5 Becker Farm Road
Roseland, NJ 07068

Tel: 973.535.9577
Fax: 866.734.4227

www.wealthhealthllc.com
info@wealthhealthllc.com

Market Review

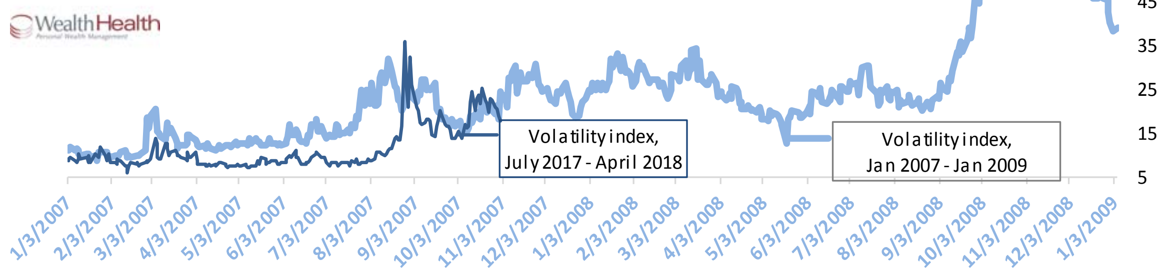
2018 got off with a roller coaster start, relatively speaking. After spiking to an all-time high in January, stock markets around the world fell approximately 11% when measured from the late-January peak to the early-February trough. Bonds did not do much to stymie the equity correction and in fact, the Barclays Aggregate Bond Index actually lost about 1% in value during this short bout of volatility. So far it seems that the spike in volatility was mostly related to US equity markets, as other global assets classes saw smaller increases in volatility.

Index Returns *Through 3/31/2018*

Index	QTD	YTD	Annualized Returns 1-Year	3-Year	5-Year
S&P 500	-0.76%	-0.76%	13.99%	10.78%	13.31%
Russell 2000	-0.08%	-0.08%	11.79%	8.39%	11.47%
MSCI EAFE	-1.53%	-1.53%	14.80%	5.55%	6.50%
MSCI All Country World Index	-0.88%	-0.88%	15.08%	8.32%	9.35%
MSCI Emerging Markets Index	1.42%	1.42%	24.93%	8.81%	4.99%
Barclay Capital US Aggregate Bond	-1.46%	-1.46%	1.20%	1.20%	1.82%
Barclay Capital Municipals	-1.11%	-1.11%	2.66%	2.25%	2.73%
Bloomberg Commodity Index	-0.40%	-0.40%	3.71%	-3.21%	-8.32%
HFRI Fund of Funds Composite Index	0.91%	0.91%	6.21%	2.08%	3.51%

As a reminder, last year 2017 was a historic year in terms of extremely low levels of risk in the stock markets. The recent 11% drop this year was in line with historical norms. In fact, we saw very similar bouts of volatility in 2015 and 2016. And while the first quarter of 2018 saw the low-volatility regime breakdown, as the VIX index moved higher, overall financial conditions remained loose. Economic activity and lending remained robust and unemployment remained near historical lows. However, it is worth noting that the current break in the low-volatility regime, is following a similar pattern to that of 2007.

Seen below is the most recent 10 months of stock market volatility (VIX index, dark blue). It is overlaid against the 2 years preceding the recession of 2008 (VIX index, light blue, 2007 - 2009). The last 10 months of market volatility shows a similar pattern to the last time that the stock market became more risky.



As mentioned earlier, the bond market was also under pressure during the first quarter of 2018, as nearly all fixed income asset classes lost value with emerging market bonds losing the most. A steadfast rise in interest rates invariably puts pressure on bond prices, as yields go up and prices come down. One of the few fixed income strategies that do well in this type of environment, floating rate bonds, posted positive low single digit returns. These types of securities pay a variable rate of interest, so as rates rise, the coupons paid by these securities rises as well. Floating rate securities represent a part of your overall diversified portfolio, acting as a hedge to a rising rate environment.

5 Becker Farm Road
Roseland, NJ 07068

Tel: 973.535.9577
Fax: 866.734.4227

www.wealthhealthllc.com
info@wealthhealthllc.com

Broad Look

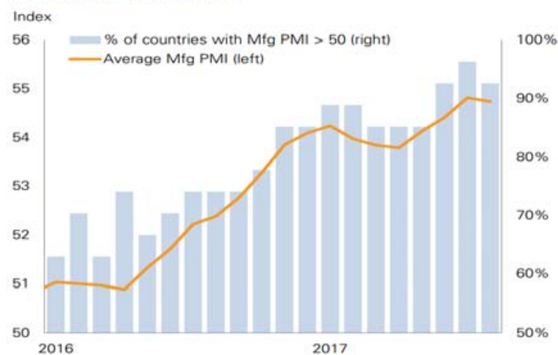
The first quarter of 2018 continued to post strong economic data from across the globe with industrial, business and manufacturing activity all showing positive direction and momentum. The global consumer segment is also positive with real estate and trade activity all pointing to continued economic growth. In addition, consumer and business sentiment polls corroborate the global-growth story with both showing positive levels and trends.

