Quarterly Investment Outlook

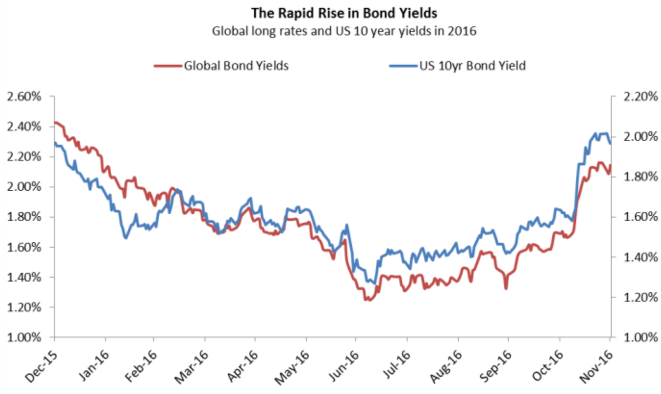
1st Quarter 2017 December 2016

ameliora
WEALTH-MANAGEMENT

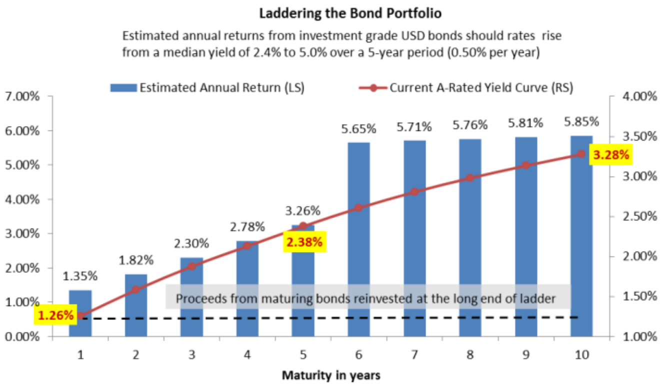
Advisor's Commentary

It took about five months for global bonds to trim their value by $1.7 trillion, or 7%, between this summer and the end November. Global yields hit their lowest levels in 70 years in early July and have since then witnessed a rapid ascent elevated by the election of Donald Trump as the 45th president of the United States. During this period the 10-year US Treasury yield jumped a good 100 basis points from 1.37% to 2.37% - effectively an 8% loss. The upshot in yields was explained by plans of fiscal spending by the incoming US administration and the inflationary effects this could potentially have. However, global bond yields actually started moving upwards prior to the US election, in fact yields moved off their lows shortly after the UK Brexit vote. But what the events in November highlighted was just how stretched durations, i.e. how interest sensitive bonds have become as a result of extended periods of low interest rates, coupled with whether the end of a 30 year long bull market in bonds has begun.

There are certainly signals that indicate the interest cycle is about to turn: the Federal Reserve is expected to raise policy rates for a second time since the financial crisis, the efficacy of global monetary programs are being challenged, and inflation expectations are creeping higher after long periods of currency debasement against the US dollar. Rising interest rates present challenges for fixed income investing, especially for pure bullet strategies where only an intermediate maturity point on the yield curve is chosen, as bond values get marked down with increasing discount rates. As such, devising suitable investment strategies that both mitigate interest rate risk and at the same time capture associated increased coupon income becomes paramount. One way of managing bond portfolios during a rising interest rate environment is through bond laddering, a process of actively investing in bonds across the entire yield curve with the aim of capturing the yield pick-up over time.



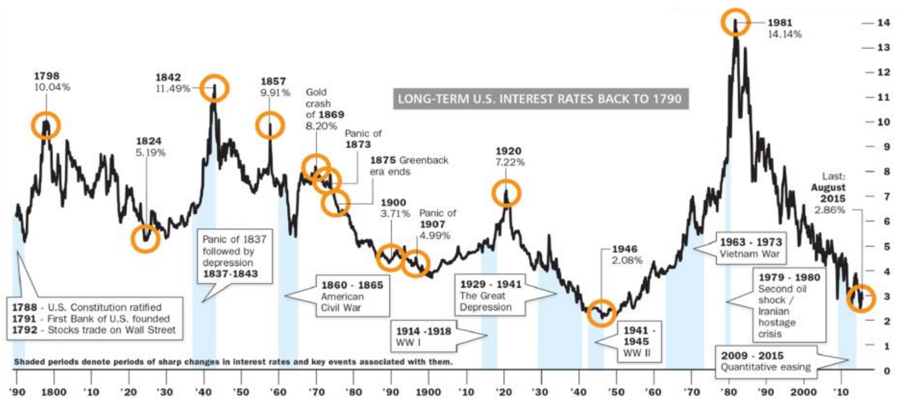
Sources: *Bloomberg*



Sources: *Eaton Vance, Bloomberg*

Conceptually, a laddered bond portfolio should over time be accretive in a raising rate environment as maturing bonds are constantly rolled over at the higher end of the yield curve. By diversifying the bond securities in successive maturities - of let's say - one year increments spread over 10 years, the interest rate risk is reduced as the effective median maturity is five years instead of 10. But since the yield curve is upward sloping (longer rates higher than shorter term ones), each maturing bond's principal is reinvested in the higher yielding coupon bond skewing the overall portfolio yield to the higher end of the interest rate curve. Ironically, it essentially implies less interest rate risk for each unit of higher yield. Reinvestment of both coupon income and principal proceeds serve as one of the most powerful properties of fixed income investing.

