Capital Market Review

As of June 30, 2018

2Q18 Market Recap

Well, second quarter looked very different from first quarter. In 2Q the domestic stock market was positive, emerging markets saw a sharp decline as did global bonds, and the dollar strengthened. There was a continued small decline in the developed markets, oil further appreciated and domestic bonds experienced additional downward pressure from rising rates.

Domestically, strong corporate earnings and fundamental data outweighed investor concerns regarding the impact of rising interest rates and increased global trade tension. The U.S. dollar appreciated against most major currencies, generating modestly negative returns in the developed markets. Strengthening dollar and fear of a trade war had a more significant impact on the emerging markets.

While the Feds continue to raise rates, the longer end of the yield curve (yields on longer term bonds) have not really moved at all, possibly forecasting a recession (typically a far-leading indicator). With rates increasing, there will likely be eventual pressure on corporate loans, potentially increasing default rates. We are working closely with LCG to best participate in any special opportunity the markets may present.

While diversifying away from the U.S. stock market was beneficial in 2017, it was a detractor in the first half of 2018. Allium's long-term investment strategies tend to be more globally structured than the Morningstar target risk allocation indexes, and in times of a strengthening dollar, we will underperform. Long/short hedge, alternative assets and active management are adding value in most cases and we continue to pursue opportunities that can diversify away from the public markets.

We encourage you to adhere to your long-term investment strategy, maintain diversification and to ask questions to better understand what you own, why you own it, and what you can expect from it.

Enjoy the rest of your summer, we look forward to our next visit.

The Allium Team

Market Dashboard[1] – As of June 30, 2018

Asset Class	Second Quarter	2Q18	YTD
Domestic Equity (S&P 500 Index)	• Seven of the eleven S&P 500 sectors generated positive results, as strong performance within Energy (+13.5%) and Consumer Discretionary (+8.2%) offset weakness within Industrials (-3.2%) and Financials (-3.2%). • Domestically, strong corporate earnings and fundamental data outweighed investor concerns regarding the impact of rising interest rates and increased global trade tension.	3.4%	2.6%
International Equity (EAFE Index)	• Developed International Markets generated modestly negative results and lagged the U.S. equity market during the quarter. The U.S. dollar appreciated against most major currencies. • In local currency terms, results were modestly positive. The UK (+9.4%) and France (+4.9%) were the best performers while Italy (-2.4%) and Spain (+0.7%) performed the worst. In regards to USD Return, results were broadly negative.	-1.2%	-2.7%
Emerging Markets Equity (MSCI Emerging Markets Index)	• India(+4.4%) and Mexico (+3.8%) were the top performers on a local currency basis; Brazil (-14.8%) and South Korea (-5.0%) were the worst performers in a local currency basis during the quarter. • Emerging Market currencies faced a strong headwind from a strengthening USD, as fears of a global trade war increased.	-8.0%	-6.7%
Fixed Income (Bloomberg Barclays Capital Aggregate Index)	• Fixed income losses resulted from interest rate increases across the yield curve. • Global Bonds (-2.8%) and Long Term Credit (-2.7%) were the weakest sectors during the quarter, driven by increased political uncertainty and rising long term interest rates.	-0.2%	-1.6%
Interest Rates	• The FOMC voted to raise the target federal funds rate by 25 bps to a range of 1.75% - 2.00%. • The 10-year yield rose 12 basis points from 2.74% to 2.86%, and the 30-year yield rose 2 basis points from 2.97% to 2.99%.		

Currencies	USD/EUR	USD/JPY	USD/GBP	USD/CNY	DXY (U.S. Dollar Index)
2Q2018	5.5%	4.2%	6.1%	5.3%	5.0%
YTD	2.7%	-1.7%	2.3%	1.8%	2.5%

