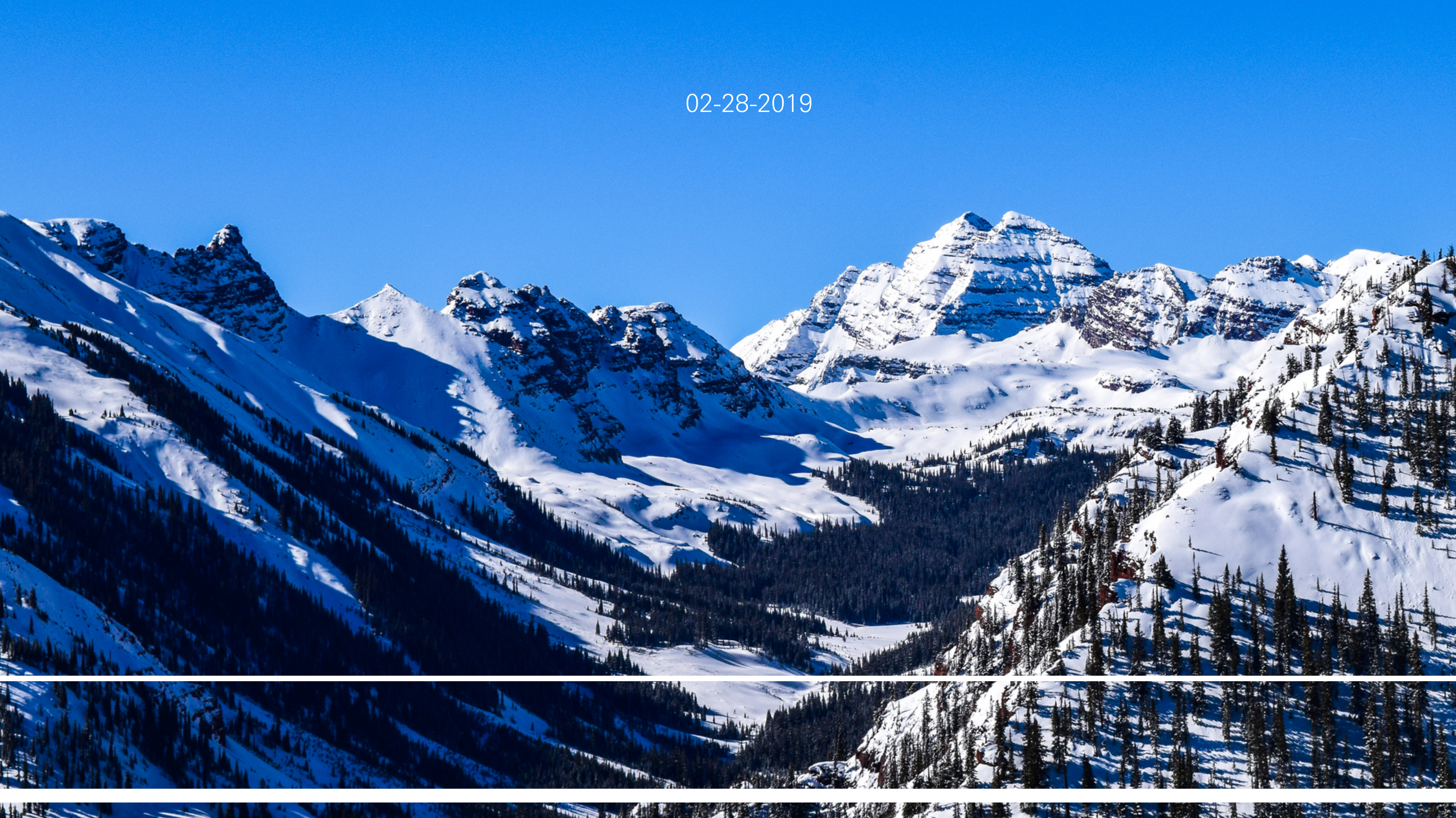
ReDefine Wealth Management's Monthly Market Commentary



ReDefine
Wealth Management

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Please contact us with any questions.

