Alllium

FINANCIAL ADVISORS

Capital Market Review

As of December 31, 2017

4Q17 Market Recap

Macro issues have not phased the markets. Strong corporate balance sheets, low interest rates and the promise of tax reform fueled the markets through the end of the year. Both international equity (MSCI ACWI ex. U.S. +25.0%) and the emerging markets (MSCI EM +37.3%) outperformed domestic equity (S&P 500 +21.8%) in 2017. There was a rebound in retail in the fourth quarter, reflecting further increased consumer confidence. And Oil made a big move in the fourth quarter, up almost 17%.

Despite three rate hikes in 2017, the bond market (BC Aggregate) was up 3.5% in the year. And International Bonds were stellar, in part due to a weakening dollar. President Trump selected Federal Reserve board member Jerome Powell as the next chairman of our nation's central bank. Powell will likely be welcomed on Wall Street as someone who has supported the cautious stance toward interest rate hikes and may extend that approach if the economy performs well. It is widely expected that the Fed will increase rates three times in 2018.

Cash and/or short-term bond positions provide comfort and opportunity to take advantage of any market volatility. As noted last quarter, we continue to watch portfolios closely to ensure they remain in compliance with their target allocations and feel confident our clients will weather eventual market volatility well.

You’ve probably noticed, 2018 is off to a great start!

Please watch for our 2018 Global Market Outlook which will be coming out in the next few days – there are some interesting trends to consider this year.

Thank you for your trust and confidence,

The Allium Team

Market Dashboard[1] – As of December 31, 2017

Asset Class	First Quarter	4Q17	2017
Domestic Equity (S&P 500 Index)	• U.S. equity markets posted robust absolute returns during the fourth quarter with all of the eleven S&P sectors generating positive returns, led by the Consumer Discretionary (+9.9%) and Information Technology sectors (+9.0%). • Equity markets have continued to be supported by strong fundamentals with the economy continuing to expand and corporate earnings continuing to grow.	6.6%	21.8%
International Equity (EAFE Index)	• Developed international markets generated good results but lagged the U.S. and Emerging equity markets during the period. The U.S. Dollar depreciated against many major currencies. • Asia-Pacific countries, as represented by Japan (+8.6%), Australia (+7.1%), and Hong Kong (+6.7%) were the strongest major markets in local currency terms. Italy (-3.8%) and Spain (-3.1%) experienced the weakest quarter in local currency. equity markets during the 3rd quarter, as the U.S. Dollar depreciated against most major currencies.	4.2%	25.0%
Emerging Markets Equity (MSCI Emerging Markets Index)	• South Africa (+11.3%), India (+9.3%), and China (+7.7%) were the top performers on a local currency basis during the quarter. • Mexico (-1.0%) was the worst performer in local currency terms.	7.4%	37.3%
Fixed Income (Barclays Capital Aggregate Index)	• Domestic and global fixed income markets generated most positive returns during the quarter. The Treasury curve flattened as shorter term rates rose. • Long Term Credit (+3.2%) and Long Term Govt (+2.3%) were the strongest performing sectors during the quarter, while Intermediate Govt (-0.4%) was the weakest.	0.4%	3.5%
Interest Rates	• The FOMC voted to raise the target federal funds rate by 0.25% for the third time this year to a range of 1.25%-1.50%. • The 10-year treasury yield rose 0.08% from 2.33% to 2.41%, and the 30-year treasury yield fell 0.12% from 2.86% to 2.74%.		

Currencies	USD/EUR	USD/JPY	USD/GBP	USD/CNY	DXY (U.S. Dollar Index)
4Q2017	-1.6%	+0.2%	-0.8%	-1.9%	-1.0%
2017	-12.4%	-3.7%	-8.6%	-6.4%	-9.9%

