GLOBAL QUARTERLY FOCUS
First Quarter 2018

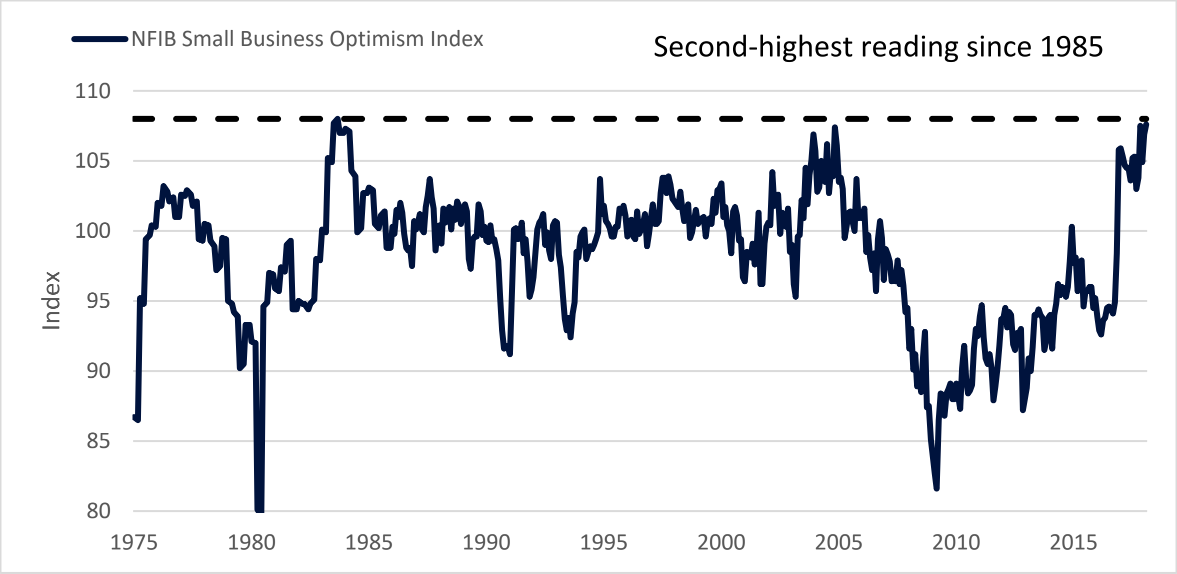
Global Financial Private Capital

KEY TAKEAWAYS

- Volatility is back! The main headline for the quarter was the rise in volatility as the S&P 500 index suffered its first 10% correction since January 2016.
- The final month of the quarter proved extremely exciting, to say the least, with “March Madness” producing many twists and turns in both NCAA men’s basketball and in the political, economic and financial markets.
- While the start of this year was riddled with volatility unseen in previous years, the fundamentals of the global economy remain strong. Paired with an accommodative monetary policy, the current economic landscape does not, in our opinion, justify a more negative outlook for equity markets.

GLOBAL ECONOMIC SUMMARY

The U.S. economy remains on firm ground and expanded 2.9% in the fourth quarter of 2017, driven by consumer spending. The job market remains healthy and has added an average of approximately 202,000 jobs each month during the first quarter of 2018. The February employment report was extremely strong, with payroll gains of 326,000 – almost 100,000 higher than the consensus estimate. Despite strong payroll gains, the unemployment rate stayed flat at 4.1% thanks to a surge in the participation rate (the number of people who are either employed or actively looking for work), which rose 0.3% to 63.0%. This suggests untapped reserves of workers were reintering the labor market, a welcome offset to the tight employment conditions. Other indicators such as consumer confidence and small business sentiment maintained their robust tone. The small business optimisim index saw its second-highest reading since 1985 given a supportive business environment under the new administration.



Source: Global Financial Private Capital, LLC

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The Federal Reserve (Fed) raised interest rates by 0.25% to a range of 1.5 to 1.75%. The transition of the leadership at the Fed under Jerome Powell has been handled smoothly so far, and we expect the Fed to continue its data-dependent path on monetary policy. The Trump administration also introduced tariffs of 25% and 10%, respectively, on steel and aluminum imports into the United States.