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WORLD MARKETS

		1 MO.	Q1 19	YTD	2018	1 YR.	3 YR.
Global Equities (USD, % chg.)	*MSCI All Country World (Total Return)*	4.80%	10.86%	10.86%	(8.93%)	(0.30%)	13.32%
	MSCI World (Total Return)	5.13%	11.11%	11.11%	(8.20%)	1.00%	13.09%
	MSCI EAFE (USD) (Total Return)	4.07%	9.32%	9.32%	(13.36%)	(5.57%)	9.85%
	MSCI Emerging Markets (Total Return)	2.37%	9.02%	9.02%	(14.24%)	(9.54%)	15.47%
Country Equities (Local, % chg.)	*Dow Jones Industrial Average (Total Return)*	6.04%	11.62%	11.62%	(3.48%)	5.95%	18.73%
	S&P 500 (Total Return)	5.60%	11.48%	11.48%	(4.38%)	4.68%	14.95%
	NASDAQ (Total Return)	6.48%	13.74%	13.74%	(2.84%)	4.71%	19.27%
	Russell 2000 (Total Return)	7.06%	17.03%	17.03%	(11.01%)	5.58%	16.53%
	Nikkei 225 Stock Average (JPY) (Total Return)	3.65%	6.93%	6.93%	(10.29%)	(1.10%)	11.86%
	STOXX Europe 600 Euro (Total Return)	5.49%	10.78%	10.78%	(10.22%)	1.68%	7.57%
	FTSE 100 (Total Return)	5.65%	6.01%	6.01%	(8.73%)	2.15%	9.46%
	DAX 30 (Total Return)	2.72%	9.06%	9.06%	(18.26%)	(7.40%)	6.57%
	Shanghai Composite	13.24%	17.93%	17.93%	(24.59%)	(9.77%)	2.05%
Global Fixed Income (USD, % chg.)	*Barclays Global Treasury (Total Return)*	(0.42%)	0.39%	0.39%	(0.38%)	(1.39%)	1.57%
	Barclays US Treasury (Total Return)	0.33%	0.20%	0.20%	0.86%	3.23%	0.49%
	Barclays Global Aggregate (Total Return)	0.09%	0.94%	0.94%	(1.20%)	(0.57%)	2.05%
	Barclays US Aggregate (Total Return)	0.65%	1.00%	1.00%	0.01%	3.17%	1.74%
	Barclays Global High Yield (Total Return)	2.21%	5.84%	5.84%	(4.06%)	1.76%	9.05%
	Barclays US Corporate High Yield (Total Return)	2.43%	6.26%	6.26%	(2.08%)	4.31%	10.00%
	S&P Leveraged Loan Index (Total Return)	1.63%	4.18%	4.18%	0.47%	3.44%	6.74%
	Barclays Emerging Markets (Total Return)	1.50%	4.01%	4.01%	(2.46%)	3.03%	6.03%
Real Assets (USD, % chg.)	*USD DXY*	0.43%	(0.02%)	(0.02%)	4.40%	6.12%	(0.68%)
	Dow Jones US Real Estate Index (Total Return)	3.37%	12.36%	12.36%	(4.03%)	18.94%	10.12%
	Bloomberg Commodity Index	2.12%	6.51%	6.51%	(11.25%)	(5.67%)	3.79%
	S&P GSCI Gold	0.52%	2.72%	2.72%	(2.14%)	(0.14%)	2.55%
	S&P GSCI Precious Metals (Total Return)	0.54%	2.38%	2.38%	(3.58%)	(1.29%)	1.62%

March 4, 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 Global Thematic Active Asset Allocation Portfolios.***

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.

