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SEIA

INSIGHTS

A QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS

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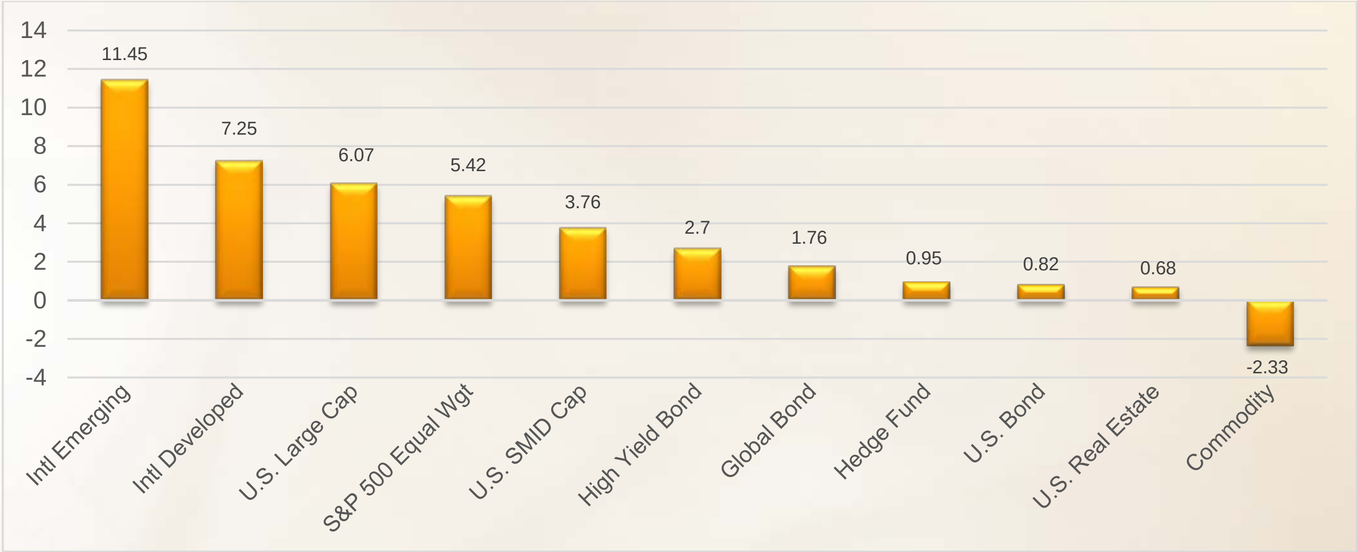
2017 Q1 Insights: "What Color is Your Lens?"

2017 Q1 Index Returns as of 3/31/17



Index	Index Name	Definition
U.S. SMID Cap	Russell 2500	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures 98% of US market cap less the S&P 500 names).
S&P 500 Equal Weight	S&P 500 Equal Weighted	Index based on 500 large US companies ranked equally.
International Emerging	MSCI EM	Index comprised of large and mid-cap stocks across 23 Emerging Market countries.
U.S. Large Cap	S&P 500	Index based on 500 large US companies ranked by market capitalization (size).
High Yield Bond	Barclays US Corporate High Yield	Index comprised of U.S. non-investment grade corporate bonds.
International Developed	MSCI EAFE	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
Commodity	Bloomberg Commodity	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
U.S. Real Estate	MSCI US REIT	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
Hedge Fund	DB Hedge Fund	Index tracks performance of equity hedge, market neutral, systematic macro, event driven, credit & convertible and global macro.
U.S. Bond	Barclays US Aggregate Bond	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.
Global Bond	Barclays Global Aggregate	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.

On January 20th, the United States once again witnessed the peaceful transition of power from one freely elected President to the next. While every inauguration should be celebrated for its confirmation of the democratic process, it's probably safe to say that no transition in recent memory has polarized the American populace so thoroughly—with individuals vociferously reacting to events based in part on whether they viewed them through a red or blue lens.

Those watching through a red lens saw the emergence of a long overdue shake-up of the entrenched political establishment, accompanied by optimism for lower taxes and a more business-friendly America. Those watching through a blue lens, however, witnessed the birth of an agenda aimed at rolling back many rules and safety nets designed to protect our healthcare, our economy, our environment and our most vulnerable citizens.

Who's right? As is often the case, the truth probably lies somewhere in the middle. But it's safe to say that there are very few citizens wearing purple lenses these days.

Fortunately, investors have the luxury of assessing recent events through a lens of a far less contentious color—a green one. Just five days after the inauguration, the venerable Dow Jones Industrial Average (DJIA) broke through the 20,000 level for the first time in history, only to continue past the 21,000 mark a mere thirty-five days later—the fastest one-thousand-point move since 1999! Certainly, any linkage to a major market top is worrisome, but the math appears far less unsettling when viewed in percentage terms. While the 1999 price move was a staggering 9.1% gain, this quarter's move was a significantly less dramatic rise of 4.8%.

