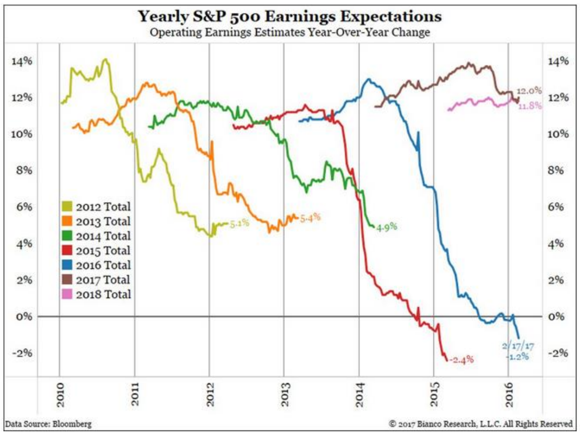
Quarterly Investment Outlook

2nd Quarter 2017 March 2017

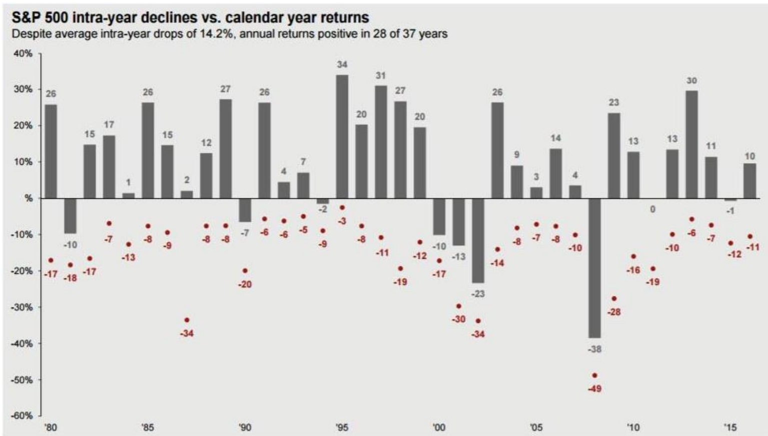
ameliora
WEALTH-MANAGEMENT

Advisor‘s Commentary

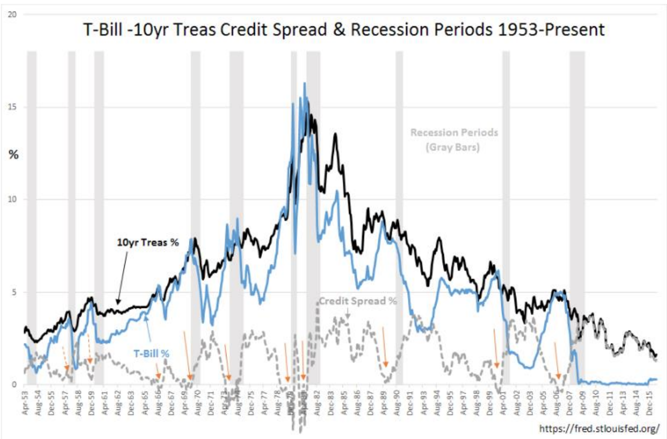
The momentum that has propelled global equities to record highs has also caused concern whether stock markets have started to disconnect from fundamentals and reality. That is not an unreasonable assumption as some of the catalysts that normally drive equities higher, such as earnings growth and economic growth, have not been as stellar as expected. Even the analyst community has downgraded the earnings estimates going into 2017 - although they have a tendency to be a tad too optimistic at the onset of a new year. However, this doesn't necessarily mean an imminent stock market crash is the most logical outcome. Nor does it imply that the bull-run in global equities has run its course. Empirically, it is quite normal to observe elevated volatility in the stock market where large intra-year drawdowns have often not prevented equities from delivering positive returns within the same calendar year. As such, it is inevitable that the stock market will correct at some stage bringing with it periods of heightened volatility. But that should be expected and considered part of the natural behavior of risky assets. It was not long ago – 1st quarter of 2016, actually – when global equities approached bear market territory only to swiftly recover and set new all-time highs.



Sources: *Bianco Research*



Sources: *JP Morgan Asset Management*



Sources: *Valueplays.net*

The main detriment to equities, however, are recessions. During periods of economic contraction the stock market drops significantly and consistently, and it takes multiple years just to recover the drawdowns that followed. Typically, recessions start when monetary conditions tighten to such an extent that cash rates exceed those of capital asset returns. Money then shifts from lower returning assets to cash which deprives economies from productive investable assets resulting in contracting and falling economic growth. Historically, a useful indicator of potential recessionary developments has been the shape of the interest rate curve. As the curve flattens or even inverts, risk premiums disappear and cash becomes the higher yielding asset. This has coincided well with ensuing recessions. Looking at current yield curve spreads and risk premiums, signals of any impending recessions seem distant. However, future central bank interest rate policy will be a key determinant to equity market developments.