[1]LCG Associates

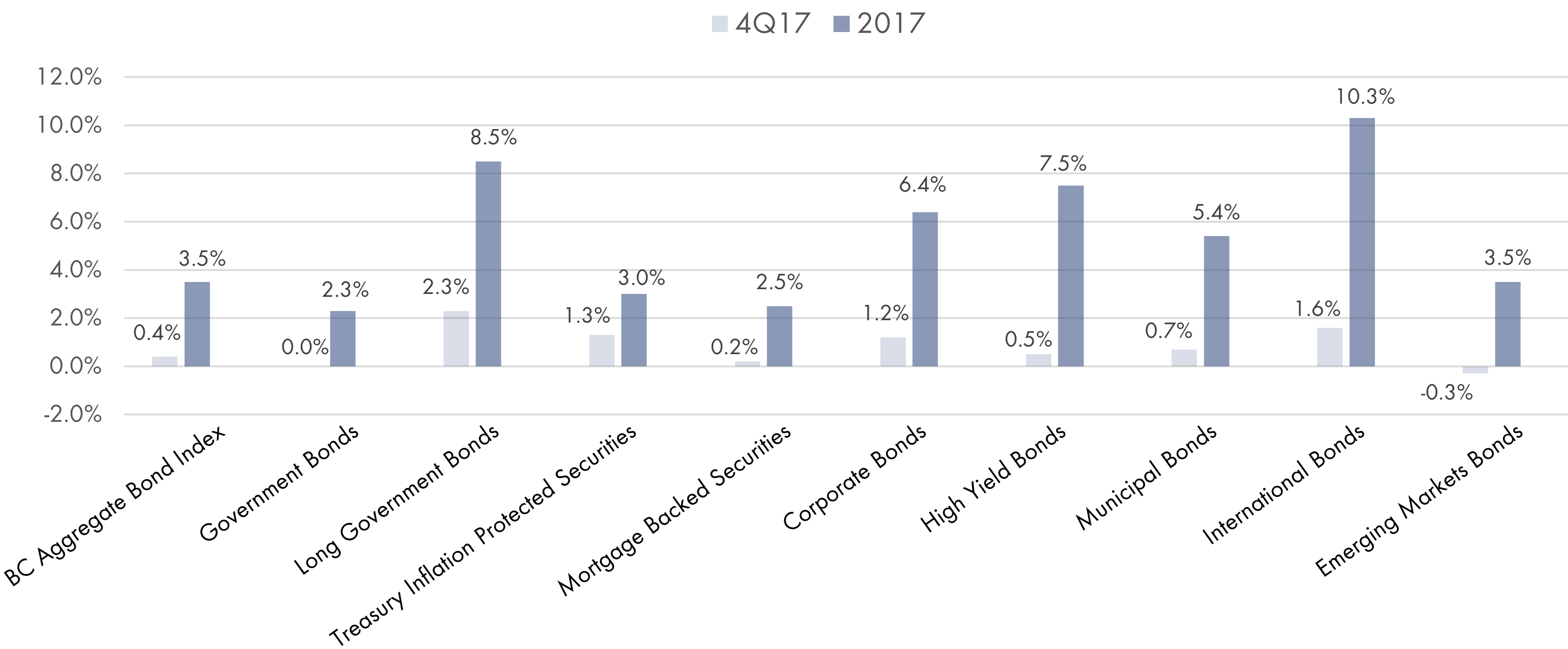
Economic Dashboard – As of December 31, 2017

	Dec – 17	Sep – 17	Dec – 16	10-Year Average
Economic Growth (GDP)	# N/A	3.2%	1.8%	1.4%
Unemployment Rate	#N/A	4.3%	4.7%	7.0%
Labor Participation Rate	62.7%	63.1%	62.7%	63.8%
Core Inflation	1.7%	1.7%	#N/A	1.8%
Inflation (Headline)	2.2%	2.2%	2.1%	1.7%
Consumer Confidence	128.6	120.6	113.3	76.9
WTI Crude Oil (per barrel)	$60.42	$51.67	$53.72	$76.79
Natural Gas	$2.95	$3.01	$3.72	$4.09
Volatility	11.0	9.5	14.0	20.1
Gold	$1,309.30	$1,281.50	$1,151.70	$1,261.83
LIBOR	1.43%	1.18%	0.69%	0.63%
Federal Funds Target Rate[1]	1.50%	1.25%	0.75%	0.53%
ECB Refinancing Rate	0.00%	0.00%	0.00%	0.86%
10-Year U.S. Treasury Yield	2.41%	2.33%	2.44%	2.55%
10-Year German Bund Yield	0.42%	0.46%	0.20%	1.76%
S&P 500 Index	2673.6	2519.4	2238.8	1626.1
EUR/USD Exchange Rate	1.201	1.181	1.052	1.288
USD/JPY Exchange Rate	112.7	112.5	117.0	99.2

