ReDefine
WEALTH MANAGEMENT

MONTHLY MARKET COMMENTARY

August 1, 2018: ReDefine Wealth Management provides clients and business partners with a differentiated suite of services and products. This monthly commentary encapsulates how our team is looking at the world and the practical implications of our approach. This monthly commentary is designed to illuminate the process behind the implementation of investment decisions within ReDefine Wealth Management portfolios.

REDEFINE WEALTH MANAGEMENT DYNAMIC INVESTMENT STRATEGY

Anecdotal and historical evidence suggest that mitigating portfolio drawdown has the greatest impact on portfolio success. *Quite simply, it is more efficient to grow wealth by not losing wealth.*

Our **GLOBAL MACROECONOMIC ANALYSIS** provides the basis for attractive reward versus risk global investment opportunities. The findings of our analysis help to inform our **STRATEGIC ASSET ALLOCATION**, wherein we divide assets between three primary portfolio components – *Global Equities, Fixed Income/Cash,* and *Real Assets* - then further divide the primary components into sub-components, for example Global Equities may be divided between disparate geographies and various capitalization sizes. Once the allocation is decided, we begin our **TACTICAL INVESTMENT SELECTION** to specifically choose the financial instruments we will use to implement our globally thematic strategic asset allocation. It is important to note that our tactical investments are also directional – i.e. long and short.

Our process allows us to handpick and tactically manage investments in highly-liquid financial instruments, such as: *ETFs, Mutual Funds, Stocks, Bonds, SMAs, CEFs, and Options.* So, while we may hold similar "investments" as traditional portfolios, it is our approach and flexibility that allows for asymmetric returns relative to risk.

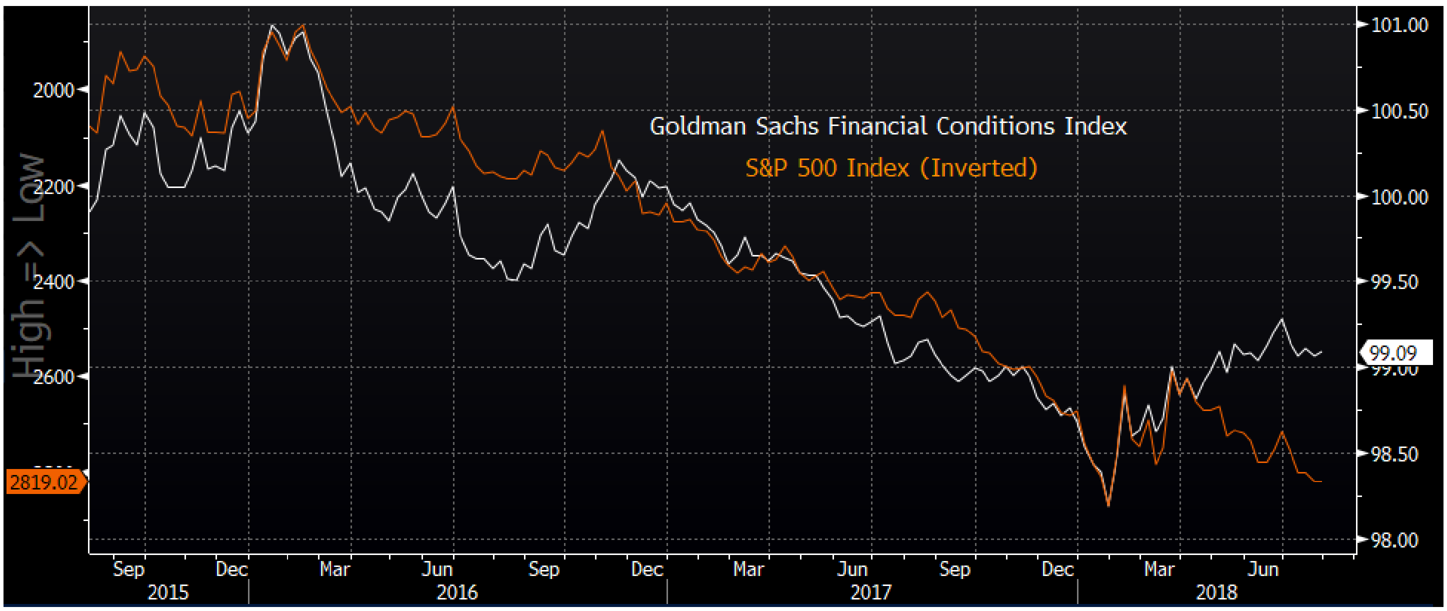
FUNDAMENTAL GLOBAL MACROECONOMIC BACKDROP

