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world war trade

THIRD QUARTER 2018

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Market Environment Summary

> No nation was ever ruined by trade…
>
> *-Benjamin Franklin*

Coming off one of the greatest statistical anomaly calendar years for U.S. equities in 2017 (virtually zero volatility), the first three months of 2018 followed suit with its own unique environment for multi-asset investors (stocks, bonds and commodities all finished lower). What did the second quarter have in store? A bit of normality. Both equities and bonds experienced their moments of strength and weakness over the second quarter, but ultimately etched out moderately positive returns for the period. Stretching across the first 180 days of the year, markets have largely behaved how one should expect coming off an exceptionally strong, quiet previous 12 months. A bit of uncertainty in pricing action which turns into much-needed and welcomed consolidation. In order for markets to not get too far ahead of themselves, this is an integral part of their cyclical nature. There has been no shortage of headlines, and a handful of tangible catalysts and headwinds, that have been thrown at investors so far this year. None more notable than the conversation of global trade. An immensely complex subject, investors have been forced to consider what the implications of a trade war could be for their portfolios and for the global economy. A subject that isn't as simple as reported trade deficits and surpluses, this is no small task for investors to try to breakdown and ultimately decide how to respond. Or if they even should. We believe the subject of global trade carries significant global economic implications. The best way to defend or prepare one's portfolio from this event, or even benefit, is to stick to their personal investment plan and to continue to act on facts, not headlines.

Authors: GFG Capital

Source: Bloomberg database. Past performance is not indicative of future returns.

Global Market Overview

1st QUARTER 2018

Markets seemed to diverge from the global fundamentals that support the asset classes in the first period of the year. Equities and commodities posted negative returns in the first 3 months of the year. Global fixed income squeezed out positive returns driven by emerging market paper (a risk on signal). When looking at U.S. fixed income, returns were negative for the aggregate index.

GLOBAL EQUITIES

1.9%

WORLD INDEX

Global equities were lower to start the year after an exceptionally strong start in January.

GLOBAL FIXED INCOME

0.2%

TOTAL BOND

Fixed income managed to provide some cushion on a global scale, but investors who were not willing to take on EM risk, did not fair so well.

COMMODITIES

0.4%

BLOOMBERG COMMODITY

Commodities finished lower in the period, a move that is seldom seen with equities and bonds each finishing negative as well.

CURRENCIES

5.0%

DOLLAR INDEX

Dollar weakness was a main talking point in Q1, which added to inflation concerns in the first 90 days.

GLOBAL GROWTH

3.6%

WORLD GDP

Global growth was strong to end 2017, with expectations for a pickup in growth in the coming months.

REAL ESTATE

UNITED STATES	6.6%
CHINA	-0.6%
EUROPE	4.5%

Real estate remains strong in global markets, with housing providing stability to the expansion in the U.S.

INFLATION

UNITED STATES	2.0%
CHINA	1.8%
EUROPE	2.0%

Inflation remains at the forefront of investors' minds. The most recent CPI readings less-food and energy came in below 2% in the U.S.

EMPLOYMENT

UNITED STATES	4.0%
CHINA	3.9%
EUROPE	7.0%

Employment continues to drop at a rapid rate, and full employment is close in US.

Source: Bloomberg database. World Index: MSCI World Index. Total Bond: Vanguard Total Bond Fund BNDX. Commodities: Bloomberg Commodity Index. Dollar Index: DXY Dollar Index. World GDP: Bloomberg Data. Real Estate: US/ Case Shiller 20 City YoY, China: China First Tier Cities Newly Built Residential Buildings Prices YoY Average, Europe Eurostat House Price Index European Union YoY Inflation: US: US Personal Consumption Expenditure Core Price Index YoY SA, China: CPI National Bureau of Statistics of China, Europe: Eurostat European Union HICP All Items YoY NSA, Employment: US: BLS Unemployment Rate, China: China Qtrly Registered Unemployment Rate in Urban, Europe: Eurostat Unemployment EU SA. Past performance is not indicative of further returns.

Current Positioning

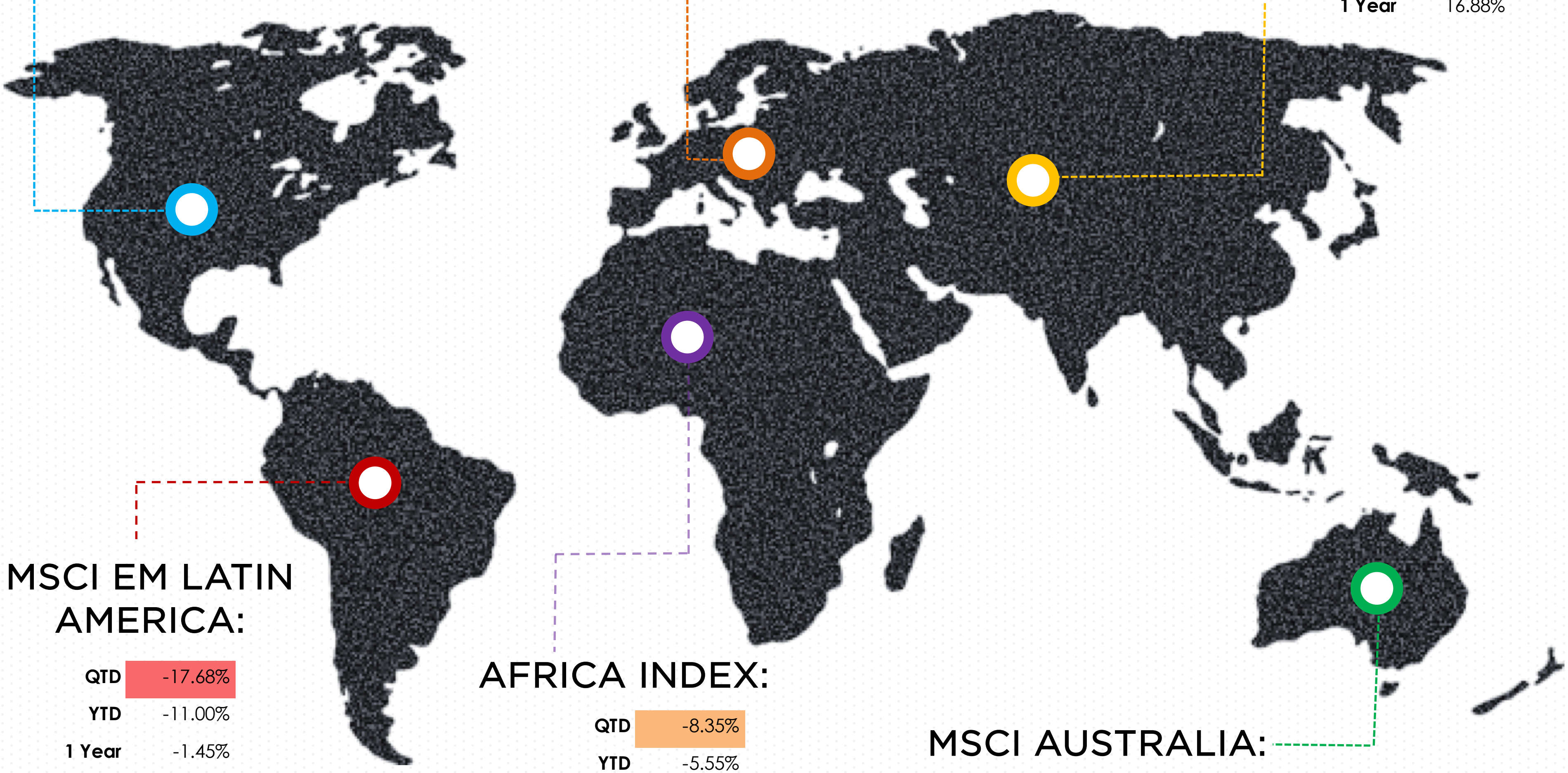
◀ Negative shift in sentiment QOQ | ▬ No shift in sentiment QOQ | ▶ Positive shift in sentiment QOQ

Asset Class		Rationale
IG Debt	▶	A pickup in global yields has provided investors with the option to return to traditional safer, yielding centric asset classes. We've carried a bias to corporate investment grade debt for the last 24 months, but we are seeing increased use in sovereign debt today.
TIPS	▬	Relative performance of TIPS should continue to be supportive of the asset class, but we view the allocation as a hedge more than anything.
US High Yield	▬	Pricing in fixed income broadly speaking in 2018 thus far has helped push yields higher across the universe. U.S. high yield today remains one of the most attractive yield opportunities today. We see few tangible reasons for spread widening today.
Senior Loans	▬	With the short end of the yield curve experiencing the bulk of the move at this point, we remain constructive of the floating floor structure of the asset class. We're cautious on the new issues coming to market price above historical mean levels, but spreads have widened a bit in 2018.
EM Debt	◀	Valuations and macro variables are increasing our preference to play the emerging market space through the equity asset class. With global yields picking up, we're comfortable allocating the EM risk to our equity profile over our debt profile today.
US Large Cap Value	◀	Weakness in equities broadly speaking was attributable to the lack of sector rotation late in the quarter. We're cautious on investor's willingness to continue the rotation we saw in 2017 without evidence being brought forward to support it.
US Large Cap Growth	▬	Weakness in tech has weighed on the growth style which is being dragged down by tariff concerns. With targeted tariffs on technology sectors proposed by the administration, it will take a U.S.-China trade resolution to ease the headwinds on the space. This won't happen overnight.
US Small Caps	▶	Tactical allocations to smaller U.S. centric equities could continue to see a benefit from isolationist U.S. strategy. But we feel investors could be better suited limiting this exposure at this point of the economic cycle.
Asian-ex Japan Equities	▬	Despite the concerns of trade wars, we view the strategic moves made by Beijing in the early part of the year have long-term positive implications for the region.
EM Equities	▬	Headline risks have hit emerging market equities especially hard in 2018. We view this as opportunity creation. We see an ultimately accommodative and amicable outcome to the current trade dispute, which will let these valuations manifest into returns.
EAFE Equities	▬	Short term weakness in the EAFE space is coming on the backs of outperformance in 2017. With some weakness surfacing on the developed market economic front, and currency questions, we expect consolidation to continue. But greater exposure to EM trade through EAFE exposures remains attractive.
Infrastructure	▬	Long-term we see the value of having an infrastructure play within our portfolio. We continue to source direct/private investment opportunities. Infrastructure as an asset class is still very immature which creates a hurdle for access in the secondary market.
Alternatives	◀	With valuations not cheap we remain focused on allocating portions of assets to lower correlated, yet interesting alternative investment ideas. In order for an investor to achieve desirable returns over the long-term today, we see increased value in private investments.
Real Estate	▶	Direct real estate exposure/ownership has continued to show its value to investor's portfolios. Despite higher cap rates with rising yields and interest rates, institutional core/core+ real estate have shown relative strength.

*No bull or bear icon indicated a neutral stance on the asset class

Source: Bloomberg database. Please contact GFG Capital for any additional information: Opinions are that of GFG Capital and should not be used for any investment decisions.

Global Market Performance: in USD



MSCI US:

QTD	3.55%
YTD	2.90%
1 Year	18.08%

MSCI EUROPE:

QTD	-1.27%
YTD	-3.23%
1 Year	13.04%

MSCI ASIA PACIFIC:

QTD	-3.29%
YTD	-3.21%
1 Year	16.88%

MSCI EM LATIN AMERICA:

QTD	-17.68%
YTD	-11.00%
1 Year	-1.45%

AFRICA INDEX:

QTD	-8.35%
YTD	-5.55%
1 Year	14.75%

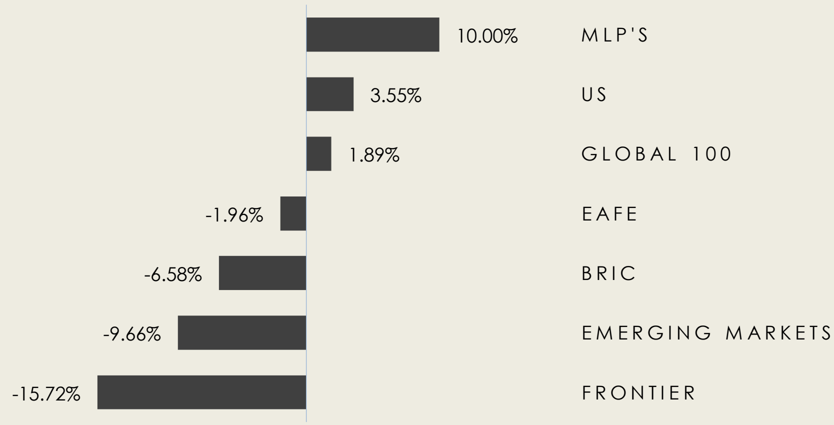
MSCI AUSTRALIA:

QTD	4.69%
YTD	-0.51%
1 Year	6.76%

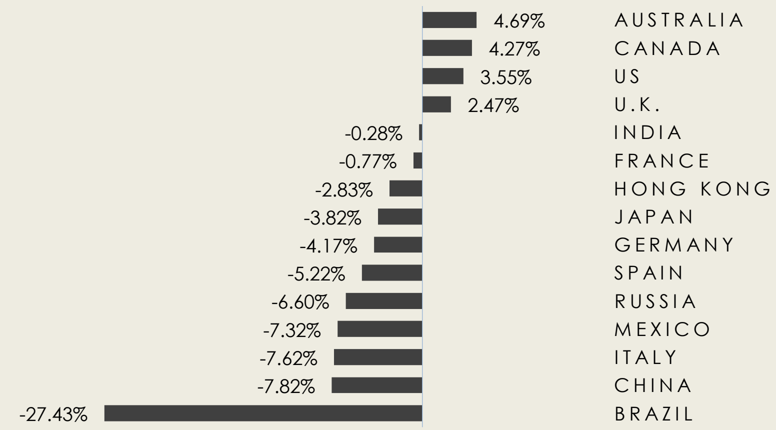
Source: Bloomberg database. Each return stream is derived using MSCI Indices. MSCI United States Index, MSCI Europe Net Return USD Index, MSCI AC Asia Pacific Index, MSCI Emerging Markets Latin America Index, MARKET VECTORS AFRICA INDEX, iShares MSCI Australia ETF. Past performance is not indicative of further returns.

Equity Market Performance

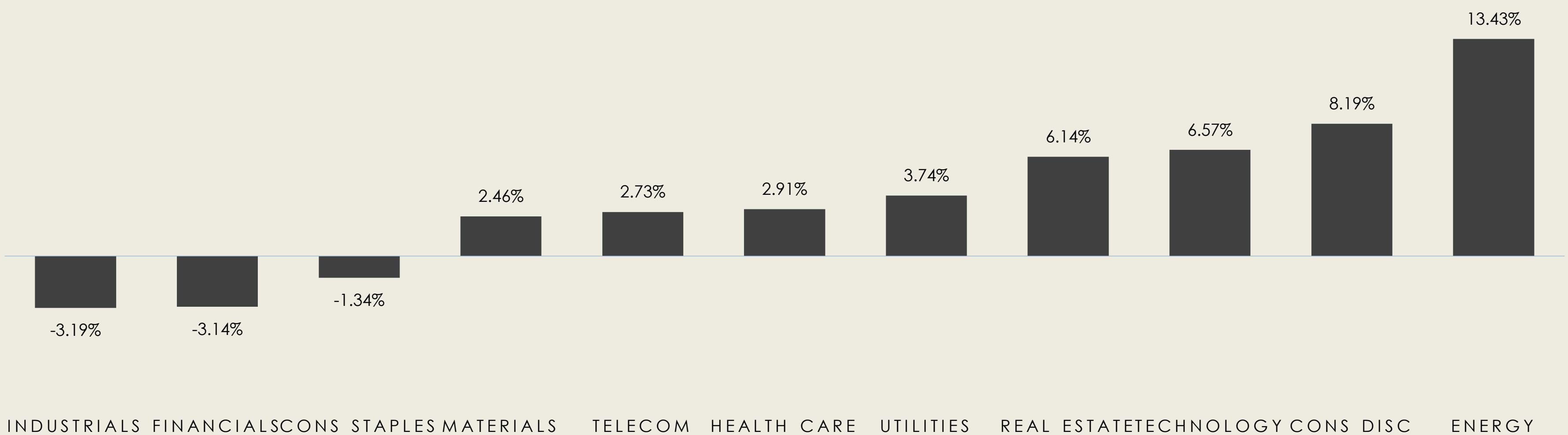
GLOBAL EQUITIES



EQUITIES BY COUNTRY



U.S. SECTORS

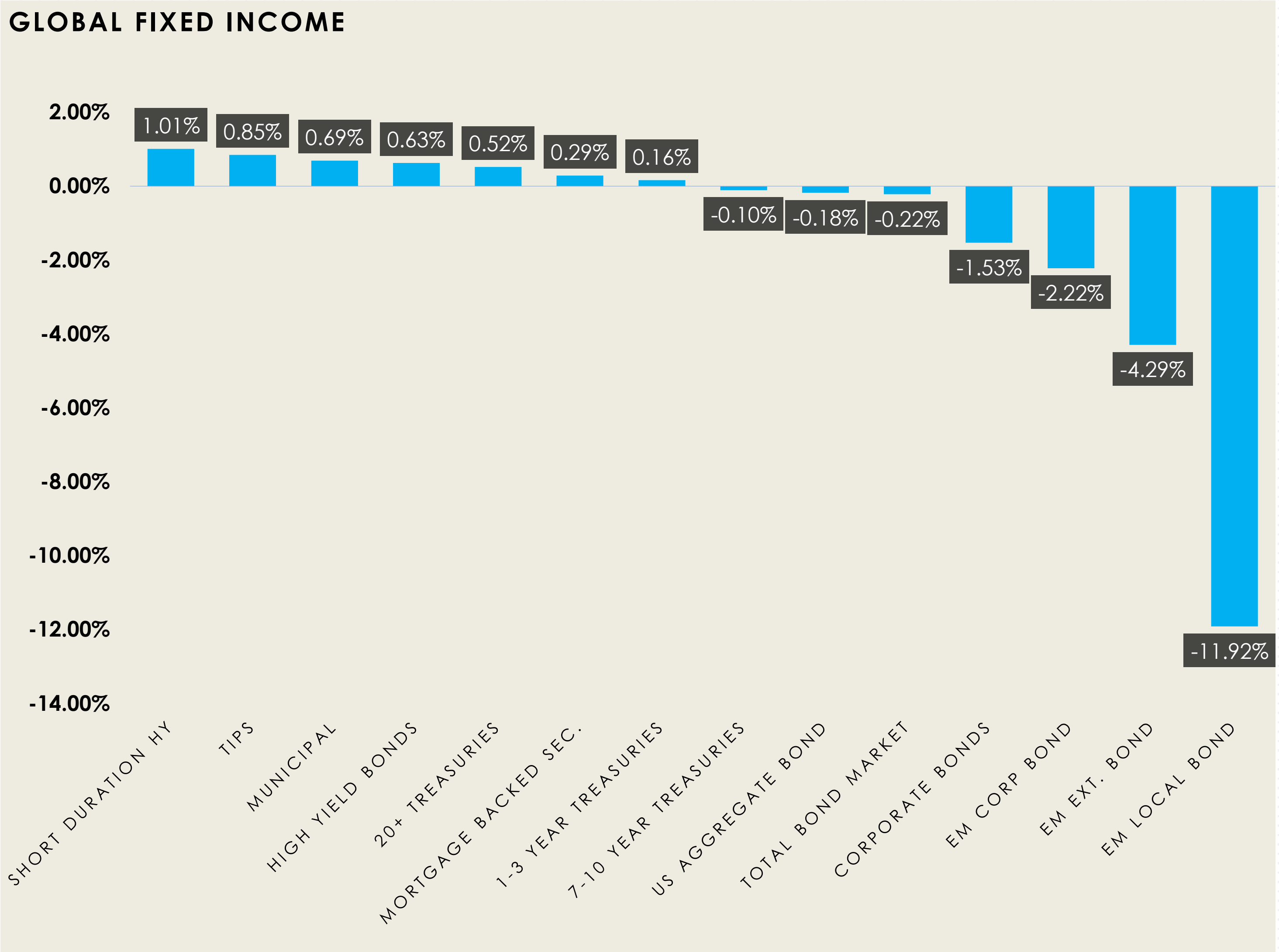


Data Used: Bloomberg database. US (SPY ETF), MLPs (AMLP ETF), Frontier (FM ETF), Global 100 (LOO ETF), Emerging Markets (EEM ETF), EAFE (EFA ETF), BRIC (EEB ETF), India (INP ETF), China (FXI ETF), Hong Kong (EWH ETF), Canada (EWC ETF), Australia (EWA ETF), Japan (EWJ ETF), Spain (EWP ETF), UK (EWU ETF), France (EWQ ETF), Italy (EWI ETF), Mexico (EWW ETF), Germany (EWG ETF), Brazil (EWZ ETF), Russia (RSX ETF), Utilities (XLU ETF), HealthCare (XLV ETF), Technology (XLK ETF), Constumer Staples (XLP ETF), Financials (XLF ETF), Industrials (XLI ETF), Consumer Discretionary (XLY ETF), Materials (XLB ETF), Telecom (IYZ ETF), Energy (XLE ETF). These securities were selected based solely on their country exposure. GFG is not recommending a prospective client buy these positions. The above is provided for information purposes only and is not a forecast of sectors or equities . Past performance is not indicative of future returns.

Global Fixed Income Markets

Commentary: Bond yields continued to fluctuate in the second quarter, with a clear theme emerging from pricing trends: investors are continuing to steer towards short dated, higher coupon paper. These segments were leaders in the period as we saw EM debt (local and hard) struggle. Corporate debt (investment grade) struggled in the period as investors are recalibrating the risks they're willing to assume within their fixed income portfolios.

But it is important for investors to remember a rise in bond yields is the only way a measurable real return will be made in the asset class in the long term. So long as an investor's holding period out stretches the period of rising yields, bond investors will benefit from the rise in yields.



Data Used: 20+ Treasury (TLT ETF),Municipal (MUB ETF), 7-10 Treasury (IEF ETF), Total Bond Market (BND ETF), US AGG (AGG ETF), MBS (MBB ETF), 1-3 Treasury (SHY ETF), Corporate Bond (LQD ETF), EM EXT Bond (EMB ETF), Short Duration HY (HYS ETF), EM Corp (CEMB ETF), High Yield Bonds (HYG ETF), TIPS (TIPS ETF), EM Local (LEMB ETF)

Source: Bloomberg database. Please contact GFG Capital for any additional information: Opinions are that of GFG Capital and should not be used for any investment decisions. These securities were selected based solely on their specific fixed income exposure. GFG is not recommending a prospective client buy these positions. Past performance is not indicative of further returns.

RECENT MARKET drivers

Recent Market Drivers

Economic Growth	While 2017's favorite term of "global growth synchronization" has been tested thus far in 2018, signs are still pointing towards positive global growth. Specifically within the United States, there seems to be little evidence of imminent recession. Unemployment claims are also in a declining trend, reaching a new 49 year low in mid-May. Historically, claims have started to rise at least 7 months ahead of the next recession.
Yield Curve	Bond yields have been on the move since summer 2016, which began to escalate the conversation of the yield curve heading towards inversion. The yield curve has 'inverted' (10 year yields less than 2-year yields) ahead of every recession in the past 40 years. The lag between inversion and the start of the next recession has been long: at least 10 months and in several instances as long as 2-3 years. On this basis, the current expansion will likely last through 2018 at a minimum.
Trade Wars	Trade war rhetoric remains the largest risk to the global capital market system and global economy today. With tangible economic data confirming a positive growth trend continuing, this could potentially be thwarted by this wild card. Per the US Federal Reserve, GDP per capita and wages each decline by 2% relative to trend in the first 2 years following tariff increases. Increased protectionist strategies leads to declines in GDP, higher inflation and don't have a positive material impact on trade balances.
Inflation	Despite steady employment, demand and housing growth, core inflation remains stuck near the Fed's target of 2%. CPI (blue line) was 2.7% last month. The more important core CPI (excluding volatile food and energy; red line) grew 2.2%. The Fed prefers to use personal consumption expenditures (PCE) to measure inflation; total and core PCE were 2.2% and 1.9% YoY, respectively, at the end of Q3.
Low Return Environment	Low return environment are three words investors have been sold for nearly a decade. As we entered 2018 we outlined the reasons why there was more evidence of this concept today than in prior years. Coming off a year with exceptional returns, we reinforced these fundamentals and that extrapolation of 2017's performance could be a costly mistake. As we wrapped up H1, a return of volatility and a bit more pause from investors have supported this low return environment in a way 2017 couldn't fathom.
Earnings Growth	The S&P 500 is expected to report earnings growth of 20.0% for the second quarter. This would mark the second consecutive quarter of 20% earnings growth. In the first quarter the S&P 500 experienced 24.8% earnings growth. This earnings growth is validating the price performance in 2017, but might confuse investors as to why the index has been relatively tamed in 2018. Expectations were for a momentary boost in earnings in 2018 due to fiscal policy. Focus will continue to be on companies' willingness to boost spending on Capex and R&D with their new found capital.
Fed Chair Speaks	Jerome Powell assumed the position at a tough time, and being dealt a tough hand. As his first few months on the job unfolded, even he has been forced to address the trade war rhetoric. Similar to our own views, Powell emphasized the importance of remaining committed to a plan and digesting the evidence as it unfolds. Powell has cited no evidence of the trade talks making their way into the economy thus far, but cited the risks of unexpected trade restrictions speeding the Fed's plan and increasing the need to hike rates. Ultimately, shortening the current economic expansion prematurely.
Volatility	Following one of (if not the) most quiet equity volatility years in history in 2017, the first half of 2018 has been a bit of a regression to the mean. But a side effect of subdue markets is a misperception of choppy ones. While 2018 has seen certainly more sizeable (1% up or down) moves in the first six months than in the 12 months in 2017 (4 times the amount); this isn't anything out of the ordinary. In fact, the volatility we've seen thus far in 2018 has been average in comparison to the previous 21 years.
Emerging Markets	Emerging market growth tends to be highly levered to trade; so far, despite the protectionist rhetoric from Washington, there is little evidence trade uncertainty is weighing on production and consumption within emerging market economies. The second quarter also was an exceptionally strong period for the dollar, as a flight to some quality and security has been a common (and smart) move for investors within the peripherals of their portfolios. Assuming a positive result to the current trade discussion, emerging market assets should see their recent multi year trend of outperformance continue.