[1]Fed Funds rate is a target range of 1.25% – 1.50%
Source: Bloomberg

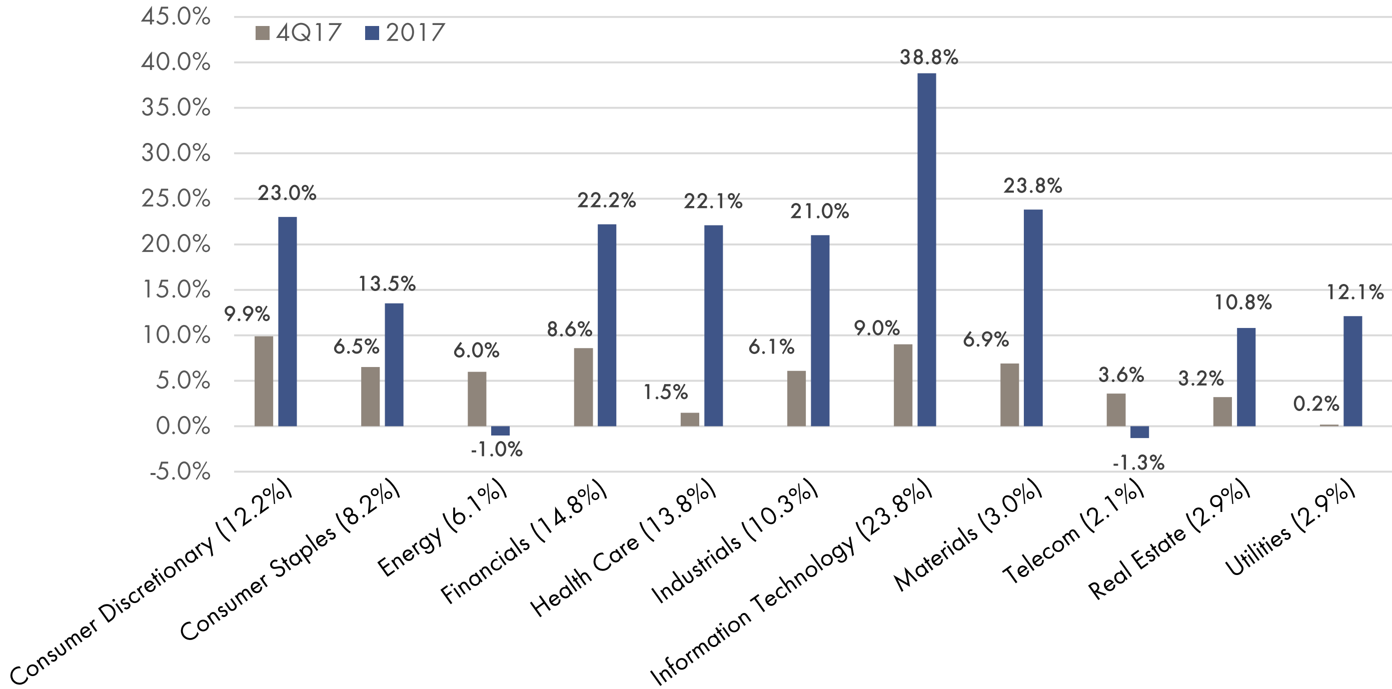
Fixed Income – Returns by Sector

The yield curve is very flat, typically an indication of a weaker market on a go forward basis. Spreads are tight. A 30-year Treasury is only yielding approximately 0.50% more than a 10-year Treasury. The same spread exists between the 2 and 10 year Treasuries.