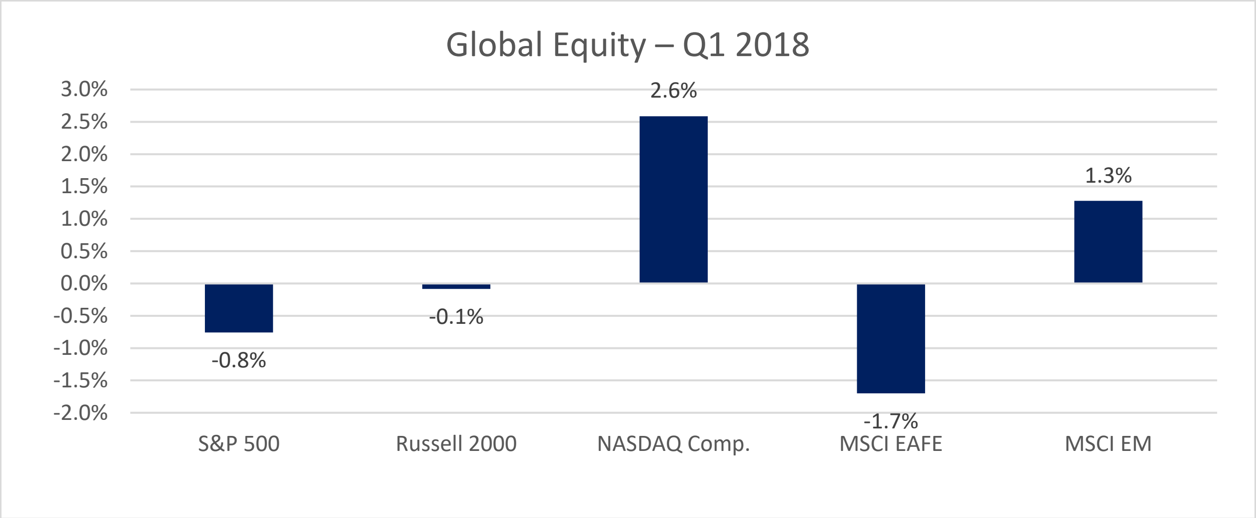
Globally, the economic picture remains positive, with expansion on track across all the major regions. This growth could be threatened if the tariffs adopted by President Trump spark a full-scale trade war, although the likelihood remains low. The Eurozone economy grew at a 2.7% annual rate in the fourth quarter, exceeding expectations. According to Eurostat, overall eurozone GDP growth rose 2.5% in 2017, marking the fastest growth rate since a 3.0% rise in 2007. Finally, in China, the pace of economic growth accelerated last year for the first time in seven years as exports, construction, and consumer spending all climbed. For the fourth quarter, China's economy grew at annualized pace of 6.8%. Unlike quarterly growth in many other countries, China's growth rate remains suspiciously smooth. Nevertheless, the concern over a hard landing in China has subsided.

GLOBAL MARKETS SUMMARY

GLOBAL EQUITY

After starting out the year with a bang in January, U.S. large cap equities as indicated by the S&P 500 index ended the quarter -0.80%. January's burst of equity market euphoria was lost later in the quarter behind fears of a trade war, concerns over the Fed raising interest rates and the return of volatility. There were also concerns about the economy overheating, with inflation running rampant and the Fed taking away the punchbowl at this late juncture. At the same time, economic growth and earnings are strong, and business sentiment suggests plenty of optimism even after the recent bout of volatility.