Source: Opinions are that of GFG Capital and should not be used for any investment decisions. 1) Data is derived by Bloomberg and analyzed by GFG Capital. The data referenced above is also shown on page 14 of this presentation.

¯_(ツ)_/¯ Synchronized global growth…then what?

Economic Growth

While 2017's favorite term of "global growth synchronization" has been tested thus far in 2018, signs are still pointing towards positive global growth. Specifically within the United States, there seems to be little evidence of imminent recession. Unemployment claims are also in a declining trend, reaching a new 49 year low in mid-May. Historically, claims have started to rise at least seven months ahead of the next recession.

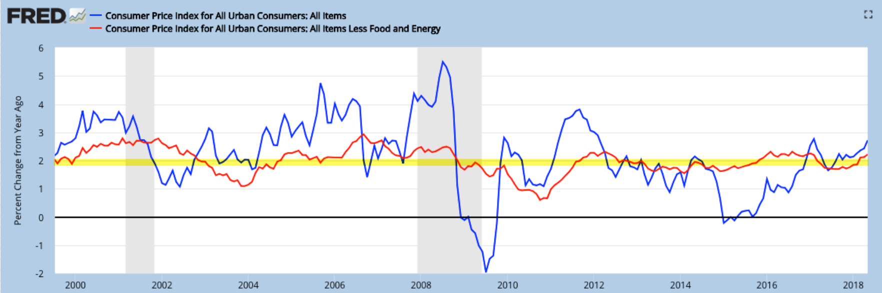
Economic Growth Focus Returning Home

After the first quarter we spoke about the market's lack of enthusiasm with the global growth story as the market was demanding receipts for promises it had already paid for. We want to take this period to highlight some of the evidence and economic fundamentals here in the U.S. that should soften some of the noise coming through the airwaves today.

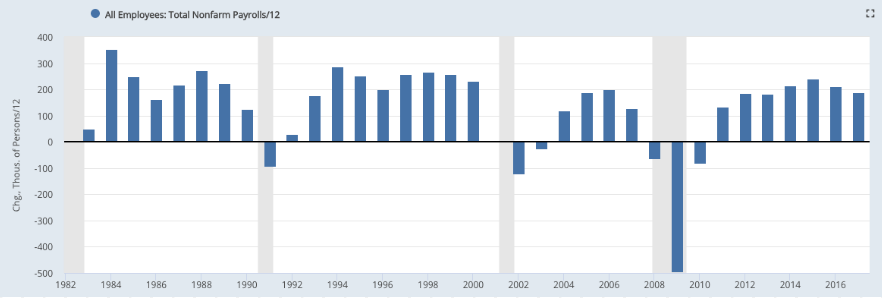
Straight to the Facts

At the end of the quarter we were receiving a slew of economic data depicting a strong underbelly of the economy. This is a trend that has persisted with little signs of interruption since the beginning of the expansion. Some of the most prominent readings that command investors' attention perhaps more so than others came in as solid as one could hope. Here are some highlights[1]:

- **Employment:** Monthly employment gains have averaged 197,000 during the past year, with annual growth of 1.6% YoY. Employment has been driven by full-time jobs, which rose to a new all-time high in June. A trend that has been welcomed in contrast to the part-time employment trend that had swept the country.
- **Compensation:** Compensation growth is on an improving trend. Hourly wage growth was 2.7% YoY in June, while the 1Q18 employment cost index grew 2.9% YoY, the highest growth in the past 10 years. However, we will point out this growth narrowly edges out inflation.
- **Demand:** Real demand growth has been 2-3%. In May, real personal consumption growth was 2.3%. Real retail sales (excluding food) grew 3.2% YoY in May, making a new all-time highs. 1Q18 GDP final reported growth was the highest in nearly 3 years.
- **Housing:** New home sales grew 14% YoY in May. Housing starts were at the highest level of the past 11 years in May, rising 20% YoY. Multi-family units remain a drag on overall development.
- **Manufacturing:** Core durable goods rose 5.5% YoY in May. The manufacturing component of industrial production grew 1.9% YoY in May. Both measures were at the highest level in 10 years in April.
- **Inflation:** The core inflation rate remains near the Fed's 2% target.



Steady Inflation



Firm Employment Trend

Source: Opinions are that of GFG Capital and should not be used for any investment decisions. 1) Data is derived by Federal Reserve Economic Data (FRED) and analyzed by GFG Capital. Graphs provided by FRED.

¯_(ツ)_/¯ Synchronized global growth…then what?

Economic Growth

While 2017's favorite term of "global growth synchronization" has been tested thus far in 2018, signs are still pointing towards positive global growth. Specifically within the United States, there seems to be little evidence of imminent recession. Unemployment claims are also in a declining trend, reaching a new 49 year low in mid-May. Historically, claims have started to rise at least seven months ahead of the next recession.

Macro>Micro

We are firm believers that keeping the big picture in mind and thinking long-term yields the greatest outcome. Not only in investing but in life. Exercising patience and tolerance are not only characteristics important for your day to day but also your portfolio.

Long Run Relationships

We certainly agree that the day to day movement in the market is not a day to day indicator of the health of the broader economy. But over the long term, these two are typically in a strong long-term relationship. The stock market is usually a good indicator of what's to come in the economy, not what just happened. Or even what's happening in present time. As the current economic expansion continues to age, although still healthy as just pointed out, we can start to pay closer attention to history for some insight into the future.

All 7's

The previous seven economic recessions were all prefaced with unemployment claims bottoming and the yield curve becoming inverted and a peak in the S&P 500's price. Meaning, typically the breakdown of some key indicators leads to forward expectations becoming tempered with the equity market peaking prior to the recession making its way through the economy.

I Dip You Dip We Dip

We reiterate almost daily, certainly quarterly, as earnings grow the price of equity assets tend to grow with them. When it comes to the economy and the stock market: as consumption grows (~70% GDP) as does the equity market. With consumption as measured by retail sales continues to climb, we view the macro, long-term trend of the economy still projecting a positive signal.

S&P 500 Peak Date	Unemployment Claims Trough	Yield Curve Slop Inverted	Recession Begin	S&P 500 Decline
Dec-68	*May-69*	Apr-68	Dec-69	-36%
Jan-73	*Mar-73*	*Mar-73*	Nov-73	-48%
Oct-79	Nov-78	Aug-78	Jan-80	-10%
Dec-80	Apr-81	Sep-80	Jul-81	-27%
Jul-90	Feb-89	Dec-88	Jul-90	-20%
Mar-00	*Apr-00*	Jun-98	Mar-01	-49%
Oct-07	Feb-06	Dec-05	Dec-07	-57%

S&P Peak Prior To Start of Recession

Consumptions Goes As Does The Market

Source: Opinions are that of GFG Capital and should not be used for any investment decisions. 1) Data is derived by Federal Reserve Economic Data (FRED) and analyzed by GFG Capital. Graphs provided by FRED.

Rising bond yields aren't going to kill your portfolio

Bond Yields

Bond yields have been on the move in 2018 disrupting asset classes across the globe, and some investors have been left puzzled. Not only do we view this as a net positive for bond investors in the long run, we think this creates the opportunity for asset allocations to migrate closer toward intended risk profiles. With higher bond yields, equities have a higher hurdle to clear from a return perspective to be a viable alternative. This is called equity risk premium.

Is the run over?

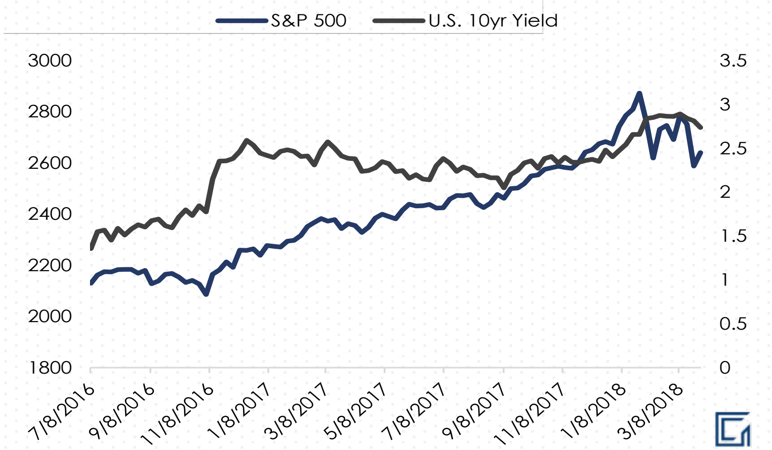
Bonds, and bond investors, have had seemingly no trouble generating a return over the last 30+ years (top). A bull market in bonds has been running at what seems like at an unstoppable rate. Naturally, there's been no complaints from owners of these assets. But we're seeing bond yields begin to move in a direction that is relatively foreign for many, which triggers a divergence in trend in price. This has left many investors to ask questions of how a change in environment will impact their fixed income positions. Have the good times come to an end? Not necessarily, we think things are setting up for a better picture down the road.

What's in a return?

Many investors might be thinking the fun is over in bonds and they shouldn't be used in their allocations if we're looking at a period of rising rates. An important point that needs to be understood by all investors is that without yield, you're not able to rely on bonds for a return. If bond yields are moving higher then this should be interpreted as higher future returns. Plain and simple. There is without a doubt a period of decline in principal given the inverse relationship, but its relatively short lived. If your investment period outpaces the cycle of rising rates, then you're a net beneficiary of the moves in the bond market. As time goes on and the debt you won matures, you now are able to reinvest at a higher coupon.

While rising bond yields give alternatives to investors to generate return, that doesn't completely wipe stocks out of the equation. Sure, the hurdle becomes higher for equities to surpass in order to justify their use, but that's not impossible. Bond yields as measured by the U.S. 10 Year Treasury have more than doubled since their bottom in July of 2016 (from 1.35% to 2.73% at Q1 end). In that same time, the S&P 500 returned more than 25% (bottom).

There is certainly no shortage of cause for volatility with moves within markets like this. Investors are being given new fundamentals that they must weigh in their investment decision process. For one reason or the other, rising bond yields seem to spook a lot of investors. But maintaining a mix between the two asset classes still remains the course of action to help buffer from turmoil on both ends.



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equities

S&P 500 Market View

While volatility was still present in the quarter, pricing fluctuations were fewer and further between in the second 90 days of 2018. The positive return for the period helped bring the year to date return for the S&P 500 to ~2.5%. However, pricing remains range bound as we look ahead to earnings to deliver on the anticipated growth. While the index still remains less than 4% from all-time highs, valuations today are much more tame than recent months, and historical market tops.

S&P 500 Price

Characteristics	2000	2007	Current
Price	1,527	1,565	2,760
Forward PE	25.6	15.2	17.3
Dividend Yield	1.10%	1.80%	1.87%
10 Year Treasury	6.20%	4.70%	2.82%

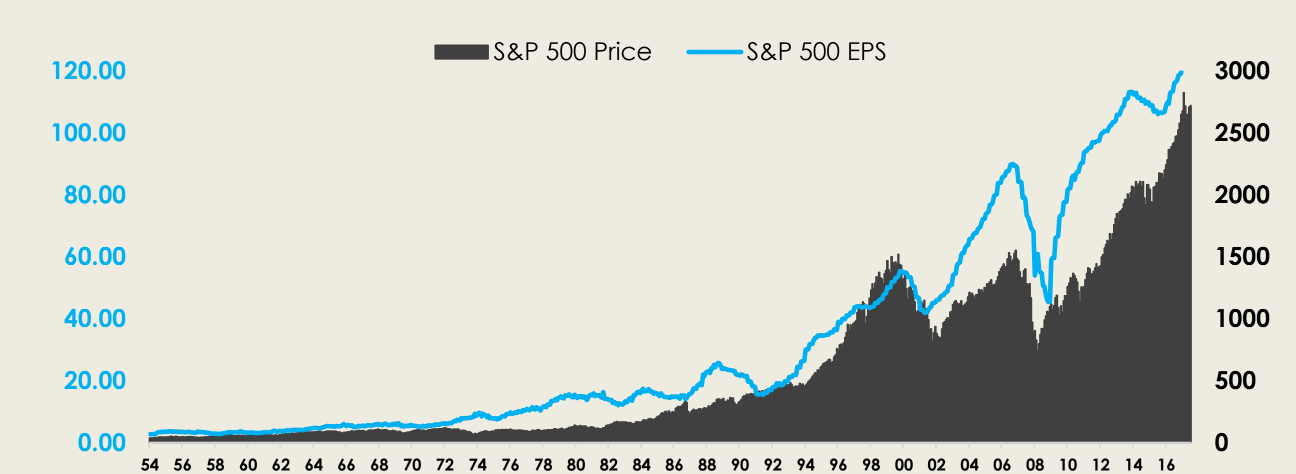
Source: S&P 500 Index. All data derived through Bloomberg L.P. Chart created by GFG Capital. Dates selected represent previous market tops prior to bear markets.

Price vs. Earnings Growth

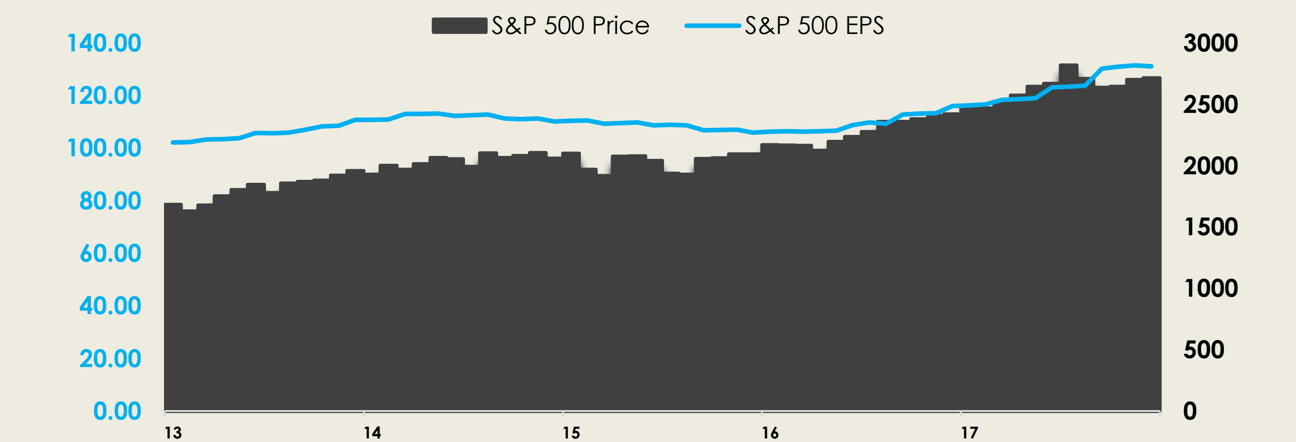
Commentary: When looking at the price action and growth of earnings, it is clear to see that earnings drives price. We maintain this mantra throughout our analytical process and know that reaching for returns is not an investment decision we are willing to make. Earnings have been on a positive streak of growth over the last 12 months after an extended period of decline dragged down by energy.

For Q2 2018, the estimated earnings growth rate for the S&P 500 is 20.0%. If 20.0% is the actual growth rate for the quarter, it will mark the second highest earnings growth since Q3 2010 (34.0%).

S&P 500 Price vs. Trailing EPS Since 1954



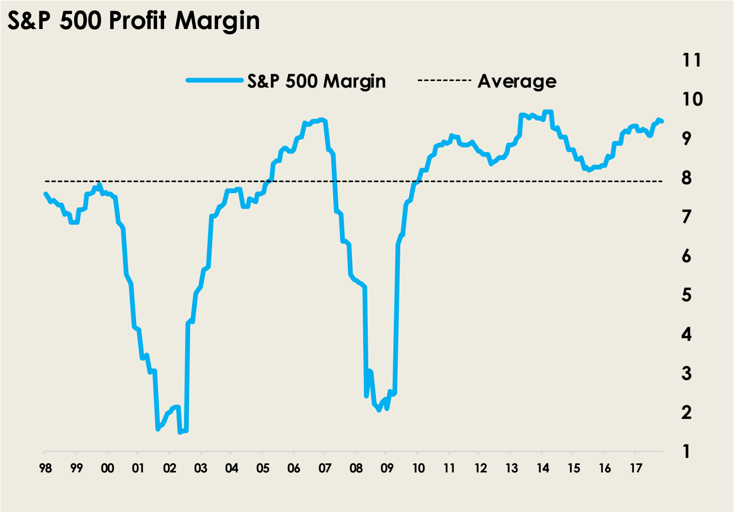
S&P 500 Price vs. Trailing EPS Last 5 Years

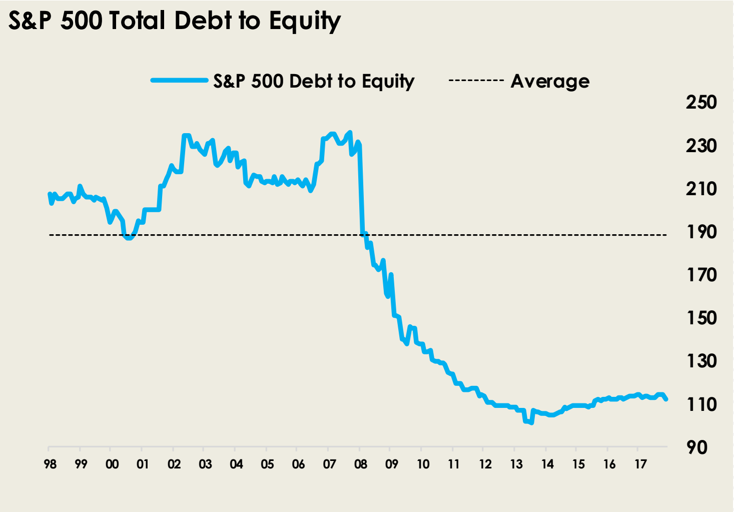


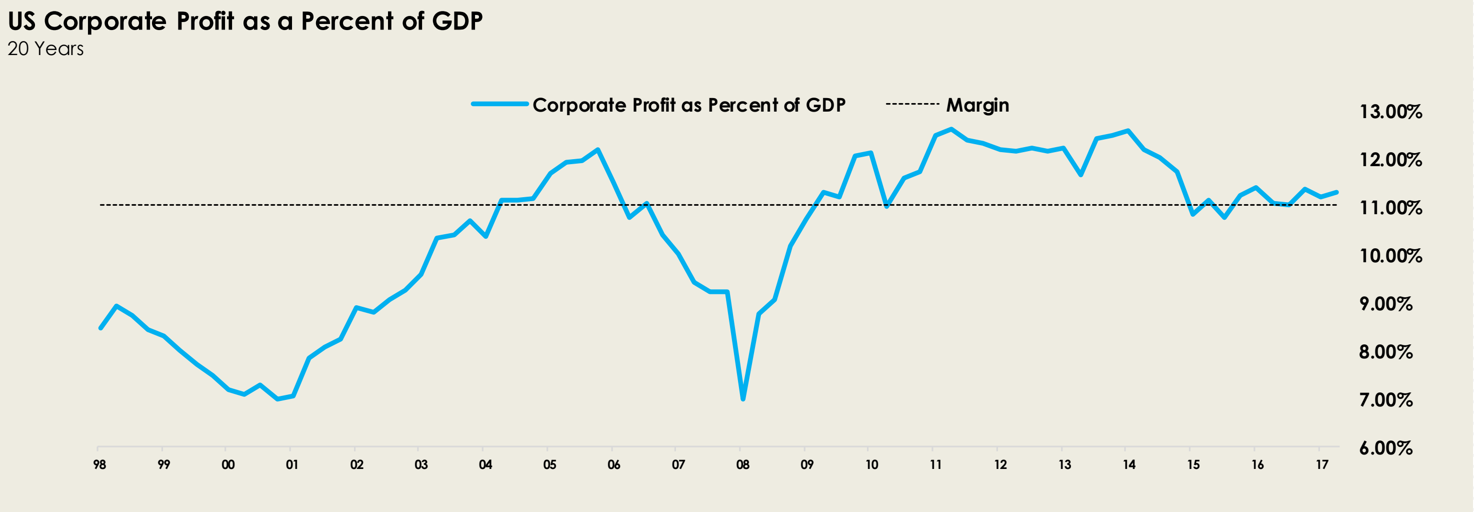
Source: [1] Factset. S&P 500 Index. EPS= Earnings Per Share. Bloomberg L.P. Chart created by GFG Capital.

S&P 500 Profits & Leverage

Commentary: Margins have continued to churn lower from peak levels reached back in 2013. Margin compression is a component that will work against earnings growth, and some reversion to the mean should be expected as the cycle continues to age.





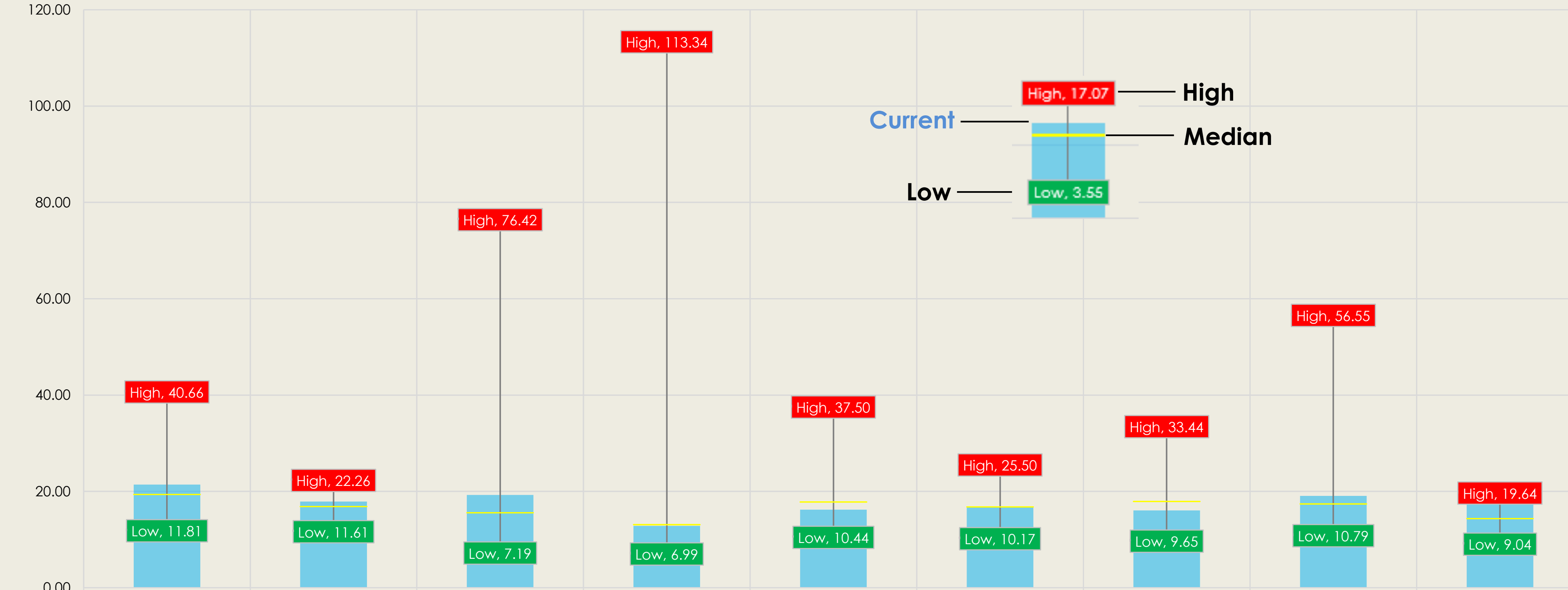


Source: S&P 500 Index. All data derived through Bloomberg L.P. Chart created by GFG Capital.

Sector Valuations: Forward Price to Earnings

At the end of Q2, 2 of the 11 sectors are trading at levels below their median valuation. Collectively, we've see valuations creep lower from the levels where we entered the year. This is a form of valuation correction that is a result of sideways, or flat trending markets.

