RWM Monthly Market Commentary

February 2019

ReDefine Wealth Management

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Please contact us with any questions.

Market Performance Roundup *As of 01-31-2019*

ReDefine Wealth Management

W O R L D M A R K E T S

		1 MO.	4Q 2018	YTD	1 YR.	3 YR.	2018
Global Equities (USD, % chg.)	*MSCI All Country World (Total Return)*	7.93%	(12.65%)	7.93%	(6.98%)	12.22%	(8.93%)
	MSCI World (Total Return)	7.81%	(13.31%)	7.81%	(6.01%)	11.88%	(8.20%)
	MSCI EAFE (USD) (Total Return)	6.59%	(12.50%)	6.59%	(12.07%)	8.26%	(13.36%)
	MSCI Emerging Markets (Total Return)	8.76%	(7.39%)	8.76%	(13.90%)	15.30%	(14.24%)
Country Equities (Local, % chg.)	*Dow Jones Industrial Average (Total Return)*	7.29%	(11.31%)	7.29%	(2.19%)	17.75%	(3.48%)
	S&P 500 (Total Return)	8.01%	(13.52%)	8.01%	(2.31%)	14.01%	(4.38%)
	NASDAQ (Total Return)	9.79%	(17.29%)	9.79%	(0.68%)	17.74%	(2.84%)
	Russell 2000 (Total Return)	11.25%	(20.20%)	11.25%	(3.52%)	14.70%	(11.01%)
	Nikkei 225 Stock Average (JPY) (Total Return)	3.80%	(16.78%)	3.80%	(8.23%)	7.91%	(10.29%)
	STOXX Europe 600 Euro (Total Return)	6.35%	(11.52%)	6.35%	(6.08%)	5.09%	(10.22%)
	FTSE 100 (Total Return)	3.63%	(9.64%)	3.63%	(3.53%)	8.93%	(8.73%)
	DAX 30 (Total Return)	5.82%	(13.78%)	5.82%	(15.29%)	4.47%	(18.26%)
	Shanghai Composite	3.64%	(11.61%)	3.64%	(25.75%)	(1.90%)	(24.59%)
Global Fixed Income (USD, % chg.)	*Barclays Global Treasury (Total Return)*	1.40%	2.12%	1.40%	(0.77%)	2.88%	(0.38%)
	Barclays US Treasury (Total Return)	0.47%	2.57%	0.47%	2.73%	0.85%	0.86%
	Barclays Global Aggregate (Total Return)	1.52%	1.20%	1.52%	(0.88%)	2.92%	(1.20%)
	Barclays US Aggregate (Total Return)	1.06%	1.64%	1.06%	2.25%	1.95%	0.01%
	Barclays Global High Yield (Total Return)	4.39%	(3.49%)	4.39%	(1.03%)	8.65%	(4.06%)
	Barclays US Corporate High Yield (Total Return)	4.52%	(4.53%)	4.52%	1.73%	9.40%	(2.08%)
	S&P Leveraged Loan Index (Total Return)	2.55%	(3.42%)	2.55%	2.02%	5.95%	0.47%
	Barclays Emerging Markets (Total Return)	3.19%	(0.18%)	3.19%	0.82%	6.16%	(2.46%)
Real Assets (USD, % chg.)	*USD DXY*	(0.62%)	1.09%	(0.62%)	7.23%	(1.37%)	4.40%
	Dow Jones US Real Estate Index (Total Return)	11.45%	(5.97%)	11.45%	10.10%	9.60%	(4.03%)
	Bloomberg Commodity Index	5.45%	(9.41%)	5.45%	(8.23%)	2.66%	(11.25%)
	S&P GSCI Gold	3.43%	7.11%	3.43%	(1.33%)	5.88%	(2.14%)
	S&P GSCI Precious Metals (Total Return)	3.17%	7.05%	3.17%	(2.63%)	4.75%	(3.58%)

February 8, 2019: *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. It is designed to illuminate the process behind the implementation of investment decisions within ReDefine Wealth Management portfolios.