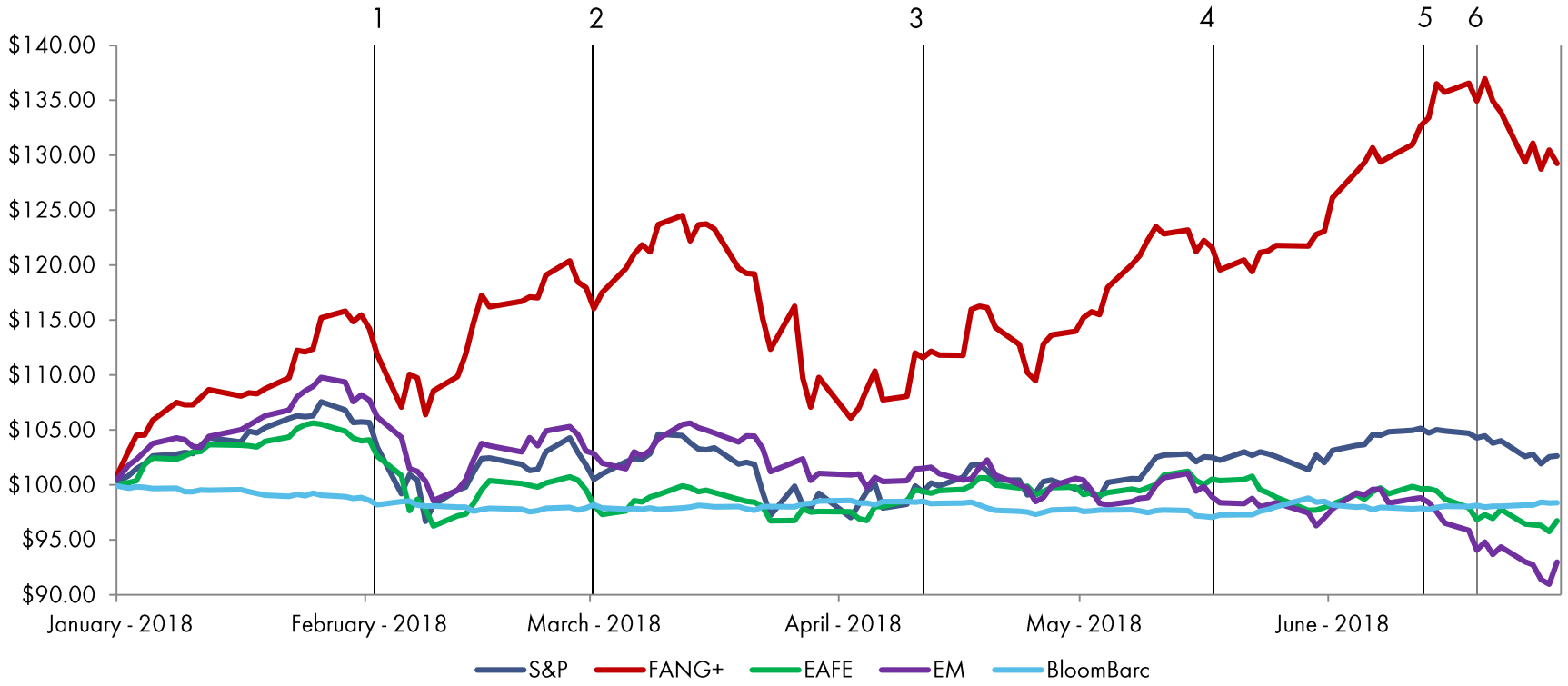
[1]LCG Associates

Economic Dashboard – As of June 30, 2018

	Jun – 18	Mar – 17	Jun – 17	10-Year Average
Economic Growth (GDP)	–	2.0%	3.1%	1.6%
Unemployment Rate	4.0%	4.1%	4.3%	6.9%
Labor Participation Rate	62.9%	62.9%	62.8%	63.7%
Core Inflation	–	2.1%	1.7%	1.8%
Inflation (Headline)	–	2.4%	1.6%	1.6%
Consumer Confidence	126.4	127.0	117.3	79.1
WTI Crude Oil (per barrel)	$74.15	$64.94	$46.04	$74.51
Natural Gas	$2.92	$2.73	$3.04	$3.68
Volatility	16.1	20.0	11.2	19.9
Gold	$1,255	$1,323	$1,242	$1,286
LIBOR	1.94%	1.70%	1.16%	0.46%
Federal Funds Target Rate[1]	2.00%	1.75%	1.25%	0.50%
ECB Refinancing Rate	0.00%	0.00%	0.00%	0.70%
10-Year U.S. Treasury Yield	2.86%	2.74%	2.30%	2.51%
10-Year German Bund Yield	0.30%	0.49%	0.47%	1.61%
S&P 500 Index	2,718.4	2,640.9	2,423.4	1,686.1
EUR/USD Exchange Rate	1.168	1.232	1.143	1.270
USD/JPY Exchange Rate	110.8	106.3	112.4	99.2