Long Term Forward Price to Earnings Current/High/Low/ Median



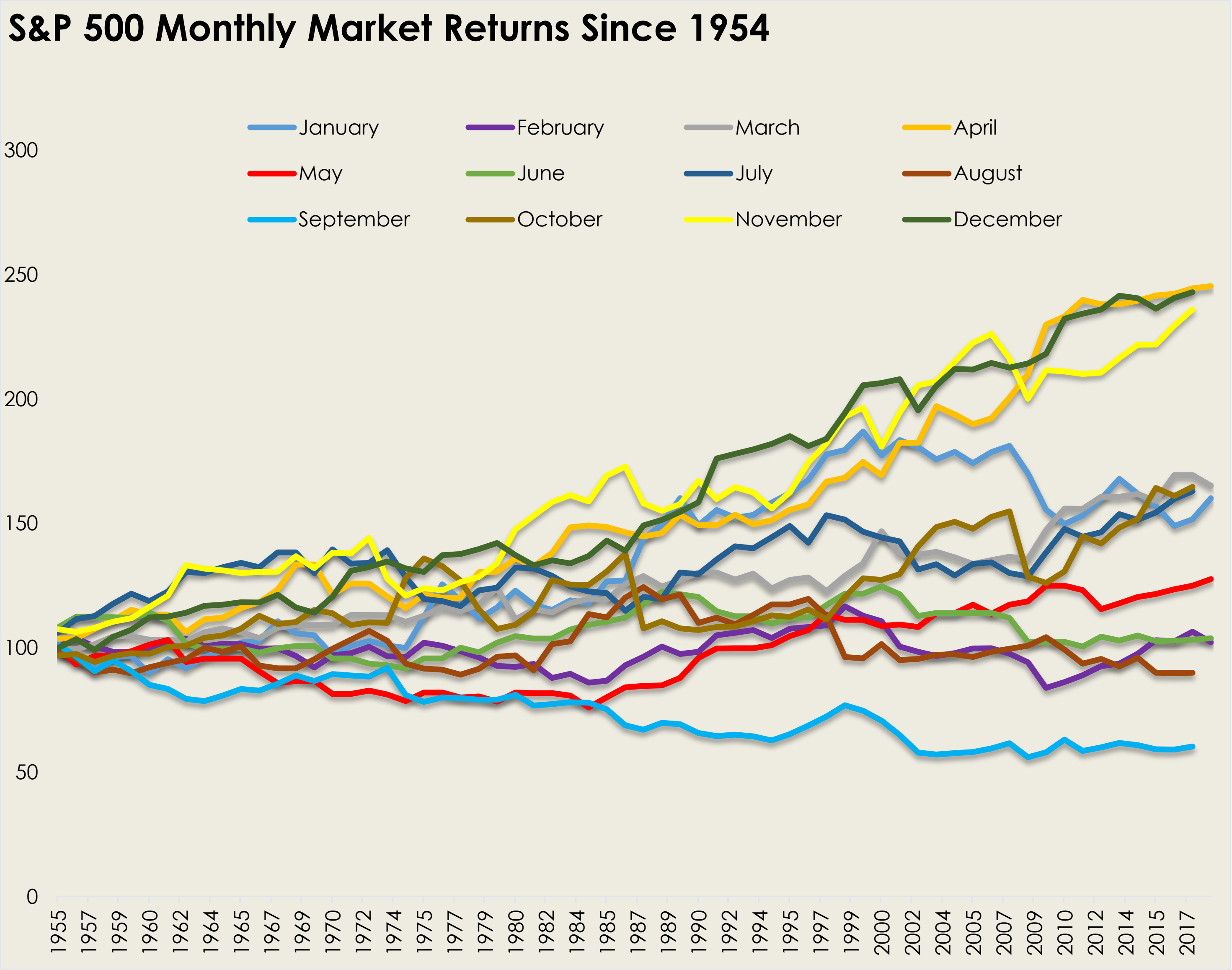
	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Materials	Technology	Utilities
Current	21.43	17.88	19.25	12.84	16.19	16.79	16.04	19.07	17.39
Median	19.37	16.87	15.56	13.12	17.80	16.77	17.91	17.40	14.34
High	40.66	22.26	76.42	113.34	37.50	25.50	33.44	56.55	19.64
Low	11.81	11.61	7.19	6.99	10.44	10.17	9.65	10.79	9.04
Median	19.37	16.87	15.56	13.12	17.80	16.77	17.91	17.40	14.34

Source: S&P 500 Index. All data derived through Bloomberg L.P. Chart created by GFG Capital.
All Standard & Poors GICS Level 1 sectors index.

Monthly Seasonality: Best & Worst

Commentary: The end of the first quarter marked one of the weaker Q2 performances relative to the historical seasonality. In 2018, the first 6 months of the year have been below the historical seasonality trends dating back to 1954.

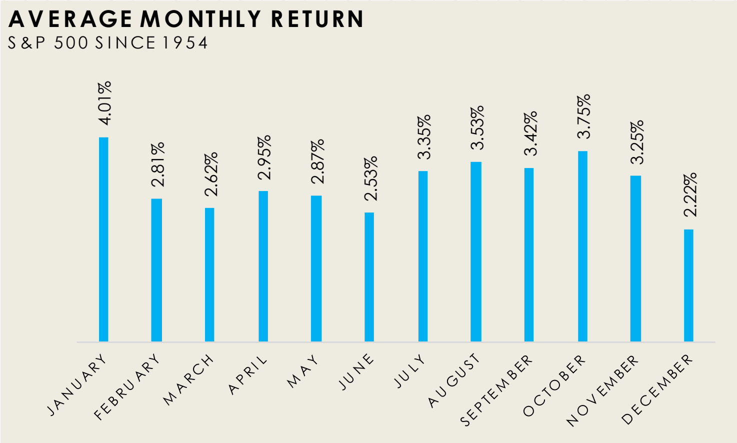
Entering Q3, we head into the weakest of the four quarters on a 3 month basis dating back 64 years. July is particularly weak with a positive rate of return just 48% of the time. These positive returns, on average, have been just 38 basis points. There is a bright spot, however; the last three July periods have been positive. The longest streak in 50 years. The last time July was positive 3 consecutive years in a row was 1978.

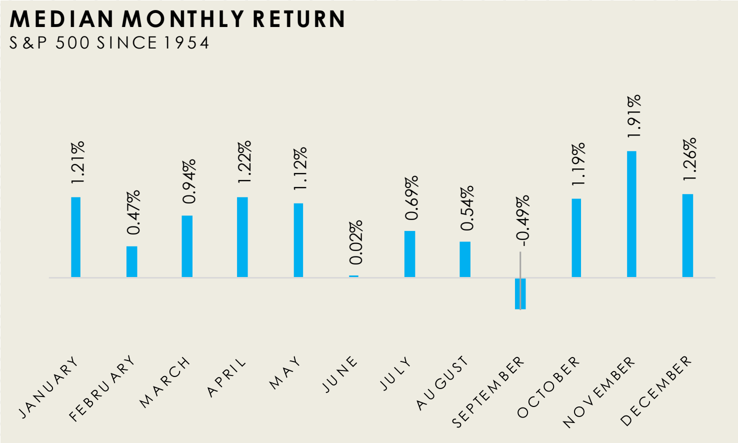


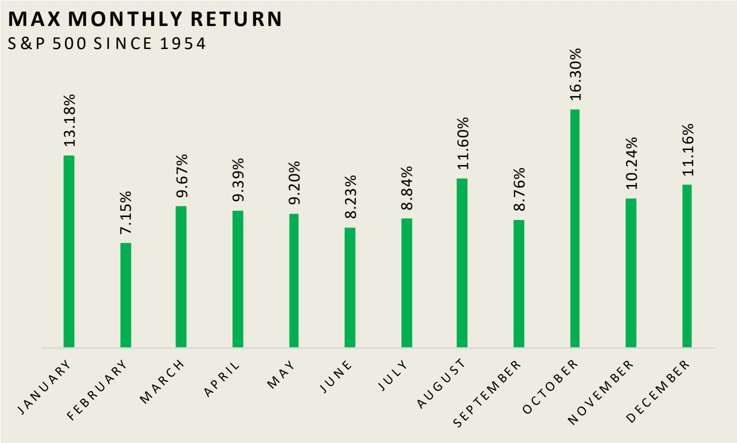
Source: S&P 500 Index. Using linked monthly return data since 1954. All data derived through Bloomberg L.P. Chart created by GFG Capital. Past performance is not indicative of further returns.

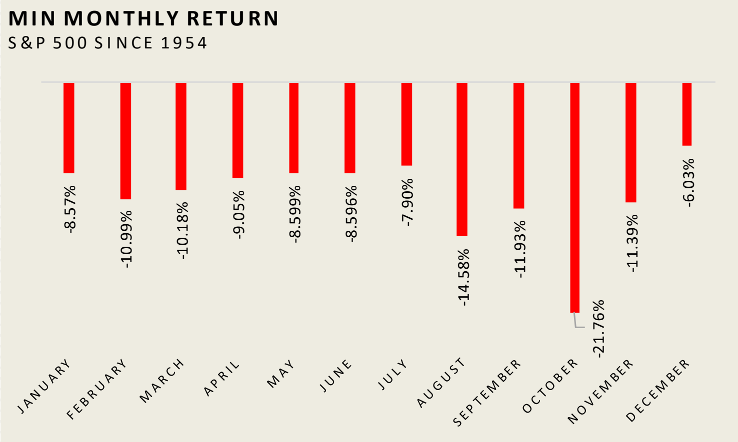
Monthly Seasonality: Risk Return

Commentary:
Weakness tends to show up later in spring as we enter the summer months.









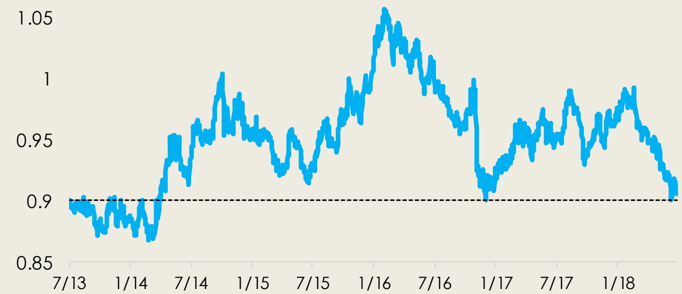
Source: S&P 500 Index. Using linked monthly return data since 1954. All data derived through Bloomberg L.P. Charts created by GFG Capital. Past performance is not indicative of further returns.

Market Rotation

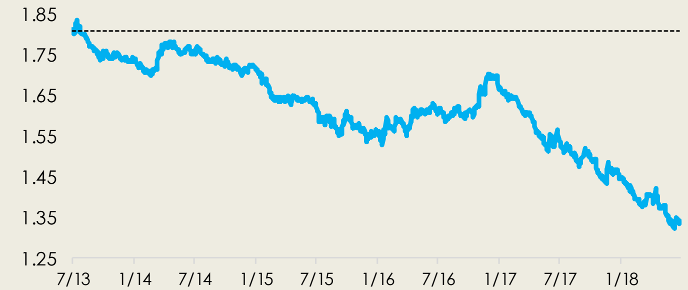
Commentary:
Growth equities have proven to be resilient in the wake of an administration that has not made life easy for them. A style dominated by technology names, there isn't a clear tie to fiscal policy for many of the names. Now with trade war rhetoric escalating, technology companies would suffer in the sense of higher prices being passed down to consumers, and consumers being reluctant to pay up for the premium. However, the appetite as still been for these above trend growth names and equities within emerging markets. Thus far in 2018, we've seen a short term reversion to the United States relative to foreign developed and emerging market exposures. Overall, we see longer-term trends intact that favor ex-U.S. exposures still today.

Growth tends to be purchased at a premium at the later end of economic cycles as growth as a whole is tough to find. Early on in economic recessions (and expansions) value stocks will tend to outperform the market and growth style equities. This is attributable to the more established characteristics of the underlying company and their below intrinsic value of their share price. Later in cycles growth stocks will outperform their value counterparts as the market grows increasingly bearish on cyclical and fundamental headwinds that may weigh on the performance of the value space.

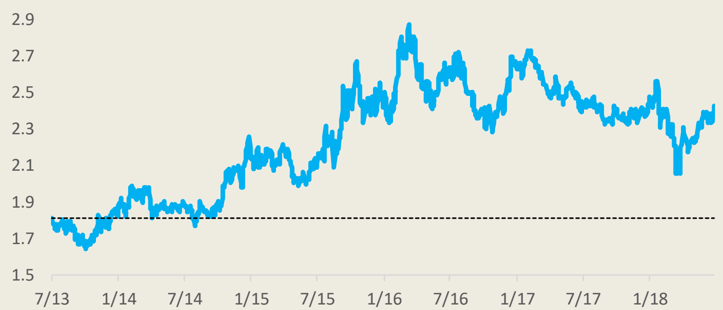
Large Cap vs. Small Cap
5 year



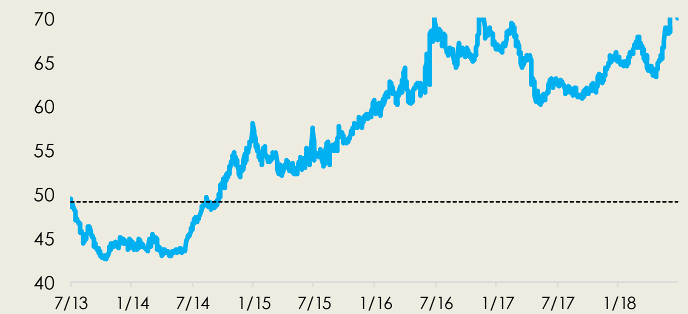
Value vs. Growth
5 Year



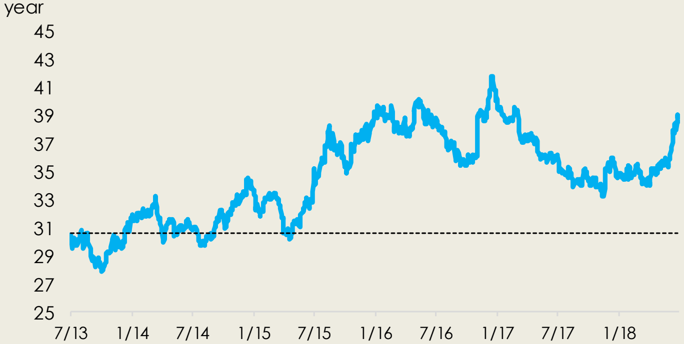
US Equities vs EM



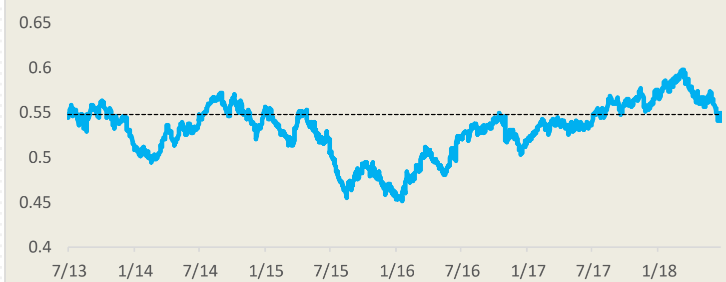
US Equities vs. European Equities
5 Year



US Equities vs. Asia Equities
5 year



EM Equities vs DM Equities
5 year



Source: Large Cap: Russell 1000 Index, Small Cap: Russell 2000 Index, Value : Russell 3000 Value Index, Growth: Russell 3000 Growth Index, US Equities: S&P 500 Index, EM Equity: EEM ETF: Asia; AAXJ ETF, Frontier: FM ETF . All data derived through Bloomberg L.P. Charts created by GFG Capital.

Market Technicals

Technical health for global markets was challenged in Q1 as well as Q2. A common theme for the year, we're looking past short-term fluctuations and pockets of weakness and observing longer term trends of growth and demand in order to guide our portfolio decisions.

Market	Short Term Trend	Intermediate Trend	Long Term Trend	Percent from 20 Day	Percent from 50 Day	Percent from 200 Day
Nasdaq	Intact	Intact	Intact	0.79%	2.95%	8.83%
20+ Year Bonds	Intact	Intact	Intact	1.59%	2.63%	0.50%
S&P 500	Intact	Intact	Intact	0.30%	1.19%	3.15%
Dow Jones	Broken	Broken	Intact	-0.80%	-0.66%	0.42%
Europea Equities	Intact	Broken	Broken	0.61%	-2.38%	-4.17%
Japan	Broken	Broken	Broken	-2.85%	-4.58%	-4.43%
Emerging Markets	Broken	Broken	Broken	-1.63%	-4.76%	-7.64%
Asia ex Japan	Broken	Broken	Broken	-3.16%	-5.59%	-6.91%
Frontier Markets	Broken	Broken	Broken	-3.37%	-6.81%	-12.17%

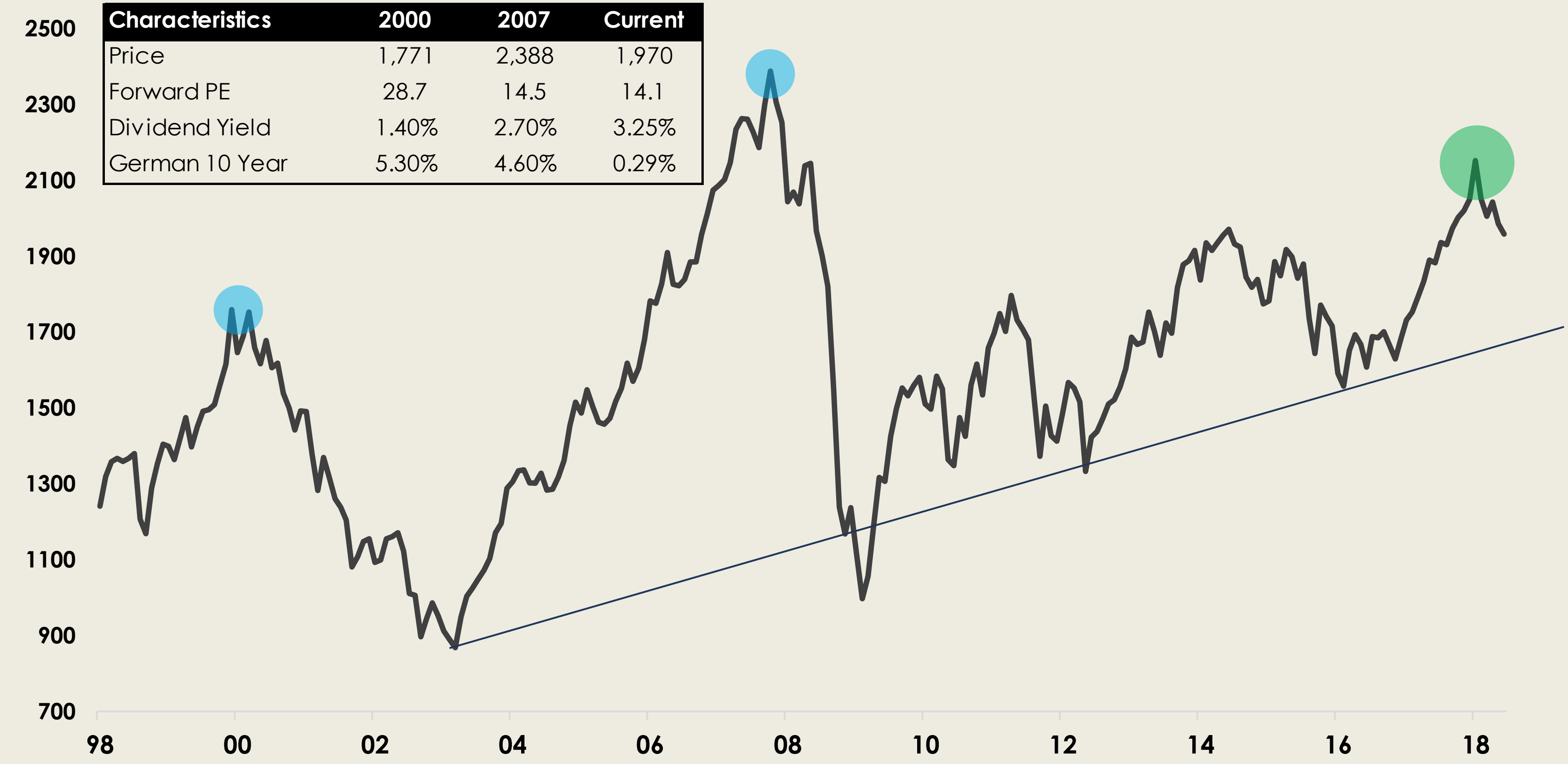
Source: Asia x. Japan: AAXJ ETF, Japan: EWJ ETF, Emerging Markets: EEM ETF, Nasdaq: QQQ ETF, Frontier Markets: FM ETF, S&P 500: SPY ETF, European Equities: FEZ ETF, 20+ Year Bonds: TLT ETF, DOW Jones: DIA ETF . All data derived through Bloomberg L.P. Chart created by GFG Capital.

EAFE Equity High Level Market Review

Looking at the developed market index, we see similar conditions as the US. Relatively similar valuations to 2007, much lower than 2000, a higher dividend, and low bond yields. These are favorable characteristics for equities and "risk-on" assets.

MSCI EAFE INDEX

Characteristics	2000	2007	Current
Price	1,771	2,388	1,970
Forward PE	28.7	14.5	14.1
Dividend Yield	1.40%	2.70%	3.25%
German 10 Year	5.30%	4.60%	0.29%



Source: MSCI EAFE Index. Developed Market Index excluding US and Canada. All data derived through Bloomberg L.P. Chart created by GFG Capital. Dates selected represent previous market tops prior to bear markets.

Emerging Equities High Level Market Review

Emerging market equities have been the leaders for the year, breaking out of a 5 year downtrend since their peak in ‘06. At under 13x forward earnings, we view these assets as one of more attractive opportunities today.

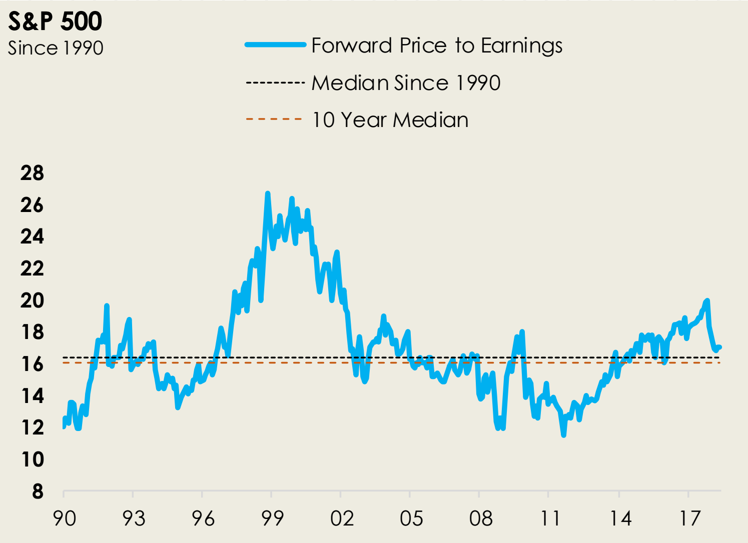
MSCI EM INDEX

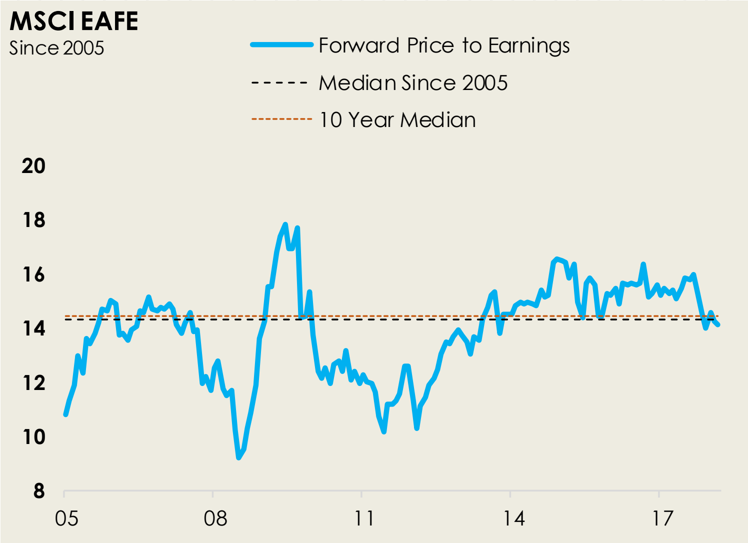
Characteristics	2007	2011	Current
Price	1,338	1,205	1,060
Forward PE	16.5	17.14	11.8
Dividend Yield	1.89%	2.24%	2.64%
10 Year Treasury	6.20%	4.70%	2.82%

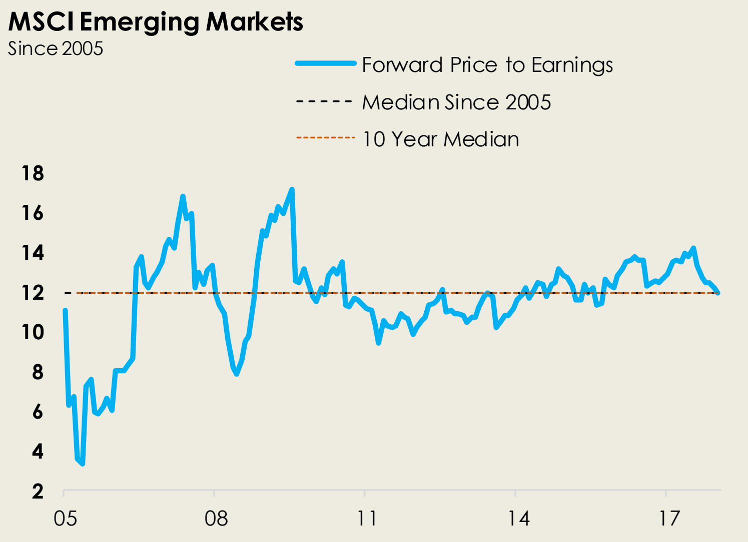
Source: MSCI Emerging Market Index. All data derived through Bloomberg L.P. Chart created by GFG Capital. Dates selected represent previous market tops prior to bear markets.

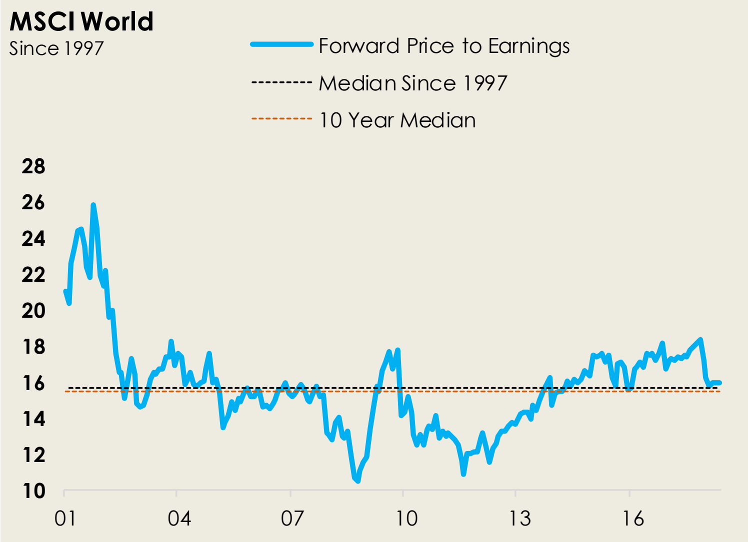
Global Valuations: Major Markets

Commentary: Flat to slightly negative price action for many indices across the globe in the first half of the year have helped the elevated valuations investors have had to put up with. Looking at the data at the end of the first half, we still see a slightly elevated valuation on the U.S. market relative to historical levels, with increasingly attractive valuations forming across the board.







