Quarterly Investment Outlook

2nd Quarter 2019

March 2019

ameliora
WEALTH-MANAGEMENT

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Advisor's Commentary

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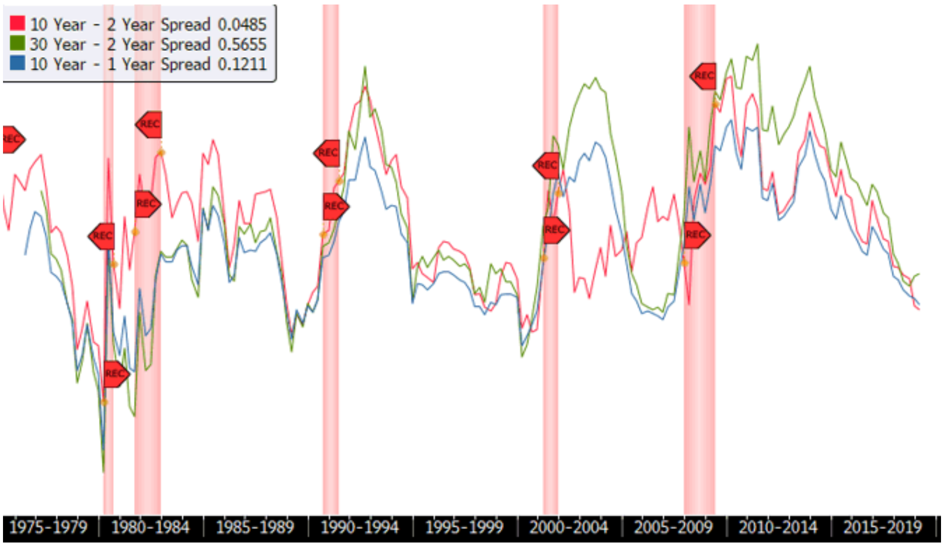
Predicting recessions is a notoriously difficult job. There were a few who rose to fame after the most recent economic crisis for having identified warning signals and subsequently proven correct, but none had a persistent history of successively foreseeing recessions. The truth is that is no one does. As recessions are normally defined as two to three quarters of declining economic activity, one can only confirm three to six months later whether it happened. And by then the damage is already done.

We are a long way into the current economic cycle since the peak of the last one in late 2007. This has led the financial community to be more and more vocal about an ensuing US recession. This makes sense as most economic expansions typically last between seven and 10 years. The current one is approaching its 10 year anniversary. However, the consensus view as to when this business cycle will end ranges from six to 24 months, which is quite a considerable time span and lends itself to a high level of ambiguity. The basis for making such predictions stems from looking at economic and financial indicators, and chief among them is the shape of the US yield curve. In hindsight, this recession forecasting tool clearly has validity but its predictive clout is patchy. The indicator implies that as the yield curve flattens and moves to inversion a recession is bound to follow. But that depends on which spread one observes. Below we have depicted three yield curve spreads: The US 10 year Bond vs. the 2 year, 30 year vs. 2 year, and the 10 year vs. the 1 year Bill. The point of these curve spreads is to measure expectations of economic growth (developments of 10 and 30 year yields) and the degree of monetary policy (level of 1 and 2 year yields). The economic principle thus is: the flatter the curve the more restrictive the monetary policy, and the lower the growth expectations will be.



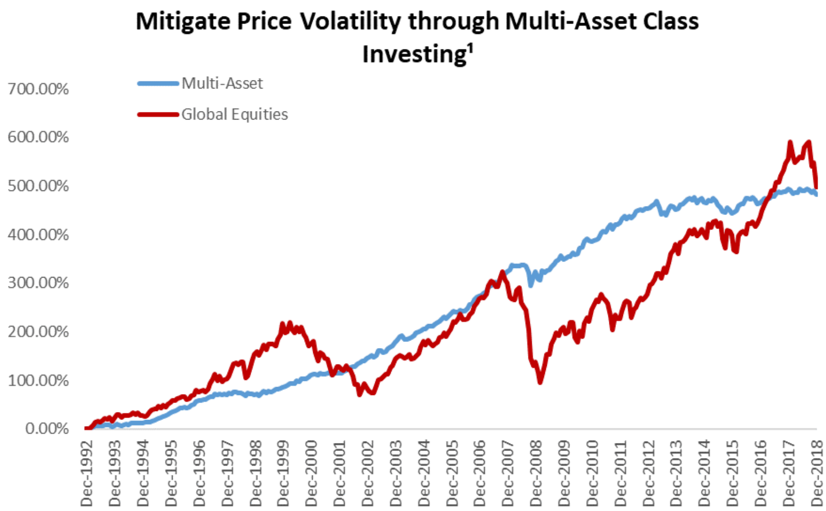
Sources: *Bloomberg, LLP,*

Both 30-2 and 10-1 year spreads have historically inverted prior to a recession, and so has the 10-2 year. Yet, prior to the Great Recession, the 10-2 year spread stayed positive and only inverted after the recession occurred. In fact, the spread today is actually lower (4.85 basis points) than it was during that recession (10 basis points). Simultaneously, the 30-2 year spread has recently started to widen. Whether these developments point to a brewing recession is a wild card. There have been other forces at play in this cycle, such as excessive monetary stimuli, that have caused interest rate curve distortion and might as well have diluted the "predictive" power of this indicator.