[1]Fed Funds rate is a target range of 1.75% – 2.00%
Source: Bloomberg

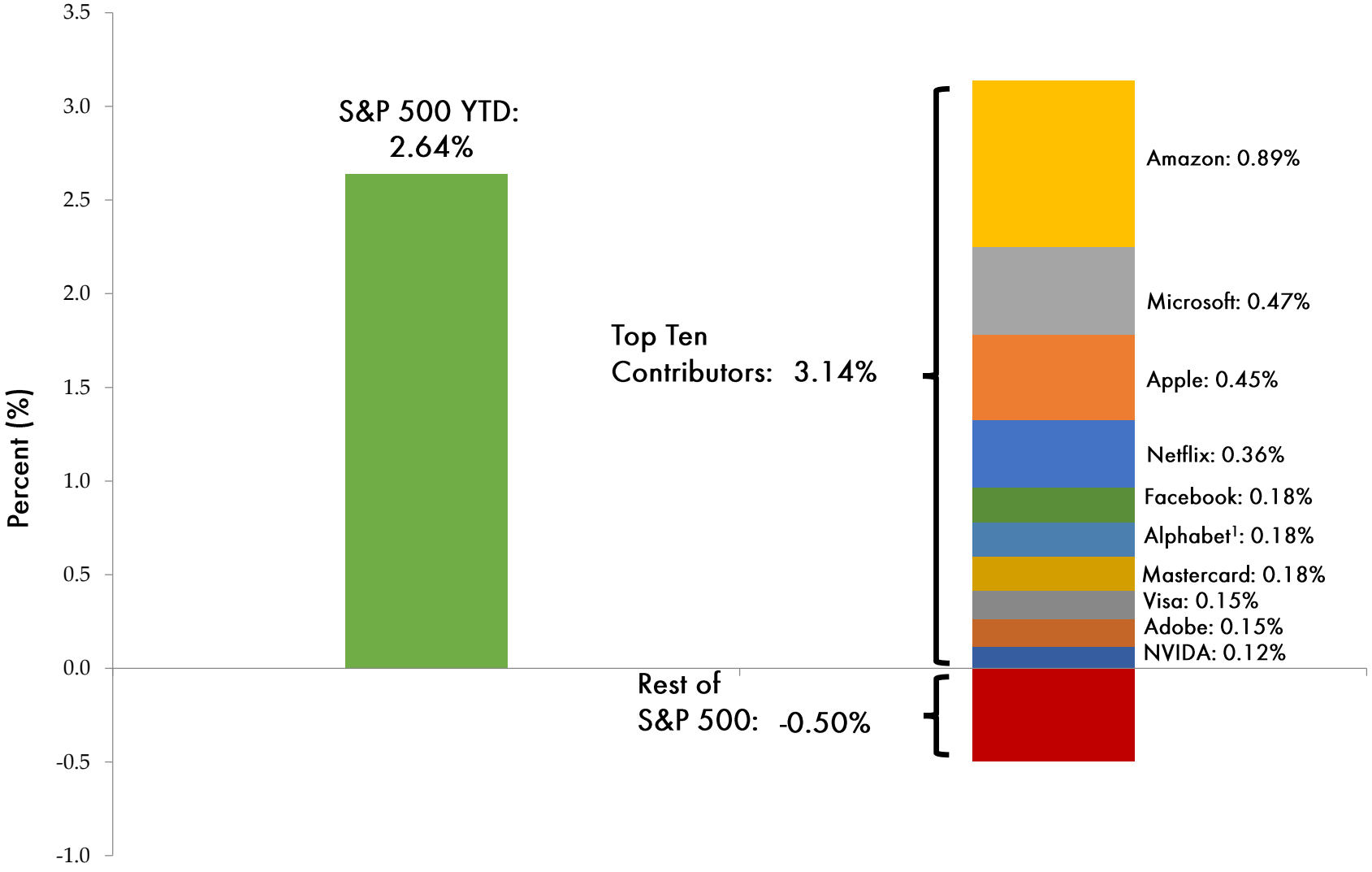
Year to Date in Review



1. +2.9% year-over-year wage growth is announced, prompting inflation concerns from investors (2/2/18)
2. The U.S. announced plans to impose a 25% tariff on steel and a 10% tariff on aluminum kicking off concerns of a global trade war (3/1/18)
3. Facebook CEO Mark Zuckerberg completed Congressional testimony while easing investors concerns regarding Facebook's handling of user data (4/11/18)
4. 10-Year U.S. Treasury yields hit a four-year high of 3.11% (5/17/18)
5. U.S President Donald Trump met with North Korean Leader Kim Jong-un in Singapore in the first ever meeting between leaders of the two countries (6/12/18)
6. President Trump requests that U.S Trade Representatives identify $200B worth of Chinese goods for additional tariffs in response to Beijing's 25% tariff on $34B of U.S goods (6/19/18)

*FANG+ is an equal-weighted index consisting of highly-traded tech and consumer discretionary stocks, including Alibaba, Alphabet, Amazon, Apple, Baidu, Facebook, Netflix, NVIDIA, Tesla and Twitter.
Source: Bloomberg, Northern Trust