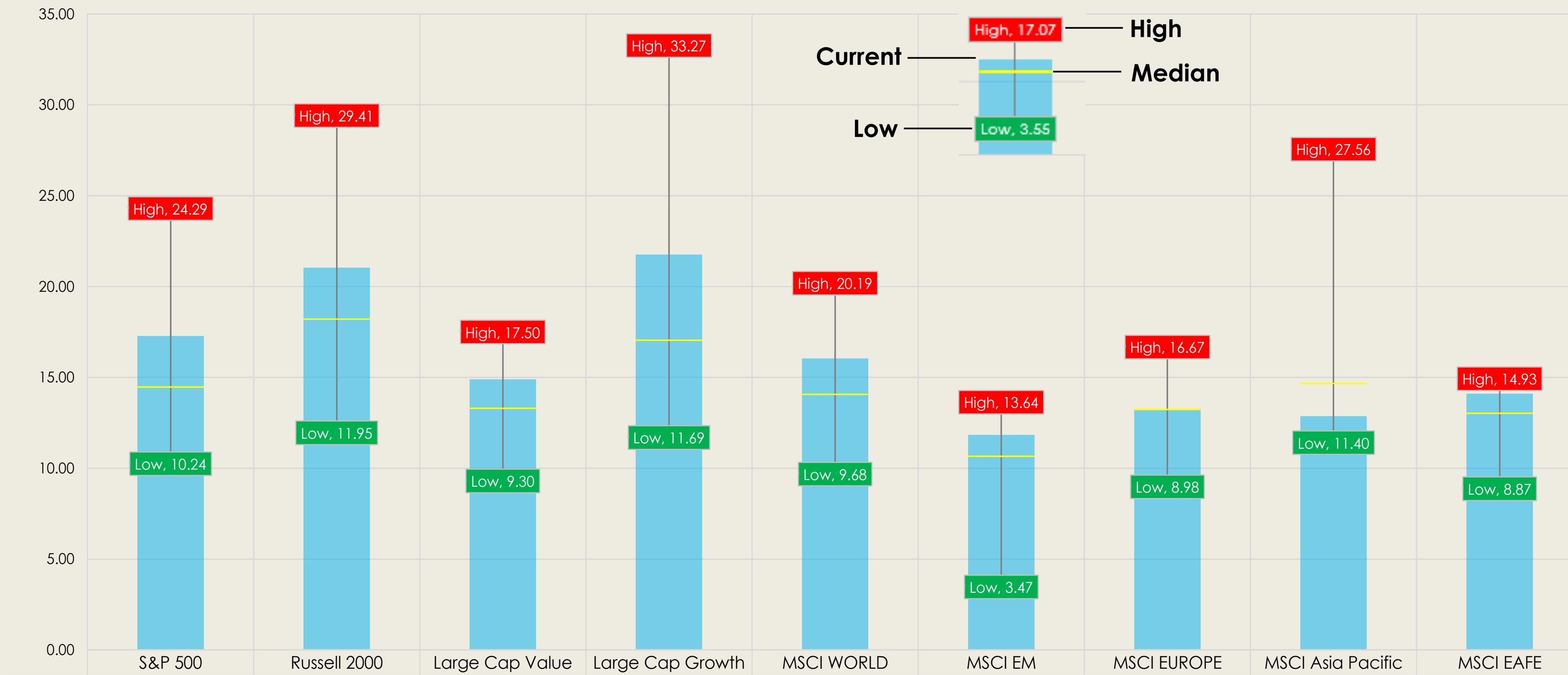


Source: S&P 500: S&P 500 Index. MSCI EAFE Index. Developed Market Index excluding US and Canada. MSCI Emerging Market Index. MSCI World Index. Captures large and mid cap companies covering developed countries. All data derived through Bloomberg L.P. Charts created by GFG Capital.

Regional Valuations: Forward Price to Earnings

Valuations on a global level have come down, but some of the more attractive relative valued opportunities remain outside of the U.S. The S&P 500 has come down from its recent highs in valuation, making it a more compelling play today.

Long Term Forward Price to Earnings Current/High/Low/ Median



	S&P 500	Russell 2000	Large Cap Value	Large Cap Growth	MSCI WORLD	MSCI EM	MSCI EUROPE	MSCI Asia Pacific	MSCI EAFE
Current	17.28	21.04	14.90	21.77	16.04	11.84	13.24	12.87	14.10
Median	14.47	18.21	13.31	17.05	14.08	10.67	13.24	14.68	13.04
High	24.29	29.41	17.50	33.27	20.19	13.64	16.67	27.56	14.93
Low	10.24	11.95	9.30	11.69	9.68	3.47	8.98	11.40	8.87
Median	14.47	18.21	13.31	17.05	14.08	10.67	13.24	14.68	13.04

Source: 10 Year Period ending September 30th, 2015. Forward Price to Earnings ratio provided by Bloomberg composite estimates. All data derived through Bloomberg L.P. Chart created by GFG Capital. All indices are listed above other than Large Cap Value (Russell 1000 Value) and Large Cap Growth (Russell 1000 Growth) .

Global Valuations: Regional & Country Level

Commentary: To the right we show global equity valuations. Over the past 24 months we've seen impressive performance in U.S. equities which can largely be attributed to multiple expansion. This has caused the U.S. equity markets to become some of the most expensive in the world. In true momentum fashion, despite the elevated valuations, the NASDAQ Composite has been a leader in global markets this year.

MARKET	INDEX	Index	TRAILING P/E	FORWARD P/E	P/B	P/S	EV/EBITDA	DIVIDEND YIELD
WORLD DEVELOPED	MSCI WORLD INDEX	7.00	18.7	16.0	2.4	1.7	11.9	2.37%
EMERGING	MSCI EMERGING MARKETS	22.00	13.3	11.8	1.5	1.2	8.9	2.64%
FRONTIER MARKETS	MSCI FRONTIER MARKET	22.00	12.3	11.7	1.8	2.1	6.6	3.75%
STOXX 50 (EUROZONE)	ESTX € Pr	24.00	15.8	13.9	1.6	1.2	8.7	3.55%
EUROPE	MSCI EUROPE	14.00	16.0	14.4	1.8	1.2	9.8	3.53%
ASIA	MSCI AC ASIA PACIFIC	24.00	13.6	12.9	1.5	1.1	8.9	2.62%
EM LATIN AMERICA	MSCI EM LATIN AMERICA	17.00	17.1	13.1	1.7	1.3	8.2	2.84%
S&P 500	S&P 500 INDEX	4.00	21.0	17.3	3.3	2.2	13.3	1.87%
DOW JONES	DOW JONES INDUS. AVG	6.00	18.2	15.8	3.8	2.0	11.8	2.23%
NASDAQ	NASDAQ COMPOSITE INDEX	1.00	26.2	23.2	5.1	2.8	22.8	1.00%
US MID CAP INDEX	S&P 400 MIDCAP INDEX	4.00	23.3	18.5	2.4	1.4	13.6	1.52%
US SMALL CAPS	RUSSELL 2000 INDEX	2.00	45.4	26.4	2.5	1.3	30.7	1.32%
CANADA	S&P/TSX COMPOSITE INDEX	11.00	18.0	15.8	1.9	1.7	12.5	2.80%
UNITED KINGDOM	FTSE 100 INDEX	20.00	13.6	13.7	1.8	1.2	9.6	4.11%
GERMANY	DAX INDEX	26.00	13.9	13.0	1.7	0.9	7.0	3.10%
FRANCE	CAC 40 INDEX	17.00	16.9	14.6	1.6	1.1	9.7	3.20%
AUSTRALIA	MSCI AUSTRALIA	12.00	17.7	15.8	2.1	2.4	13.0	4.26%
JAPAN	NIKKEI 225	13.00	16.7	15.8	1.8	1.1	8.9	1.82%
BRAZIL	BRAZIL IBOVESPA INDEX	16.00	18.8	11.3	1.7	1.3	8.7	3.19%
COLOMBIA	COLOMBIA COLCAP INDEX	19.00	16.6	15.8	1.4	1.2	8.3	2.70%
MEXICO	MSCI MEXICO	7.00	22.0	17.3	2.4	1.4	8.9	2.15%
CHINA MAINLAND	SHANGHAI SE COMPOSITE	21.00	13.3	11.0	1.5	1.1	13.5	2.47%
CHINA A SHARE	SHENZHEN CSI 300	15.00	12.8	11.4	1.6	1.3	12.5	2.36%
HONG KONG	HANG SENG INDEX	27.00	11.3	11.3	1.3	2.0	8.5	3.79%
INDIA	MSCI INDIA	3.00	21.4	18.0	2.9	2.1	12.8	1.39%
INDONESIA	MSCI INDONESIA	9.00	15.5	14.3	2.5	2.4	9.3	0.00%
SOUTH KOREA	KOSPI INDEX	28.00	10.9	8.9	1.0	0.6	6.6	1.74%
RUSSIA	MSCI RUSSIA	29.00	6.7	6.1	0.8	0.8	4.6	5.30%
GREECE	MSCI GREECE	10.00	32.8	21.2	1.9	2.6	6.4	2.90%

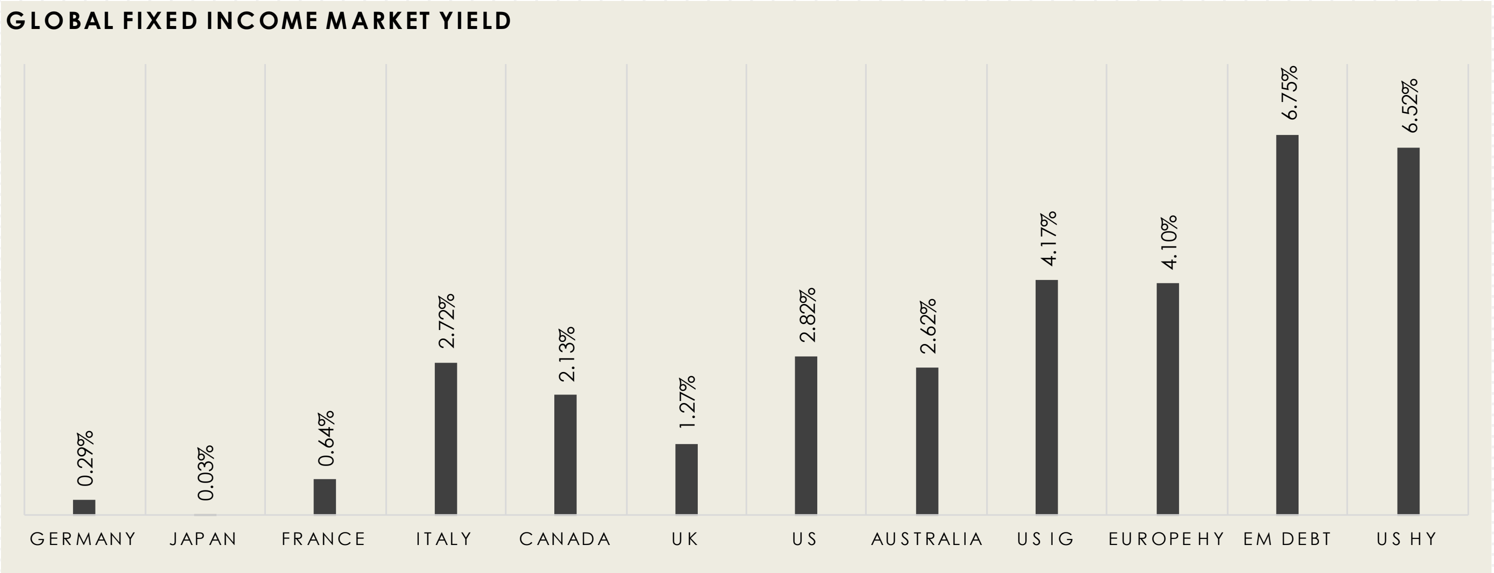
Source: Data provided by Bloomberg. Index column is based on the ranking from least expensive to most expensive for each metric used. The index column takes the average ranking of these columns. Each data point is the current level using Bloomberg data of the underlying index.

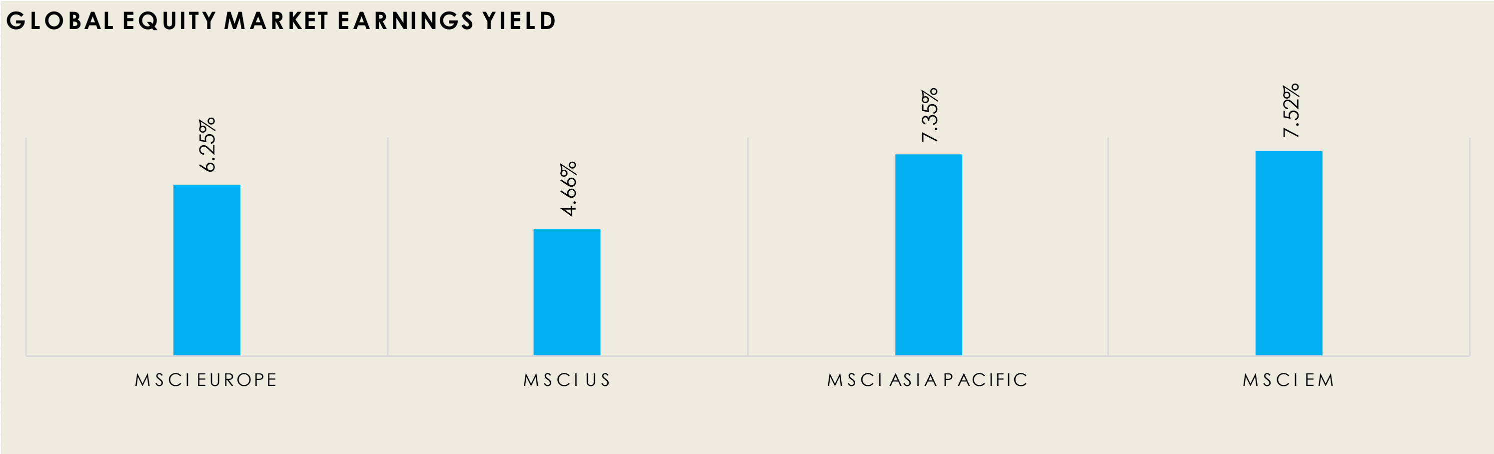
Global Risk Premiums

Commentary: A risk premium is the return in excess of the risk-free rate of return an investment is expected to yield; an asset's risk premium is a form of compensation for investors who tolerate the extra risk, compared to that of a risk-free asset, in a given investment.

Global risk premiums are the difference between the yield in equities versus the yield in fixed income. Today these premiums still favor ownership of equities over fixed income. With global sovereign bond yields still relatively muted, the hurdle for return equities must clear is contained. This paints an environment that favors equity risk.

Earnings yield are the earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of each dollar invested in the stock that was earned by the company.





Source: The fixed income yield is based on the 10 Year Generic Government Bond Yield using Bloomberg Generic bond yield function. Earnings Yield is the reciprocal of the price to earnings ratio of the stated MSCI equity index. All data derived through Bloomberg L.P. Chart created by GFG Capital.

FIXED income

Government Bond Yields

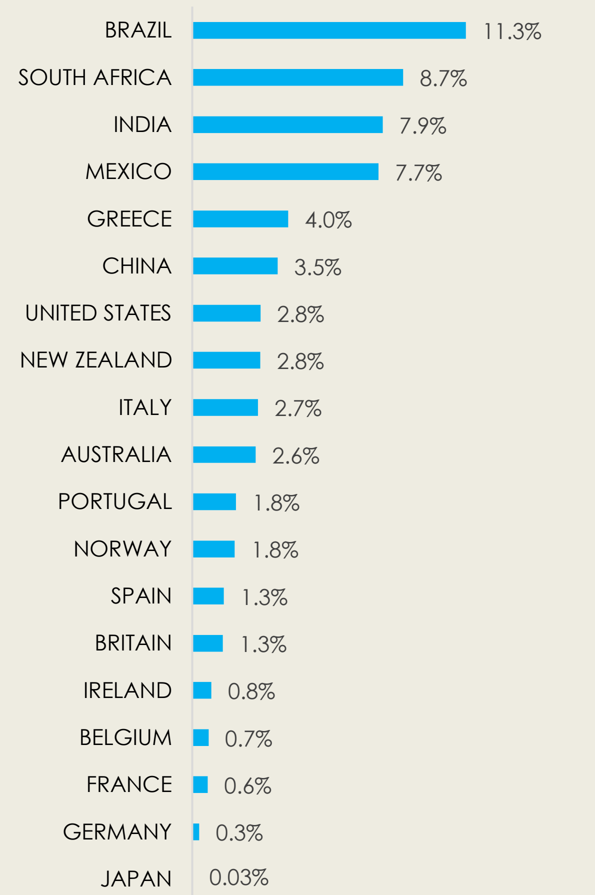
Commentary: Government yields across the globe remain relatively subdue, compared to historical levels. While we trek through a rate normalization environment, yield will still come at a premium. Investors will be forced into segments of the market that extend out of their comfort zones. In today's yield environment, investors can be forced into asset allocations that might drift from their risk profile.

Today, the yield on U.S. 10 year paper continues to climb higher towards 3%. This move higher starts to make a case for owning bonds relative to stocks in some cases. Or at the very least, trimming the fat on a portfolio for some investors.

With sovereign yields increasing from deep lows, we view this regression as an opportunity to reevaluate where investors are taking risks.

10 Year Government Yields

Local Currency



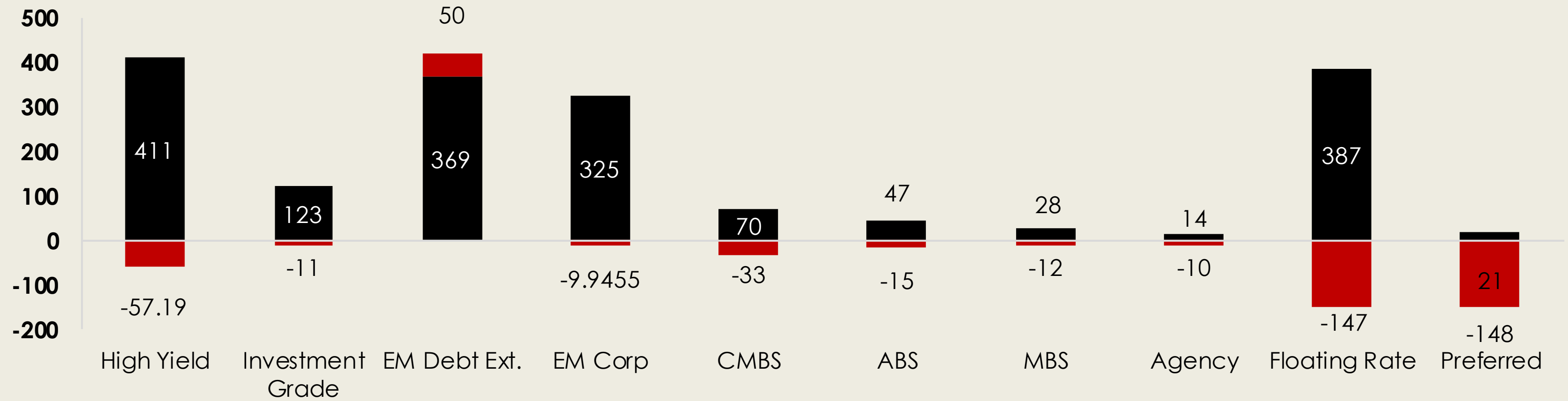
US 10 Year Government Yield

Source: The fixed income yield is based on the 10 Year Generic Government Bond Yield using Bloomberg Generic bond yield function. All data derived through Bloomberg Database. Charts created by GFG Capital.

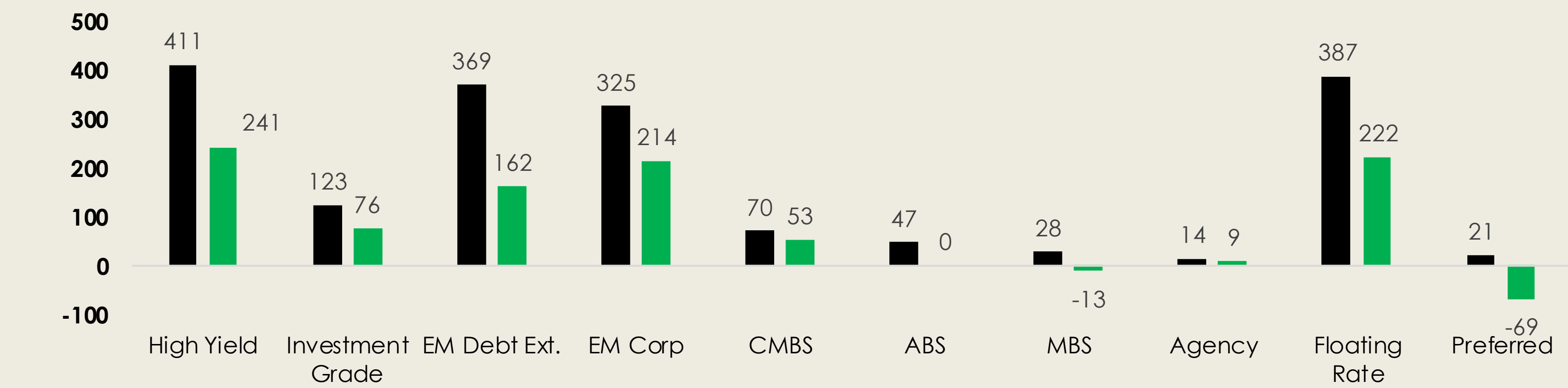
Fixed Income Market Valuation

Spreads remain historically tight, which signals valuations within the fixed income space should still be perceived as rich. With a bit of a de-risking environment late in the period, we've seen some spreads begin to widen, albeit marginally.

Spread vs. Median Spread



Current Spread vs Historical Low



Source: Bloomberg database. All spreads are in basis points and measure option-adjusted yield spread relative to comparable maturity U.S. Treasuries with the exception of floating-rate loans, which is the average discounted spread over Libor. Agency represented by Barclays U.S. Agency Index. MBS represented by Barclays U.S. Mortgage Backed Securities (MBS) Index. ABS represented by Barclays U.S. Asset Backed Securities (ABS) Index. CMBS represented by Barclays U.S. CMBS Investment Grade Index. Corporate represented by Barclays U.S. Corporate Index. Taxable Muni/BABs represented by Barclays U.S. Aggregate Local Authorities Index. Preferred represented by BofA Merrill Lynch Fixed Rate Preferred Securities Index. Floating-Rate Loans represented by S&P/LSTA Leveraged Loan Index. Emerging Markets(USD) represented by JPMorgan Emerging Markets Bond Index Plus(EMBI+). High Yield represented by Barclays U.S. Corporate High Yield Index. 10 Year Measures. Eaton Vance Market Monitor.

Global Fixed Income Characteristics

Commentary: The fixed income universe is experiencing a structural shift from sovereign to credit paper. With yields moving across the spectrum investors are being given the opportunity to reevaluate where and how they're receiving compensation for risk.

Q2 was a bit of a different story for the fixed income market, as dollar strength and the U.S. 10-year was a theme throughout. Emerging market debt was hit hard due to dollar appreciation in the 3 months ending June 29th. On a relative basis, the U.S. high yield market is still showing some value as investors have been moving away from the investment grade corporate debt space.

All in all we view a fixed income profile today as something investors should begin to de-risk. With sovereign yields on the move higher we think investors are being granted an opportunity late in the cycle to revisit their risk budget. There does not seem to be any shortage of dollar and inflation catalysts today. Two of the most significant variables when investing in the global fixed income market. With uncertainty surrounding the two, a less risky (credit, duration, currency) fixed income profile today could prove to be beneficial to a portfolio.

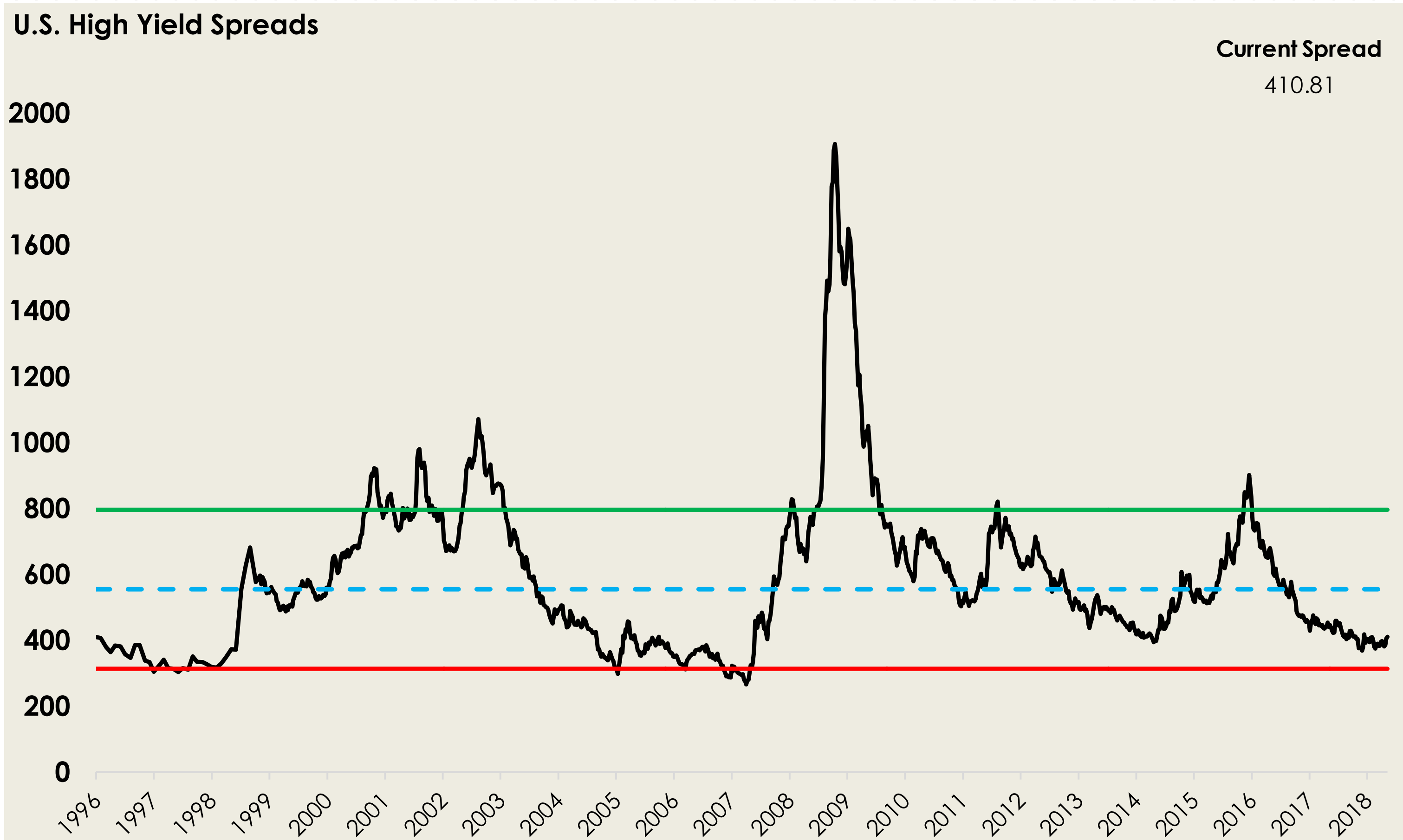
Fixed Income	Yield	Duration	3 Month Return
US Fixed Income			
Investment Grade Corporate	3.99%	7.47	-0.56%
US Government	2.71%	6.21	0.45%
US Agency	3.20%	5.13	0.18%
Global Fixed Income			
Developed Soverign ex. US	1.21%	5.67	-2.71%
European IG Corporate	1.29%	5.80	-0.32%
Australian IG Corporate	3.29%	3.72	0.73%
Canadian IG Corporate	4.07%	6.56	2.59%
Japan IG Corporate	0.30%	4.05	0.05%
High Yield			
US High Yield	6.52%	4.30	0.62%
Global HY ex. US	6.45%	4.56	-2.03%
Canadian High Yield	5.75%	4.01	1.50%
European High Yield	4.10%	3.94	-0.87%
United Kingdom High Yield	4.23%	3.60	-0.10%

Source: The three month return is the total return of the Index. The indices are the Bloomberg World Bond Indexes. Bloomberg USD Investment Grade Composite Bond Index. Bloomberg USD Mortgage-Backed Securities (MBS) Index. Bloomberg U.S. Agency Bond Index. Bloomberg Global Developed Sovereign Bond Index, Bloomberg EUR Investment Grade Corporate Bond Index. Bloomberg AUD Investment Grade Corporate Bond Index. Bloomberg CAD Investment Grade Corporate Bond Index. Bloomberg JPY Investment Grade Corporate Bond Index. Bloomberg USD High Yield Corporate Bond Index. Bloomberg EUR High Yield Corporate Bond Index. Bloomberg CAD High Yield Corporate Bond Index. Bloomberg GBP High Yield Corporate Bond Index. Bloomberg Global High Yield Corporate Bond Index. Past performance is not indicative of further returns.