ReDefine Investing with *Global Thematic Active Asset Allocation*

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

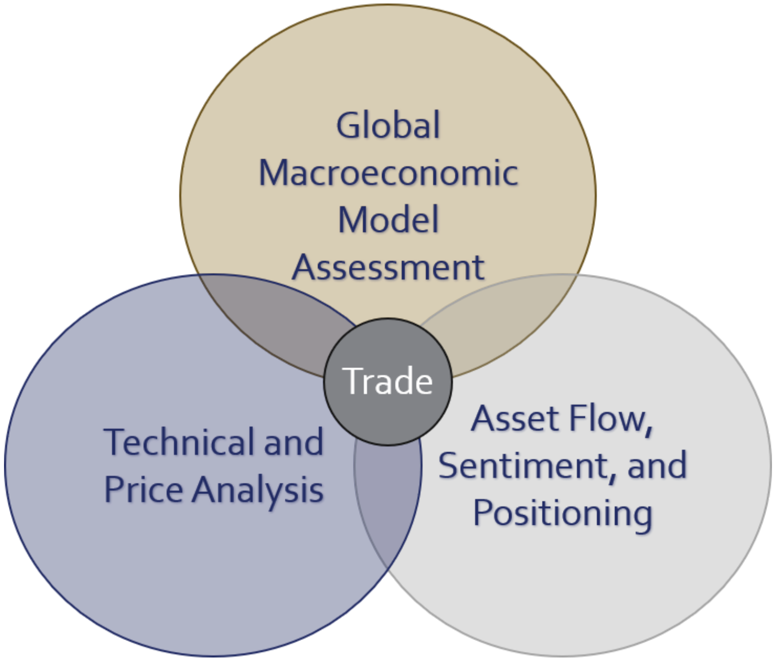
In order to facilitate portfolio success, ReDefine Wealth Management employs a Global Thematic Active Asset Allocation approach to our investment portfolios.

Our Global Macroeconomic Analysis provides the basis for attractive reward versus risk within global investment opportunities and helps to inform our Active Asset Allocation. We divide assets between the best opportunities that we can source within three primary portfolio components – *Global Equities, Fixed Income/Cash, and Real Assets*.

Like a traffic signal, Active Asset Allocation allows RWM to invest or overweight opportunities where we feel strongly (green light), avoid or underweight asset classes where we feel unconvinced or cautious (yellow light), and even take inverse positions when we feel strongly negative (red light).

Once the allocation is decided, we begin our investment selection to specifically choose the financial instruments we will use to implement our globally thematic strategic asset allocation. Our disciplined processes allow us to handpick and tactically manage highly-liquid financial instruments, such as: *ETFs, Mutual Funds, Stocks, Bonds, 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.



ReDefine Wealth Management's 2019 Market Outlook

Changing Tides

The beginning of 2019… was it really a mere month ago? By mid-January 2019, so much had changed in our yearly outlook that we decided not to publish it. Instead we have combined our 2019 Yearly Outlook with our February Monthly Market Commentary. Hopefully this will make sense as you read on.

What has changed?

The world as we know it, basically. Over the last few years, the most influential word in investing has been liquidity. When you peek behind the global economic curtain, you find that liquidity has often played a dominant role in asset price fluctuations. Think about it like this: when money is flowing into an asset the value tends to move up, and conversely when money is coming out of an asset the price tends to go down. As anyone who reads ReDefine's MMC can tell you, we believe in the power of Global Macroeconomics and its almost heavy-handed influence over asset prices. Hence, we are keen followers of Fed policy here in the US, and global central bank policies abroad. And we use the data to extrapolate opportunity from the minutiae.

Our 2019 Market Outlook began easily enough and centered around liquidity. In a speech a few years back, a man who has been called "The Greatest Money Manager Alive", Stan Druckenmiller, singled out specifically what he believes to be the most important factor behind the returns in risk assets, namely the stock market:

"Earnings don't move markets; it's the Federal Reserve Board… focus on the central banks and focus on the movement of liquidity… most people in the market are looking for earnings and conventional measures. It's liquidity that moves markets."

We tend to agree, so understanding these liquidity decisions and how the central banks implement their policies should provide us with some insight as to what to expect from the markets going forward. It sounds simple enough, but central banks can make it very confusing for everyone, even themselves.