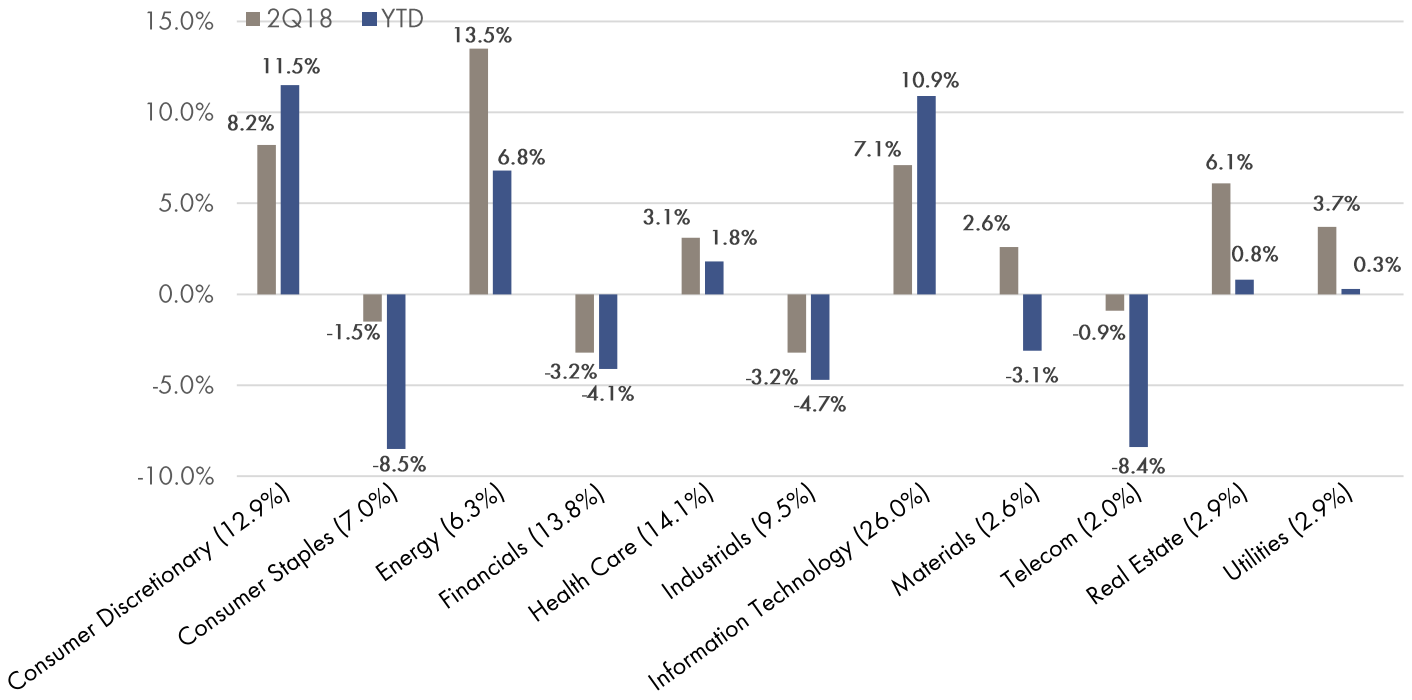
Narrowly Led U.S. Equity Market During the First Half of 2018



[1]Alphabet Classes A & C combined attribution

Source: Factset

U.S. Equity Market – Sector and Style



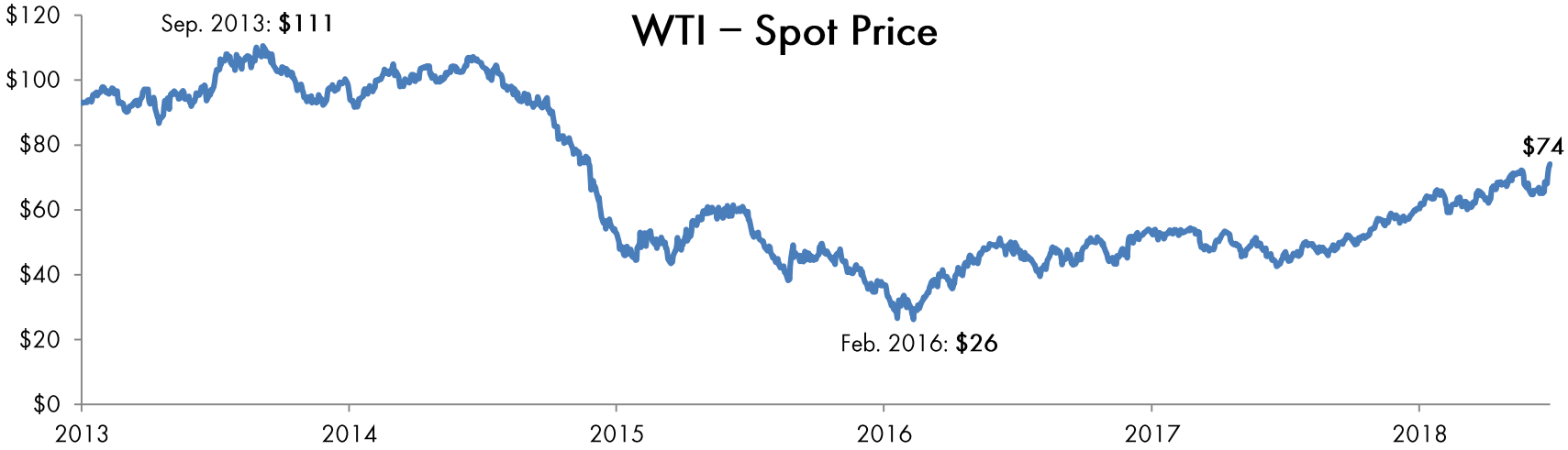
2Q18			
S&P 500	3.4%		
Russell 3000	3.9%		
	Value	Core	Growth
Large	1.2%	3.6%	5.8%
Mid	2.4%	2.8%	3.2%
Small	8.3%	7.8%	7.2%