US High Yield Spread

Commentary: U.S. high yield spreads remain far below their median levels on a long-term horizon, but some widening occurred in the final month of the quarter.

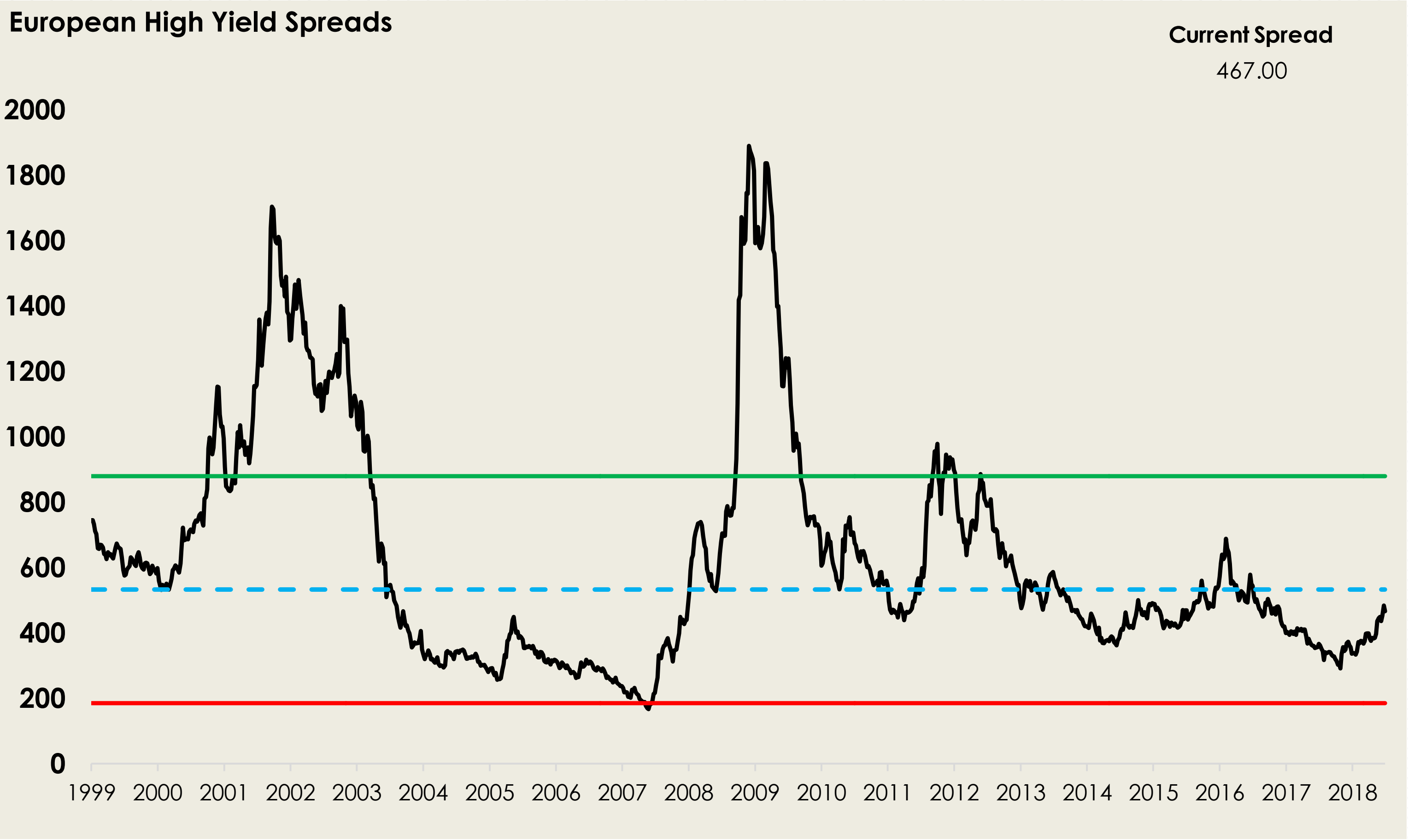
As we get deeper into the U.S. expansion we believe trimming the exposure to these riskier asset classes could turn out to be beneficial. In the first half of the year the U.S. high yield space performed relatively well to EM debt and other lower rated debt spaces. We can see this trend continuing in the short term if trends surrounding the dollar and global growth continue in this direction. However, at near historically tight levels, these spreads don't scream buy.



Source: JPMorgan Domestic High Yield STW. All data derived through Bloomberg L.P. Chart created by GFG Capital.

European High Yield Spread

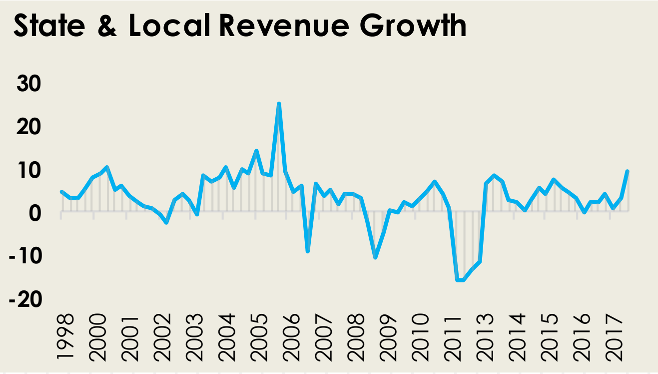
Commentary:
Growth concerns outside of the U.S. in the period helped send spreads closer to median levels in the European high yield space. Given the difference in duration relative to the U.S. market, if spreads continue to widen from here, there could be an argument to be had on behalf of the European high yield debt space.

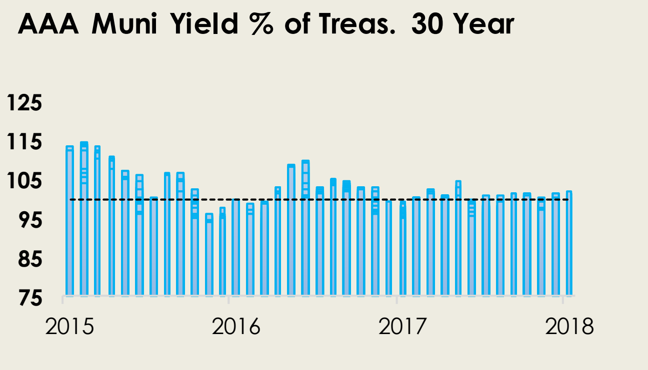


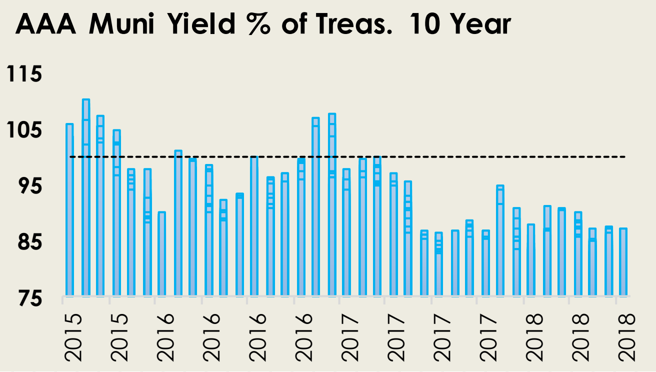
Source: JPMorgan Euro High Yield Europe STW. All data derived through Bloomberg L.P. Chart created by GFG Capital.

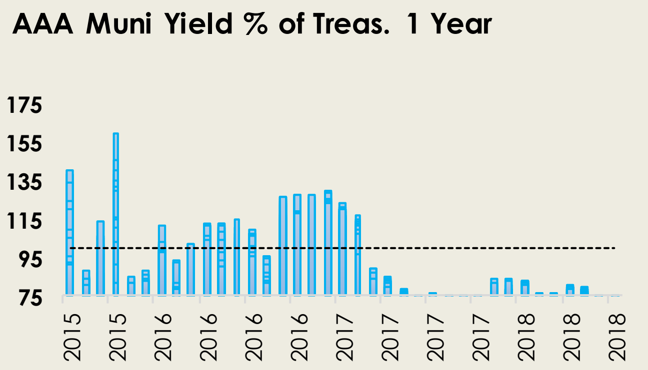
Municipal

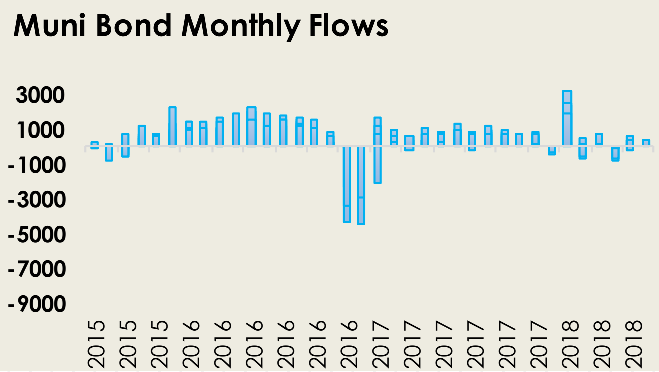
Commentary: Debt outstanding at the state and local levels have turned higher recently, while revenue has improved. We acknowledge the bulk of infrastructure funding is likely to come through the municipal bond market. Long term, we believe in muni's being a strategic allocation for an onshore investor.









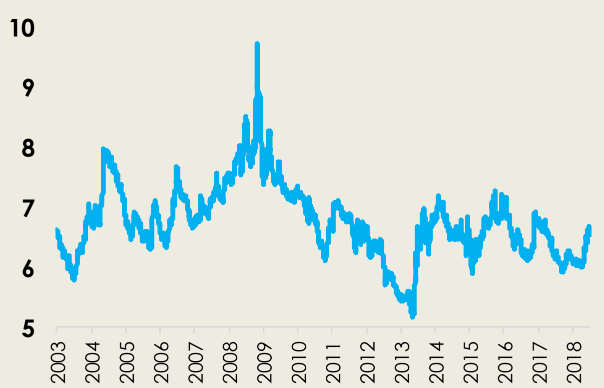


Source: Top Left: US Total Public Debt Outstanding State and Local Government Series Top Right: State and Local Tax Revenue Total YoY% Change . AAA Muni Charts: BVAL AAA Muni Yield % of Treasury 1/10/30 Year: Bottom Right: ICI Municipal Bond Estimated Weekly Net New Cash Flow.

Emerging Market Debt

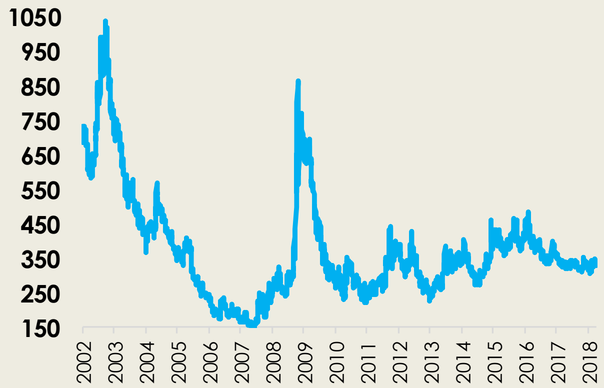
As the first half has seen disappointing non-US growth and rising US rates, markets have focused on EM vulnerabilities. The weakness across the space in the last 90 days has allowed for some spread widening. While we think the long-term trend is positive for many of these emerging economies, we remain neutral in the short-term.

Emerging Market Local Debt



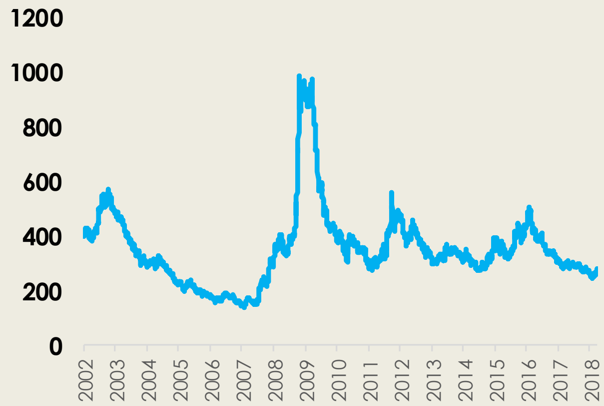
Emerging Market Local Debt	Percent
Current Yield	6.55
Average	6.76
Median	6.73
High	9.73
Low	5.16
Duration	5.06

Emerging Market External Debt



Emerging Market External Debt	bps
Current Spread	391
Average Spread	374
Median Spread	340
Max Spread	1041
Current Duration	7.75
Current Yield	6.75

Emerging Market Corp Debt



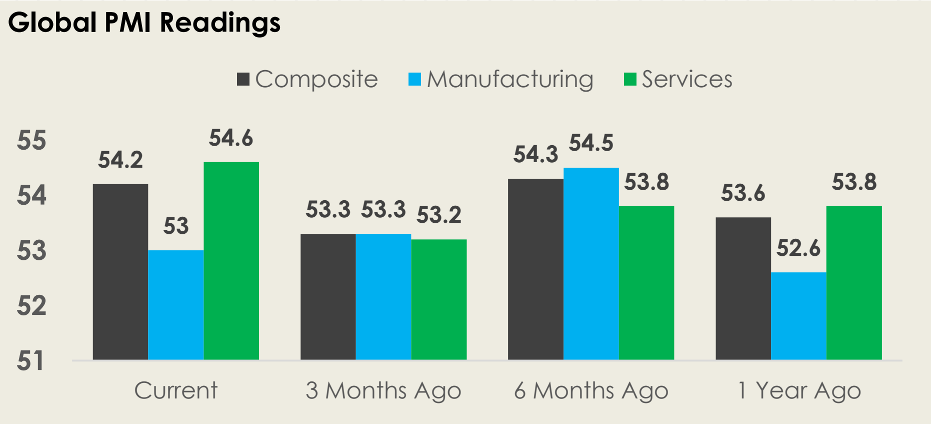
Emerging Market Corp Debt	Percent
Current Spread	325
Average Spread	352
Median Spread	335
Max Spread	987
Current Duration	4.67
Current Yield	6.06

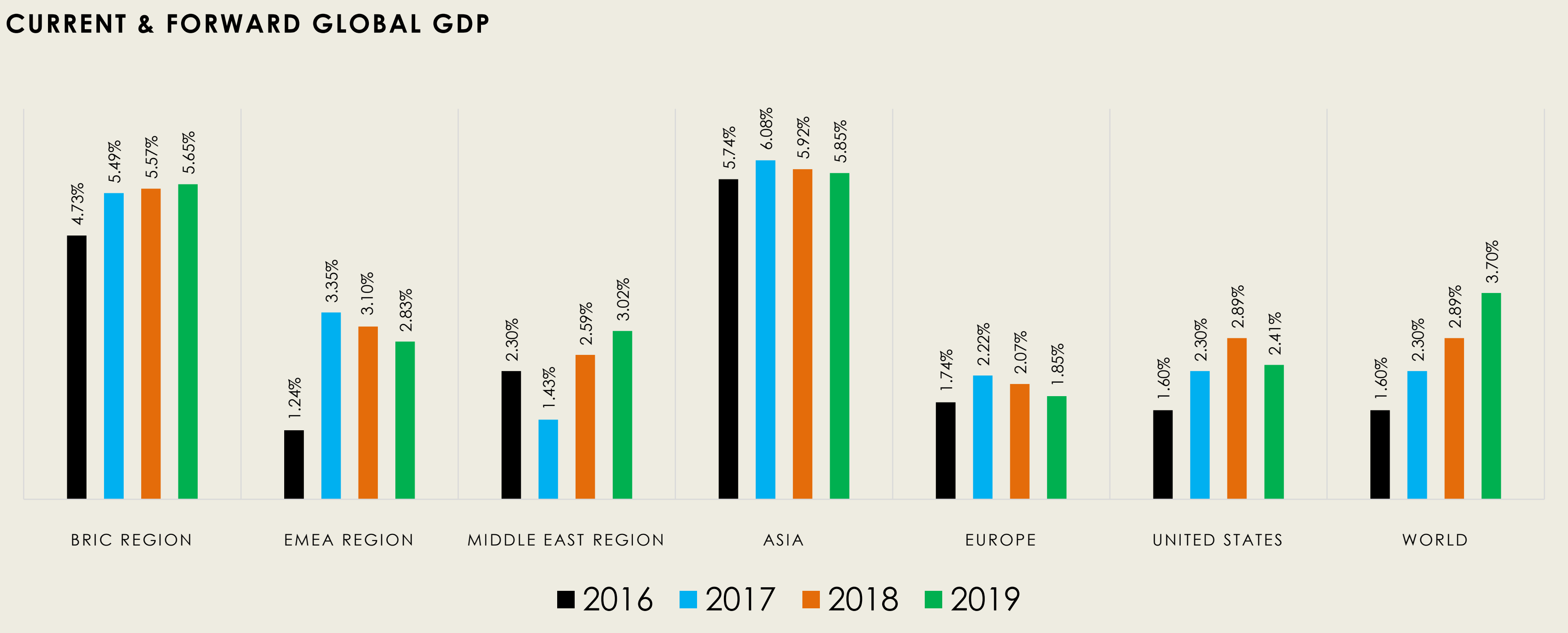
Source: EM Local Debt Index: JPMorgan GBI-EM Global Diversified Composite Unhedged Index. Price, Yield, Duration. EM External Debt Index: JPM Emerging Markets Bond Index Plus EMBI + Composite. Price, Yield, Duration. EM Corporate Bond Index: JPMorgan Corporate EMBI Broad Diversified Composite Index Level.

GLOBAL economics

Global Economics

Global growth came into question in Q2 after being the driving force of markets for the last 18 months. Momentary weakness is overshadowed in our view by strong PMI readings globally, and notably here in the U.S.





Source: GDP data is previous, current, and forecasted data derived by Bloomberg for each specific country. Please contact GFG Capital for any additional information.

Global Economics

	Inflation	Unemployment	Current Account	Retail Sales
Central / South America				
Brazil	4.39%	8.20%	-0.65%	0.60%
Mexico	4.51%	3.17%	-1.32%	3.30%
Argentina	27.17%	9.10%	-5.17%	
Colombia	3.20%	10.13%	-3.05%	6.27%
Chile	2.50%	7.00%	-1.10%	1.10%
North America				
US	2.80%	4.00%	-2.33%	5.90%
Canada	2.20%	6.00%	-3.18%	1.60%
Europe				
Eurozone	2.00%	8.40%	0.00%	1.40%
Germany	2.10%	5.20%	8.10%	-1.60%
France	2.10%	9.20%	-0.36%	2.90%
UK	2.40%	4.20%	-3.91%	4.40%
Ireland	0.40%	5.10%	12.52%	4.35%
Portugal	1.60%	7.30%	0.48%	5.20%
Spain	2.30%	15.80%	1.85%	-0.40%
Italy	1.40%	10.70%	0.91%	0.40%
Russia	2.30%	4.70%	2.96%	2.40%
Asia Pacific				
China	1.80%	3.86%	0.92%	8.50%
Singapore	0.40%	2.00%	18.51%	0.40%
Taiwan	1.31%	3.69%	14.46%	5.65%
Japan	0.70%	2.20%	3.96%	0.60%
South Korea	1.50%	4.00%		6.10%
Indonesia	3.12%	5.13%		4.40%
Malaysia	1.80%		3.72%	
India	3.96%		-1.88%	
Australia	1.90%	5.40%	-2.30%	2.50%

Inflation

Inflation has long been the centerpiece of the conversation here in the U.S. and 2018 has been no different. While many surface level conversations have been surrounding trade, the residual implications on inflation are the risks we face today.

Unemployment

Unemployment has continued to fall within the U.S. and Europe. Europe continued to move towards a sweet-spot of economic growth with falling unemployment.

Current Account

The U.S. current-account deficit, a measures of the nation's debt to other countries, rose 6.9% in the first quarter mostly because of a wider trade gap in goods

Retail Sales

The consumer remains strong with retails sales in China, the US, and UK posting positive readings. Consumer spending is a positive indicator on global economic conditions. We continue to believe in the economic transition taking place in China which is supported by the growth in consumer spending in the country.

Source: Data derived through Bloomberg Database. Inflation is country level Consumer Price Index, Unemployment rate is country level unemployment rates. Current account data is from the International Monetary Fund, Retail sales are monthly change in sales provided by local authority and sourced on Bloomberg. Please contact GFG Capital for any additional information.

Global PMI Mixed

Global PMI Meter

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Latest	Latest Rank	Trend	
Global															
Global	53.5	53.9	53.8	54.0	54.0	54.3	54.6	54.8	53.3	53.9	54.0	54.2	18	↑	Global
EM	50.9	51.7	51.3	51.2	51.6	52.2	51.9	51.9	51.3	51.3	51.1	51.1	9	↓	EM
North America															
US	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.3	55.6	56.5	56.4	55.4	23	↑	US
Canada	55.5	54.6	55.0	54.3	54.4	54.7	55.9	55.6	55.7	55.5	56.2	57.1	28	↑	Canada
Europe															
Germany	58.1	59.3	60.6	60.6	62.5	63.3	61.1	60.6	58.2	58.1	56.9	55.9	25	↓	Germany
Euro Area	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.6	56.6	56.2	55.5	54.9	22	↓	Euro Area
UK	55.4	56.8	56.0	56.2	58.2	56.0	55.0	54.9	54.9	53.9	54.3	54.4	20	↓	UK
France	54.9	55.8	56.1	56.1	57.7	58.8	58.4	55.9	53.7	53.8	54.4	52.5	11	↓	France
Italy	55.1	56.3	56.3	57.8	58.3	57.4	59.0	56.8	55.1	53.5	52.7	53.3	15	↓	Italy
Spain	54.0	52.4	54.3	55.8	56.1	55.8	55.2	56.0	54.8	54.4	53.4	53.4	16	↓	Spain
Greece	50.5	52.2	52.8	52.1	52.2	53.1	55.2	56.1	55.0	52.9	54.2	53.5	17	↑	Greece
Ireland	54.6	56.1	55.4	54.4	58.1	59.1	57.6	56.2	54.1	55.3	55.4	56.6	26	↑	Ireland
Europe															
Australia	56.0	59.8	54.2	51.1	57.3	56.2	58.7	57.5	63.1	58.3	57.5	57.4	29	↑	Australia
Japan	52.1	52.2	52.9	52.8	53.6	54.0	54.8	54.1	53.1	53.8	52.8	53.0	12	↑	Japan
Emerging Market															
Brazil	50.0	50.9	50.9	51.2	53.5	52.4	51.2	53.2	53.4	52.3	50.7	49.8	4	↓	Brazil
China	51.1	51.6	51.0	51.0	50.8	51.5	51.5	51.6	51.0	51.1	51.1	51.0	8	↓	China
Czech Republic	55.3	54.9	56.6	58.5	58.7	59.8	59.8	58.8	57.3	57.2	56.5	56.8	27	↑	Czech Republic
Egypt	48.6	48.9	47.4	48.4	50.7	48.3	49.9	49.7	49.2	50.1	49.2	49.4	2	↑	Egypt
Hungary	54.2	56.8	59.3	58.3	58.8	60.5	61.1	57.2	56.6	53.3	55.2	53.0	12	↓	Hungary
India	47.9	51.2	51.2	50.3	52.6	54.7	52.4	52.1	51.0	51.6	51.2	53.1	14	↑	India
Indonesia	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4	50.7	51.6	51.7	50.3	6	↑	Indonesia
Mexico	51.2	52.2	52.8	49.2	52.4	51.7	52.6	51.6	52.4	51.6	51.0	52.1	10	↑	Mexico
Poland	52.3	52.5	53.7	53.4	54.2	55.0	54.6	53.7	53.7	53.9	53.3	54.2	18	↑	Poland
Russia	52.7	51.6	51.9	51.1	51.5	52.0	52.1	50.2	50.6	51.3	49.8	49.5	3	↓	Russia
South Africa	50.1	49.8	48.5	49.6	48.8	48.4	49.0	51.4	51.1	50.4	50.0	50.9	7	↑	South Africa
South Korea	49.1	49.9	50.6	50.2	51.2	49.9	50.7	50.3	49.1	48.4	48.9	49.8	4	↓	South Korea
Taiwan	53.6	54.3	54.2	53.6	56.3	56.6	56.9	56.0	55.3	54.8	53.4	54.5	21	↓	Taiwan
Turkey	53.6	55.3	53.5	52.8	52.9	54.9	55.7	55.6	51.8	48.9	46.4	46.8	1	↓	Turkey
Vietnam	51.7	51.8	53.3	51.6	51.4	52.5	53.4	53.5	51.6	52.7	53.9	55.7	24	↑	Vietnam

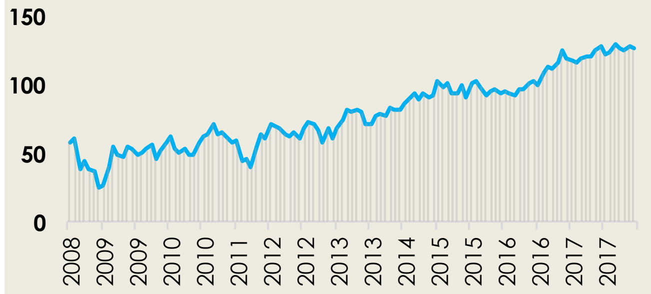
The purchasing manufacturing index has a high correlation with future economic growth. Above 50 signals expansion and under signals contraction. The PMI strength signals have been flashed by the majority of the global economies for about 18 months now. The most recent period saw the latest PMI readings come in higher than the prior period on a global level. After an extended run of relative strength, European PMI's have contracted a bit with U.S. readings coming in higher than 12 months ago.

