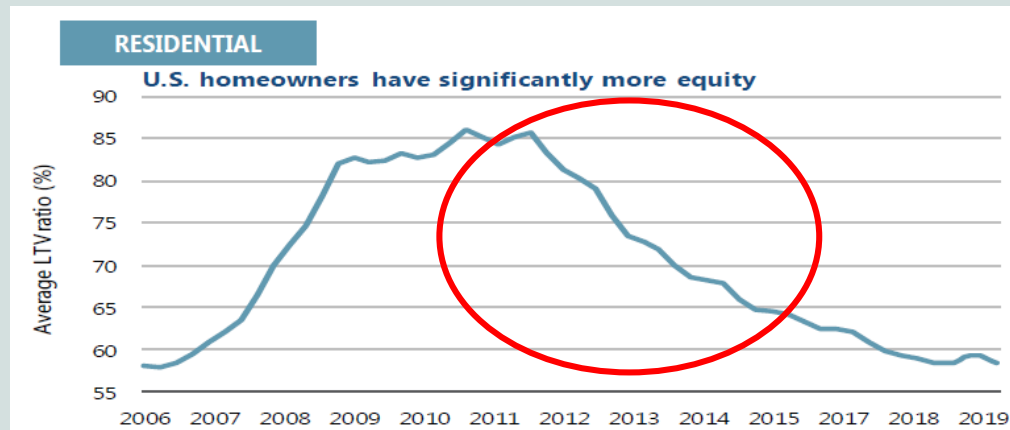


Source: PIMCO



A LOOK Forward DEBT in the portfolio

- + BFO Lifestyle portfolio has no dedicated exposure to corporate credit
- + Highest exposure is to US mortgages – strong household fundamentals

