GFG CAPITAL
A FAMILY OFFICE

WHAT LIES AHEAD

3Q 2017 OUTLOOK

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ONE. UNITED STATES

Attention remains on the administration as investors across the globe are still waiting to see how/when fiscal policy will play out. Equity valuations have remained elevated, slightly, relative to historical levels causing some pause. The divergence between hard and soft economic data has been a trend to watch as fundamentals regain center stage.

TWO. LATIN AMERICA

We've seen a weaker stance on Mexico coming from the administration so far, which has led to many headwinds dissipating. We continue to see value in Mexico and Brazil as these economies carry positive underlying growth trends.

THREE. EUROPE

A calmer than what most anticipated election schedule for the Eurozone has led to a smooth ride across the Atlantic. European markets remains attractively valued on a relative basis to the U.S. today, as they continue to outperform. ECB hawkish behavior will be the trend to watch moving forward as central banks across the globe appear to be set on similar tightening schedules.

FOUR. EMERGING MARKETS

Fundamentals continue to improve for much of the emerging world, and both equity and credit markets have been a reflection of investor sentiment.

FIVE. CHINA

China's GDP growth in the first half of the year has come in greater than anticipated, making the 6.5% annual target achievable.[1] Our focus within China is on the turn of the year and how a post election season government plans to tackle the building credit situation.

SIX. ASIA

Emerging economies outside of China in the region stand to provide value in the coming year with an emphasis on India. Japan has showed impressive strength this year on the back of a weaker yen as expected coming into the year.

3Q'17 ASSET CLASS VIEWS

EQUITIES

Broad based, trend-like growth across the global paints a favorable backdrop for risky assets; which leads us to continue to prefer equities over fixed income today. With correlations among global equity indices diverging as of late, we continue to believe a globally allocated equity profile is best in this market.

US
There remains some lingering hopes of extreme fiscal policy among investors, but the initial overzealous response seems to have dissipated within the market. With hopes for tax reform to at least reach the floor by 4Q this year, there stands to be a boost in U.S. equities from here. We continue to prefer growth names in this market as we reach the later part of the economic cycle. This causes us to seek more attractive value in other developed markets.

Europe
Europe's calm summer election schedule was exactly what the European equity markets needed coming into the year. With attention brought back to the hard evidence shown by a resilient and moderate economic expansion within the EU, investors have bought into the growth story.

EM
A better than anticipated growth rate in China has cleared the way for emerging markets to outperform this year. With key segments of the emerging world participating in the global expansion, we see these markets to be lead beneficiaries of the underlying growth trend moving forward; while perhaps contributing more on a global scale than what we've seen historically.

FIXED INCOME

We continue to believe this low yielding environment will persist for quite some time. As the Fed continues to normalize rates and beings to roll off their balance sheet, we will maintain our views

SOURCE: [1] J.P. Morgan, Factset. Data using Bloomberg data. 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 equity exposure. GFG is not recommending a prospective client buy these positions. Past performance is not indicative of further returns. This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our registered representatives.

of equities over fixed income for 2017. For bonds, we believe that current yields will prove to be the low end of the 2017 range as recent softness in inflation clears and global economic momentum persists. U.S. bond yields trajectory is likely to weigh on any possible USD strength as well, benefiting emerging market issues in the 2H.

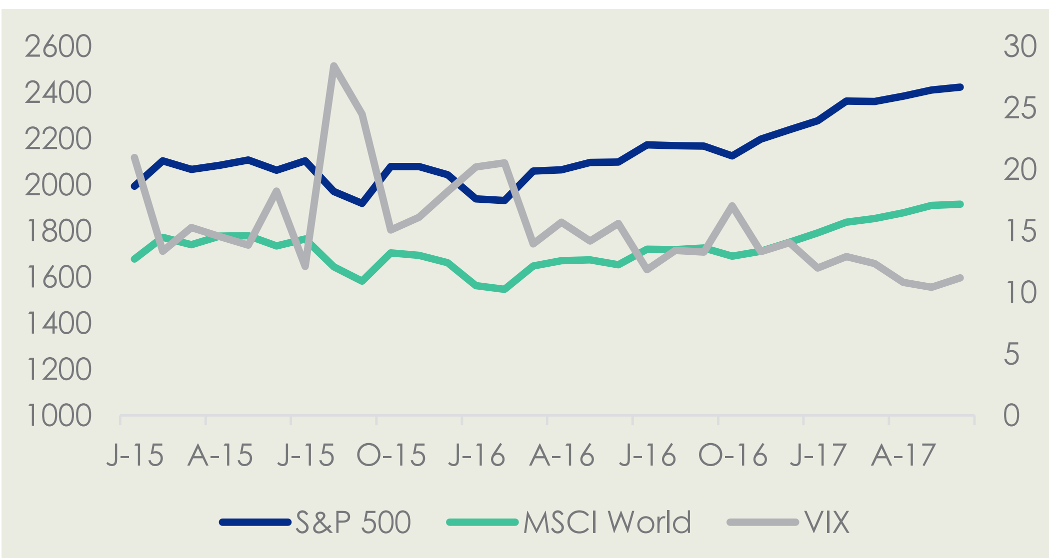
Credit
We see more value today in maintain credit within the portfolio in favor of sovereign debt exposure. While credit will likely continue to outperform government bonds, it is unlikely to outpace stocks.