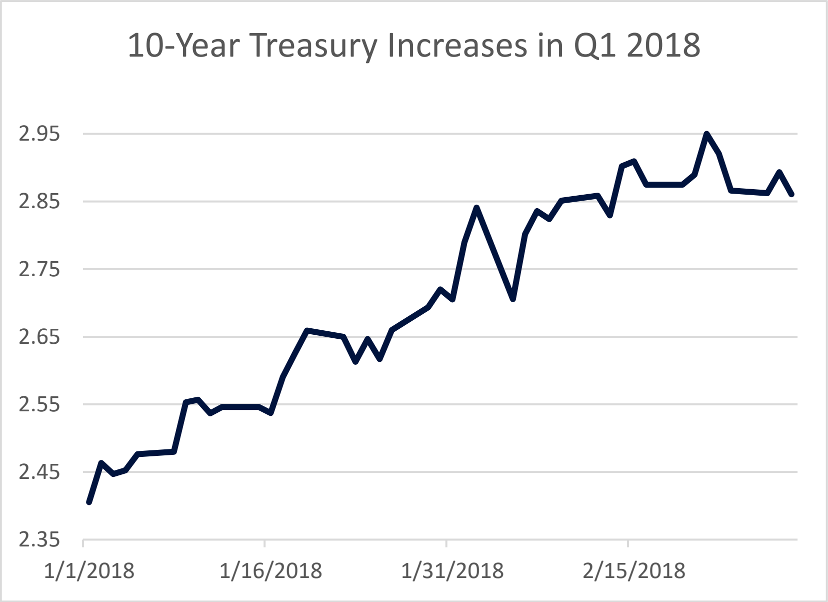
Over the course of the past three months, the S&P 500 experienced six trading days of plus or minus 2% moves, compared to 2017 which saw zero such moves. U.S. small cap equities did only marginally better, down -0.1% through March, because of the their smaller exposure to global trade war dynamics. Technology stocks, as measured by the Nasdaq composite index, were more resilient, up 2.6% through the end of the quarter. Developed international market equities, as indicated by MSCI EAFE(Europe Australasia and Far East) Index, were down -1.7% alongside U.S. large cap equities. Emerging market equities, as represented by MSCI EM index, were a bright spot abroad, up 1.3% despite volatility elsewhere, due to improving and more resilitent fundamentals in both economic and earnings growth.



Source: Bloomberg as of 3/31/18.

FIXED INCOME

The primary catalyst for the stock market correction in early February was heightened concern that the Fed would quicken its pace of rate hikes after a bigger-than-expected increase in wages. The Fed appears increasingly confident that the U.S. economy can withstand higher interest rates. The Fed's median expectation is now for three rate increases in 2018. This drove the yield on the 10-year U.S. Treasury note higher; it ended the quarter at 2.74%, compared to 2.41% on December 31, 2017, and rosenearly 14% during the quarter.



Source: Global Financial Private Capital, LLC

Given the backdrop of rising rates, fixed income markets were challenged in the first quarter, with all major market indices generating negative returns. Core bonds, as represented by the Bloomberg Barclays U.S. Aggregate bond index, fell -1.5% for the quarter. Corporate bonds, as represented by the Bloomberg Barclays U.S. Corporate Index, fell -2.3%. Finally, junk bonds, as represented by the Bloomberg Barclays U.S. High Yield index, also fell -0.9% for the quarter. Despite the shift higher in U.S. interest rates, the dollar has weakened year to date. The dollar weakness stems from concerns about the rising fiscal deficit, the strengthening of global currencies relative to the dollar, and the fact that bond yields are rising, though not (yet) to the level that would trigger a dollar rally.

