Quarterly Investment Outlook

2nd Quarter 2018

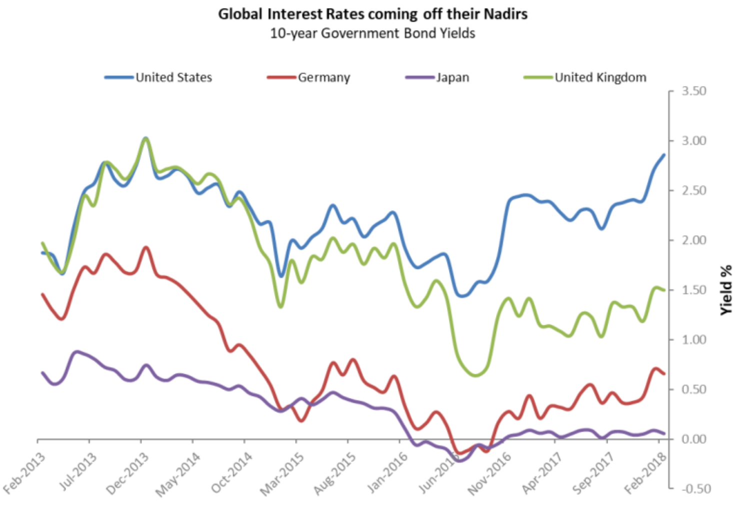
March 2018

ameliora
WEALTH-MANAGEMENT

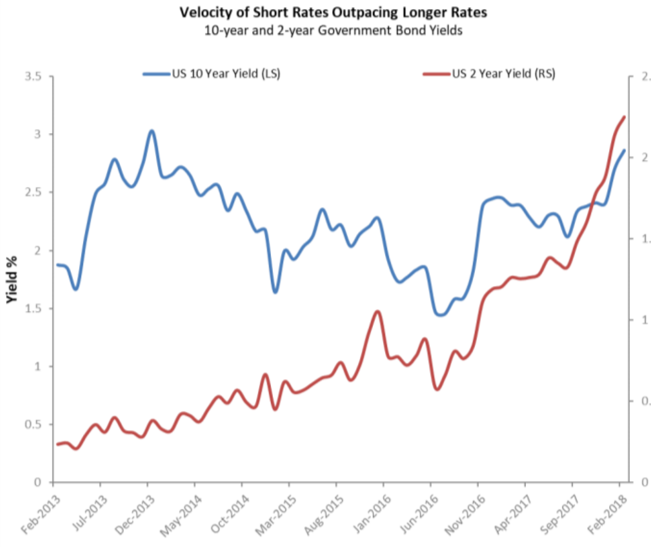
Advisor's Commentary

Amidst the recent equity market rout and inflation concern, one of the least beloved asset classes has suddenly taken a shine. Bonds have for many years been the culprit as to why equities have been the preferred asset class: super low yields! Yet, now, with healthy global economic activity and central bank policy rethink, interest rates have thrust upwards from their post-crisis lows.

The real action, however, is found in shorter term US bonds where the trend of rising rates has gone uninterrupted for five years. To pinpoint just how severe this move has been, yields on two year US government bonds have risen 10-fold compared to less than 1.5x for 10-year government bonds. Yields are looking juicy!



Sources: Bloomberg, Ameliora Wealth Management



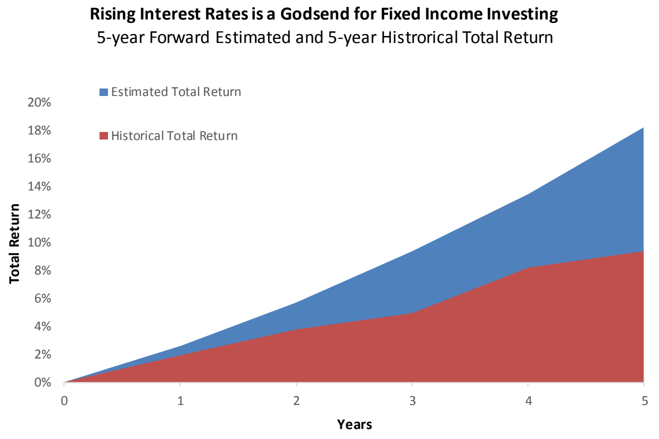
Sources: Bloomberg, Ameliora Wealth Management

Rising interest rates are normally not welcomed as it puts bond principal at risk. But it is exactly this feature that has made lower duration bonds currently significantly more appealing than their longer dated contemporaries. Yields on short term high quality investment grade bonds hover above 3% for maturities up to three years. Compare that with long duration assets such as 10-year Treasuries and global dividend yields with distributable income of 3% and 2%, respectively, and the risk/reward becomes even more compelling. That is because for every policy rate hike that occurs, short term credit yields will pick up and present higher reinvestment rates for maturing bonds without necessarily jeopardizing bond principal. By continuously rolling bonds across the yield curve, often described as bond laddering, one captures the most powerful feature of fixed income investing – compound interest!