	INDICES	Q1	TTM*
OCKS	***GLOBAL EQUITY***	***6.91***	***15.04***
	U.S. Large Cap (S&P 500)	*6.07*	*17.17*
	U.S. Small Cap (Russell 2000)	*2.47*	*26.22*
	International Developed Markets	*7.25*	*11.67*
	International Emerging Markets	*11.45*	*17.22*
BONDS	***GLOBAL BONDS***	***1.76***	***-1.90***
	U.S. Aggregate (High Quality)	*0.82*	*0.44*
	U.S. High Yield (Low Quality)	*2.70*	*16.39*
	International Aggregate	*2.48*	*-3.93*
	Emerging Market Debt (USD)	*3.28*	*8.58*
ALTS	*Gold*	*8.64*	*1.26*
	Oil	*-5.81*	*31.98*
	Commodities	*-2.33*	*8.71*
	Master Limited Partnerships	*3.95*	*28.32*
CASH	*Inflation*	*0.74*	*2.14*
	Cash (3-month T-bills)	*0.10*	*0.30*
	U.S. Dollar Index	*-0.24*	*3.33*

**Trailing Twelve Months*

In another parallel to 1999, this year has been marked by technology newcomers and social media companies in particular. Wall Street welcomed social media giant Snap, Inc. (parent of Snapchat) in the single largest IPO since 2014. But further south, Washington DC was upended by social media veterans Twitter and Facebook. Seemingly every morning their feeds offered surrealistic headlines touching on espionage and treason, protests and marches, nefarious acts out of Russia, FBI probes, travel ban controversies, Supreme Court nominations, and of course the Obamacare repeal/replace failure in the House. Considering the social media frenzy surrounding the political circus in DC, the ability of Wall Street to persevere has been quite remarkable.

This pairing of Washington strain and Wall Street gain is not a new phenomenon, however, as recently noted by Bespoke Investment Group:

"Relative to the 19 other Presidents that have assumed office since 1900, the DJIA's return during Trump's first month ranks as number six behind Johnson, Coolidge, Taft, FDR, and Bush I. Perhaps the most surprising performance of the Presidents shown is Johnson and Coolidge, who saw gains of 7.11% and 5.69%, respectively. The first month of Johnson's tenure was the month that followed the assassination of a sitting U.S. President (JFK), while Coolidge's first month followed the sudden death of another sitting President (Harding). Apparently, the stock market's ability to shake off shocking political news isn't just a phenomenon confined to the last 12 months."

Q1 EQUITY

One final comment on politics (for now at least): the day after President Trump addressed Congress, investors widely perceived his conciliatory tone and lack of protectionist comments as "presidential"—instilling a confidence that drove most global markets even higher. The S&P 500® proceeded to set an intraday all-time high (2,400.98) the very next day and ended the quarter up 6.07%.

Although stocks posted strong gains, there were wide disparities within the asset class. Large Caps (+6.07%) outpaced Small Caps (+2.47%) by 360 basis points and Growth (+8.63%) outperformed Value (+2.99%) by the widest margin since 2009. It therefore should come as no surprise that growth sector stalwarts led the quarterly advance with Technology (+12.57%) besting all sectors. Conversely, traditional value stocks including Real Estate (+0.99%), Telecom (-3.97%), and Energy (-6.68%) lagged.

As strong as the advance was here stateside, gains overseas were even larger as International (+7.86%) outpaced the U.S. for only the second time in the last seven quarters. Emerging Markets (+11.45%) led the group, outpacing Developed Markets (+7.25%) including Asia/Pacific (+8.07%), Europe (+7.42%), and foreign Small Caps (+7.28%).

Q1 FIXED INCOME

We mentioned last quarter, "*we would be remiss in suggesting that the stock market rally is entirely Trump-driven. Since early summer, economic data has been steadily improving and corporate earnings are now turning positive after five consecutive quarters of declines*." And this is still true. The economy continued to strengthen in Q1 which allowed the Federal Reserve to once again raise short-term interest rates another 25 basis points—a mere three months after their last hike. But remember, while the Fed controls short-term rates, they have little impact on longer-term rates which directly affect mortgages and most bond portfolios. Wise investors will take note that the Fed has now hiked by 50 basis points within the last 4 months and over that time, the 10-year Treasury bond yield has dropped by 8 basis points, closing out the quarter at 2.40% yield.

With yields relatively flat, U.S. Bonds (+0.82%) gains were meager. But with an improving economy, bonds tied to corporations posted decent gains as High Yield (+2.70%) outpaced defensive sectors such as high quality government treasuries (+0.67%). And mirroring equities, Emerging Market Debt (+3.28%) led all fixed income sectors.

CONCLUSION

While US stock valuations are elevated, history is on the investor's side. On average, following a 5%+ first quarter, stocks tack on another 3.2% in Q2 and another 9.6% for the rest of the year. But for that to happen, the underlying earnings of domestic companies will need to ramp up from some combination of increased consumer demand and/or fiscal stimulus and tax-cuts. Oh yeah, the interest rate environment must also remain accommodative. Another 10% gain in stocks? low interest rates? progress in D.C.? Although the view is great through these rose-colored lenses prudence suggests that it's time to take some profits and diversify overseas.

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Chief Investment Officer