Source: U.S. Treasury, Bloomberg, Barclays

U.S. Equity Market – Sector and Style



4Q17

S&P 500	6.6%		
Russell 3000	6.3%		
Large	5.3%	6.6%	7.9%
Mid	5.5%	6.1%	6.8%
Small	2.0%	3.3%	4.6%
	Value	Core	Growth

2017

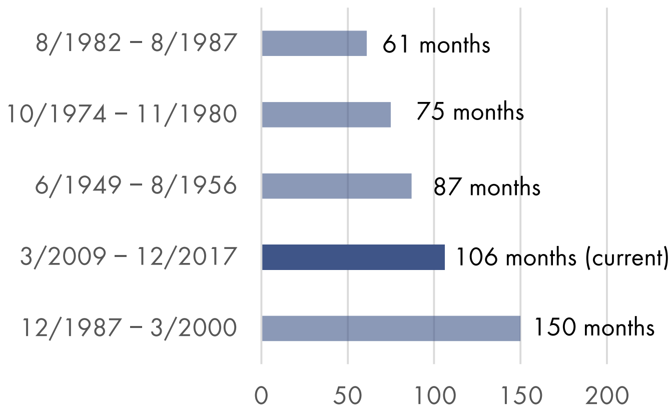
S&P 500	21.8%		
Russell 2000	21.1%		
Large	13.7%	21.7%	30.2%
Mid	13.3%	18.5%	25.3%
Small	7.8%	14.6%	22.2%
	Value	Core	Growth

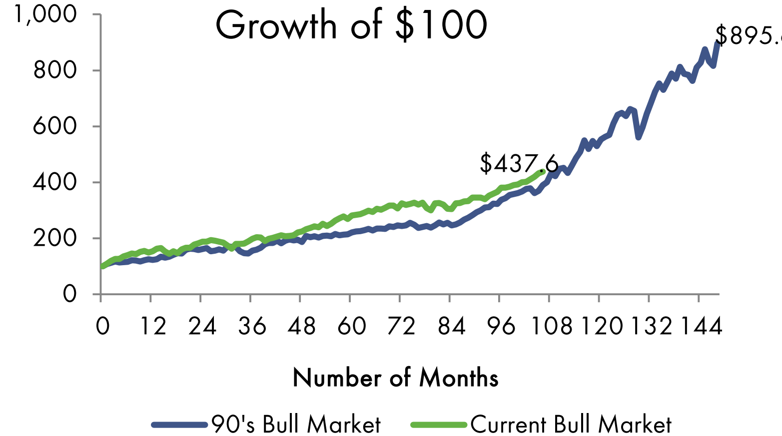
-5% 0% +5%

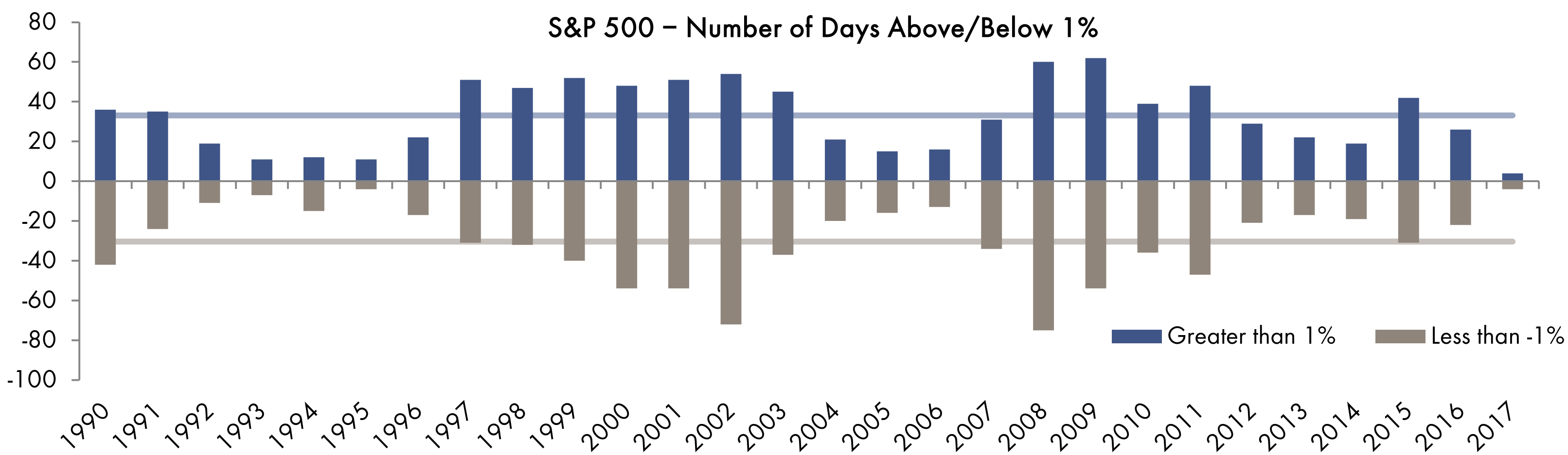
Source: Bloomberg, S&P, Russell

Equity Bull Market[1]