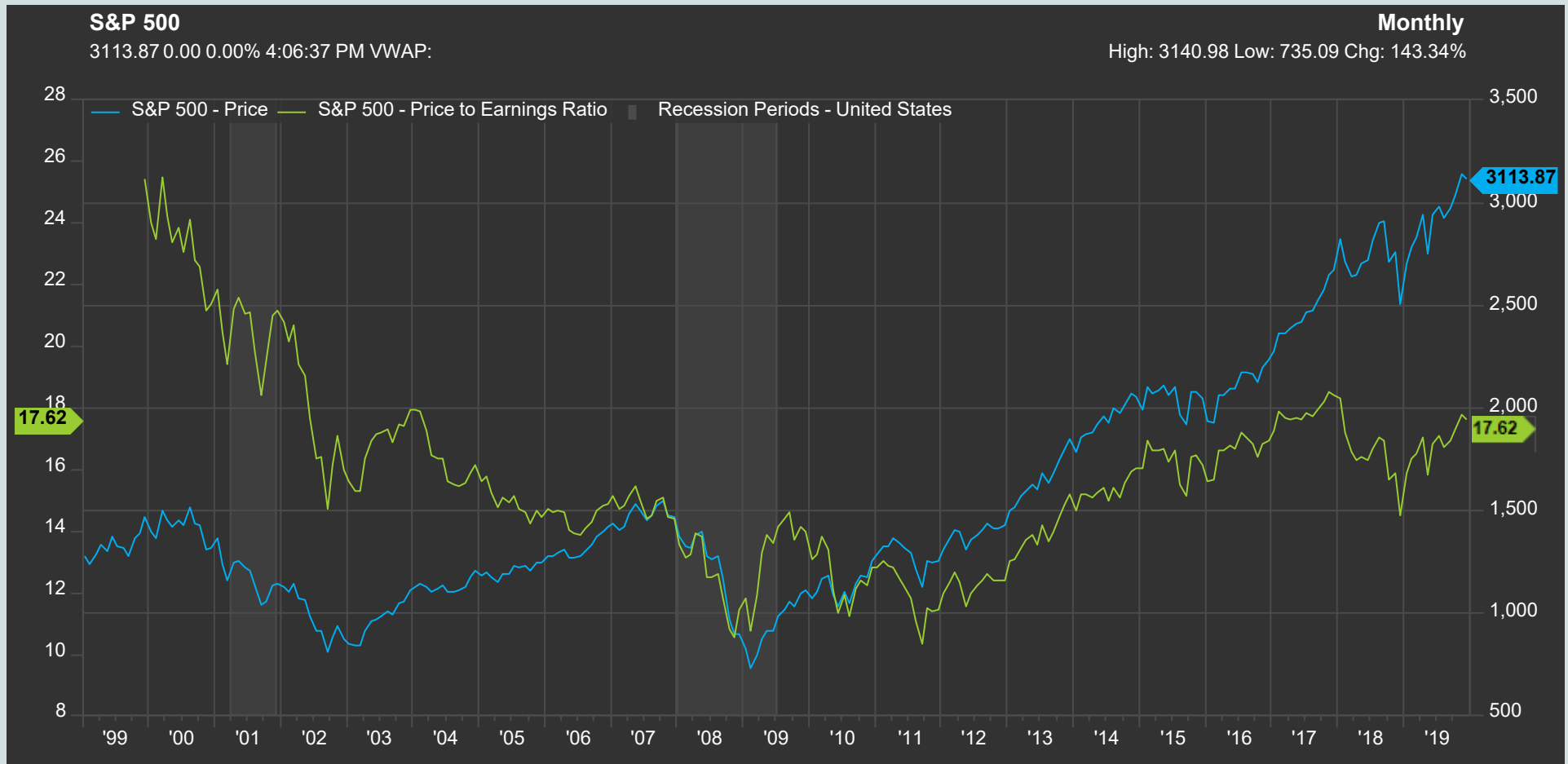


Source: PIMCO



THE BILTMORE VIEWPOINT US EQUITIES -VALUATION

As earnings increase, P/E Ratio of 16.5 are holding up, despite asset flows.