EM
As the search for yield continues on, we believe EM local currency debt should continue to provide attractive yield opportunities. With the EM cycle heating up, income and consumption convergence will be a driver moving forward; improving the outlook for both debt and equity.

3Q'17 MARKET DRIVERS

Sector Rotation
Technically speaking, the U.S. benchmarks' bull trend has weathered a mid-June market whipsaw punctuated by healthy sector rotation. In the month of June the tech sector fell from 17 year highs amid a sustained volume spike. All while transports ticked higher amid the technology sector's downturn. Financials followed transports lead, ticking higher as investors gave the FAANG stocks a break and sought out different pockets of the market. Collectively, the U.S. sub-sector backdrop remains rotational and technically constructive.

Volatility
We appear to be investing in a time where macro-traders carry much shorter time horizons than they have historically. This can most likely be attributed to largely in part to the growing number of machines and algorithms that are participating in the market. With this in mind, we believe the VIX (the traditional measurement of volatility and fear in the market) will trade similarly to 2016: a tight range with quick recoveries following macro events. This is a concern as we believe this may mask the underlying fundamental risks and be followed by quick outbursts of market volatility.[1]



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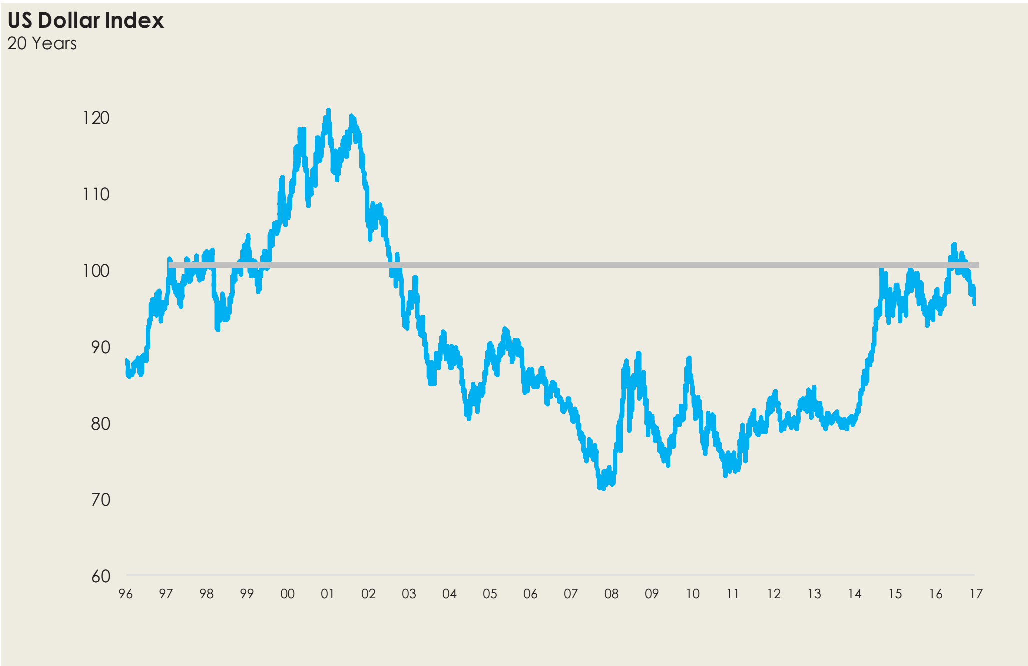
Tracking Trump

With so much riding on execution from the administration on campaign policy promises, we've placed a premium on hard data and evidence of follow-through on policy hypotheticals. We will maintain tight coverage on D.C. and the actions taken by the U.S. government. One of the largest risks to the market today, in our eyes, in the failed delivery on fiscal policy that is expected to spur growth to above recovery levels this late in the expansion.

USD

Coming into 2017 the conversation of a strong, and strengthening, dollar is just as much of a topic of conversation as it was a year ago. But this time, there are some compelling points that would imply this time is different: manufacturing has rebounded, inflation expectations are higher (and legitimate) and Fed action expectations coming into 2017 are lower than a year ago.[1]



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