Valuation	United States[1]	Developed World[2]	Emerging Markets[3]
Long Term Bond Yields	2.50%	2.29%	4.75%
Equity Earnings Yields	5.44%	6.50%	7.94%
Equity Risk Premia	2.94%	4.21%	3.19%
Cash Rate[4]	1.10%	1.10%	1.10%

[1]US 10YR T-Bond, S&P 500 Index. [2]BB Global Agg Index, MSCI EAFE Index.[3]BB EM Agg Index, MSCI EM Index.

[4]US 3M Libor

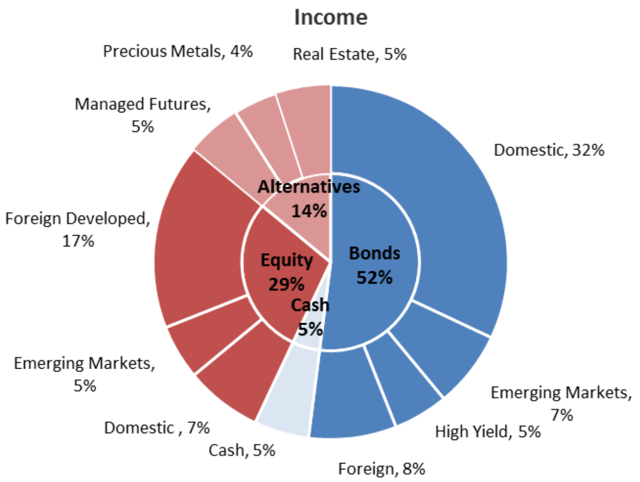
Sources: *Bloomberg, Ameliora Wealth Mgmt.*

Within our income and balanced portfolios we have expanded the bond exposure to include inflation linked bonds as TIPS yields are now higher than real yields and inflation trends are moving upwards. Additionally, in our balanced portfolios, we have increased the alternative investment exposure to further diversify the portfolio risk. Although we expect increased equity market volatility, we have not made any changes to our portfolio equity holdings.

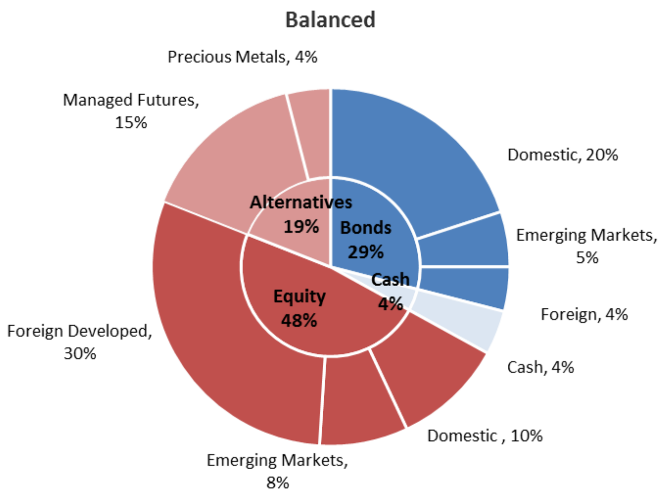
Our investment strategy allocations are shown on the next page below.

![ameliora WEALTH-MANAGEMENT]

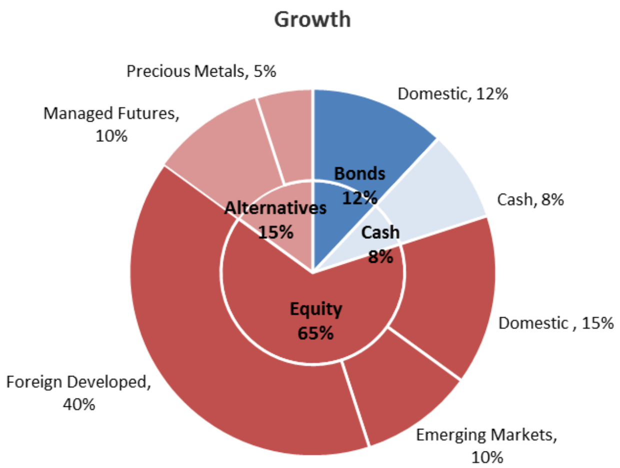
Asset Allocations



Tactical Positioning Relative to Strategic Weights %	Income	Asset Class
		Cash
Bonds	-16	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 to Strategic Weights %	Balanced	Asset Class
	-2	Cash
Bonds	-10	Domestic
	5	Emerging Markets
		High Yield
	-6	Foreign
Equity	-15	Domestic
	8	Emerging Markets
	20	Foreign Developed
Altern.		Managed Futures
		Precious Metals
		Real Estate



Tactical Positioning Relative to Strategic Weights %	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 March, 2017*

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

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