In many ways, the last half of the year is shaping up to be a Tale of Two Economies. We believe the uncertainty in global markets is likely to persist throughout the 3rd quarter. Our opinion is enforced by the stated plans of most central banks, and further strengthened by the upcoming $1 trillion USD spend (by September 30th) by the US Government for budgetary reasons. This spending should find its way to corporate balance sheets and help maintain the status quo.

Evolution in central bank policy should begin to work its way to the broader market and the "second economy" should take form. Specifically, continued rate hikes and bond redemptions by the Federal Reserve, paired with the reduction of

Quantitative Tightening by the European Central Bank, should continue to tighten financial conditions. Although the Fed began to raise rates at the end of 2015 it took until the beginning of this year for it to start affecting markets. This should accelerate as we proceed through the 4th quarter.

Financial conditions can tighten through central bank rate increases, higher bond yields, equity market correction, credit selloff, or dollar strength. There is a high correlation between credit spreads and equity markets, so if tightening is driven by one of those two factors, the other wouldn't be far behind.



Source: Bloomberg

In fact, as you can see in the chart above, the S&P should be selling off already to "catch up" to financial conditions (S&P 500 is inverted in the chart).

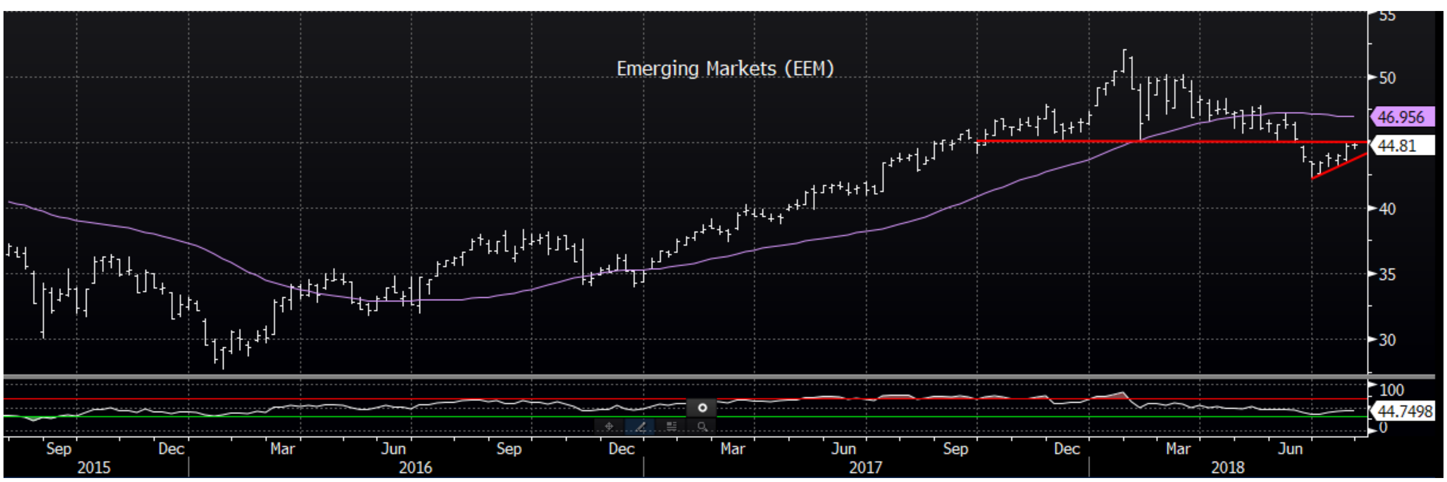
Global Equities

Most major global equity indices continue a consolidation pattern formed since the all-time high prices set toward the end of January. This period of uncertainty persists even after a nearly 4% return on the S&P 500 in the month of July. While the market rally is still intact, it is concerning that there have not been new highs for 6 months. This, paired with macroeconomic forces and low momentum, could support a correction in the near future.