The Federal Reserve Board and central banks have a handful of tools at their disposal to add or subtract liquidity into and from the markets. In reality they have primarily used just two of those tools over the last decade: Adjusting Interest Rates and Adding / Sub-

Our four major ***Global Investment Themes*** *and general market assumptions for 2019*

Volatility and Global Political Unrest Will Continue to Rise

Commodity Prices Will Rise and the US Dollar Will Begin to Decline

US Interest Rates and Global Inflation Will Move Sideways

Balance Sheets Matter - i.e. Value Over Growth, Quality Over Credit

ReDefine Wealth Management's 2019 Market Outlook (cont.)

-tracting Money (Quantitative Easing/Tightening). After the 2008-2009 Financial Crisis, the Fed lowered their key interest rate to 0%, and then embarked upon the first of three QE programs within a 5-year period. These policies added $3.5 trillion to the Fed balance sheet and helped double the US national debt to nearly $20 trillion.

Tightening liquidity has led to higher equity volatility in the recent past.

Our views in late 2018, revolved around the volatile, and potentially tectonic-shifting, effects of the Fed's unwavering mission to tighten liquidity in the US. At the time, all major US Equity Indexes had officially gone into a bear market territory, after an ugly 4th quarter that saw markets plummet almost 20% from recent highs. We were led to believe that the Fed was to continue tightening liquidity through their policies of increasing interest rates, if only a couple times, instead of the original discussion of four hikes, and with $50 billion/month reduction of the Fed balance sheet (QT).

Historically, Powell was a big proponent of, and committed to, "normalizing" interest rates and the balance sheet. Which in layman's terms meant getting short-term interest rates back over 4% and the balance sheet back down to under $1 trillion. Those levels have not been seen since before the Financial Crisis of 2008-2009. And more importantly, Fed Chair Powell assured Congress and the public they were continuing the reduction of the $4.5 Trillion on their balance sheet.

"We came to the decision that we would have the balance sheet run-off on automatic pilot and use rate policy as the active tool of monetary policy. I don't see us changing that."

\- Fed Chair **Jerome Powell,** *December 19, 2018*

Many of our readers have become familiar with Exhibit 1, which attempts to illustrate the recent correlation of central bank liquidity – shown through periods of QE and QT - and the rising and falling of US Equity Markets – i.e. volatility. The three QE events that are highlighted in green, show that equity prices (purple line) generally moved up with the balance sheet (white line), with seemly high correlation. Interestingly, the periods between and after the QE periods saw markets generally move down or sideways. As QT began roughly 18-months ago it brought with it an increase in market volatility and palpable downside potential – as expected.

Exhibit 1 ***Source: MI2 Partners, Bloomberg***

ReDefine Wealth Management's 2019 Market Outlook (cont.)

Given Powell's most recent comments and his history of wanting to change the policies of his predecessors, it was believed that the US equity markets were in for a "QT sponsored" bumpy ride in 2019, or at least until Powell can get short-term rates much higher and the balance sheet much lower.

Perhaps we should have been listening to someone else?

You see, outside of leaked recordings of President Nixon asking Fed Chairman Burns to keep an easy money policy in 1972, in the subsequent 47 years, there has been virtually no public rebuke of a Fed Chair. Until President Donald Trump. During the first couple weeks of 2019, as we were planning to send out our 2019 Market Outlook, we began to hear whispers that the Fed was contemplating a complete 180 regarding QT. Meaning that it was becoming a possibility that the President's repeated criticism of Fed policy and his badgering of Chairman Powell personally, *may have had the unintended consequence of forcing the Fed to raise rates to demonstrate their independence from political interference.* When they announced a 25-basis point increase at their last meeting on December 19, 2018, the Fed justified the increase based on current economic data and their outlook, but this was nonetheless poorly received by the stock market and the President.

We may never know the truth about why the Fed decided to change course, but what started as whispers turned into audible rumbling that unfolded throughout January and forced ReDefine Wealth Management to rapidly adjust course regarding our 2019 Market Outlook, and more importantly regarding our investment portfolio stance when on January 30, 2019, when Chairman Powell stated:

"The Federal Reserve may wind down its gradual asset-shedding operation sooner than thought, leaving the US Central Bank with a bigger balance sheet than earlier participated."