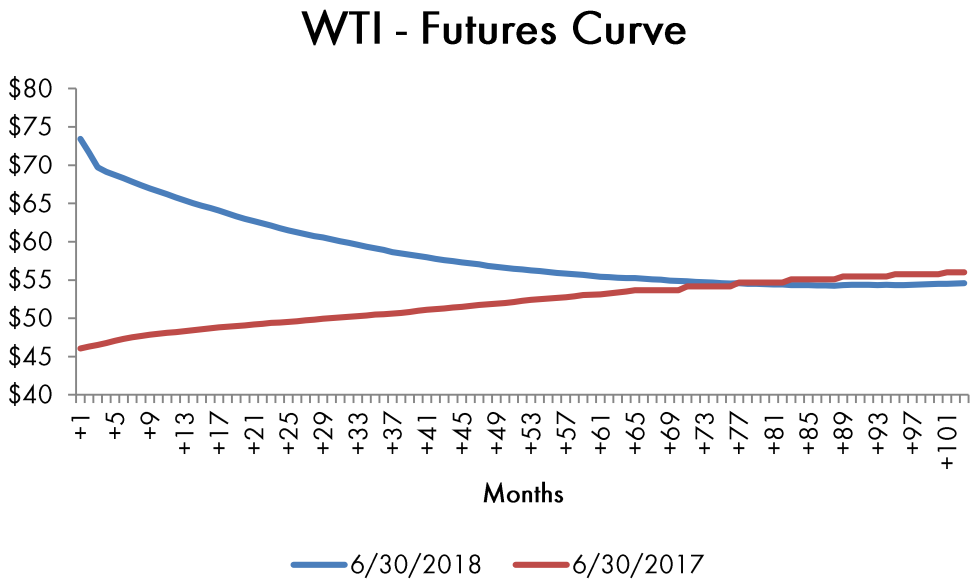
YTD			
S&P 500	2.6%		
Russell 2000	3.2%		
	Value	Core	Growth
Large	-1.7%	2.9%	7.3%
Mid	-0.2%	2.3%	5.4%
Small	5.4%	7.7%	9.7%