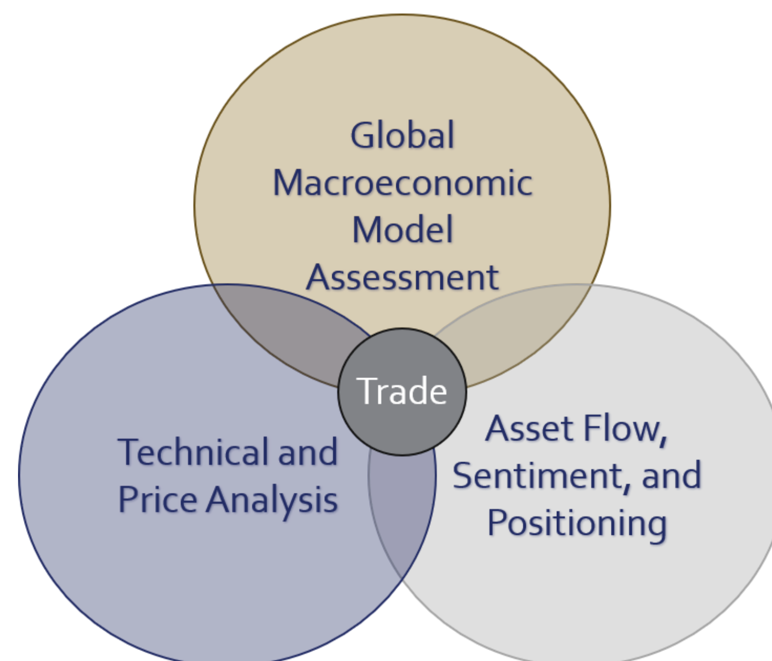
Our Global Macroeconomic Analysis provides the basis for attractive reward versus risk within global investment opportunities and helps to inform our Active Asset Allocation. We divide assets between the best opportunities that we can source within three primary portfolio components – *Global Equities,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

Global Thematic Active Asset Allocation

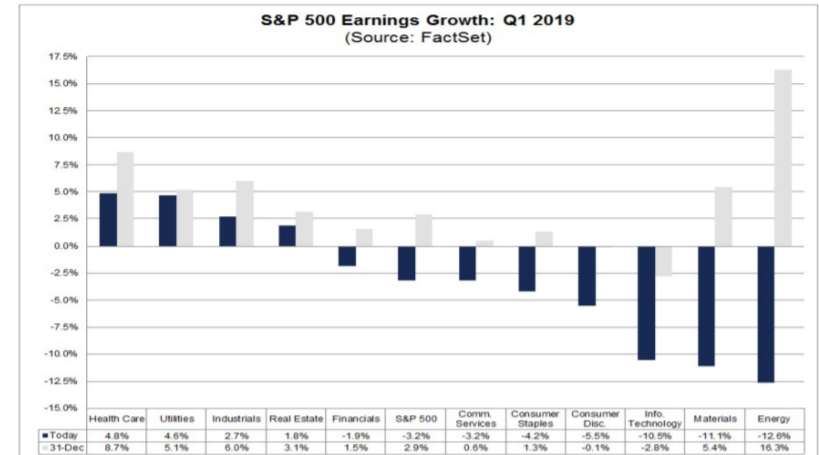


ReDefine Wealth Management

Fundamental Global Macroeconomic Backdrop

Our February Monthly Market Update highlighted the impact that market liquidity, provided by Fed Chairman Jerome Powell and his band of central bankers, has on market performance, and what were the potential causes of their 180-degree policy reversal. We openly opined,

"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?"



	Health Care	Utilities	Industrials	Real Estate	Financials	S&P 500	Comm. Services	Consumer Staples	Consumer Disc.	Info. Technology	Materials	Energy
Today	4.8%	4.6%	2.7%	1.8%	-1.9%	-3.2%	-3.2%	-4.2%	-5.5%	-10.5%	-11.1%	-12.6%
31-Dec	8.7%	5.1%	6.0%	3.1%	1.5%	2.9%	0.6%	1.3%	-0.1%	-2.8%	5.4%	16.3%

***Exhibit 1** The gray bars illustrate S&P 500 Earnings Growth Estimates as of 12/31/2018. The blue bars represent S&P 500 Earnings Growth Estimates as of 2/28/2019. Source: FactSet, 3/1/2019*

We believe we now have a much better idea of the dataset that caused central bankers to quickly and dramatically shift US monetary policy in late January. Starting at home in the US, we have seen a continuation of lowered US corporate earnings forecasts and it appears that we will most likely print a negative earnings growth number for the first quarter of this year. Exhibit 1. A negative GDP number will add to the rapidly increasing number of market pundits voicing the possibility of an earnings recession. At the end of January, the Atlanta Fed's US GDP forecast for the 1Q 2019 was a moderately robust 2.75%. One very short month (i.e. February) later, they dramatically revised that forecast down to just 0.3%. Exhibit 2. This large of a forecast revision will only serve to add volume to the earnings recession chorus.