A far cry from "run-off on auto-pilot" statement made 45 days prior! Powell's statement was the Fed equivalent of a Kim Jong-un missile test, i.e. a little scary, totally unexpected, but it just might assure his regime's survival. That is too dramatic of a statement, however most were expecting a potentially dovish comment, not a complete reversal of course. Investors may be happy with the market's reaction and this sudden bullish upturn, but this quick return to a dovish Fed begs the question:

What's really going on?

Did the Fed simply cave to political pressure? Was the auto-pilot comment just a "rookie mistake" from the new Fed Chair? Was it market-related pressure? Or, and this is the most foreboding of options, is there something much worse lurking under the economic surface that only the Fed is privy to? Unfortunately, at this point we can only speculate; however, time will tell.

Bringing this all together, we foresee a tricky year ahead for investors. Our outlook is for decent equity returns, with risks and volatility. Bond returns should be positive, though credit markets look vulnerable in places. In the absence of a strong directional stock market call, our focus shifts to alpha and cash. *Our 2019 Market Outlook favors high-quality equities and bonds, US and EM equities, value over growth, active versus passive, and real asset strategies.*

The world enters 2019 with changing tides and multiple divisions, but many of these issues are fixable, especially the trade issues between the US and China as well as a resolution to Brexit. Outside the US we see some attractive opportunities and prospects for improved political stability.

Fundamental Global Macroeconomic Backdrop

As stated previously through Stan Druckenmiller, *"It's liquidity that moves markets".* If by chance you doubt this to be true, please look at 2018, a spectacular year of corporate earnings buoyed by Trump's corporate tax cut, and the best year of economic growth in the U.S. since 2005 – currently estimated at 3%. Yet global equities suffered a major rout in the first and fourth quarters. In fact, all but four of the twenty-six global asset classes that we actively follow posted negative returns in 2018.

Policy impact? The Fed was raising rates and allowing $50 billion / month to "run-off" of the Fed balance sheet in 2018. Since Christmas Eve the US Equity markets have been in a steady upward climb. What has happened? First, the European Central Bank (ECB) did not slow down their QE policy as they stated they would in December, and now have expanded their balance sheet to over $4.7 Trillion. Japan's Central Bank (BOJ) reversed their tightening policy back to QE around Christmas, and China has injected the equivalent of a couple trillion dollars into their markets over the last few weeks. As much as we talked about the Fed and Powell reversing their policy stance, they have not taken any actions… yet. But can the Fed continue to "sweet talk" the markets without raising rates? The markets would suggest the answer is no - *Exhibit 2*. Fed sweet talk in combination with the liquidity boost provided by our global Central Bank friends has helped to reverse one of the worst monthly stock market drops since the depression (Dec 2018).

As February arrives one thing is for sure, we are seeing a dramatic global slowdown as global GDP is dropping precipitously -*Exhibit 3*. This GDP slowing is easy to comprehend, with declining economic numbers out of China, Japan, and Europe, coupled with slowing here in the US. Germany recently announced that their estimated GDP growth will be well under 1.5% for 2019. And there are whispers of Germany teetering on recession. Italy recently entered a recession with negative interest rates - which has never been seen before. France has been dealing with a significant slowdown fueled by their nationwide protests, and Brexit has become the unwanted guest that just won't leave England.