Longest Historical Bull Market Run[1] – S&P 500

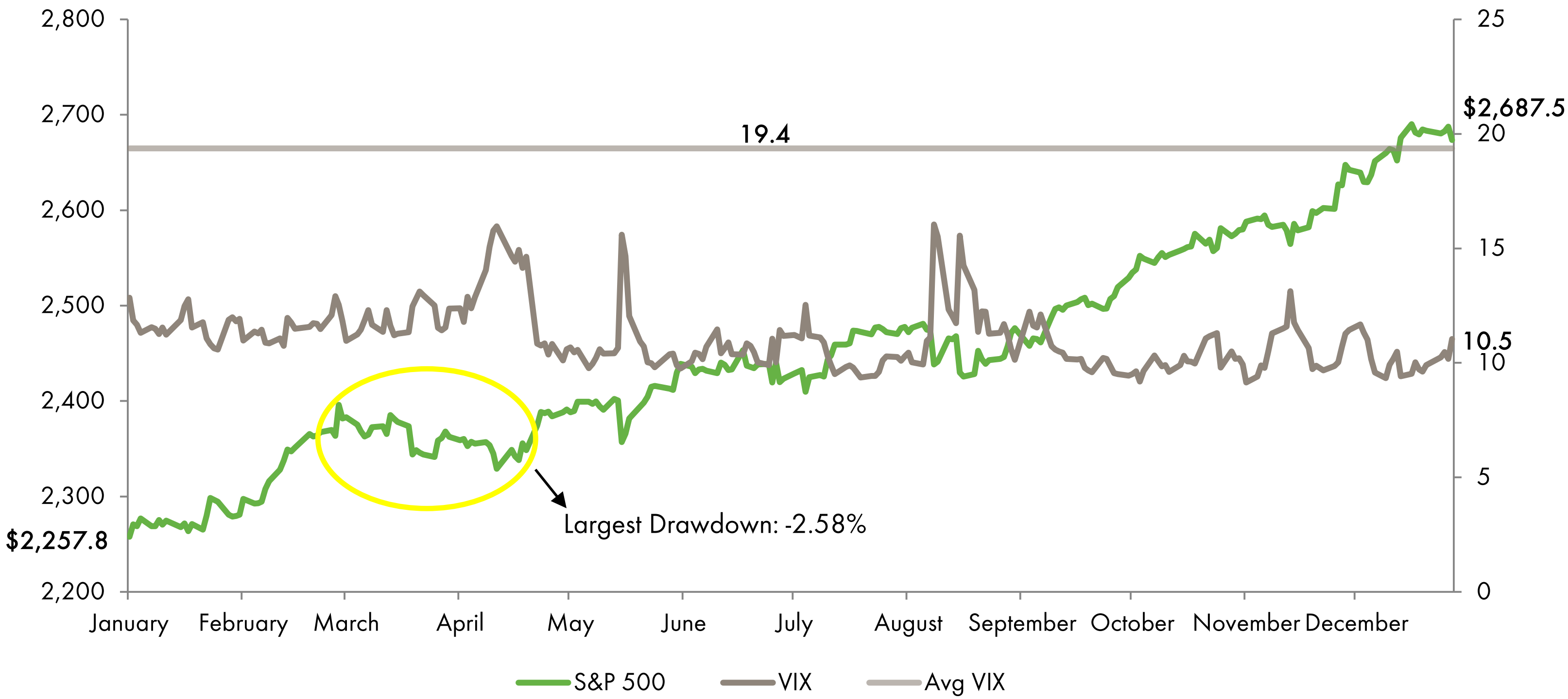






[1]Bull Market: continuous period without 20% downturn, Source: Bloomberg, data since 1929
[2]1990 to 2016