Source: Bloomberg Database. PMI is the Purchasing Manufacturing Index and supplied to Bloomberg by Markit.

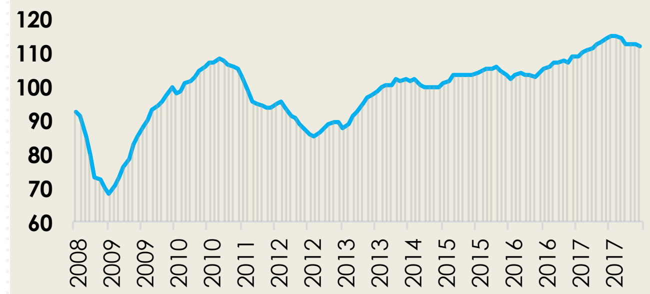
Global Consumer Confidence

Commentary: Consumer confidence was met with some resistance in the first half of 2018. A notable shift in the Mexican consumer trend as the Presidential election was largely expected to yield a populist result, and eventually did.

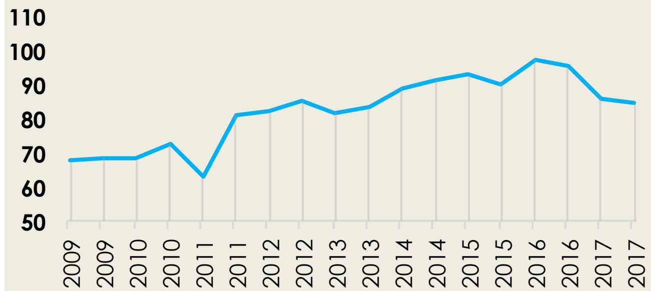
United States
Consumer Confidence



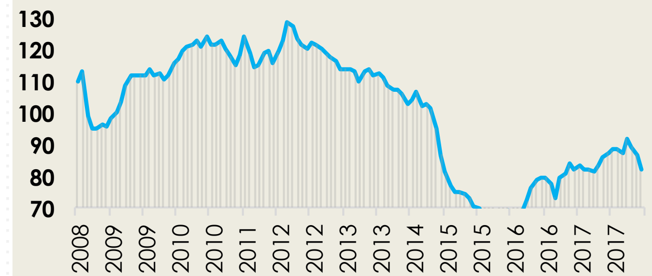
Euro-Zone
Economic Sentiment Index



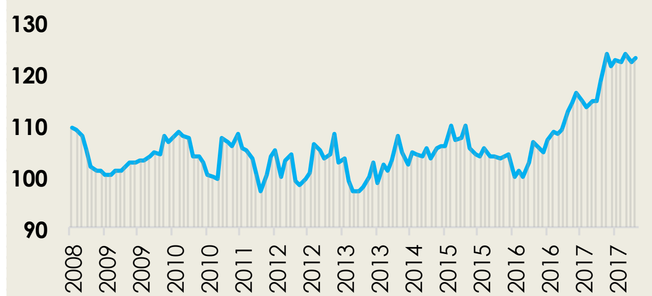
India
Consumer Confidence



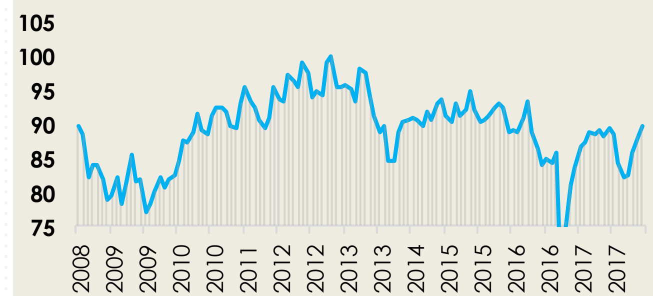
Brazil
Consumer Confidence



China
Consumer Confidence



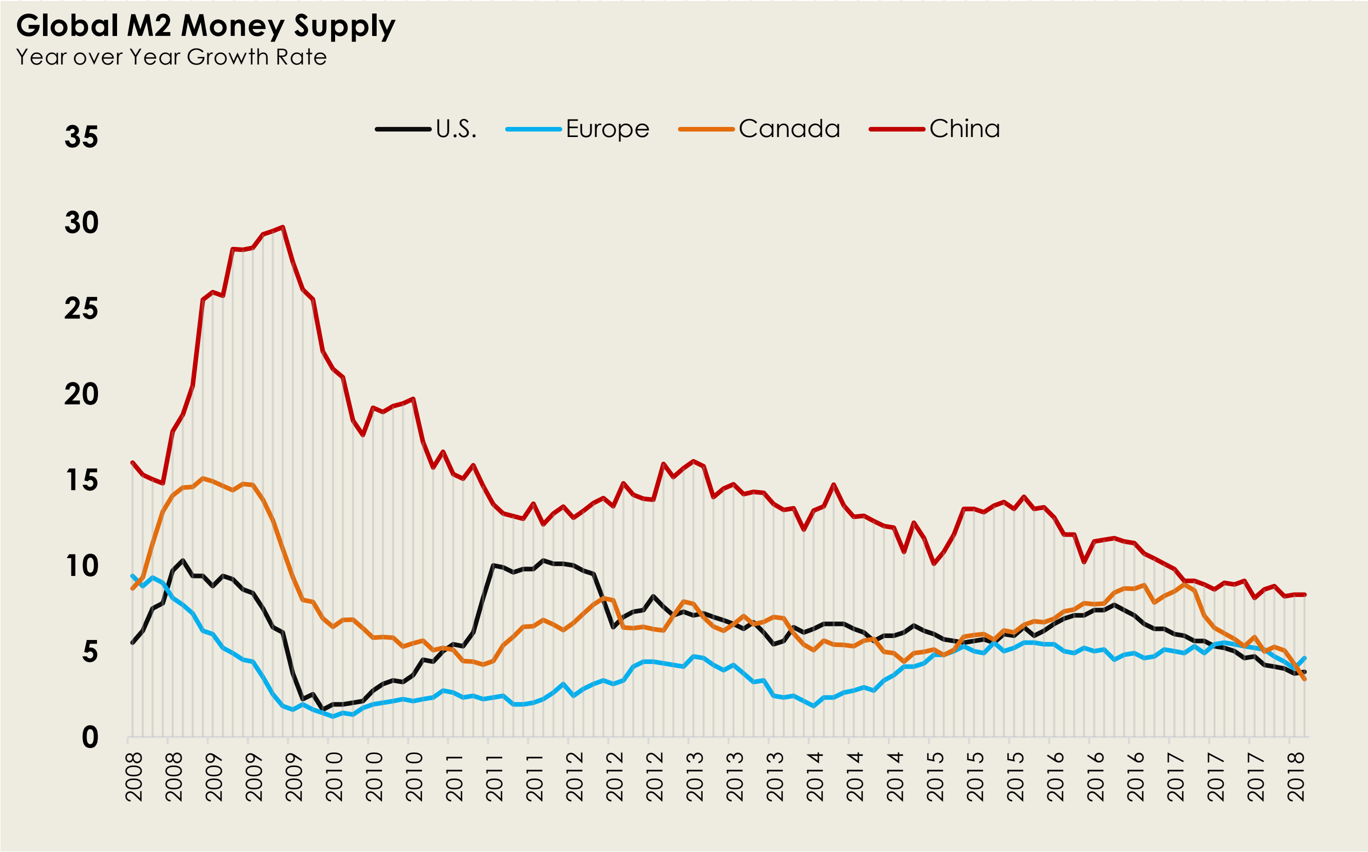
Mexico
Consumer Confidence



Source: India: MasterCard India Consumer Confidence Index US: Conference Board Index (sa): China: Consumer Confidence Index , Euro-Zone: European Commission Economic SentiMent Indicator Eurozone. Brazil: FGV Consumer Confidence Index (sa) Mexico: Consumer Confidence Index. Data derived by Bloomberg.

Global M2 Money Supply

Commentary: Some pressures on the global money supply have started to reveal themselves, but the relative strength within Europe is another encouraging sign reaffirming our conviction in the region.



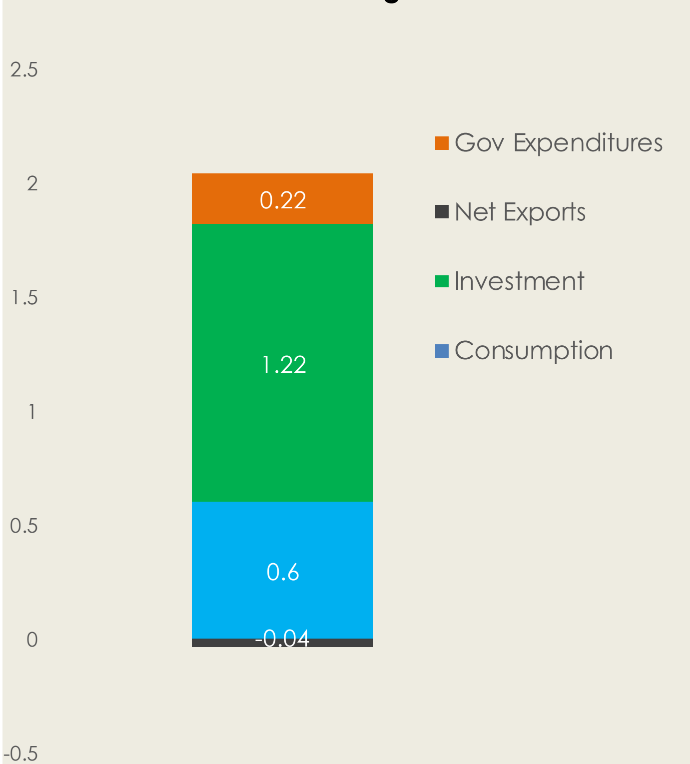
Source: US: Federal Reserve Money Supply M2 YoY % Change Europe: ECB Money Supply M2 YoY Canada:Bank of Canada Money Supply M2 YoY SA China:China Monthly Money Supply M2 YoY. Data derived by Bloomberg.

US Gross Domestic Product

First quarter growth registered a 2% growth rate and signs for 2Q GDP growth have comedown from once aggressive expectations to a 3.5% rate of growth. This would be a welcomed, and expected, boost in quarter over quarter growth but a year on year rate of about 3%. These would be growth rates that fall largely in line with the expansion's rate of growth. To us, it's a positive signal that a short term above-trend growth has manifested. This would signal the economy is not borrowing future growth to accelerate the current expansion.

US GDP Quarter Annualized	2.00%
US GDP Year over Year	2.80%

Contribution to Percent Change in GDP



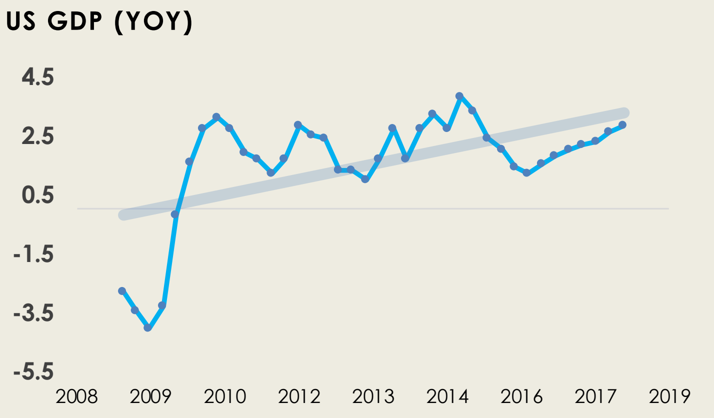
GDP Components	Quarterly Growth Annualized	Previous Quarterly Growth Annualized	Contribution to Growth
Consumption	**0.9%**	**4.0%**	**0.6**
Goods	-0.4%	7.8%	-0.09
Durable Goods	*-2.1%*	*13.7%*	*-0.16*
Non Durable Goods	*0.5%*	*4.8%*	*0.07*
Services	1.5%	2.3%	0.69
Household Consumption	*1.2%*	*2.0%*	*1.2*
Investment	**7.5%**	**4.7%**	**1.22**
Fixed Investment	7.6%	8.2%	1.23
Non Residential	*10.4%*	*6.8%*	*1.28*
Residential	*-1.1%*	*12.8%*	*-0.04*
Inventory	-	-	-0.01
Net Exports	**-**	**-**	**-0.04**
Exports	3.6%	7.0%	0.44
Goods	*3.4%*	*11.6%*	*0.28*
Services	*4.0%*	*-1.4%*	*0.16*
Imports	3.2%	14.1%	-0.48
Goods	*2.6%*	*17.3%*	*-0.32*
Services	*5.9%*	*1.1%*	*-0.16*
Government	**1.3%**	**3.0%**	**0.22**
Federal	1.7%	3.2%	0.11
State & Local	1.0%	2.9%	0.11
Quaterly GDP	**2.0%**	**2.9%**	**2**

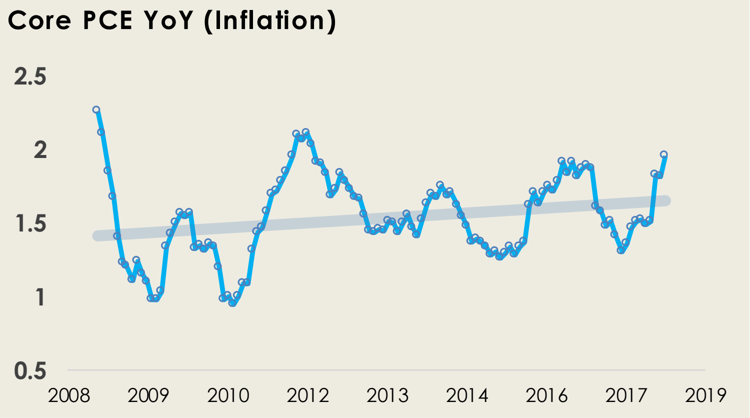
Source: GDP: Bureau of Economic Analysis: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation. Data derived by Bloomberg.

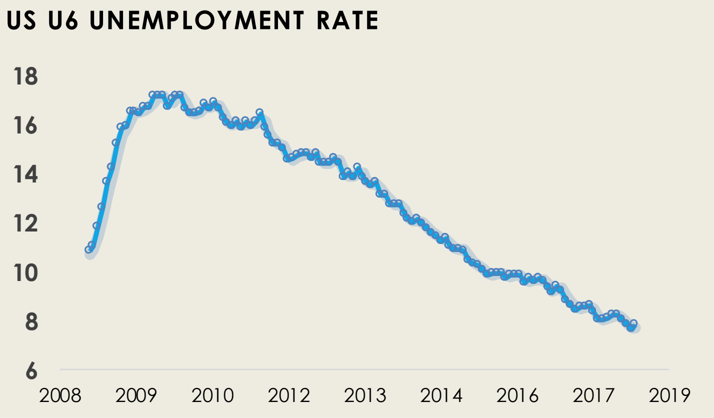
Rate Normalization Watch

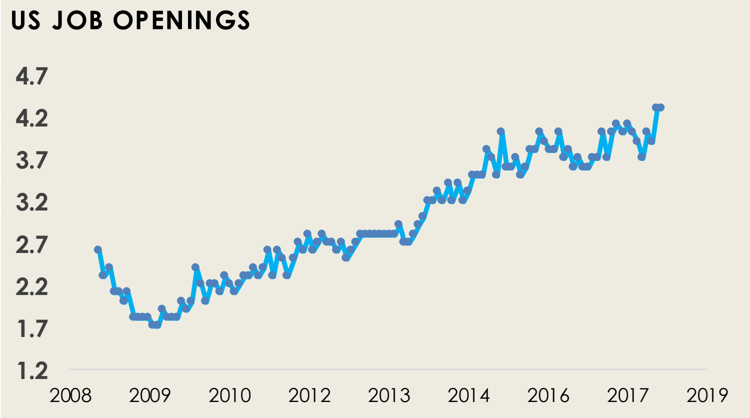
Commentary: Attention will continue to be paid to inflation with long-term targets set near the 2% range. We've seen this number continue to creep towards the 2% mark, but we think long-term inflation will be capped due to forces at play bigger than policy makers.

The mix of normalizing rates with reducing the balance sheet still poses the biggest Fed risk to the markets today. The end of Q2 will see a bump in market value of assets "reentering" the market due to rebalancing of the balance sheet.







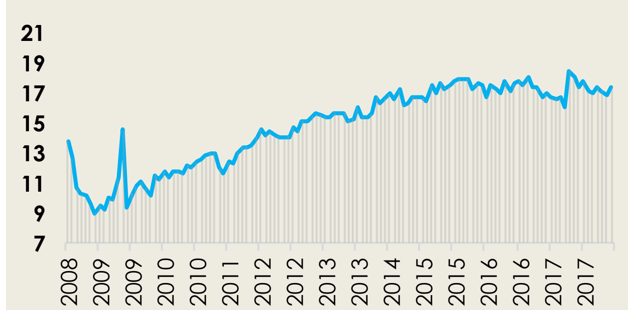


Source: GDP: Bureau of Economic Analysis: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. US CPI: Consumer Price Index (yoy %). US U6 Unemployment/ US Job Openings: Bureau of Labor Statistics.

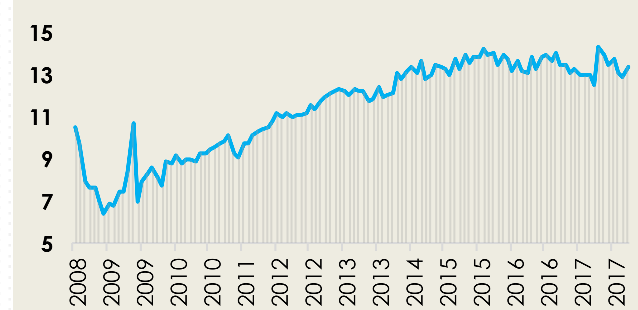
US Cyclical Sectors

Commentary: An unwelcomed variable to already slowing vehicle sales would be the introduction of a full blown trade war. Automobile tariffs have already been a point of the conversation brought up by the parties at play. The global supply chain, and with automobiles in particular, is deeply intertwined with virtually not manufacturer solely producing in the United States. We'd expect trade tensions to increase prices, curbing an already slowing market.

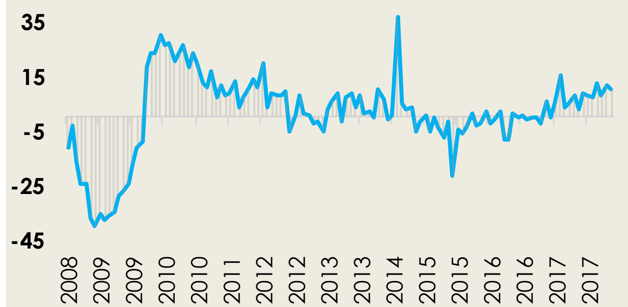
Light Vehicle Sales (mm)



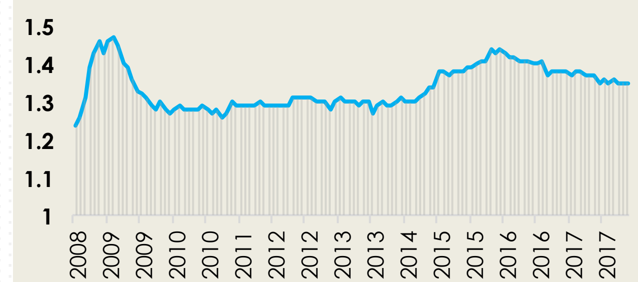
Domestic Vehicle Sales



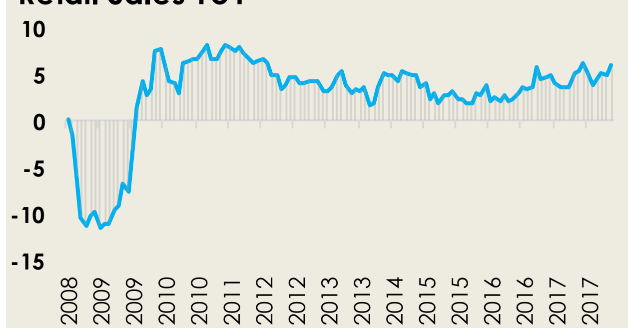
Durable Good Order YoY



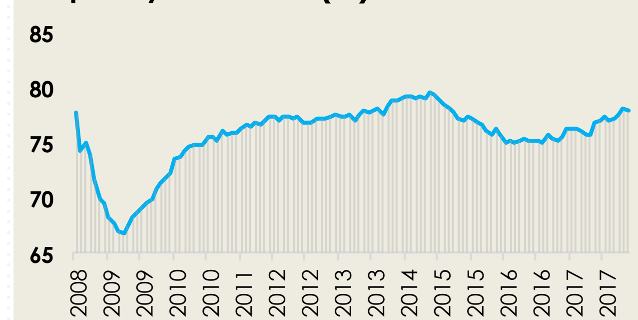
Manufactoring Inventory to Sales Ratio



Retail Sales YoY



Capacity Utilization (%)



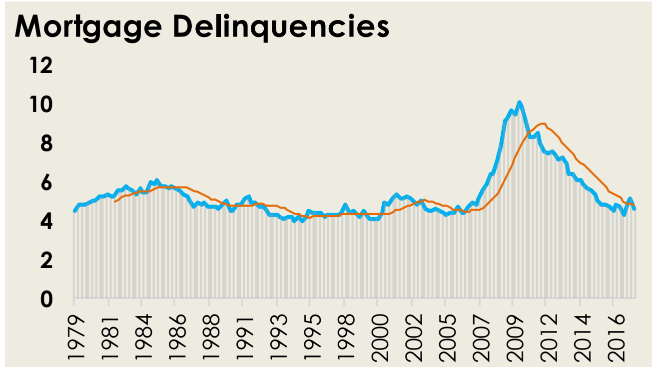
Source: US Light Vehicle Sales: U.S. Commerce Department Light Vehicle Sales Domestic Vehicle Sales: US Auto Sales Domestic Vehicles Annualized SA Durable Good Orders: US Durable Goods New Orders Total YoY NSA Manufacturing to Sales Ratio: MFG+TRD INV/SALES RATIO MANUFACT US Census Bureau Retail Sales: Adjusted Retail & Food Services Sales Total Yearly % Change SA Capacity Utilization: US Capacity Utilization % of Total Capacity SA. Federal Reserve. Bloomberg Data.

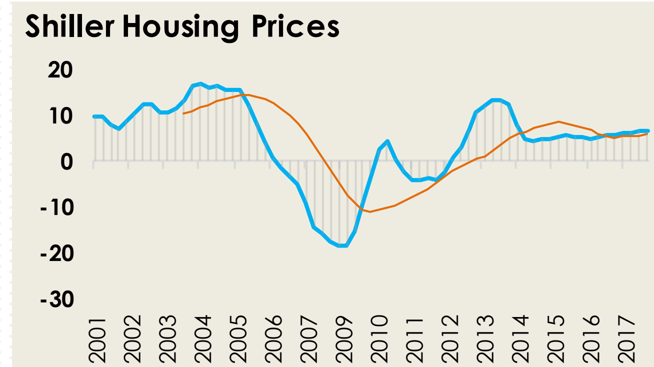
US Housing Data

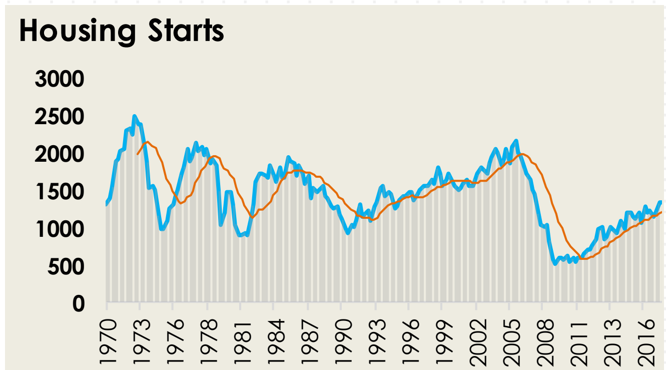
Commentary: Housing remains strong in terms of quality as delinquencies remain muted and in a downtrend. The prices are slowing which is expected after a period of significant growth. There remains the opportunity for building as affordability remains strong, and starts are below median levels but improving. Housing remains one of the strengths for the US economy.