Source: Bloomberg

The leaders during this 2-year rally have been the technology sector, which could be starting to show some cracks. With selloffs first in Netflix and followed by Facebook and Twitter, it may be time for another leader to emerge, especially if the broad market rally were to regain steam. This is not to suggest that technology stocks will correct, but that the best returns may come from outside the sector. Early candidates appear to be the defensive sectors, such as consumer staples and utilities. This could be more than coincidence, as such areas tend to outperform during general “risk-off” environments.

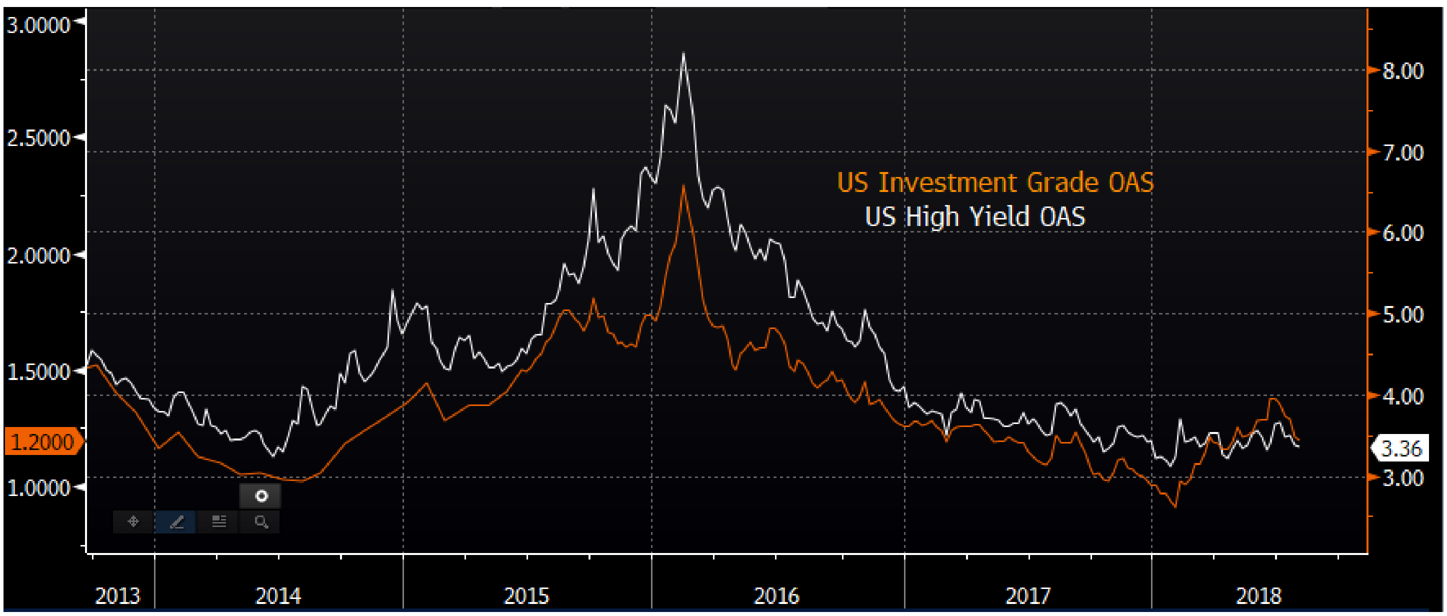
Emerging markets have rallied recently due to consolidation in the US dollar and relatively good news coming from tariff talks. It is far too soon to call the selloff complete, however, and adding to our short position on this retest is appealing. A previous support level becomes resistance after it’s breached, which appears to be happening now in the emerging market ETF (EEM).



Source: Bloomberg

Global Fixed Income & Cash

In line with our outlook of a Tale of Two Economies, we have reallocated portions of our Fixed Income portfolio to include slightly more credit exposure in exchange for greater potential total return for the next quarter or so. As credit spreads continue to tighten, credit risk appears to be manageable and worth taking. As always, liquidity is of the upmost importance when considering investment vehicles. If the "second economy" truly begins to take shape later in the year, we will be able to manage our credit exposure efficiently. We believe that credit spreads and the macroeconomic environment will provide adequate warning signs on when to take such action.