-5% 0% +5%

Source: Bloomberg, S&P, Russell

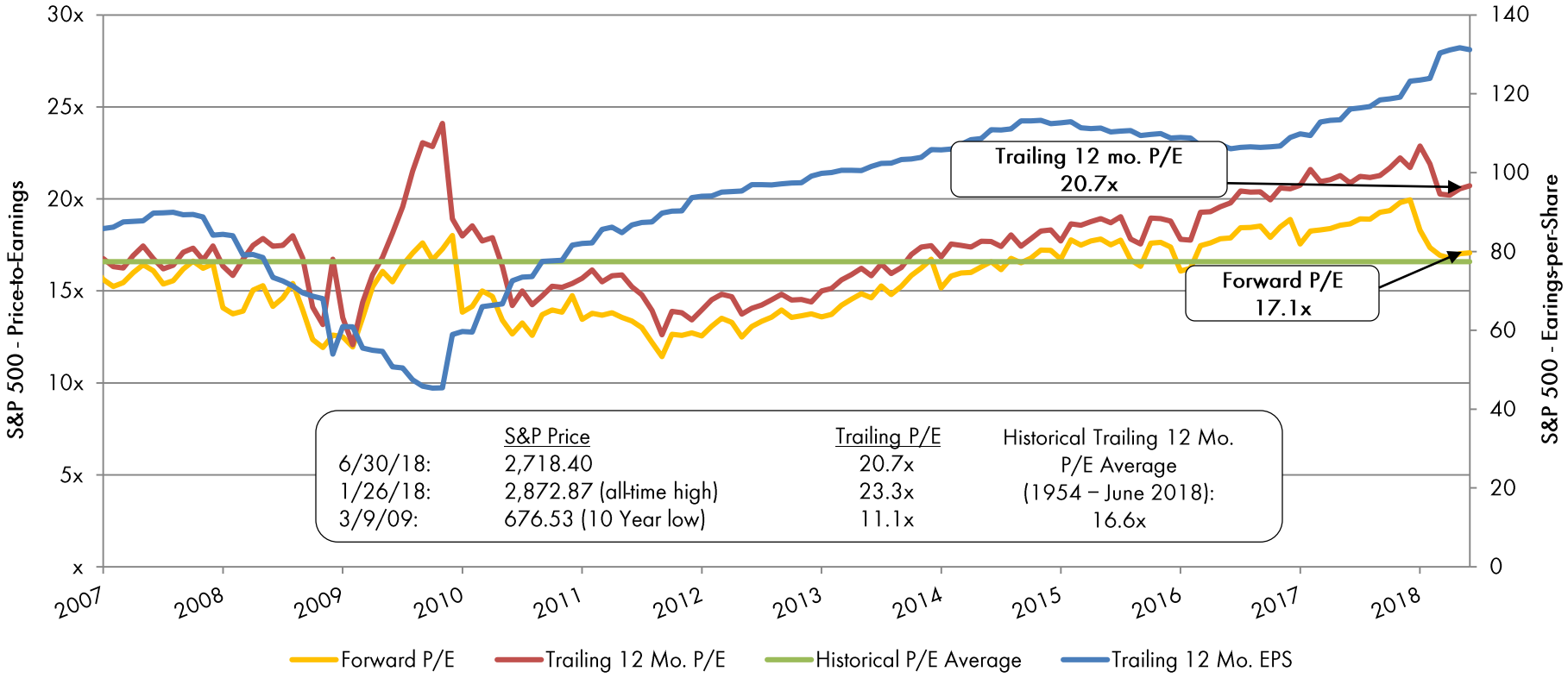
Energy Prices Rebound





Source: Bloomberg

U.S. Equity Market – Valuations

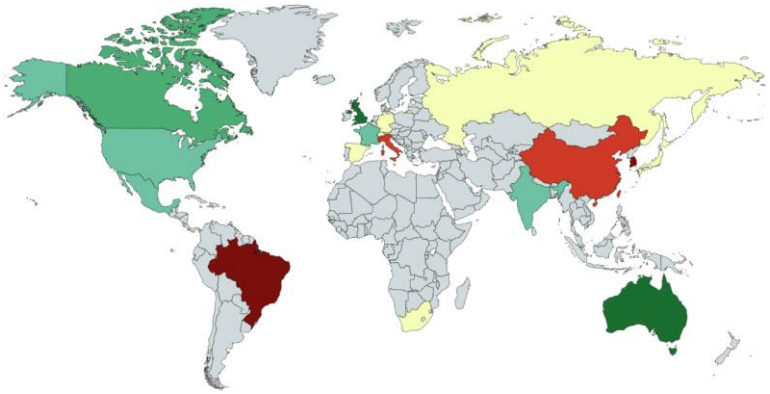


Source: Bloomberg

Global Equity Returns

You will notice that the dollar depreciation against most other currencies had a positive effect on international equity returns for U.S. investors.