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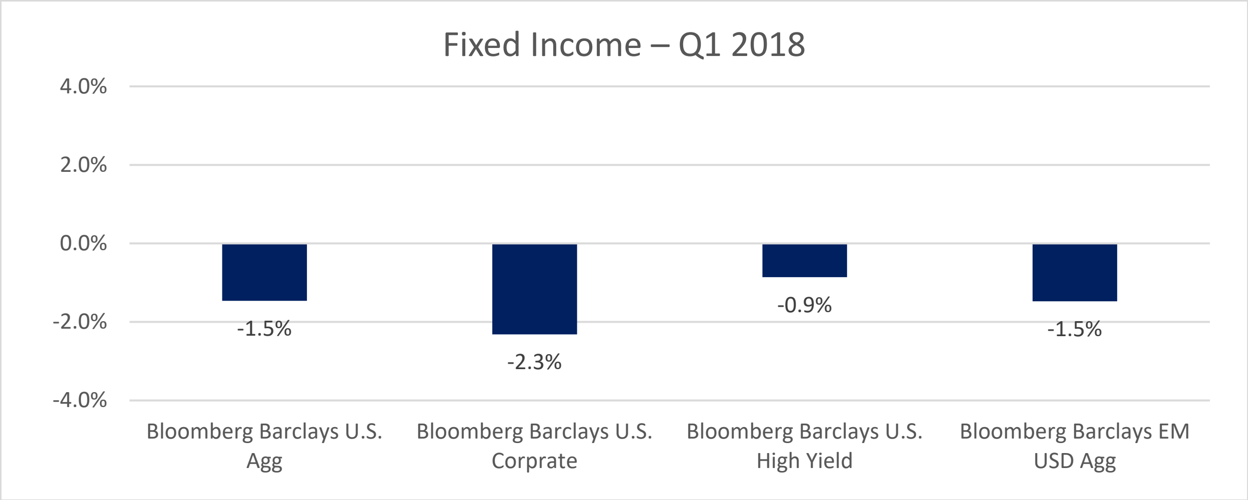
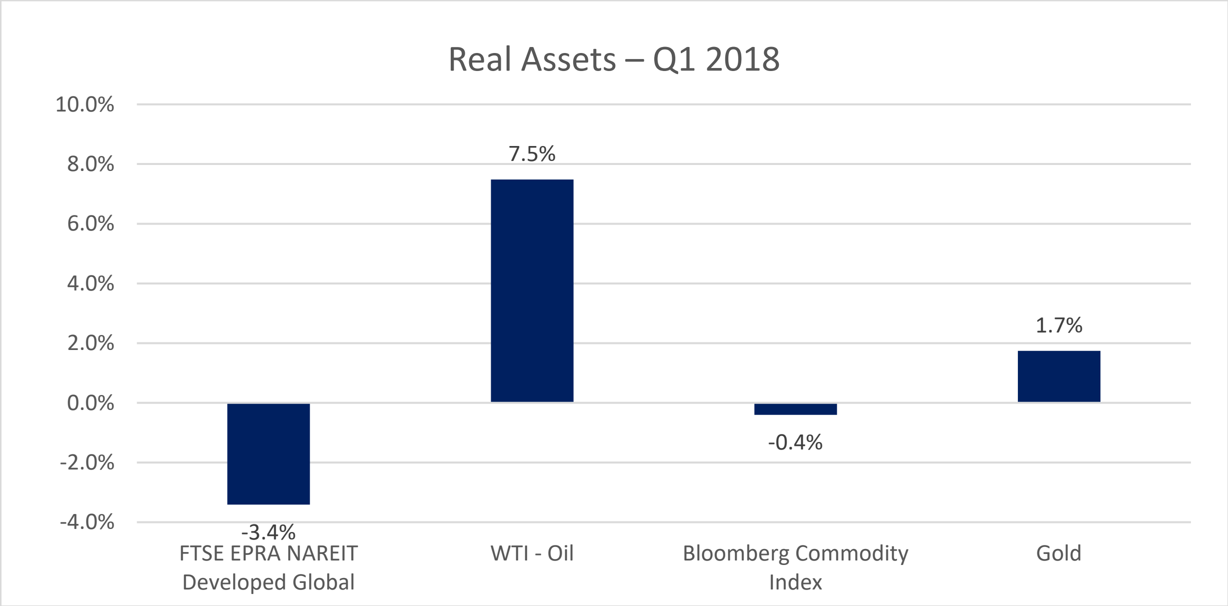


Source: Bloomberg as of 3/31/18.

REAL ASSETS

Real assets were a mixed bag for the quarter. Real Estate Investment Trusts (REITS) were hurt amid concerns about rising interest rates. The FTSE EPRA Nareit Developed Global Index fell -3.4% during the quarter. OPEC production cuts, paired with increasing demand, sent oil prices higher during the quarter. Oil, as represented by the West Texas Intermediate Index, rose 7.5% during the quarter. Despite higher oil prices, broader commodities were lower as shown by the Bloomberg Commoditiy index, which fell -0.4%. Concerns over stock market volatility and rising inflation levels sent gold prices higher, ending up 1.7% for the quarter.



Source: Bloomberg as of 3/31/18

Index Definitions

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Russell 2000 The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 is by far the most common benchmark for mutual funds that identify themselves as "small-cap."

The **NASDAQ Composite** is a stock market **index** of the common stocks and similar securities (e.g. ADRs, tracking stocks, limited partnership interests) listed on the **NASDAQ** stock market. Along with the Dow Jones Average and S&P 500 it is one of the three most-followed **indices** in US stock markets.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends. in eligible real estate equities worldwide.

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

Bloomberg Commodity Index, formerly known as the DJ-UBS Commodity Index, is a broadly diversified index that tracks the commodities markets through commodity futures contracts.

The GOLD spot price is the current market price at which an asset is bought or sold for immediate payment and delivery.

The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar.

The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.

The "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

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