With the help of Eaton Vance's interest rate modelling tool, we've devised a possible scenario using a current short-term US dollar investment grade corporate bond yield curve to estimate a total return for a bond ladder. In this illustration we model in a rising rate scenario of 2% over the next five years equating to 0.40% per annum, which is what short term risk-free rates have risen by in the last five years. We have also depicted what the total return was for short-term corporate bonds over the last five years to highlight the magnitude of how rising interest rates might impact the future return potential for bonds.

Yield Curve Summary

Average Duration	Yield to Maturity	Credit Rating	Yield Curve Tenor	Rates Rise next 5 Years
2.9 Years	2.95%	BBB	1-5 Years	+2%



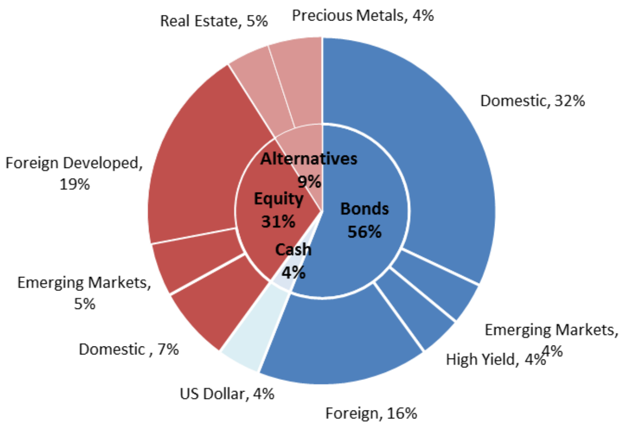
Sources: Eaton Vance, Bloomberg, Ameliora Wealth Management

With about 9% total return achieved from short term corporate bonds in the past five years, the outlook for the next five looks more enticing. Our scenario depicts a possible 18% total return which is twice that of the recent five year historical return. Continued pressure on short term yields, which are more sensitive to policy rate developments than longer term ones, increases the value proposition of shorter dated bonds. And considering that here are already three likely rate hikes penciled in by the Federal Reserve this year, we think the scenario outlined seems plausible.

Please see our investment strategy allocations on the next page:

Asset Allocations

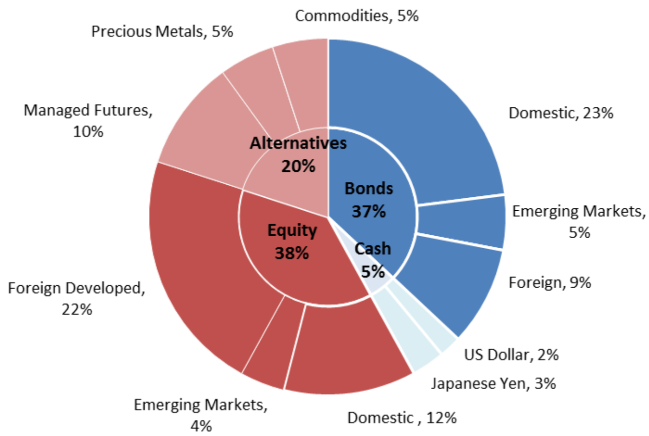
Income



Tactical Positioning
Relative to Strategic Weights %

	Income	Asset Class
	2	Cash
Bonds	-16	Domestic
	4	Emerging Markets
	4	High Yield
	6	Foreign
Equity	-13	Domestic
	5	Emerging Markets
	9	Foreign Developed
Altern.	-5	Managed Futures
	4	Precious Metals
		Real Estate
		Commodities

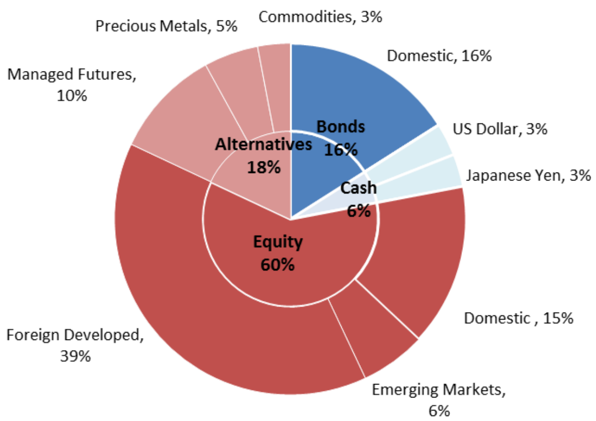
Balanced



Tactical Positioning
Relative to Strategic Weights %

	Balanced	Asset Class
		Cash
Bonds	-7	Domestic
	5	Emerging Markets
		High Yield
	-1	Foreign
Equity	-13	Domestic
	4	Emerging Markets
	12	Foreign Developed
Altern.	-5	Managed Futures
		Precious Metals
		Real Estate
	5	Commodities

Growth



Tactical Positioning
Relative to Strategic Weights %

	Growth	Asset Class
	4	Cash
Bonds	-4	Domestic
		Emerging Markets
		High Yield
	-5	Foreign
Equity	-23	Domestic
	6	Emerging Markets
	19	Foreign Developed
Altern.		Managed Futures
		Precious Metals
		Real Estate
	3	Commodities

Source*: Ameliora Wealth Management as of 1st March, 2018*

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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