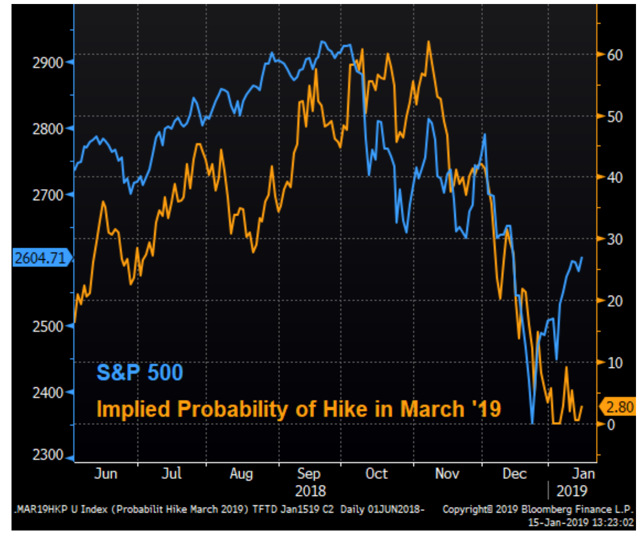


Exhibit 2 ***Source: MI2 Partners, Bloomberg***

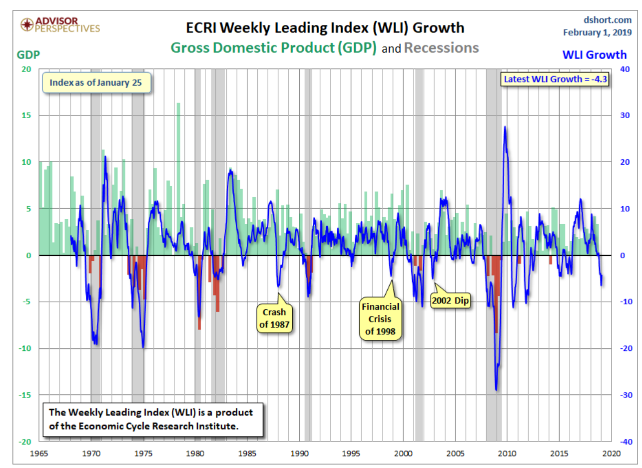


Exhibit 3 ***Source: Advisor Perspectives as of 2/1/1019***

Fundamental Global Macroeconomic Backdrop (cont.)

Here in the US, we have seen an almost magical bounce in equities, however we have found it difficult to discern what macroeconomic or fundamental aspects have improved since December. When compared to the *Trump Tax Act Liquidity Earnings Bump* of the second and third quarters 2018, earnings growth for US equities have been more than cut in half for 4Q 2018. Thus far 1Q 2019 earnings guidance is implying negative growth and the macroeconomic numbers for the US have continued their downward trajectory that began in earnest in the 4Q - *Exhibit 4.* And all the while, the longest government shutdown in our history, although "concluded" should have a negative impact on 1Q GDP.

When looking at our asset class outlook for February specifically, and 2019 in general, it is predicated upon the weakening of the US dollar that we expect to see due in large part to the Fed's liquidity policy. We expect these policy actions to increase liquidity into the US economy in order to narrowly avoid a recession in 2019. As mentioned above, they have not acted upon these policies yet, but we do expect them stop QT at some point this year, and we believe that the Fed is actually more likely to cut rates in 2019 then raise them as expected.

Certain macro and Fed moves will be the signals we use make portfolio adjustments and capitalize upon a weakening US dollar. The weakening dollar will have dramatic impact on certain asset classes and sectors of the US economy, as well as in certain economies around the world.

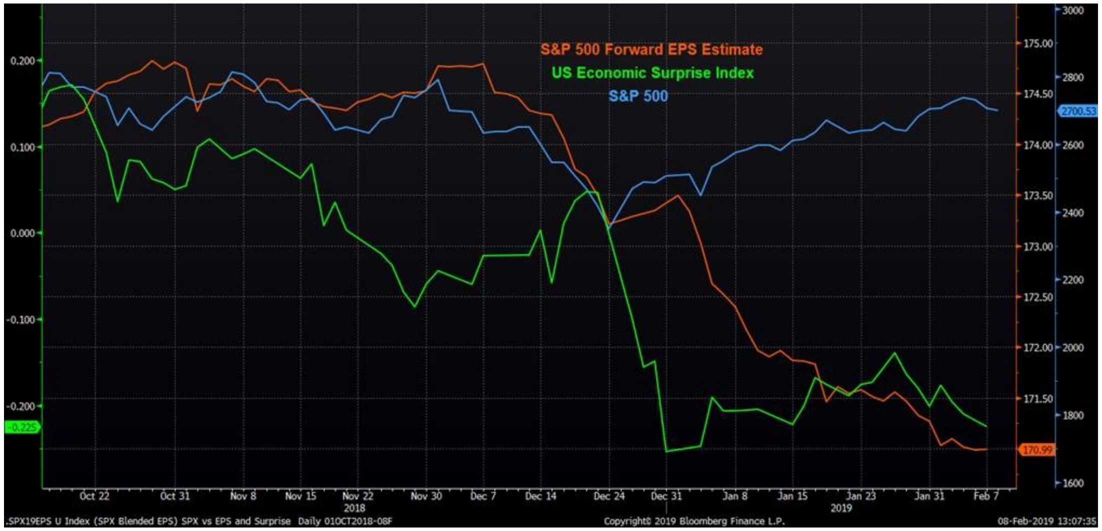


Exhibit 4 ***Source: MI2 Partners, Bloomberg***

Global Equities

We believe the current bounce in the equity markets is likely to be a bear market rally based upon the current negative earnings growth rates, weakening global macro-economic fundamentals, and poor equity flows into mutual funds and ETFs by retail investors.