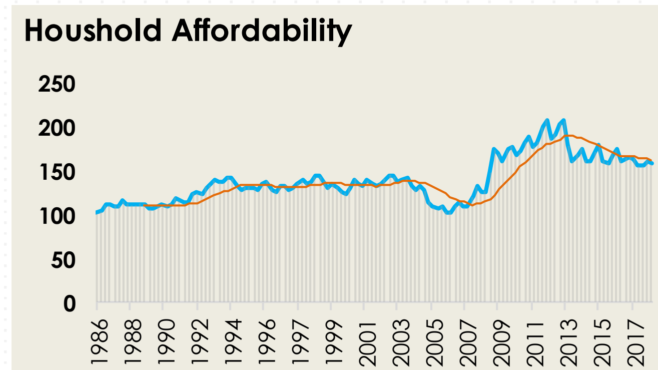
One interesting variable that is being impacted by the change in interest rates is the cost of living in the United States. With a jump in oil prices and rising interest rates, consumers are now faced with higher inputs for their fixed expenses. Mortgage applications fell off late in the quarter, a trend that has in consecutive weeks as refinancing and new applications each were reported lower.

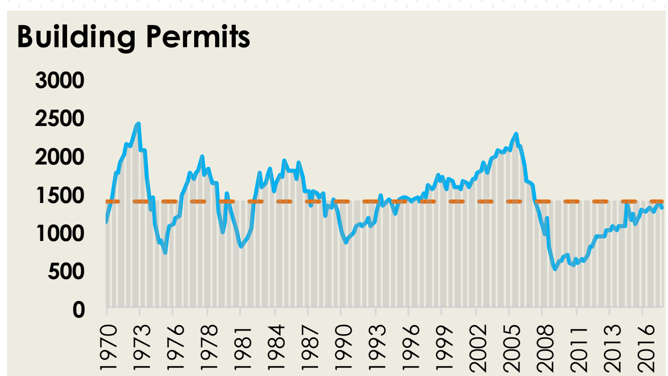
- Long Term Quarterly Index Level
- 12 Quarter Moving Average

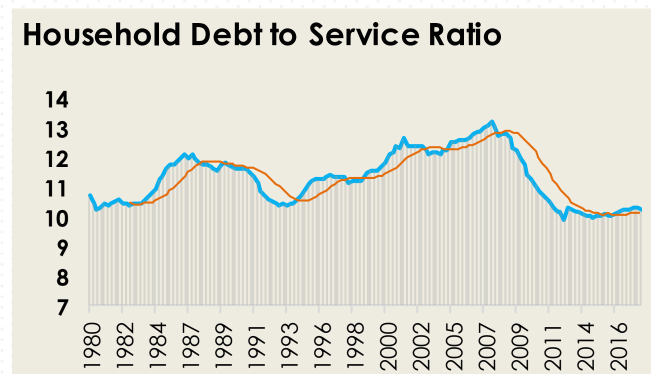










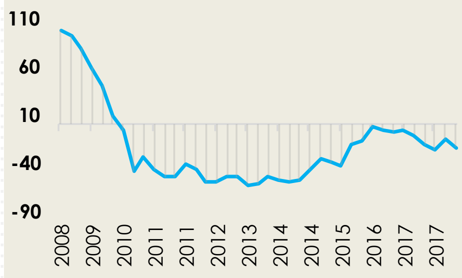


Source: Mortgage Delinquencies: Delinquencies As % Of Total Loans SA; Mortgage Bankers Association. Shiller Housing Prices: S&P/Case-Shiller Composite-20 City Home Price Index YoY Housing Starts: US New Privately Owned Housing Units Started by Structure Total SAAR Household Affordability: Housing affordability composite Index; National Association of Realtors Building Permits: Private Housing Authorized by Bldg Permits by Type Total SAAR Household Debt to Service Ratio: Federal Reserve US Household Debt Service Ratio Total SA.

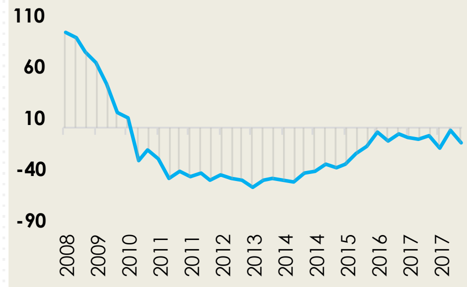
US Credit Conditions

Commentary: Credit expansion remains modest, and standards have not tightened.

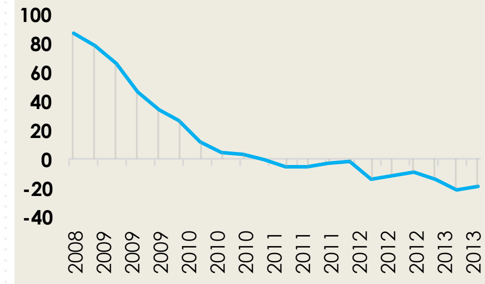
Increasing Loan Rates
Large Firms



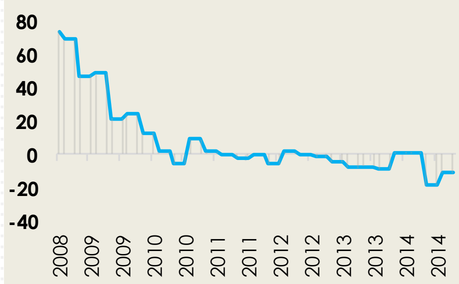
Increasing Loan Rates
Small Firms



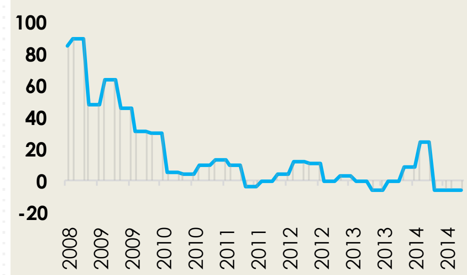
Comm. Real Estate Loans
Tighter Standards



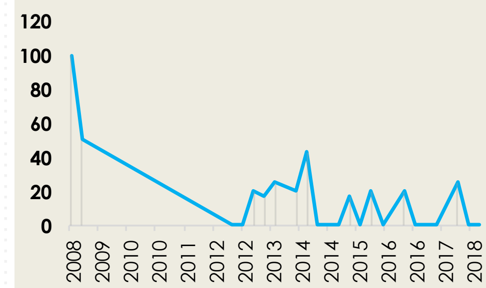
Prime Residential Loans
Tighter Standards



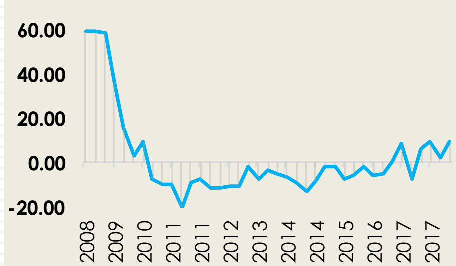
Non-Trad Residential Loans
Tigher Standards



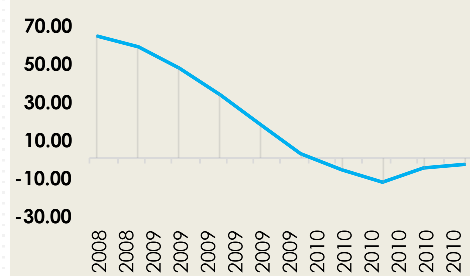
Subprime Residential Loans
Tighter Standards



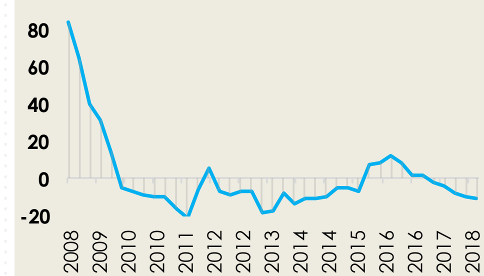
Credit Car Loans
Tighter Standards



Consumer Loans
Tigher Standards



Comm. & Industrial Lonas
Tighter Standards

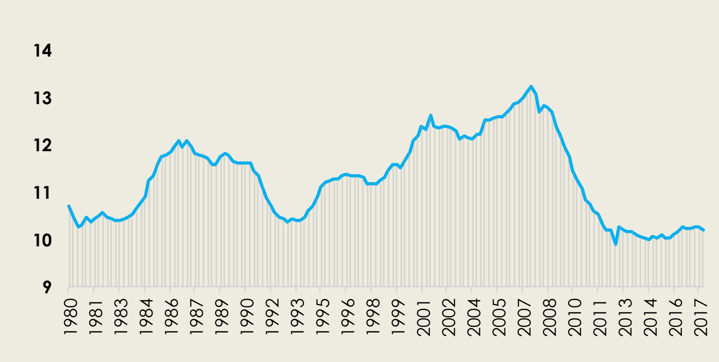


Source: Federal Reserve United States. Bloomberg Database.

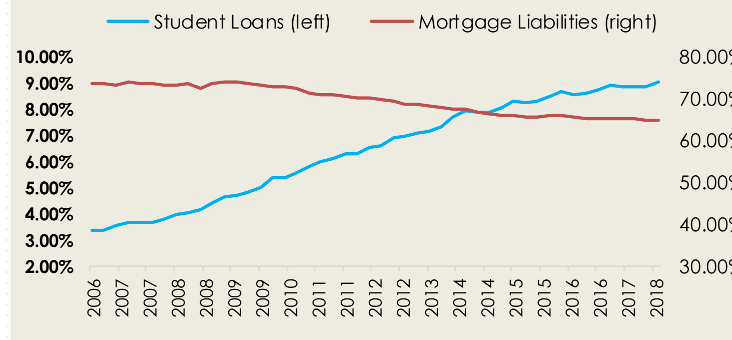
Commentary: Student loan debt has grown more than auto loan, credit card, and home equity loan debt combined since 2003, according to the Federal Reserve Bank of New York, as the cost of higher education has skyrocketed, and more students have flocked to get degrees. The proliferation of high-interest student loans has outpaced inflation and earnings growth for college graduates, and delinquency rates for student loans are now higher than those for credit cards, auto loans, home equity loans and mortgages. The home ownership rate in the U.S. has fallen each year over the last six years, according to the U.S. Census Bureau.

We view student loans as the gorilla in the room that nobody is willing to acknowledge. Exceptionally long term implications are posed by the burden of education financing weighing the future generations.

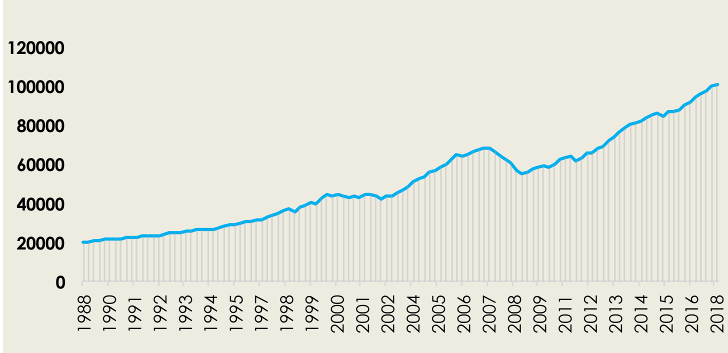
Household Debt Service Ratio
Debt payments as a percent of disposable income



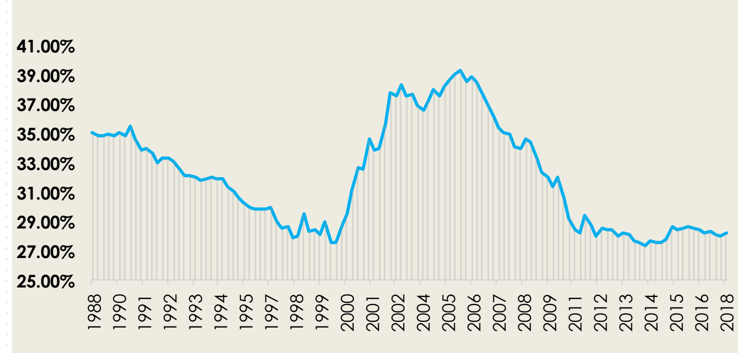
Student Loans as a Percent of Total Liabilities
Mortgage as a percent of total liabilities



U.S. Household Net Worth
Federal Reserv e US Household Assets



U.S. Real Estate as a Percent of Total Assets
Federal Reserv e US Household Assets



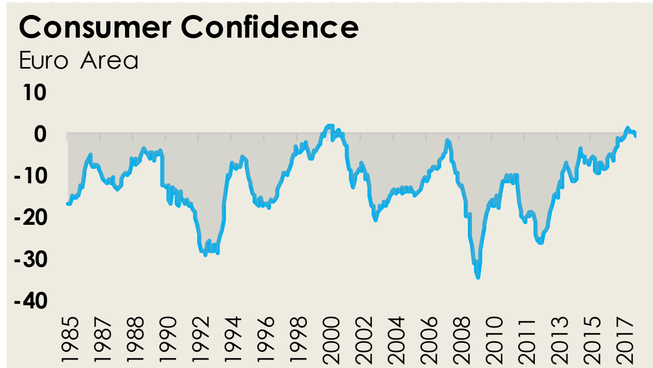
Source: Household Debt to Service Ratio: Federal Reserve US Household Debt Service Ratio Total SA Student Loans, US Household Net Worth, US Real Estate, Liabilities: Flow of Funds Federal Reserve. Data derived using Bloomberg.

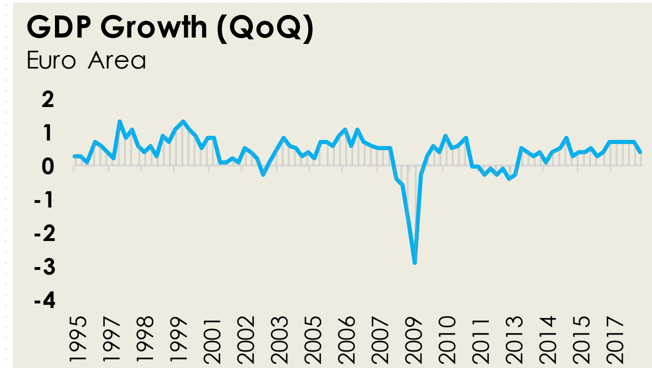
European Economy

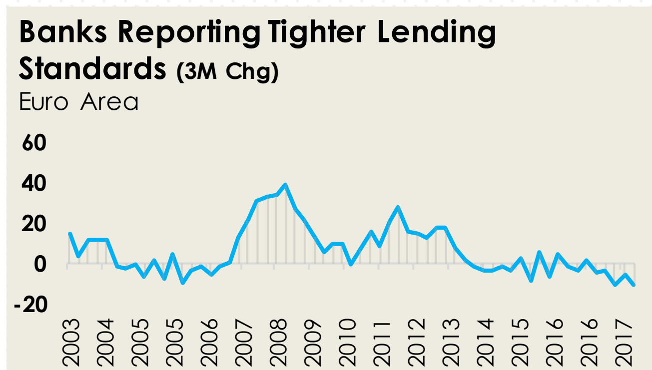
Commentary: The Euro Area was a strong point of markets in 2017 and the conversation within Europe has turned to 2019. With European Central Bankers discussed potentially increasing rates in 2019, the global economy has one of the most significant central banks shifting their policy. We see all eyes pointing to Mario Draghi by end of the year.

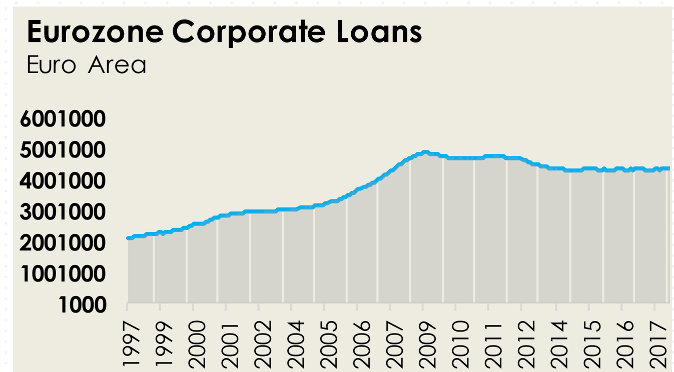
Confidence and business sentiment continue to churn higher, reaching levels last seen 16 year ago.

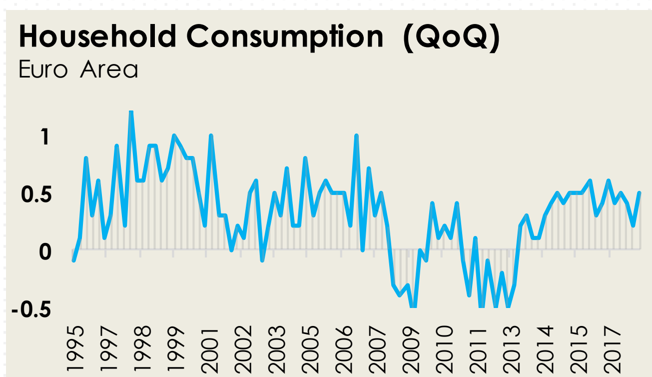
Since emerging from its double dip recession (2009/2012-2013) the European economy has proven to be a strong point in the global picture. Moving forward, indications from the IMF show a higher contribution of growth to the global economy stemming from the Euro area.

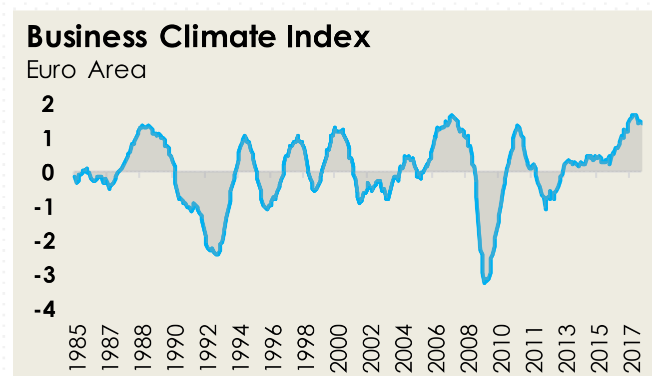










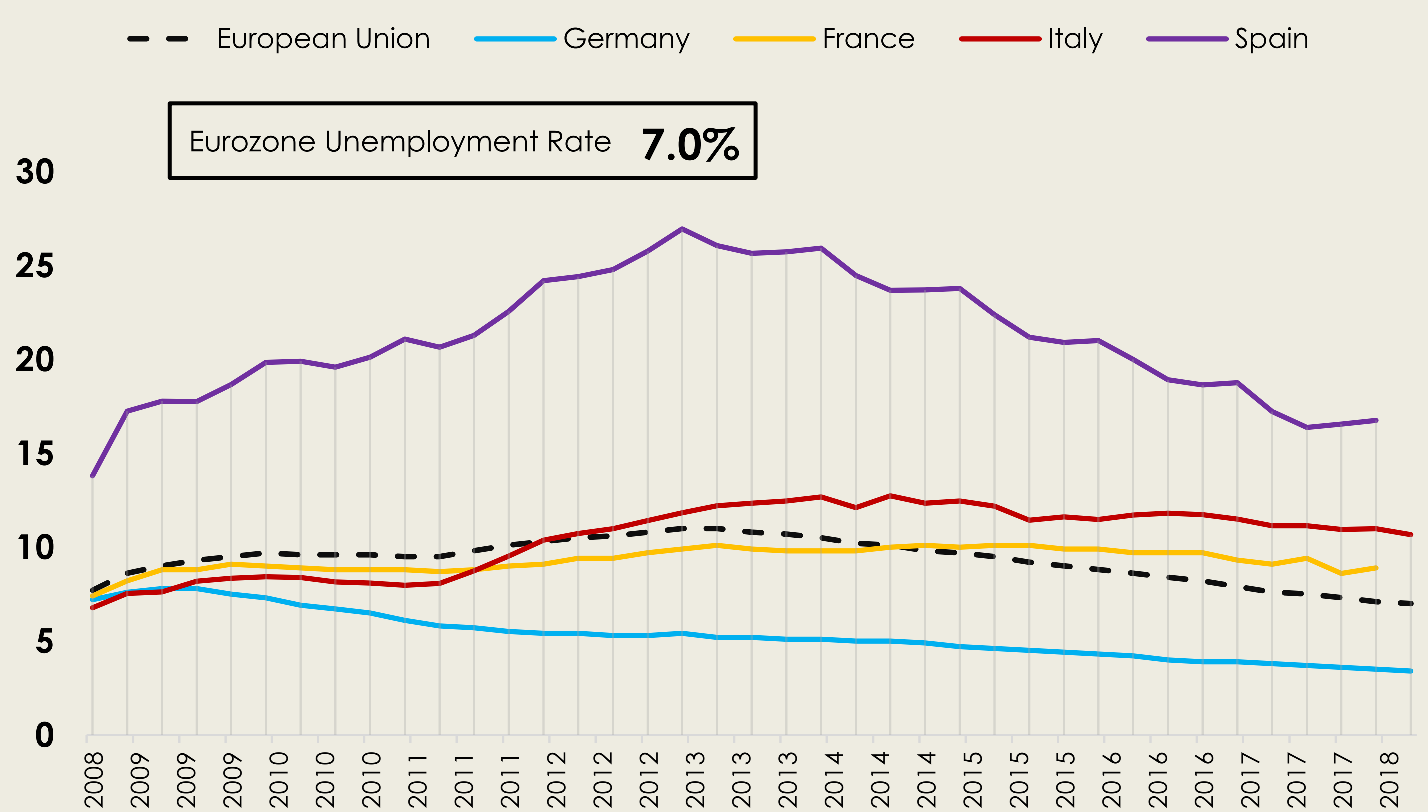


Source: Eurozone: European Commission. European Central Bank. Bloomberg Data.

European Employment Picture

Commentary:
Unemployment has persistently churned lower since 2013. This is a trend that it largely responsible for the attractive economic mix that can be found in the region today: solid GDP growth, dispersion across countries narrowing and falling unemployment.

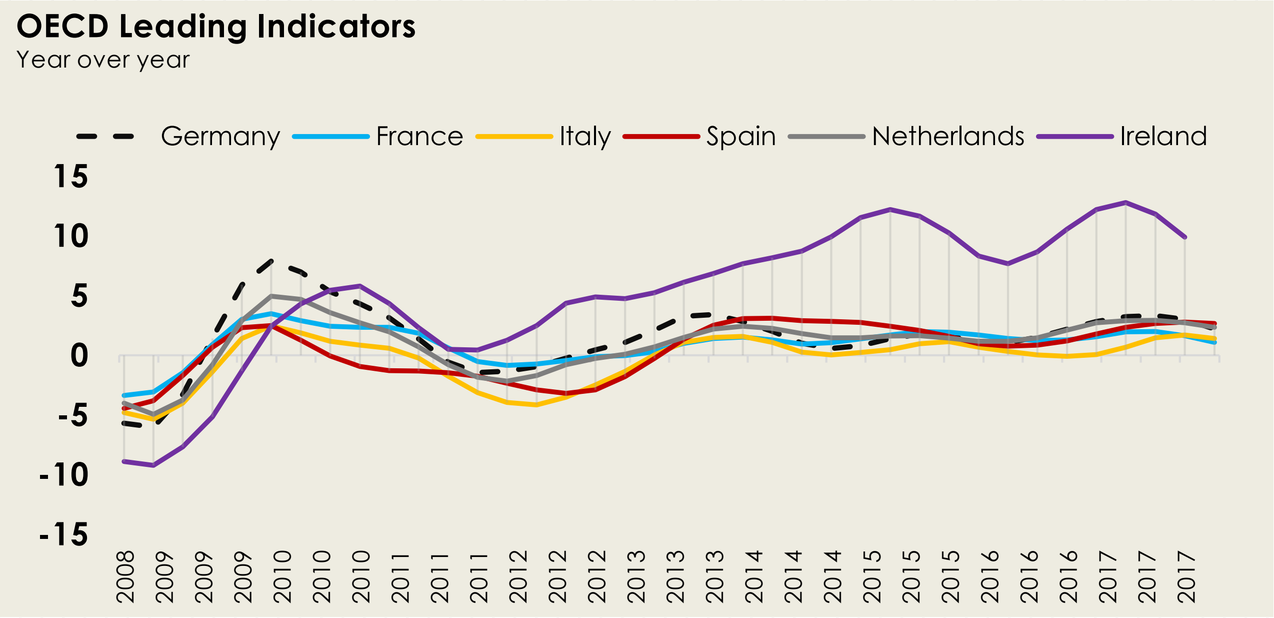
European Unemployment Rates
Quarterly Figures

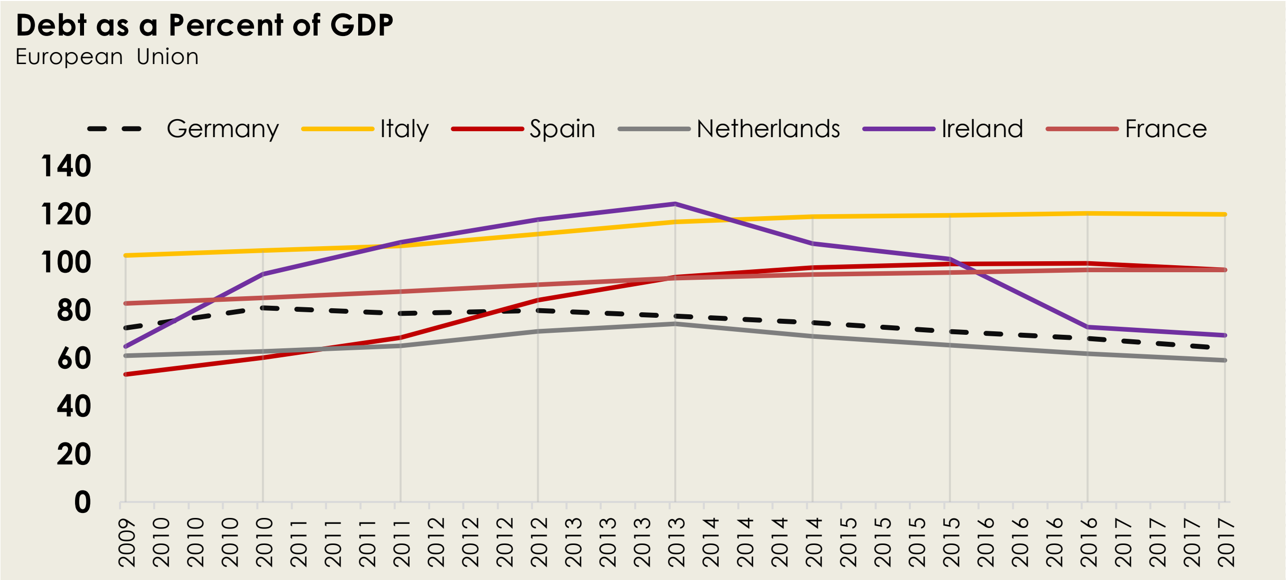


Source: European Union: Eurostat. Germany: Deutsche Bundesbank France: INSEE National Statistics Office of France Italy: ISTAT Netherlands: Dutch Statistics Office Spain: INE All data derived through Bloomberg.