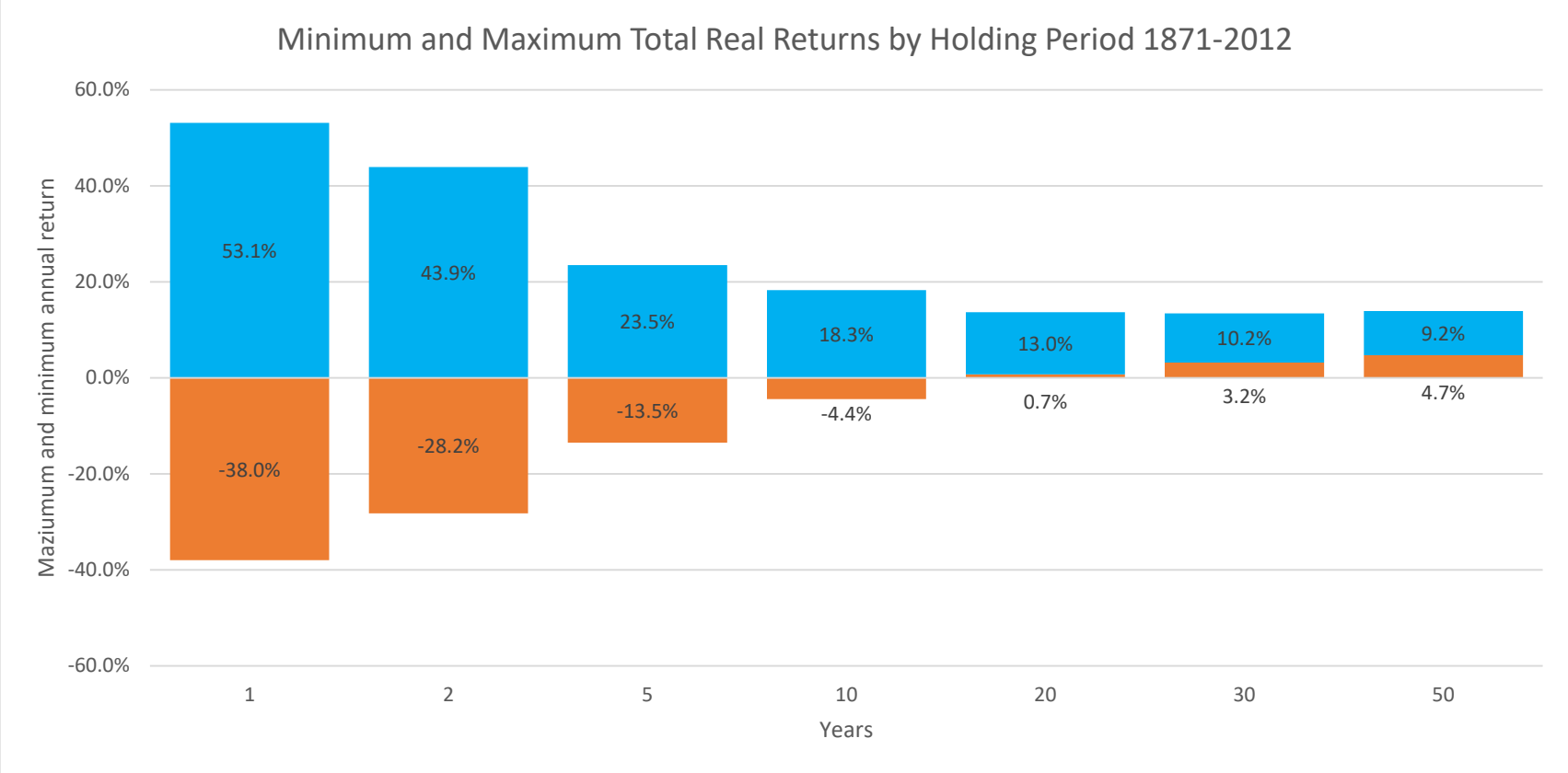


Source: Factset

THE BILTMORE VIEWPOINT

PATIENCE PAYS

In US equities, a long holding period is the ultimate hedge to the risk of loss.



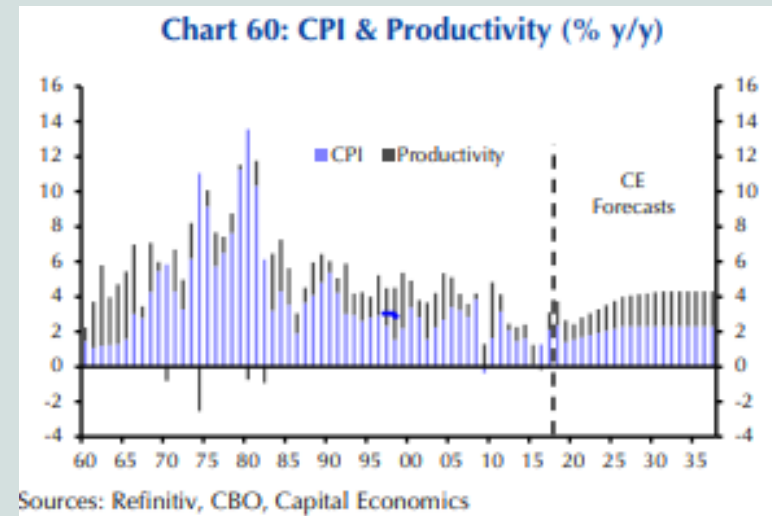
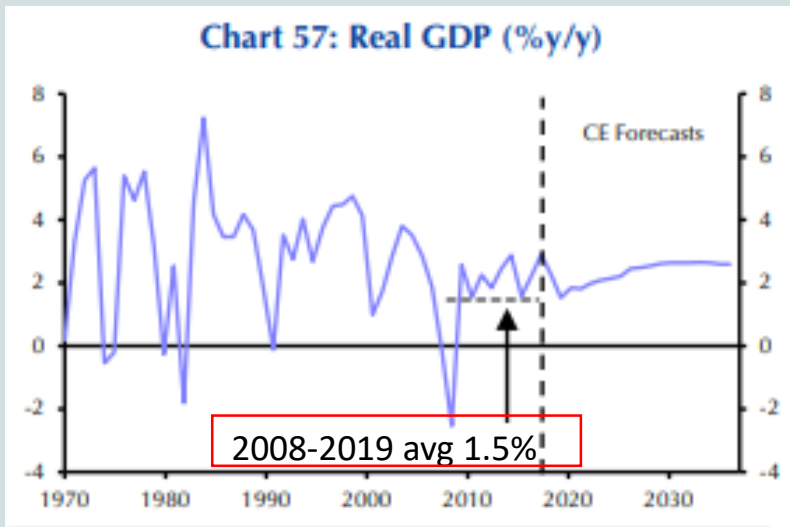
Source: Morgan Housel, Collaborative Fund