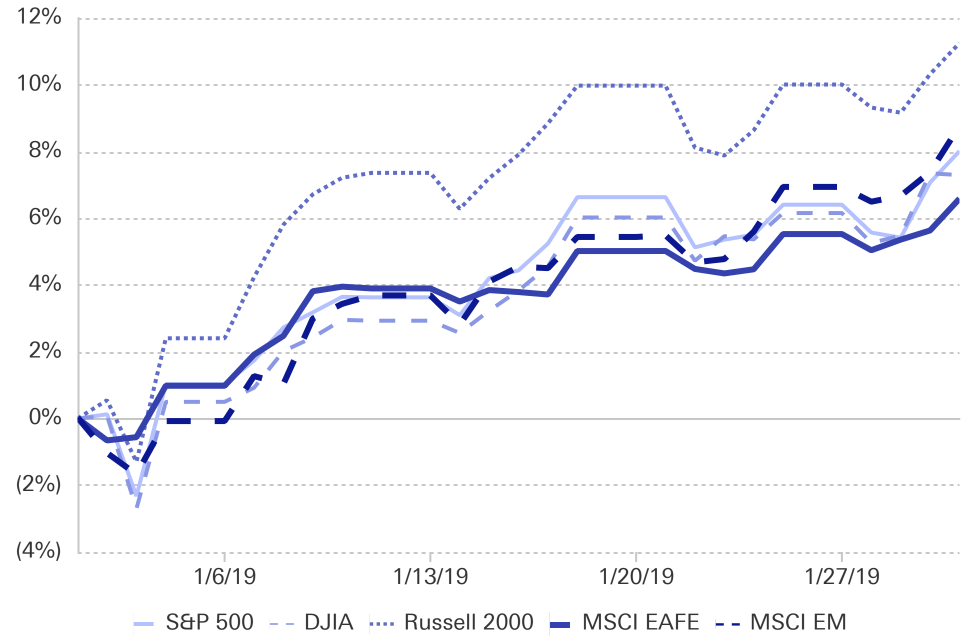
Typically, bull market rallies are not built with the current backdrop, especially factoring in issues in China, Europe, and Japan. Therefore, we are prepared for a pullback or an extended sideways move from these levels. Eventually, we believe the Fed will stop QT and most likely interest rates, thus providing an additional boost to US markets and further impetus to weaken the dollar. Currently we are finding a dearth of opportunity in the international equity markets of Europe and Japan.

However, we do see potential sprouts of life within Emerging and Frontier market equities. If the US Dollar weakens as we expect, these opportunities will become increasingly attractive.

For now, we remain enamored with US Equities – primarily those of large, value-oriented, solid balance sheet companies.

Based on what the Fed has done in January, announcing their willingness to provide liquidity on demand, and if we merely see some reasonable resolutions to these geopolitical issues, we expect 2019 could be a rewarding year for equity investors who are prepared for a volatile ride.

Year-to-Date Global Equity Performance



	CURRENT PERIOD	2018
S&P 500 Index (TR)	8.01%	(4.38%)
Dow Jones Industrial Average (TR)	7.29%	(3.48%)
Russell 2000 Index (TR)	11.25%	(11.01%)
MSCI EAFE Index (TR)	6.59%	(13.36%)
MSCI Emerging Markets Index (TR)	8.76%	(14.24%)

Global Fixed Income & Cash

Our 2019 bond outlook is that bond returns should be positive, though the upside has fallen with recent market moves, and the credit markets look vulnerable in places. We believe it is prudent to continue to invest in high quality, short duration US bonds. As the year moves forward, we're inclined to believe shorter-term trading opportunities will present themselves in the US and potential longer-term entry points for emerging market bonds, i.e. once the US Dollar begins its decline.

