Quarterly Investment Outlook

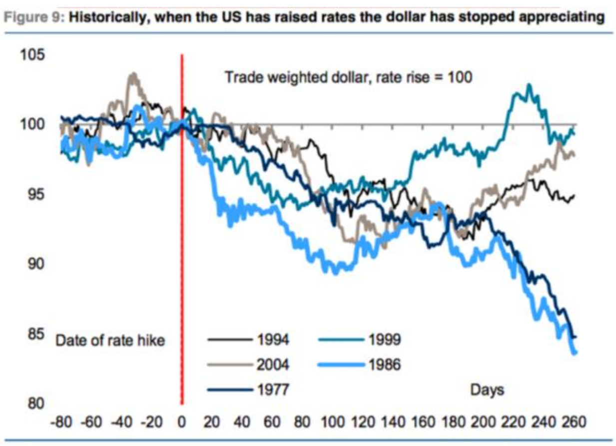
1st Quarter 2018

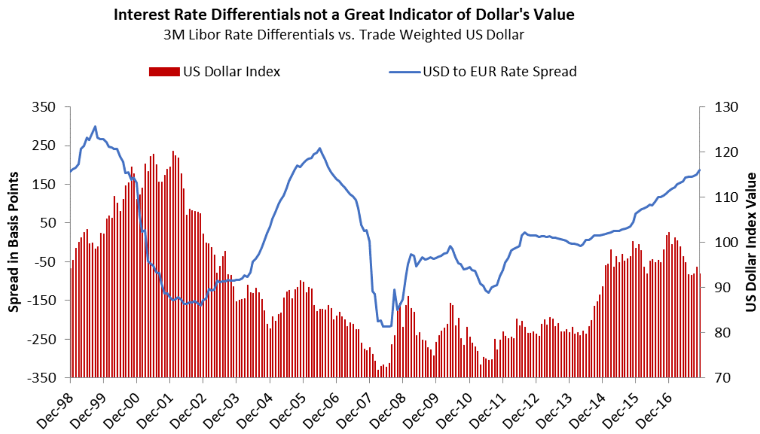
December 2017

ameliora
WEALTH-MANAGEMENT

Advisor's Commentary

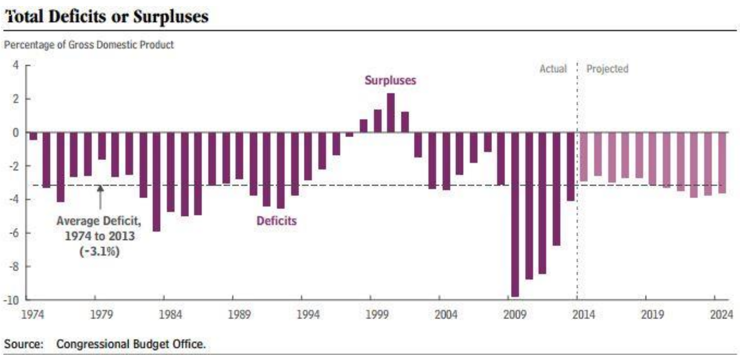
From the time the Federal Reserve first raised interest rates in December 2015 and announced a normalization of its balance sheet, effectively putting an end to quantitative easing, the trade weighted US dollar has lost about 7% of its value. The general theorem at that time was that with tighter monetary policy, and a clean bill of health given to the US economy, the US dollar would strengthen due to its higher yielding properties. Two years and four rate hikes later the US dollar strength has not materialized. Historically, little empirical evidence show that monetary tightening by the Federal Reserve leads to a stronger currency. On the contrary, during the last five rate hike cycles the US dollar for the most part weakened. Even interest rate differentials have been a poor indicator for predicting the direction of the dollar. Yet, there seems to be a market consensus that the dollar is bound to strengthen primarily because of these two circumstances.





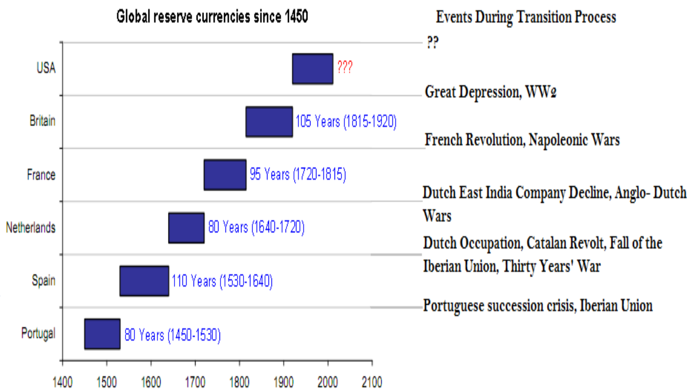
Sources: Business Insider, Bloomberg, Ameliora Wealth Management

We think that other measures and developments might help explain the dollar's diverging path. The United States has been running a budget deficit for almost half a century and the current administration does not seem to be able to offset that spending mismatch norm. Usually, deficit spending means further borrowing and typically translates into larger financial burdens. Considering that the US is the largest debtor nation on the planet measured by nominal amounts outstanding, at about $19 trillion and growing, and coupled with running a trade deficit since the 1990s, there is some legitimacy in challenging the dollar's might.