European Leading Indicators & Debt

Commentary:
Leading indicators have also pointed to a resurgence in the region. Debt to GDP however remains elevated and rising in everywhere other than Ireland.





Source: OECD leading indicators: Organization for Economic Co-operation and Development Debt as a percent of GDP: Central Intelligence Agency
All data derived through Bloomberg.

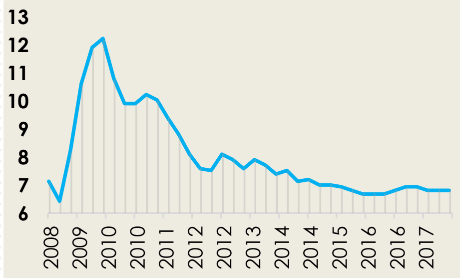
Chinese Economy

Commentary: After several concerns playing out within the market pertaining to Chinese growth, investors are at ease with the Chinese economy, for now. While a hard landing doesn't seem to be the threat of the moment, current trade war concerns could have unknown adverse effects on the world's second largest single economy.

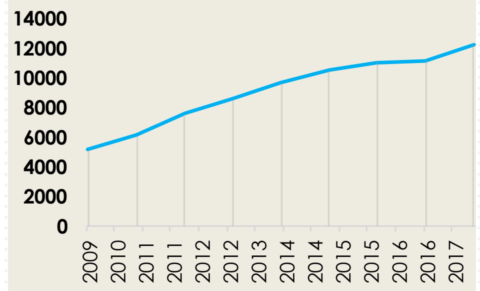
Ultimately, during H1 we saw China take significant steps towards aligning themselves as the premier global leader in the long term. President Xi Jinping now serves as the President as the PBOC with no term limits.

Additionally, we saw a TPP deal struck without the United States. We view the Chinese economy and markets as one of the most important influences on portfolios today.

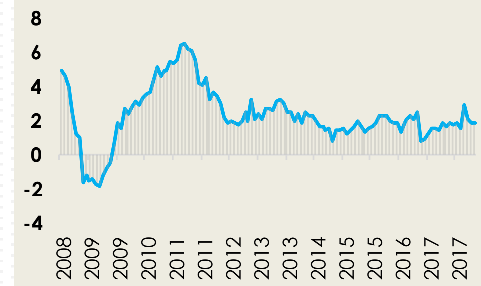
China GDP Growth
Year over Year



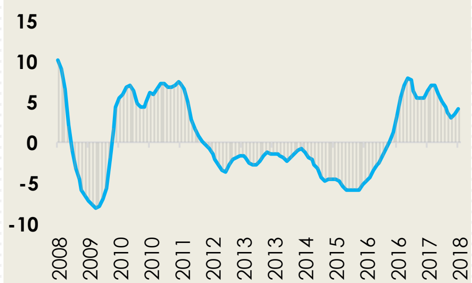
China Nominal GDP
Billion usd



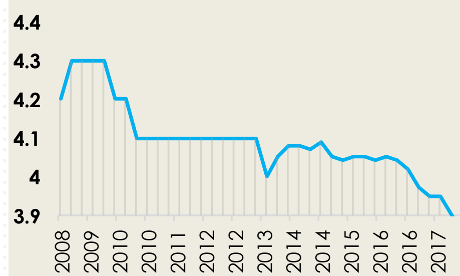
Consumer Price Index
Percent YoY



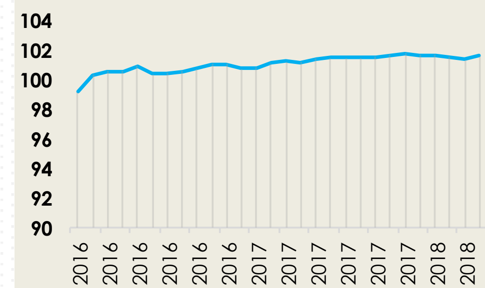
Industrial Product Price
Percent YoY



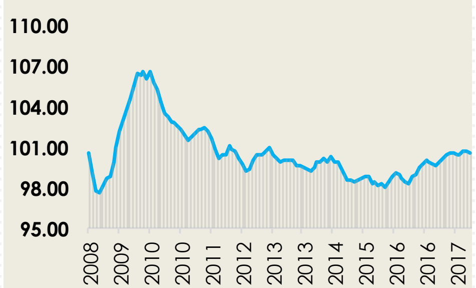
Unemployment Rate
Percent



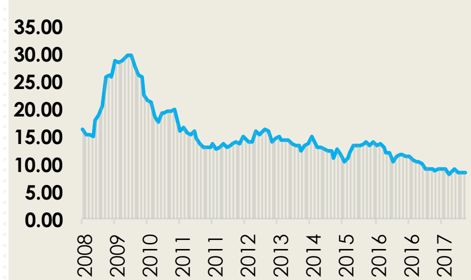
Real Estate Climate Index
Price Index



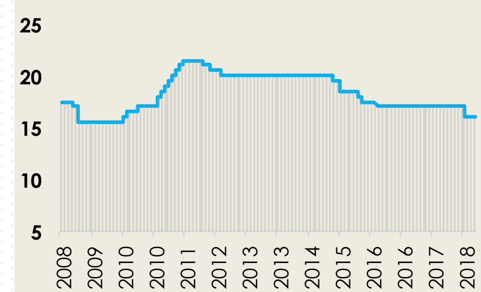
Leading Indicator Index
Price Index



M2 Money Supply
Percent YoY



Reserve Ratio
Percent

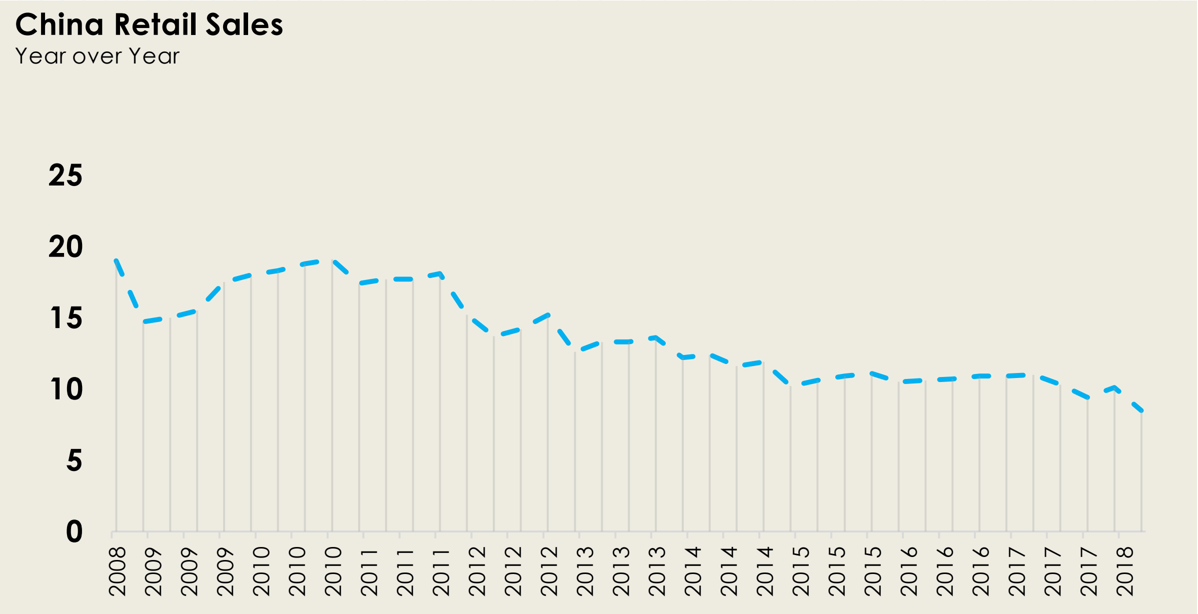


Source: China: National Bureau of Statistics of China. All data derived through Bloomberg.

Chinese Economy

Commentary: Retail sales is the proxy for domestic consumption in China. The graph on the top shows the double digit year over year retail sales growth. In addition, the service sector as measured by the non manufacturing PMI, is signaling expansion. China's service sector has doubled in the last 2 decades and now accounts for more than 50% of GDP.

PMI readings continue to remain in expansion territory for the non-manufacturing sectors. A positive indicator that the transition to service oriented growth still maintains positive momentum.



Business Conditions	Current	-3 Months	-6 Months	-1 Year
Manufacturing PMI	51.50	51.50	51.60	51.70
Non Manufacturing PMI	55.00	54.60	55.00	54.90
New Orders PMI	53.20	53.30	53.40	53.10
New Export Orders PMI	49.80	51.30	51.90	52.00
Order Backlog PMI	45.50	46.00	46.30	47.20

Source: China: China Federation of Logistics and Purchasing. All data derived through Bloomberg Database.

currencies

Global Currency Market

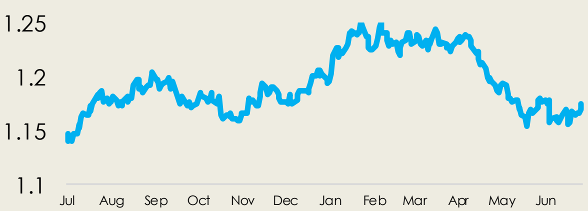
Dollar weakness during the first quarter was an unexpected item in the mix for portfolios. This added inflationary characteristic could pose a threat to future pricing readings and expectations, potentially triggering the Fed. Across the Atlantic we are anticipating a more hawkish central bank which will pose a headwind for USD relative to EUR. We see further weakness for the dollar being the path of least resistance *if monetary policy from the ECB plays out as expected and fiscal policy at home expands the deficit considerably.*

US Dollar Index

1 Year

EUR/USD

1 Year



USD/JPY

1 Year

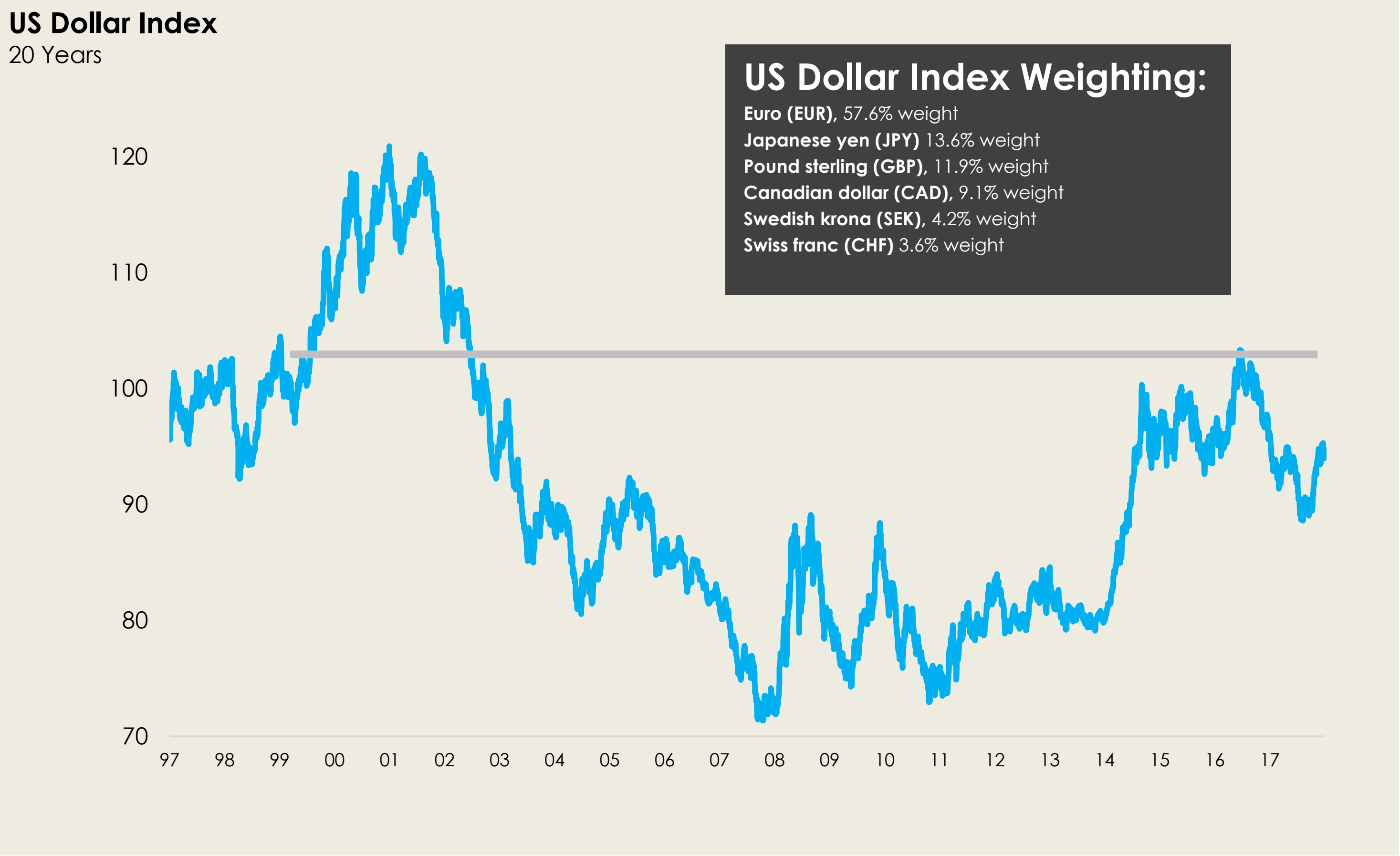
Region	Currency Pair	1 Year Change	Trend	Current	3 Months Ago	6 Months Ago	1 Year Ago	3 Years Ago
Majors								
US Dollar Index	DXY	-1.92%		94.0	90.1	91.9	95.8	96.3
Europe	EUR/USD	2.83%		1.2	1.2	1.2	1.1	1.1
Australia	AUD/USD	-2.06%		0.7	0.8	0.8	0.8	0.8
Canada	USD/CAD	0.82%		1.3	1.3	1.2	1.3	1.3
United Kingdom	GBP/USD	2.41%		1.3	1.4	1.4	1.3	1.6
Japan	USD/JPY	-2.43%		110.5	106.9	113.1	113.2	122.6
Hong Kong	USD/HKD	0.48%		7.8	7.8	7.8	7.8	7.8
New Zealand	NZD/USD	-6.14%		0.7	0.7	0.7	0.7	0.7
Norway	USD/NOK	-3.84%		8.0	7.8	8.1	8.4	8.1
Switzerland	USD/CHF	3.01%		1.0	1.0	1.0	1.0	0.9
Asia								
Thailand	USD/THB	-2.73%		33.1	31.3	32.2	34.1	33.9
Taiwan	USD/TWD	-0.31%		30.5	29.3	29.5	30.6	30.9
South Korea	USD/KRW	-3.59%		1,115.9	1,069.6	1,066.1	1,157.4	1,126.4
Singapore	USD/SGD	-1.75%		1.4	1.3	1.3	1.4	1.3
Philippines	USD/PHP	5.19%		53.3	52.1	50.2	50.7	45.1
Malaysia	USD/MYR	-6.05%		4.0	3.9	4.0	4.3	3.8
Indonesia	USD/IDR	7.34%		14,375.0	13,778.0	13,429.0	13,392.0	13,347.0
India	USD/INR	6.33%		68.9	65.0	63.5	64.8	63.4
China	USD/CNY	-2.33%		6.6	6.3	6.5	6.8	6.2
EMEA								
South Africa	USD/ZAR	0.21%		13.5	12.0	12.4	13.4	12.4
Israel	USD/ILS	2.71%		3.6	3.5	3.4	3.5	3.8
Turkey	USD/TRY	26.30%		4.6	4.0	3.7	3.6	2.7
Russia	USD/RUB	4.75%		63.0	58.1	57.1	60.1	56.9
Poland	USD/PLN	0.22%		3.7	3.4	3.5	3.7	3.8
Hungary	USD/HUF	1.94%		275.1	254.1	258.2	269.9	286.1
Latin America								
Mexico	USD/MXN	4.29%		19.0	18.3	19.2	18.3	15.7
Colombia	USD/COP	4.29%		19.0	18.3	19.2	18.3	15.7
Chile	USD/CLP	-1.34%		656.8	605.1	605.3	665.8	641.2
Brazil	USD/BRL	17.11%		3.9	3.4	3.2	3.3	3.1
Argentina	USD/ARS	63.43%		27.9	20.2	19.0	17.1	9.1

Source: All data derived through Bloomberg Database. Past performance is not indicative of further returns.

US Dollar Index

Commentary: The framework for relating fiscal stimulus to the dollar remains simple unchanged from when we first considered it late last year – greater cyclical optimism into an economy at near full capacity could drive a fuller pricing of the Fed '18 dots.

What seems like a short term bottom in the dollar being placed early in the second quarter, dollar strength was a driving force in Q2. We view fundamental catalysts that are expected to unfold in 2018 to be headwinds for the dollar long term. However, even despite the 5% move in the greenback in Q2, we can see short term dollar strength persisting here.

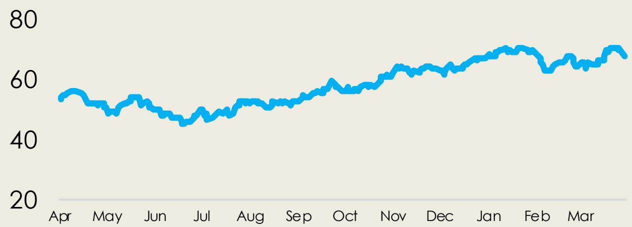


Source: US Dollar Index: All data derived through Bloomberg Database.

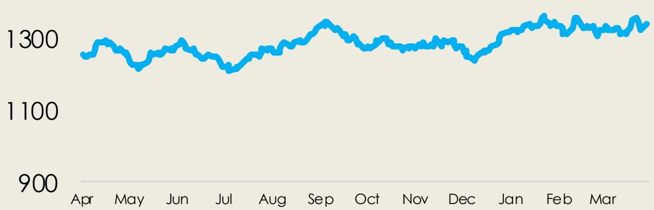
commodities

Commodity Market

Brent Crude
1 Year



Gold
1 Year



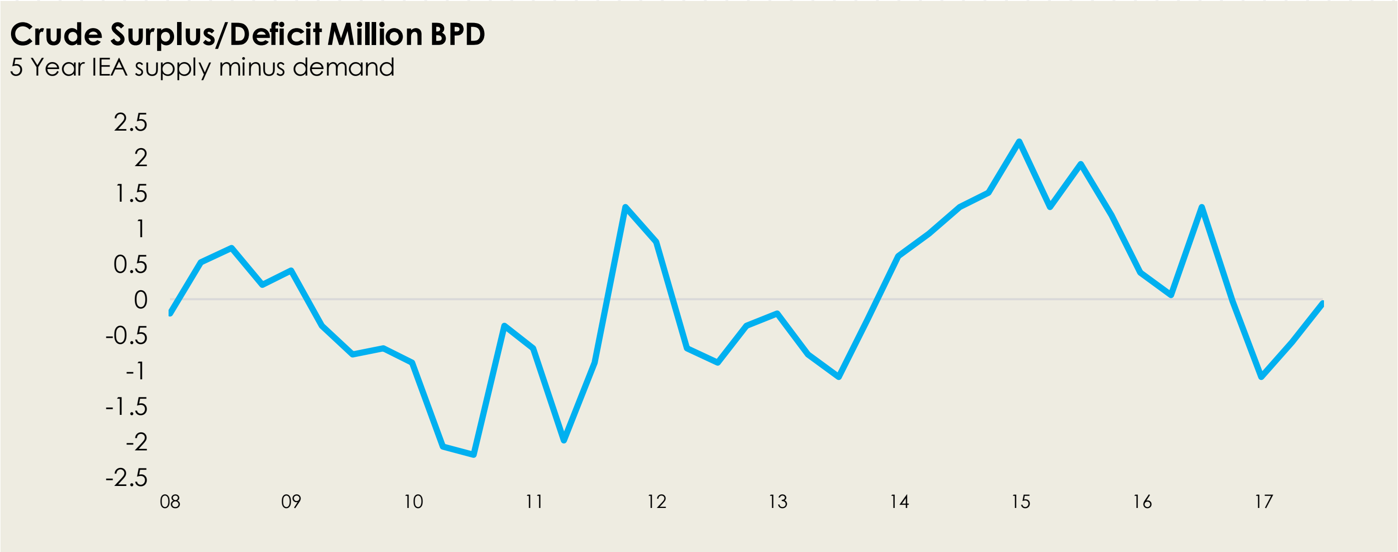
Commodity	1 Year Change	Trend	Current	3 Months Ago	6 Months Ago	1 Year Ago	3 Years Ago
Broad Commodity Index	4.24%		193.4	193.9	183.1	185.5	214.3
GSCI Commodity Index	14.46%		444.8	442.7	394.3	388.5	401.0
Bloomberg Comm. Index	1.74%		86.8	88.2	84.5	85.3	99.3
Corn	6.31%		387.3	353.3	351.5	364.3	386.5
Coffee	-16.44%		116.4	130.2	127.2	139.3	140.9
Sugar	-25.30%		12.5	15.3	14.3	16.8	12.7
Wheat	4.63%		446.3	433.5	444.8	426.5	536.3
Aluminum	1.83%		1,990.8	2,258.3	2,081.0	1,955.0	1,781.5
Copper	14.61%		304.0	327.8	295.5	265.2	273.4
Gold	7.50%		1,340.9	1,316.1	1,272.7	1,247.3	1,200.9
Silver	-9.02%		16.6	17.2	16.7	18.3	16.7
Brent Crude	28.28%		67.8	66.6	56.1	52.8	54.9
WTI Crude	24.78%		63.1	60.4	50.6	50.6	49.1
Gasoline	15.85%		197.0	176.3	155.5	170.0	176.1
Natural Gas	-16.11%		2.7	3.1	2.9	3.2	2.7

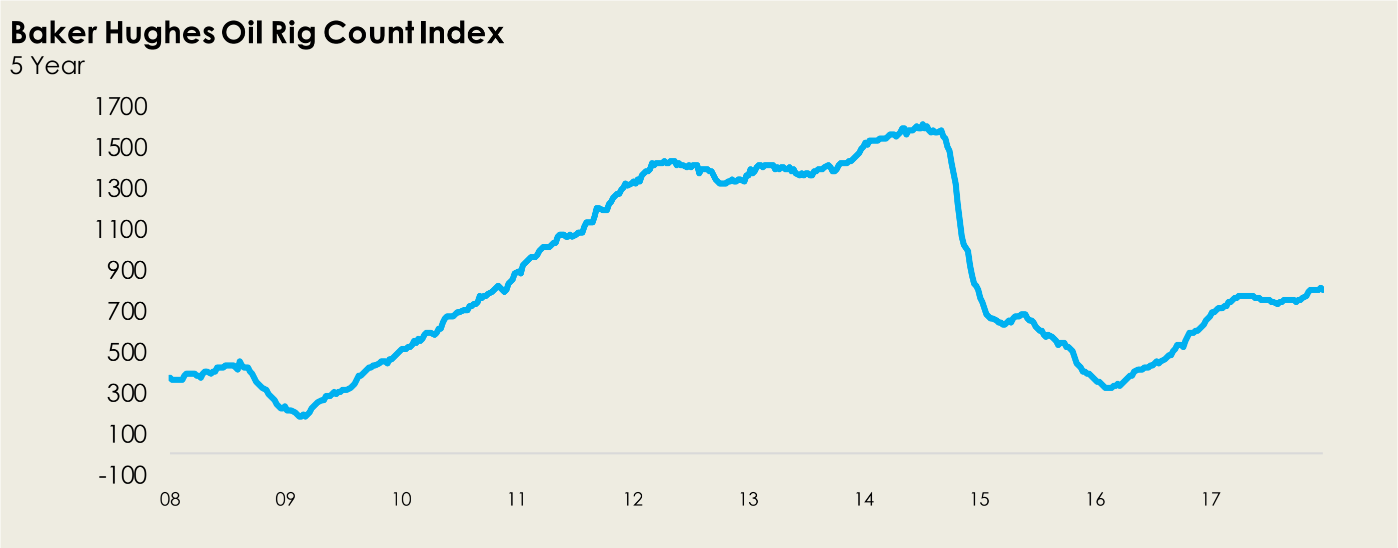
Oil was gaining headlines late in the quarter as the price of oil eclipsed $75 for the first time since 2014. The run-up in price, and continued pressure on Iran has led other OPEC nations to increase their production, notably Saudi Arabia. What was missing form the recent announcement however, was a specific number of barrels to be expected to hit the market. It is expected thought that the ramp up in production (in reality, deliveries) will reach hundred of thousands. As oil has slowly worked its way back to attractive levels for producers, energy stocks have reentered the conversation for many. If oil prices are able to persist at the recent highs, then it should be expected for investors to reward the energy names which would help sustain the current market rally. However, a downturn in global growth could quickly lead to a downturn in demand, sending not only energy companies but the market as a whole lower from here.

Source: All data derived through Bloomberg Database. Past performance is not indicative of further returns.

Energy Supply Demand

Commentary: Our studies show that oil tends to bottom prior to rig counts. Oil bottomed prior to rig counts as expected, but production remains robust. This is likely to keep pressure on oil prices from soaring higher. Also the crude demand is expected to outpace supply over the next several quarters.





Source: International Energy Agency. Baker Hughes Index. All data derived through Bloomberg Database.