When we consider weakening US corporate earnings and GDP forecasts in the context of continuing weakening of the economic numbers coming out of Europe, Japan, and China, we see a complicated economic back-drop for global markets to fight. In many measurable ways, it appears as if the US-led global economy might not be humming on all cylinders. If you believe that every cloud has a silver lining, the Fed may have provided one in the minutes released on February 20, 2019. The Fed gave a rare peak behind the curtains and a big hint as to what they were (and are still) watching,

"(FED) Participants agreed that it was important to continue to monitor financial market developments and assess the implications of these developments for the economic outlook."

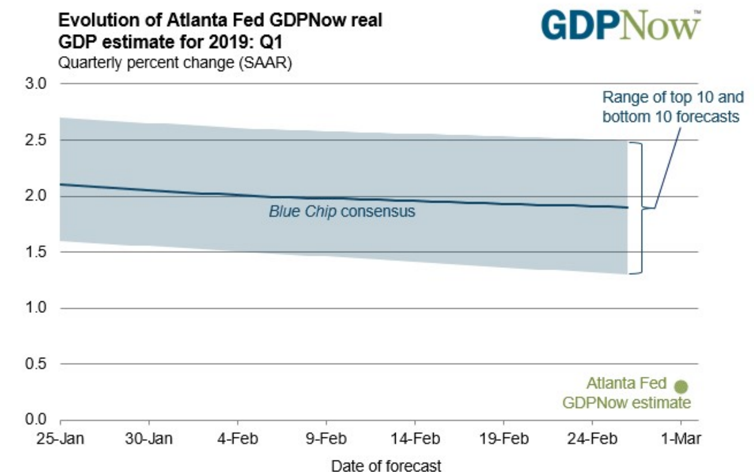


Exhibit 2 Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Note: The top (bottom) 10 forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

In other words, if the markets go down to a degree that could turn the economy over, the Fed is prepared to take aggressive action to support equity prices. Which we understand to mean cutting interest rates or stopping (and

Fundamental Global Macroeconomic Backdrop (cont.)

eventually reversing) the balance sheet run-off. Another way to put it is that the US Federal Reserve Board has become a hostage to the equity market. Of course, equity markets love Fed certainty, especially when it means that policy "has their back" as it were - regardless of the disappointing economic conditions in the US and around the globe. When you combine the Fed support for equities through potential liquidity injections, with the never-ending US/China trade deal hype, we see positive returns for US equities.

However, we should not expect smooth sailing throughout the year. Bull-markets are rarely built on poor economic fundamentals and expensive valuations. *We believe markets will experience some volatility and perhaps a retest of the December 24th lows at some point this year.* The good news is that the Fed has already shown their hand by expressing their willingness to use interest rate cuts and end Quantitative Tightening (QT) early if need be. We would expect them to use these measures at any sign of the market potentially leading us into a recession. Of course, the Fed taking action would lead to what we believe is the best opportunity of 2019, the "reflation trade" which we outlined in our February and 2019 Outlook.

A special note regarding potential global market risk…

The real outlier is the much-ballyhooed European melodrama affectionately known as Brexit. As a refresher, for the UK to leave the EU it had to invoke Article 50 of the Lisbon Treaty which gives the two sides two years to agree to the terms of the split. Theresa May triggered this process on March 29, 2017, meaning the UK is scheduled to leave at 11pm UK time on Friday March 29, 2019. A European court has ruled that the UK can decide to halt the process and stay in the EU at any time up to the deadline. Alternatively, the process can be extended if all 28 EU members agree. But at the moment all sides are focusing on that date as being the key one, and Theresa May has put it into British law. Stopping Brexit would require a change in the law in the UK, something neither the government nor the main UK opposition parties want to do at this point. *The EU might agree to extend Article 50 if its leaders thought it would help smooth the process or if there was a chance the UK could end up staying in, possibly through another referendum, but it would only be by a few months.* Some government ministers have also been talking about asking the EU for an extension of a few weeks to get all the necessary legislation through Parliament.