Sources: Congressional Budget Office.

But if we really widen the scope of our analysis and look at more secular forces that are in play, we could argue that the US dollar's global reign is approaching its end just as other world reserve currencies did in the past. At this point in time it might seem ludicrous to think there is an alternative reserve currency to the dollar as obvious substitutes such as the euro, yen, or renminbi lack some essential traits. However, there are numerous similar developments present today in the United States to those of nations going back several centuries ago.

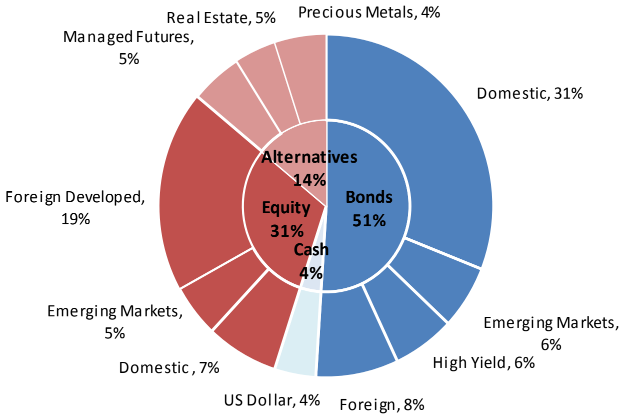


The most evident observation is that a reserve currency lasts about 100 years. The US dollar become the de facto global reserve currency after the Second World War, but it was widely used as trading currency from the 1920s which puts it close to its 100 year anniversary. And as with other historical dominant nations in the past, the US today shares some of the same characteristics: superior trading nation, large military presence internationally, significant domestic wealth gap, willingness to borrow, and a propensity to settle disputes through trade mechanisms or warfare. It is not unreasonable to expect that at some point the US dollar might lose its reserve currency status to another nation or region, but as with most secular changes, the transition phase could last for decades.

Our investment strategy allocations are shown below:

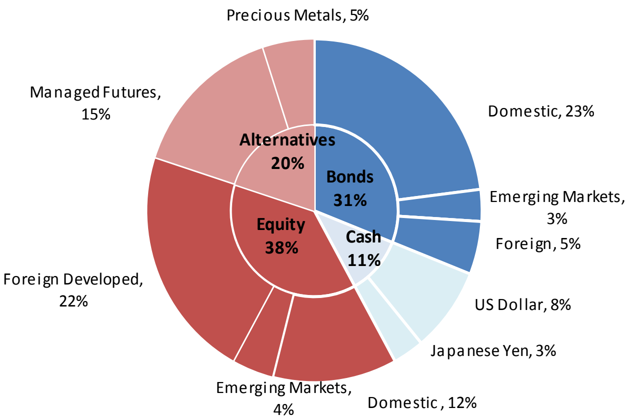
Asset Allocations

Income



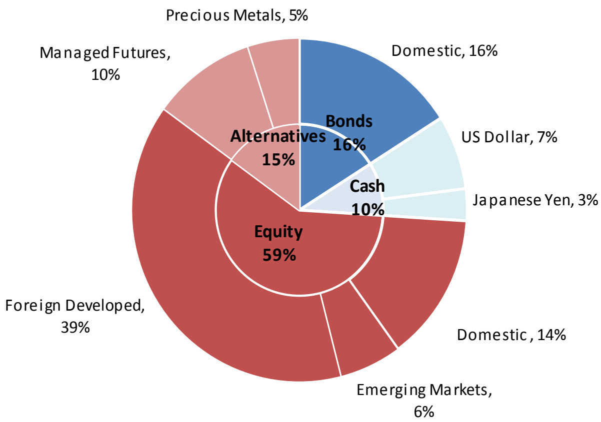
Tactical Positioning Relative to Strategic Weights %		
	Income	Asset Class
		Cash
Bonds	-16	Domestic
	7	Emerging Markets
	5	High Yield
	-2	Foreign
Equity	-13	Domestic
	5	Emerging Markets
	7	Foreign Developed
Altern.	2	Managed Futures
	4	Precious Metals
	1	Real Estate

Balanced



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

Growth



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 December, 2017*

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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