Preparing for the inevitable is fairly straight forward, but timing it is a whole lot more difficult. Numerous attempts to cry wolf have been made since the last financial crisis, but none have been significantly accurate. We believe a more prudent approach in allocating capital through economic booms and busts is to stay diversified across heterogeneous asset classes. In our September 2017 outlook we highlighting how one can mitigate significant losses during economic contractions by avoiding concentration to one asset class.

Empirically, a multi-asset approach to investing doesn't necessarily mean sacrificing returns like the ones achieved in the global equity markets. The results have been similar, albeit with less price risk:

Dec-92 to Dec-18	Multi-Asset	Global Equities
Annualized Return	6.99%	7.10%
Cumulative Return	482%	499%
Volatility	4.66%	14.38%
Sharpe Ratio	1.47	0.55
Max. Drawdown	-9.83%	-54.03%

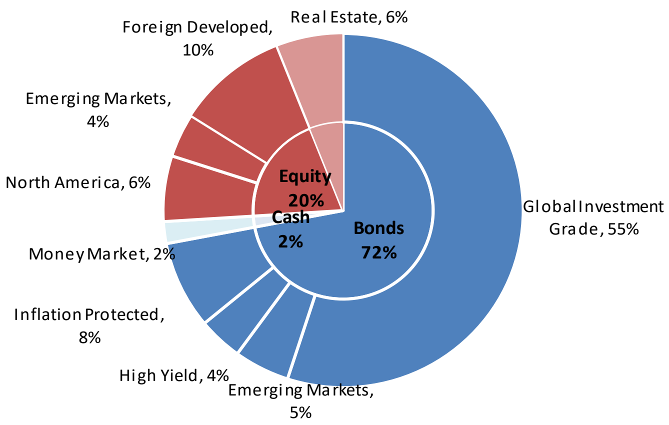


Sources: *AWM, Bloomberg, LLP,*

The Multi Asset time series is the Merrill Lynch Multi Asset Strategy Index in USD (MLMAST1) which is a rule based asset allocation strategy allocating between equity, bond, commodity, and currency assets. The Global Equities time series is the MSCI World Net Total Return Index in USD (NDDUWI).

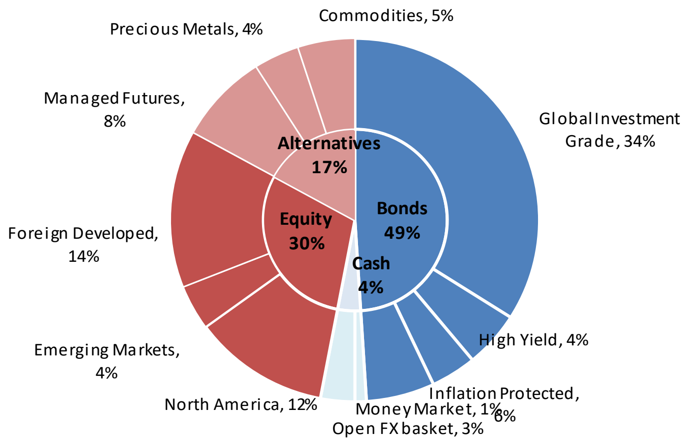
Asset Allocations

Income



Tactical Positioning Relative to Strategic Weights %		
	Balanced	Asset Class
		Cash
Bonds	-5	Domestic
	5	Emerging Markets
		High Yield
	-1	Foreign
Equity	-13	Domestic
	4	Emerging Markets
	11	Foreign Developed
Altern.	-5	Managed Futures
		Precious Metals
		Real Estate
	4	Commodities

Balanced



Tactical Positioning Relative to Strategic Weights %		
	Balanced	Asset Class
		Cash
Bonds	-5	Domestic
	5	Emerging Markets
		High Yield
	-1	Foreign
Equity	-13	Domestic
	4	Emerging Markets
	11	Foreign Developed
Altern.	-5	Managed Futures
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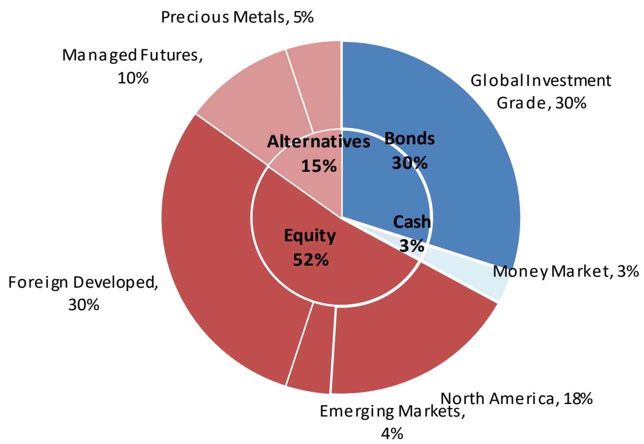
Growth



Tactical Positioning Relative to Strategic Weights %		
	Equities	Asset Class
	8	Cash
Bonds		Domestic
		Emerging Markets
		High Yield
		Foreign
Equity	-18	Domestic
	6	Emerging Markets
		Foreign Developed
Altern.	4	Managed Futures
		Precious Metals
		Real Estate
		Commodities

***Source**: Ameliora Wealth Management as of 1st March, 2019*

***Note**: Tactical asset allocations are subject to change without notice and represents investment strategies in USD. Tactical positions (over-/underweight) are deviations from strategic benchmark weights*

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