Second Quarter Relative Strength



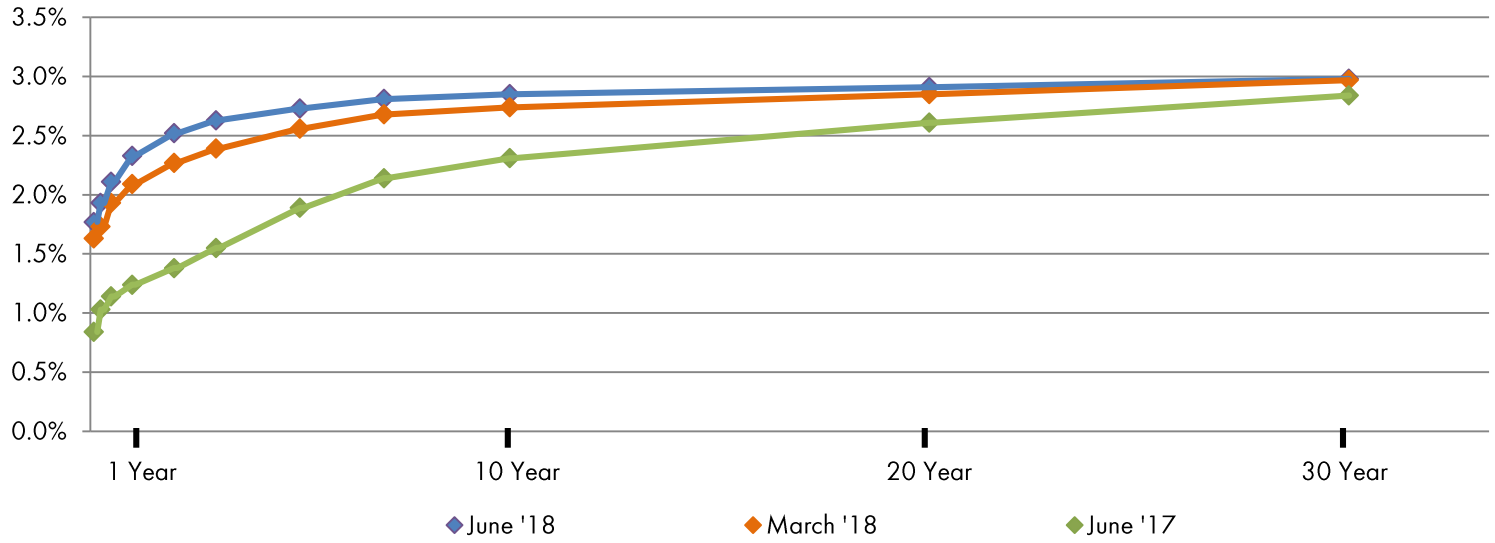
Relative Strength

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

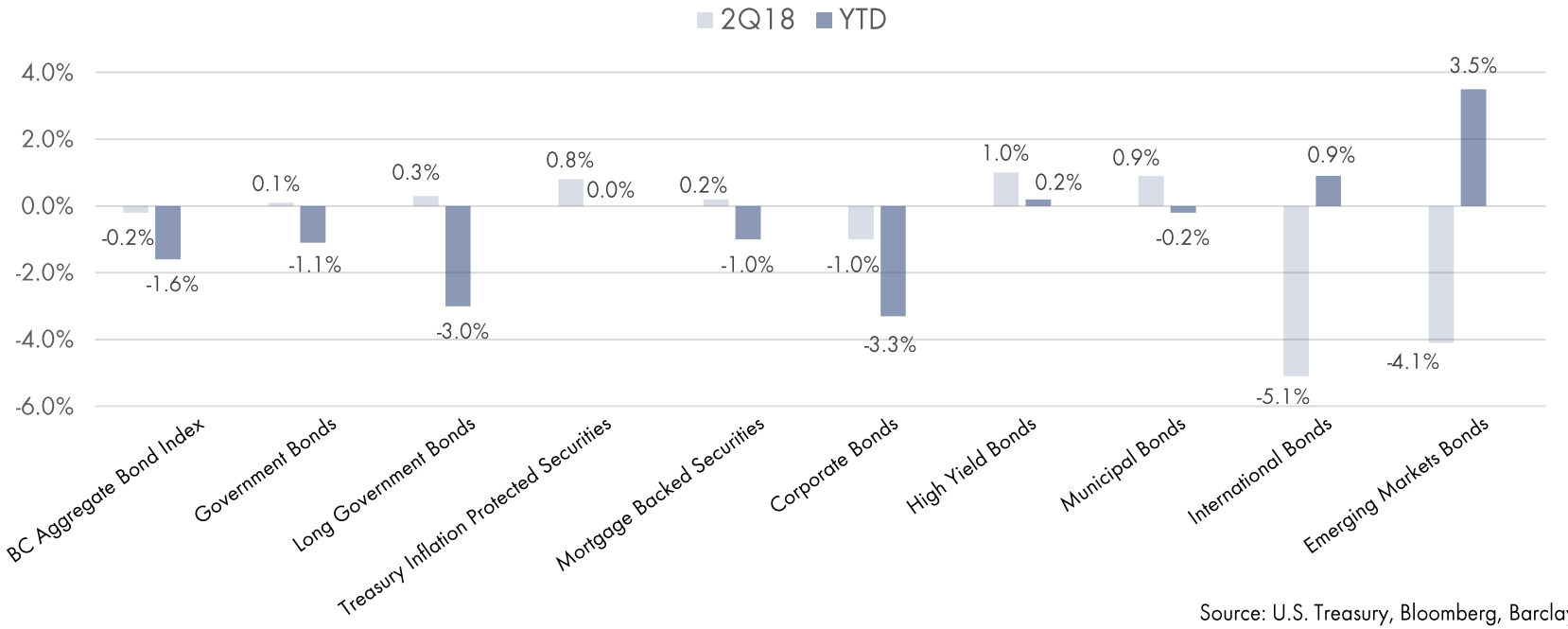
	2Q2018		Year to Date	
	Local Return	USD Return	Local Return	USD Return
North America				
Canada	6.8%	4.7%	1.8%	-3.0%
United States	3.4%	3.4%	2.6%	2.6%
Europe				
France	4.9%	-0.5%	2.7%	-0.1%
Germany	1.2%	-4.0%	-4.8%	-7.4%
Italy	-2.4%	-7.3%	0.4%	-2.4%
Spain	0.7%	-4.4%	-3.3%	-6.0%
Switzerland	0.9%	-2.7%	-5.2%	-6.9%
United Kingdom	9.4%	2.9%	1.4%	-1.0%
Asia Pacific				
Australia	9.2%	5.2%	4.5%	-1.3%
Hong Kong	-1.2%	-1.2%	-2.2%	-2.5%
Japan	1.2%	-2.8%	-3.7%	-2.0%
International Developed Markets Index				
MSCI EAFE Index	3.5%	-1.2%	-1.0%	-2.7%
Emerging Markets				
Brazil	-14.8%	-26.4%	-4.1%	-17.3%
China	-3.5%	-3.5%	-1.4%	-1.7%
India	4.4%	-0.6%	-0.7%	-7.5%
Korea	-5.0%	-9.2%	-5.9%	-9.6%
Mexico	3.8%	-3.6%	-2.3%	-2.7%
Russia	1.2%	-6.0%	10.7%	2.8%
South Africa	1.9%	-11.9%	-6.5%	-15.5%
Taiwan	-2.0%	-6.3%	1.4%	-1.0%
Emerging Markets Index				
MSCI EM Index	-3.5%	-8.0%	-2.8%	-6.7%

