Pinnacle FINANCIAL PARTNERS

Investment Overview

October 2013

Government shutdown could reduce GDP growth

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Review of 3Q 2013

The S&P 500 rose 5.25 percent in the quarter, resulting in a 19.79 percent rise for the year. The continued positive momentum of the markets rivals the best performance of the S&P 500 during the 1990s. The Federal Open Market Committee (FOMC) dominated the headlines. Its decision on Sept. 18 not to taper on QE3 bond purchases surprised the markets and led to stocks making new highs and treasuries rallying back down. This surprise move is helpful for borrowers and financial institutions. Chart 1 shows the yield on the 10-year bond for the quarter.

We continue to believe that the balance of the year will see more volatility as the markets adjust to the possibility of uneven GDP growth, the potential for FOMC tapering in the first quarter of 2014, the lingering effects of the government shutdown and the risk of a default.

Chart 1: 10-year Bond Yield for 3Q13

Source: Bloomberg

Housing

The housing recovery has continued in the third quarter but at a slower pace. Prices have risen substantially in many markets, almost to pre-recession highs (Chart 2). The combination of higher home prices and higher mortgage rates are resulting in a slower rate of growth as we look into 2014. The result of higher prices and rates can be seen in the housing starts numbers, which have been revised down across the board, resulting in a short-term decline in home prices that we hope is temporary (Chart 3). However, demand continues to outstrip supply at the low end for first-time home buyers, and the demand for housing and related goods continues to be a positive for durable goods, such as automobiles and appliances.

Chart 2: Case-Shiller Home Price Index

Source: Bloomberg

Chart 3: U.S. Housing Starts

'11 Act.	'12 Act.	1Q '13A	2Q '13A	3Q '13E	4Q '13E	'13 Est.	'14 Est.
612	980	963	872	921	990	935	1,143

In thousands seasonally adjusted

Source: Pinnacle Trust and Investment Advisory

Unemployment

Job creation in the U.S. continues to increase steadily. The unemployment rate fell to 7.3 percent in September (Chart 4). While we expect job creation to continue, we still believe progress will be slow. As we mentioned last quarter, the labor participation rate (Chart 5) is a key problem in curing chronic unemployment over the longer term. If you add the unemployment rate to Gallup's underemployment rate of 17.2 percent, about 25 percent of U.S. workers are still unemployed, underemployed or have left the work force.

Chart 4: U.S. Unemployment Rate

'11 Act.	'12 Act.	1Q '13A	2Q '13E	3Q '13E	4Q '13E	'13 Est.	'14 Est.
9.0%	8.1%	7.7%	7.6%	7.3%	7.2%	7.5%	6.9%

Source: Pinnacle Trust and Investment Advisory

Chart 5: U.S. Labor Participation Rate

Source: Bloomberg

Chart 6: U.S. Full-time Employment

Source: Bloomberg

One of the factors that is muting the quality of the unemployment data is the Affordable Care Act. The ACA includes an employer mandate/penalty that will be incurred by companies with more than 50 employees if they do not offer health insurance to their full-time workers. Many businesses with more than 50 full-time employees have begun to convert them to part-time workers, thus avoiding the mandate and lowering the quality of the jobs created. While this is happening with businesses with 50-300 employees, the effect of the ACA on large corporations is minimal.

GDP Growth — Inflation

We remain cautious on GDP growth for the balance of 2013. While housing is growing and durable goods are doing well, the government shutdown will have a negative impact on the numbers. While we are hopeful that there will be an agreement in Washington about the government shutdown, deficit and funding our debt as we move forward, we still see both sides far apart. Our estimate of the shutdown is that if it lasts for 30 days, it will reduce GDP by 0.75-1 percent for the quarter. If an agreement can be found, the economy is stable enough to move on with little long-term effect.

Chart 7: U.S. GDP Estimates

'10 Act.	'11 Act.	'12 Act.	1Q '13E	2Q '13E	3Q '13E	4Q '13E	'14 Est.
3.1%	1.8%	2.2%	2.4%	1.6%	2.3%	2.6%	2.6%

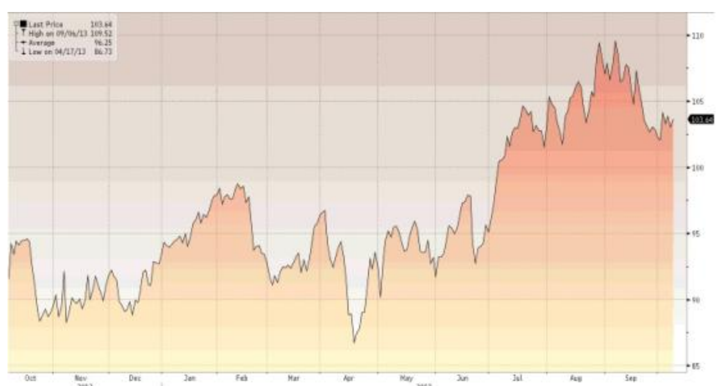
Source: Pinnacle Trust and Investment Advisory

Chart 8: Consumer Price Index Estimates

'10 Act.	'11 Act.	'12 Act.	1Q '13E	2Q '13E	3Q '13E	4Q '13E	'14 Est.
1.6%	3.1%	2.1%	1.4%	0.0%	1.8%	1.9%	1.7%

Source: Pinnacle Trust and Investment Advisory

Chart 9: U.S. Crude Oil Price YTD



Source: Bloomberg

Investment Overview

Outlook

We continue to believe that stocks are attractive for the long term, and we remain cautious on bonds. We believe that stocks will continue to be volatile for the balance of the year. Our initial 2014 outlook for the S&P 500 earning is 111, or up 7 percent year over year.

The FOMC's decision not to taper in 2013, while a positive for the markets, is short lived. We expect 2014 to be a busy year for the FOMC, with a tapering of bond purchases in the first half of the year and the possibility of raising the federal funds rate at the end of the year. What has changed? Over the last 12-18 months, world GDP has fallen as Europe worked to recapitalize Greece, Italy, Spain and Portugal, and Asia growth has declined with its export orders. Today Europe is stable and beginning to grow, while Asia GDP growth is also beginning to accelerate with consumer sales. The effect of this activity on U.S. investors will be a re-inflation of commodity prices in 2014. We have already seen crude oil prices and copper prices perk up; as global growth accelerates, it will increase the prospects for inflation. While we might be early on this call, investors need to build the prospect of inflation into their forecast.

Portfolio Strategy

We remain bullish on healthcare, financials and technology. We are negative on utilities and consumer staples. The best-performing sectors for the quarter were materials, up 10.11 percent; industrials, up 9.34 percent; and consumer discretionary, up 7.82 percent. The worst-performing sectors for the quarter were financials, up 2.77 percent; consumer staples, up 0.97 percent; and utilities, up 0.27 percent.

Our portfolios are currently:

- Overweight: Technology, financials and industrials
- Underweight: Consumer discretionary, consumer staples, energy, healthcare, utilities/telecom and materials
- Recent sells: Reduced our position in Exxon, Costco and Pepsico
- Recent purchases: Added to Allergan and HCA. Purchased Las Vegas Sands Corp., Freeport McMoRan Copper & Gold Inc. and Diamond Offshore Drilling.