Also, we will keep a close eye on the US corporate credit markets which could become troublesome as the year progresses. Buybacks have been one the biggest drivers of earnings and stock prices since the Financial Crisis. Exhibit 5 illustrates the S&P 500 performance in relation to corporate buybacks (the white line), again against the backdrop of the Fed's balance sheet (the green line). Buybacks are when companies "buy back" their own stock. US corporations have leaned on the selling of "cheap" debt (created by very low interest rates) to the markets and using the proceeds to buy back their own equity. In some ways this transaction helps to boost earnings and their stock prices, but in other ways, it may potentially be flooding the credit markets with debt that is inaccurately rated higher than it should be... *What could happen?*

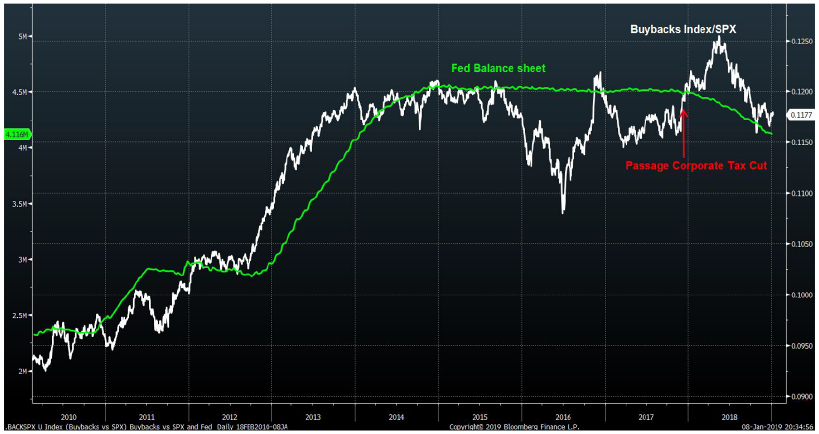
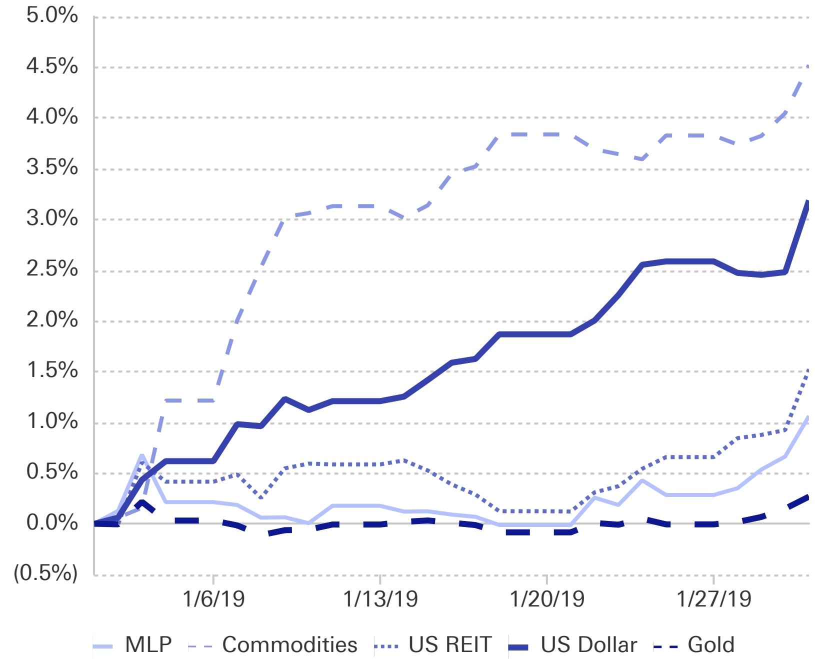


Exhibit 5 ***Source: MI2 Partners, Bloomberg***

Year-to-Date Global Bond Performance



	CURRENT PERIOD	2018
Barclays US Aggregate Bond Index (TR)	**1.06%**	**0.01%**
Barclays US Corporate High Yield Bond Index (TR)	**4.52%**	**(2.08%)**
Barclays Global Aggregate Bond Index (TR)	**1.52%**	**(1.20%)**
Barclays Emerging Market Bond Index (TR)	**3.19%**	**(2.46%)**
Barclays 1-3YR US Treasury Index (TR)	**0.27%**	**1.56%**