Source: Bloomberg, MSCI, mapchart.net

Fixed Income – Treasury Yield Curve and Returns by Sector



Longer term treasuries are remain rather flat, not adjusting with the shorter term rates. This is not a positive sign and one we are watching closely.



Source: U.S. Treasury, Bloomberg, Barclays

Yield Curve Inversion and Recessions

Recession Year(s)	Date of Initial Curve Inversion	Date Recession Began	Lead Times
1969-1970	December 1968	December 1969	12 Months
1973-1975	June 1973	November 1973	5 Months
1980	November 1978	January 1980	14 Months
1981-1982	October 1980	July 1981	9 Months
1990-1991	March 1989	July 1990	16 Months
2001	September 1998	March 2001	30 Months
2007-2009	January 2006	December 2007	23 Months

A yield curve inversion does not necessarily indicate that a recession is imminent. Historically, the lead time between initial curve inversion to the beginning of a recession has ranged from 5 months to 30 months.

[1]The San Francisco Fed published a research piece in March 2018 on the inverted yield curve and its indication of an upcoming recession. The research concluded that every recession in the past 60 years has been preceded by an inverted yield curve. According to the research, curve inversions have "correctly signaled all nine recession since 1955 and had only one false positive, in the mid-1960s, when an inversion was followed by an economic slowdown but not an official recession." Yield curve inversion is a far-leading indicator as the nine recessions all began 6-24 months after the yield curve inverted.

Currently, it is believed that the U.S. economy will accelerate in the second half of this year. Many forecasters have revised their estimates of second-half 2018 GDP to 4% or better. And the consensus is that this strong growth will continue at least into the first half of 2019. Seemingly, there is no recession in sight. Some economists also argue that this time is different: Quantitative easing artificially depressed bond yields, and it means that this time around the yield curve is not the reliable predictor of recession it used to be. Before the global financial crisis and Great Recession, Fed officials argued that curve flatness or inversion could be ignored because a global savings glut kept long rates low as the Fed hiked rates above neutral. However, when short rates rise above long rates, banks will be less able or willing to lend and may choke off credit growth just as the U.S. expansion has gone on for a while.

[1]LCG Associates

Source: Bloomberg, PPM America. Data represent the 3-Month and 10-Year Treasury spread, and date of initial inversion indicates the first month where the curve inverts, regardless of how long the curve remained inverted.

Tactical Positioning 2Q18

Asset Class	Underweight Overweight Neutral to Target	Comments
Cash	Overweight for clients with regular spending	Use the money market funds when possible in lieu of cash reserves
Low Duration	Overweight	To be used for rebalancing and interest rate risk management
Fixed Income	Underweight	Active management preferred, diversified including global bonds International bonds – 20% or less of overall fixed income exposure
Credit Alternatives	Overweight	Important to recognize added risk for increased return potential
Large Cap	Underweight	Growth/value tilt neutral
Mid Cap	Neutral	Growth/value tilt neutral
Small Cap	Overweight	Growth/value tilt neutral
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 – 2Q 2018

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2Q18
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	US Small Cap 7.7
	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	US Large Cap 2.6
	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 2.3
	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	Inflation 2.2
	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	Long/ Short Eq 0.7
	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 Bonds -1.6
	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	Real Estate 7.6	Intl Equity -3.8
	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	US Bonds 3.5	Emg Mkts -6.7
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	Inflation 2.1	

Source: Morningstar

Important Disclosures

- These materials have been prepared exclusively for a presentation and may not be distributed in whole or in part to any other person without the express written consent of Allium Financial Advisors, LLC.

- Statements within this presentation should not be construed as guarantees, warranties or predictions of future events, portfolio allocations, portfolio results, investment returns, or other outcomes. None of the material contained in this presentation is intended as a solicitation or offer to purchase or sell a specific stock.

- Past performance of indexes does not guarantee future results. Future returns may differ significantly from the past due to materially different economic and market conditions and other factors.