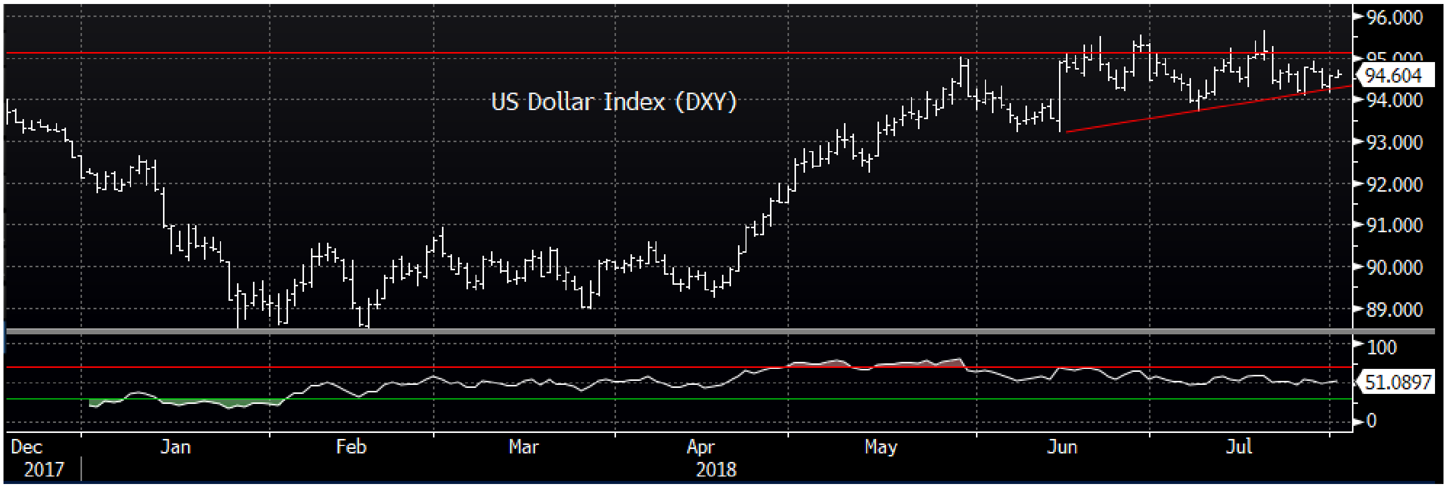


Source: Bloomberg

Our long-term outlook remains focused on higher interest rates globally. In the near-term, however, there remains the possibility that continued dollar strength and foreign bond buyers keep rates contained in the US. A breakout (either up or down) from the 2.80% - 3.00% in the 10-year Treasury could present a trading opportunity. Until then we will allow our fund managers to generate return in their given areas of specialty.

Global Real Assets

US dollar strength earlier in the year has led to consolidation for the last couple months. While we expect the dollar to continue its trek higher, the question remains as to when. This dollar complacency could continue until the 4th quarter but we do expect it to be the main driver of markets once the uptrend resumes. It is mainly for this reason that we remain hesitant on commodities in general, as large currency swings tend to dominate any supply and demand characteristics in the short-term.



Source: Bloomberg

On that note, we did exit our position in the silver ETF (SLV) earlier in the month. While silver remains a component of our inflationary outlook and is still undervalued relative to gold, the recent breakdown in price created unfavorable risk/return metrics so we will wait for a better reentry point.

CONCLUSION

It appears that market activity and volatility over the next few months is likely to continue throughout the 3rd quarter. While it is certainly possible for equity indices to set new highs, it is not our base-case scenario. The possibility, however, keeps us invested regardless of continued overvaluation in both equity and bond markets. We do believe that this story will begin to change into the 4th quarter as financial conditions continue to tighten.

It is important to keep in mind that the correlation between stocks and bonds typically becomes positive during times of market stress and selloffs. In such as environment, traditional hedging strategies will be challenged. Therefore, liquidity and flexibility of mandate become crucial to conserve principal and allow for upside return during such an environment.

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