Growth is strong across all sectors and surveys suggest there is more room to run.

Activity: Back in the Swing of Things
Global Activity

Source: Macrobond. GSAM. Industrial production as of December 2017. Household consumption and business investment as of Q3 2017.

Survey Says: Maintaining Momentum
Manufacturing PMI Survey



Source: Macrobond. Based on Manufacturing PMI for 29 developed and emerging market countries. As of December 2017.

While positive economic data is always welcome, there are some warning signs that are starting to develop. For example, corporate activity during the last 9 years has led to concerning levels of debt that may prove extremely challenging to manage in the years ahead. In addition, a protectionist rhetoric has taken hold of international relations leaving a lot of economists and corporate CEO's concerned about the future of the global economy. Some of this rhetoric makes its way into the daily news cycle and at times has the propensity to rattle stock markets. While it is imprudent to make investment decisions based solely on the daily news flow from social and mainstream media it still warrants enough attention to study the potential disruptions from this new trend.

On January 2018, seeking to curtail imports from China, the Trump Administration imposed tariffs on solar panels and washing machines. On March 2018, the administration went further and imposed tariffs on steel and aluminum, again aimed at China. The Chinese Commerce Ministry responded by promising it would immediately file a challenge with the World Trade Organization and by establishing retaliatory tariffs on 128 U.S. products such as frozen pork, wine, fruits and American ginseng. As the tensions between US and China escalate, a growing chorus of market professionals are becoming increasingly concerned of an actual trade war developing between the two nations. While these developments are certainly worth paying attention to, they are extremely unlikely to lead to an actual trade war. As seen recently, President Trump has signaled a willingness to compromise by being open to renegotiating the North American Free Trade Agreement with Canada and Mexico.

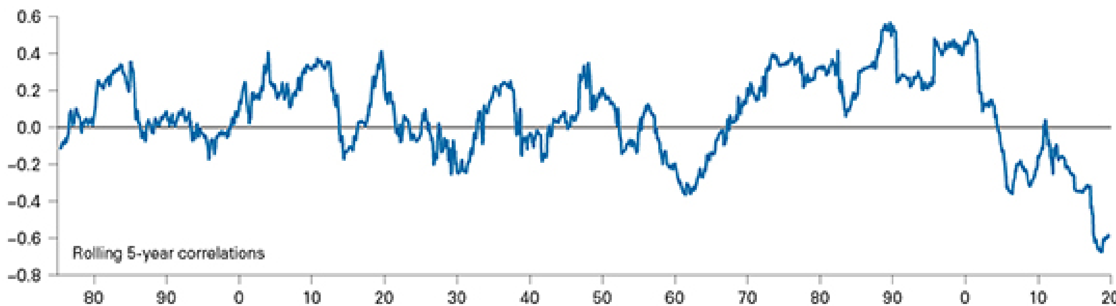
The motivating factor behind the current administrations push to raise tariffs and renegotiate current trade agreements is a wish to decrease the trade deficit and revitalize the US manufacturing industry. This is a very ambitious goal and has the potential to being disruptive to the global economy.