2017: Year in Review



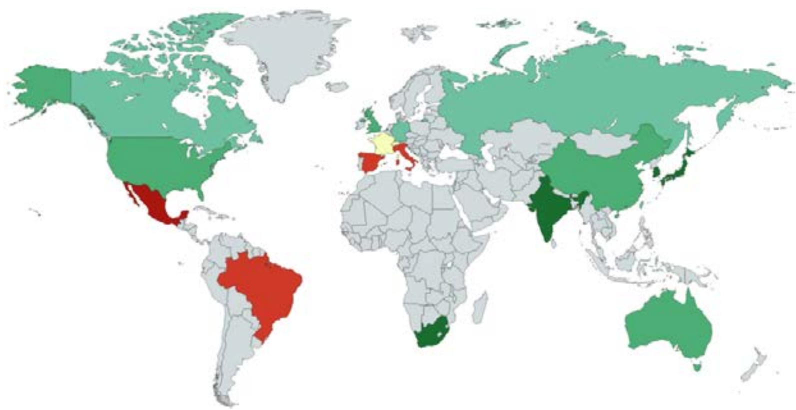
VIX – the volatility index that measures market expectations of near-term volatility, otherwise known as Wall Street's "fear gauge" – has been very low.

S&P 500 Total Return 2017 Monthly Returns											
January	February	March	April	May	June	July	August	September	October	November	December
1.90%	3.97%	0.12%	1.03%	1.41%	0.62%	2.06%	0.31%	2.06%	2.33%	3.07%	1.11%

Source: LCG Associates

Global Equity Returns

Fourth Quarter Relative Strength



Relative Strength

- < -5%
- -5% > < -1%
- -1% > < 2%
- 2% > < 5%
- 5% > < 8%
- > 8%

	4Q2017		2017	
	Local Return	USD Return	Local Return	USD Return
North America				
Canada	4.5%	4.3%	8.4%	16.1%
United States	6.6%	6.6%	21.8%	21.8%
Europe				
France	-0.1%	1.5%	13.1%	28.7%
Germany	1.2%	2.8%	12.2%	27.7%
Italy	-3.8%	-2.3%	12.8%	28.4%
Spain	-3.1%	-1.6%	11.6%	27.0%
Switzerland	2.5%	1.8%	17.5%	22.5%
United Kingdom	4.9%	5.7%	11.7%	22.3%
Asia Pacific				
Australia	7.1%	6.8%	11.0%	19.9%
Hong Kong	6.7%	6.6%	37.2%	36.2%
Japan	8.6%	8.5%	19.7%	24.0%
International Developed Markets Index				
MSCI EAFE Index	3.7%	4.2%	15.2%	25.0%
Emerging Markets				
Brazil	2.8%	-2.0%	26.5%	24.1%
China	7.7%	7.6%	55.0%	54.1%
A Shares	-1.2%	0.7%	8.8%	16.0%
H Shares	7.3%	7.3%	29.1%	28.7%
India	9.3%	11.8%	30.5%	38.8%
Korea	4.1%	11.4%	30.6%	47.3%
Mexico	-1.0%	-8.1%	10.1%	16.0%
Russia	4.3%	4.3%	0.3%	5.2%
South Africa	11.3%	21.4%	23.2%	36.1%
Taiwan	2.1%	4.0%	17.8%	27.5%
Emerging Markets Index				
MSCI EM Index	5.7%	7.4%	30.6%	37.3%

Source: Bloomberg, MSCI, mapchart.net

Tactical Positioning

Asset Class	Underweight Overweight Neutral to Target	Comments
Cash	Overweight for clients with regular spending	
Low Duration	Overweight	To be used for rebalancing in the event of a market downturn Interest rate risk management
Fixed Income	Underweight	Active management preferred, diversified including global bonds and high yield International bonds – 20% or less of overall fixed income exposure
Credit Alternatives	Overweight	Important to recognize added risk for increased return potential
Large Cap	Neutral to underweight	Neutral to growth/value tilt
Mid Cap	Neutral	Neutral to growth/value tilt
Small Cap	Neutral	Neutral to growth/value tilt
International	Neutral to overweight	Prefer active management
Emerging Markets	Overweight	Prefer active management
Liquid Alternatives	Neutral	Include inflation sensitive strategies
Long/Short Equity	Neutral to overweight	Actively adding to or initiating positions to hedge market volatility
Private Equity	Neutral	
Private Real Estate	Neutral	Geographical diversification, selective opportunities