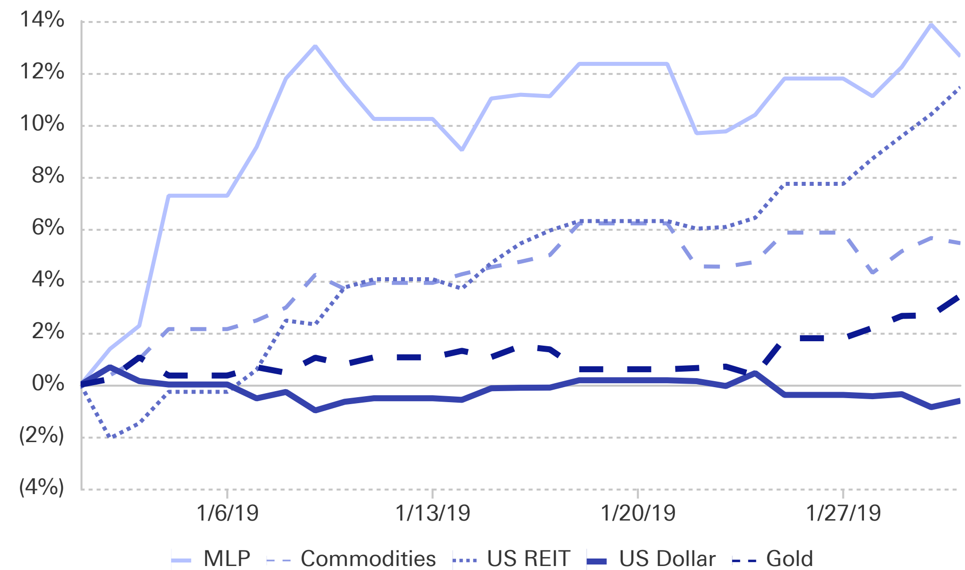
Global Real Assets & Alternatives

We believe Fed policy has the real potential to kickstart a reflation trade in the US. If/when that trade happens, the declining US Dollar should make Real Assets a very inexpensive asset class in a fortuitous position.

Commodities could provide investors a great place to pick up some outperformance.

We believe that in January we found some decent long-term investment entry points within certain precious metals. We are cautiously, optimistic on the Real Asset space in 2019 and we are excited to see renewed interest in a part of the global markets that we have had to ostensibly avoid for the past couple years.

Year-to-Date Global Real Asset Performance



	CURRENT PERIOD	2018
Alerian MLP Index (TR)	12.64%	(12.42%)
Bloomberg Commodity Index (TR)	5.45%	(11.25%)
Dow Jones US REIT Index (TR)	11.45%	(4.03%)
Emerging Market Bond Index (TR)	(0.62%)	4.40%
GSCI Gold Index (TR)	3.43%	(2.14%)

Conclusion

Bringing this all together, we foresee a tricky year ahead for investors. Our outlook is for decent equity returns, with risks and volatility. Bond returns should be positive, though credit markets look vulnerable in places. In the absence of a strong directional stock market call, our focus shifts to alpha and cash.

Our 2019 Market Outlook favors high-quality equities and bonds, U.S. and EM equities, value over growth, active versus passive, and real asset strategies.

The world enters 2019 with changing tides and multiple divisions, but many of these issues are fixable, especially the trade issues between the U.S. and China as well as a resolution to Brexit. Fortunately, we have some outstanding companies in the U.S. with business models that should endure beyond the current battles in D.C. Outside the U.S. we see some attractive opportunities and prospects for improved political stability. Despite the Fed's unprecedented interference at the end of January, we believe that we have found solid footing on our journey toward mastering global Fed-Speak and the connection between liquidity and asset price fluctuations.

*Our four major **Global Investment Themes** and general market assumptions for 2019*

Volatility and Global Political Unrest Will Continue to Rise

Commodity Prices Will Rise and the US Dollar Will Begin to Decline

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Balance Sheets Matter - i.e. Value Over Growth, Quality Over Credit

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The standard deviations, information ratios and allocation targets may be higher or lower at any time. There is no guarantee that these measurements will be achieved. The information provided should not be considered a recommendation to purchase or sell a particular security. Any specific securities identified do not represent all of the securities purchased, sold or recommended for advisory clients, and may be only a small percentage of the entire portfolio and may not remain in the portfolio at the time you receive this report.

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