5 Becker Farm Road
Roseland, NJ 07068

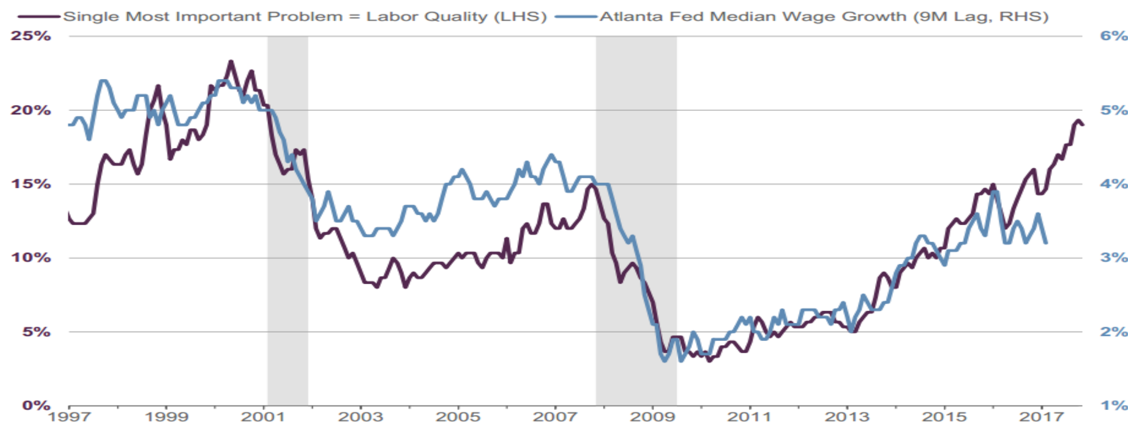
Tel: 973.535.9577
Fax: 866.734.4227

www.wealthhealthllc.com
info@wealthhealthllc.com

As mentioned earlier in this letter, in addition to a change in the volatility complex, we are also seeing a change in the stock-bond correlation. Since 1871 bond prices have generally had little correlation to stock prices. However, this regime changed during the stagflationary period of the late 1970s and early 1980s. During this time stock prices and bond prices both lost value in tandem, something that would be considered unique by today's standards since over the last 20 years stock and bond prices have almost entirely diverged; that is, as stocks fell, Treasury bond prices rose (and yields dropped). But as we have been expecting, this relationship is starting to falter and revert back to its historical mean. In other words, there could be a scenario in the near future where stock and bond prices both lose value. In such case, the benefits of diversification are eroded. To combat the highly probabilistic scenario of a mean reversion in the historical stock-bond correlation relationship, we continue to take steps in your fixed income investments by allocating to extremely talented and experienced managers. Specifically, we allocate to managers that have the skills and unconstrained flexibility to invest in any part of the fixed income market that offers the best risk-return characteristics. By doing so we believe that we will help mitigate the stock-bond correlation reversion risk to the extent possible while concurrently allowing for capital appreciation as the global growth story continues.



While there are certainly risks over the next few years as we outlined previously, we believe that in the more immediate time frame the sheer momentum of economic activity makes it extremely unlikely that a recession is nearby. We expect the labor markets to continue to improve as wages increase, leading to higher consumer spending and by extension, higher corporate revenue. We continue to see very encouraging data for the near term such as a strong improvement in the rates of home ownership, led by real estate activity in the Western and Southern Regions of the US.



5 Becker Farm Road
Roseland, NJ 07068

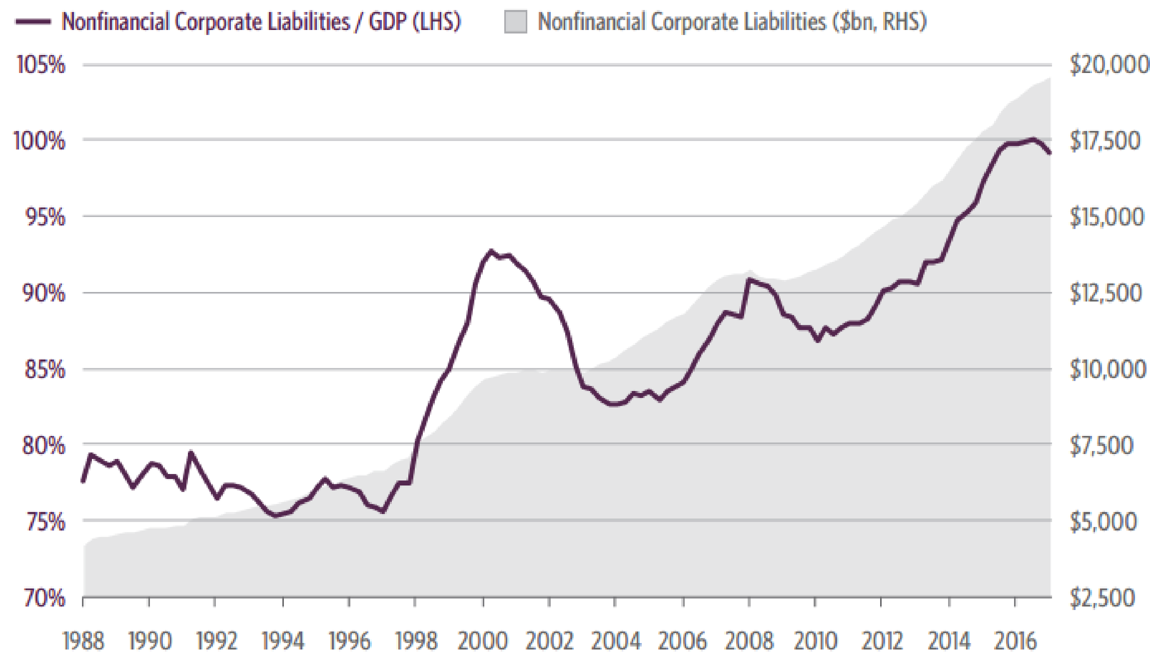
Tel: 973.535.9577
Fax: 866.734.4227

www.wealthhealthllc.com
info@wealthhealthllc.com

Looking Ahead

As the global growth story continues, consensus expects that International and Emerging Market equities are set to benefit the most, as such we increased our exposure to these regions in order to further participate in the expected upside. However, these expectations are not without caution. Additional changes are being made to our fixed income allocations as mentioned earlier. Furthermore, we decreased our US exposure and allocated more to Alternative Investments as an additional precaution against adverse market fluctuations.

While we believe that 2018 will be another good year, albeit with fluctuating bouts of volatility, there are growing signs that this current business cycle is nearing its end. A hall-mark signal that a business cycle is nearing its end is a peak in corporate debt. For this reason, as we continue to monitor all economic and political developments, we are constantly stress testing your portfolios and studying ways to provide you with the best risk-adjusted returns.



In Summary

Current economic data is forecasting a favorable investment climate and we see very little chance of any material and adverse market conditions. However, risks remain further out over the next few years and we remain vigilant as we seek to ensure your portfolio risk is prudently managed with your goals in mind.