Annual Total Returns of Key Asset Classes 2005-2017

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Best	Emg Mkts 34.0	Emg Mkts 32.1	Emg Mkts 39.4	US Bonds 5.2	Emg Mkts 78.5	US Small Cap 26.9	Real Estate 16.0	Emg Mkts 18.2	US Small Cap 38.8	US Large Cap 13.7	Real Estate 15.0	US Small Cap 21.3	Emg Mkts 37.3
	Real Estate 21.4	Intl Equity 26.7	Intl Equity 16.7	Inflation 0.1	Intl Equity 41.4	US Mid Cap 25.5	US Bonds 7.8	US Mid Cap 17.3	US Mid Cap 34.8	US Mid Cap 13.2	Long/ Short Eq 3.6	US Mid Cap 13.8	Intl Equity 27.2
	Intl Equity 16.6	US Small Cap 18.4	Real Estate 16.0	Real Estate -10.0	US Mid Cap 40.5	Emg Mkts 18.9	Inflation 3.0	Intl Equity 16.8	US Large Cap 32.4	Real Estate 12.5	US Large Cap 1.4	US Large Cap 12.0	US Large Cap 21.8
	US Mid Cap 12.7	Real Estate 16.3	Long/ Short Eq 13.7	Long/ Short Eq -19.8	US Small Cap 27.2	Real Estate 16.4	US Large Cap 2.1	US Small Cap 16.3	Long/ Short Eq 17.7	US Bonds 6.0	Inflation 0.7	Emg Mkts 11.2	US Mid Cap 18.5
	Long/ Short Eq 9.7	US Large Cap 15.8	US Bonds 7.0	US Small Cap -33.8	US Large Cap 26.5	US Large Cap 15.1	US Mid Cap -1.5	US Large Cap 16.0	Intl Equity 15.3	Long/ Short Eq 5.5	US Bonds 0.5	Real Estate 8.8	US Small Cap 14.6
	US Large Cap 4.9	US Mid Cap 15.3	US Mid Cap 5.6	US Large Cap -37.0	Long/ Short Eq 19.5	Intl Equity 11.2	US Small Cap -4.2	Real Estate 10.9	Real Estate 13.9	US Small Cap 4.9	US Mid Cap -2.4	Intl Equity 4.5	Long/ Short Eq 13.4
	US Small Cap 4.6	Long/ Short Eq 14.4	US Large Cap 5.5	US Mid Cap -41.5	US Bonds 5.9	Long/ Short Eq 9.3	Long/ Short Eq -7.3	Long/ Short Eq 8.2	Inflation 1.5	Inflation 0.8	US Small Cap -4.4	US Bonds 2.6	US Bonds 3.5
	Inflation 3.4	US Bonds 4.3	Inflation 4.1	Intl Equity -45.5	Inflation 2.7	US Bonds 6.5	Intl Equity -13.7	US Bonds -2.0	US Bonds -2.0	Emg Mkts -2.2	Intl Equity -5.7	Inflation 2.1	Inflation 2.1
Worst	US Bonds 2.4	Inflation 2.5	US Small Cap -1.6	Emg Mkts -53.3	Real Estate -29.8	Inflation 1.5	Emg Mkts -18.4	Inflation 1.7	Emg Mkts -2.6	Intl Equity -3.9	Emg Mkts -14.9	Long/ Short Eq -3.4	

2018 global market trends/themes to watch

In our soon to be released 2018 Global Market Outlook, we will discuss a few trends/themes to watch including:

- Global synchronized growth
- Emerging Markets growth is likely stronger than developed markets growth in 2018
- Inflation is at secular low but not dead (wage inflation could be an issue)
- Monetary policy – three rate hikes are expected in 2018

Important Disclosures

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