Historically, interest rates have had a habit of moving in long-term cycles. Thus, determining whether a secular shift in bond yields have started will likely only be measurable long after it actually started. But we think it is fair to deduce that higher nominal rates will be the future norm at this juncture in the cycle.



Sources: *Bianco Research*

Within our income focused portfolios we continue with our actively managed bond strategies. Additionally, equity securities with strong dividend capacity have been added. In our growth focused strategies we have added equity exposure to health care, consumer, and technology sectors while reduced allocations to industrial sectors.

Our investment strategy allocations are shown below.

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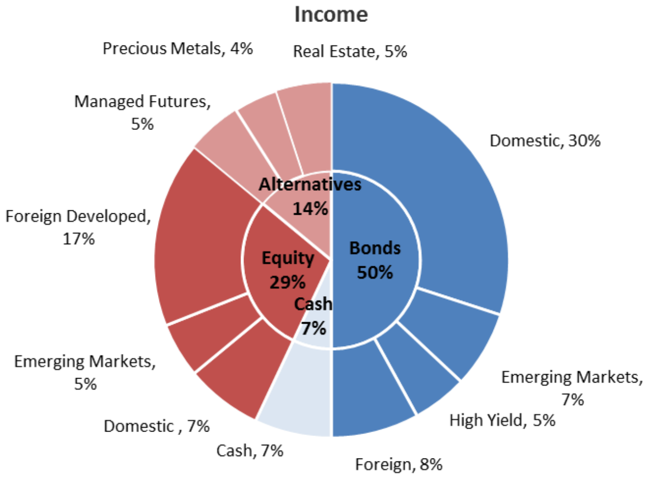
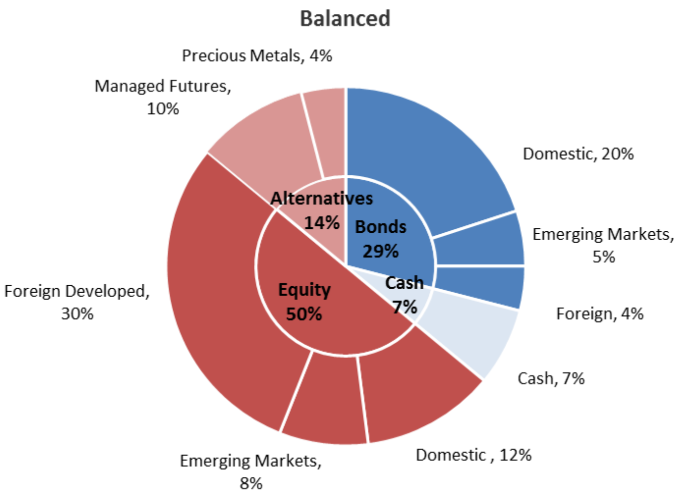
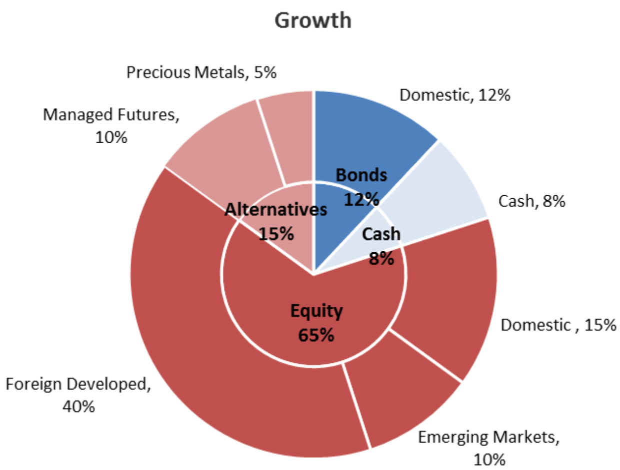
Asset Allocations



Tactical Positioning Relative Weights vs. Benchmark %		
	Income	Asset Class
	2	Cash
Bonds	-18	Domestic
	7	Emerging Markets
	5	High Yield
	-2	Foreign
Equity	-13	Domestic
	5	Emerging Markets
	7	Foreign Developed
Altern.	2	Managed Futures
	4	Precious Metals
	1	Real Estate



Tactical Positioning Relative Weights vs. Benchmark %		
	Balanced	Asset Class
	4	Cash
Bonds	-15	Domestic
	5	Emerging Markets
		High Yield
	-6	Foreign
Equity	-13	Domestic
	8	Emerging Markets
	17	Foreign Developed
Altern.		Managed Futures
		Precious Metals
		Real Estate



Tactical Positioning Relative Weights vs. Benchmark %		
	Growth	Asset Class
	5	Cash
Bonds	-8	Domestic
		Emerging Markets
		High Yield
	-5	Foreign
Equity	-23	Domestic
	10	Emerging Markets
	20	Foreign Developed
Altern.	1	Managed Futures
		Precious Metals
		Real Estate

***Source**: Ameliora Wealth Management as of 1st December, 2016*

***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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