A LOOK FAR FORWARD ECONOMIC OVERVIEW

+ Capital Economics Forecast

- + Led by technology, a rebound in productivity will boost the economy's potential
- + Since 2005 productivity growth as averaged only 1.0%, compared with 2.3% in the '90's.
- + Cutting edge technology led by AI and driverless vehicles will provide a genuine boost to labor efficiency
- + Upshot is the GDP growth should accelerate from 1.8% in the past decade to 2.1% by the mid-20's and 2.6% in the 2030's.



Source: Capital Economics

THE DEFINITIONS

ALTERNATIVE INVESTMENTS / refer to a very broad category of investment choices. In general, this category encompasses investments outside of the traditional configuration of stocks, bonds and cash. Alternatives will often be less liquid than traditional investments but will usually offer low or negative correlation to stocks and bonds. This attribute can be used to lower the volatility of an entire portfolio of investments. Alternative investments may be used to leverage or hedge other investment positions to improve the opportunity for a long term investment.

FIXED INCOME / taxable fixed income is usually comprised of securities that pay a fixed rate of return, issued in the form of a bond by countries, corporations, or entities. A bond is a contract representing the terms of borrowing and repayment for a debt. Tax Free fixed income are typically bonds issued by local-governmental authorities, including states, cities and their agencies. High Yield fixed income is comprised of lower quality rated corporate debt. Because the market perceives a higher level of risk with the underlying company's ability to pay off their corporate debt (bonds), these instruments carry a higher than current market interest return.

INTERNATIONAL EQUITY / refers to an asset class consisting of shares of stock issued by companies domiciled outside of the United States. In addition to the individual company risks, you will also experience country risk, political risk and currency risk. BFO uses a diversified approach to investment in this category in order to improve the risk/return profile for our clients.

U.S. EQUITY / consists of the common and preferred stock shares of domestic (U.S.) domiciled companies. Equities (stocks) may or may not pay a dividend. The stock market fluctuates on a daily basis and is affected by both financial and economic influences. BFO uses a diversified approach to investment in this asset class to improve the risk/return profile for our clients.

STANDARD DEVIATION / is a statistical term that provides a good indication of volatility. It measures how widely values (closing prices for instance) are dispersed from the average. Dispersion is the difference between the actual value (closing price) and the average value (mean closing price). The larger the difference between the closing prices and the average price, the higher the standard deviation will be and the higher the volatility. The closer the closing prices are to the average price, the lower the standard deviation and the lower the volatility.

SHARPE / is a ratio that helps to monitor the level and direction of return/risk of the entity. This ratio is most commonly used to evaluate the manager's efficiency in managing money.

WORST DRAWDOWN / is defined as the percent retrenchment from a market peak to a market valley. A drawdown is in effect from the time a retrenchment begins until a new high is reached.

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