If the UK decides to opt for the so-called no-deal Brexit. The UK would sever all ties with the EU with immediate effect, with no transition period and no guarantees on citizens' rights of residence. Interestingly, the UK is made up of England, Scotland, Wales, and Northern Ireland, not Ireland, which is a member of the EU. Those of us who remember life before the late 80's need look no further than the lyrics of U2's Sunday, Bloody Sunday (or any song by the Cranberries) to remember what a total disaster checkpoints between Ireland and Northern Ireland were.

The government fears the no-deal Brexit would cause significant disruption to businesses in the short-term, especially at the channel ports, as drivers face new checks on their cargos. Food retailers have warned of shortages of fresh produce and the National Health Service (NHS) is stockpiling medicines, in case supplies from EU countries are interrupted. Government ministers and multinational companies with factories in the UK have also warned about the long-term impact on the British economy. We agree that no-deal Brexit should not be an option.

We remain of the opinion that, to borrow a US expression, the UK will kick the can down the road and find some way to delay the March 29, 2019 deadline, however the risk to markets is worth noting.

Global Equities

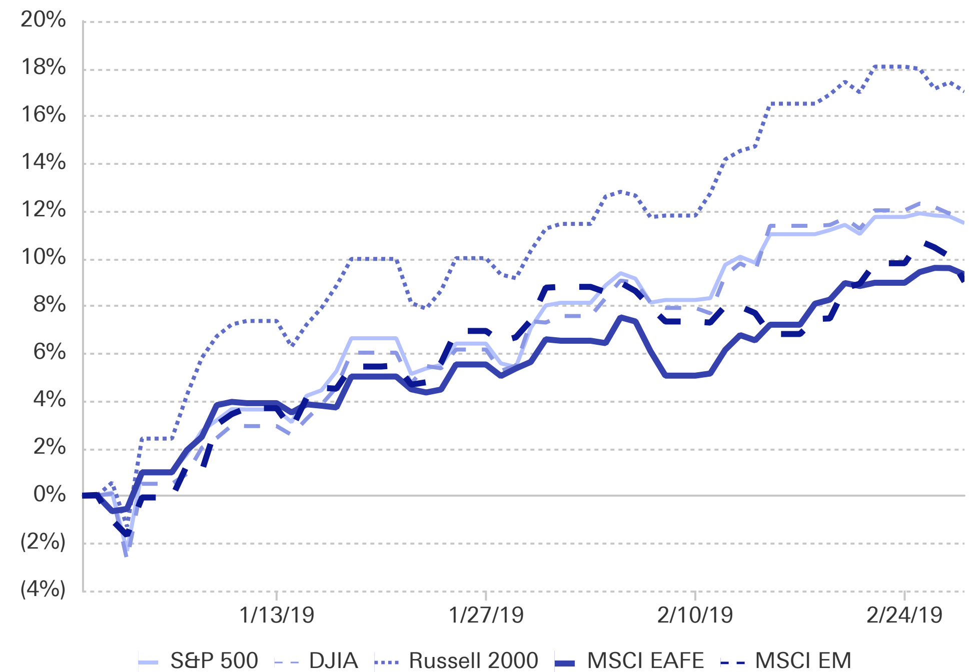
Given the abundance of poor earnings data in the US, and mediocre economic data abroad, combined with historically high valuations, we tend to believe the global equity markets are vulnerable to potentially dramatic corrections in the near future.

We maintain the belief that the US equity markets are experiencing a "Bear-Market Rally".

However, as stated previously, we are encouraged to be relatively bullish by the current Fed stance on possible interest rate cuts and/or ending QT when or if needed to prevent a violent market drop from getting out-of-hand. Keep an eye out for the Fed's actual reaction if these foreshadowed events come to fruition. Such Fed actions may provide us with opportunities to move into areas of potentially dramatic outperformance.

We are currently investigating probable investments designed to benefit from US Dollar weakness, such as: materials, emerging markets, and frontier markets.

Year-to-Date Global Equity Performance



	YTD	2018
S&P 500 Index (TR)	11.48%	(4.38%)
Dow Jones Industrial Average (TR)	11.62%	(3.48%)
Russell 2000 Index (TR)	17.03%	(11.01%)
MSCI EAFE Index (TR)	9.32%	(13.36%)
MSCI Emerging Market Equity Index (TR)	9.02%	(14.24%)

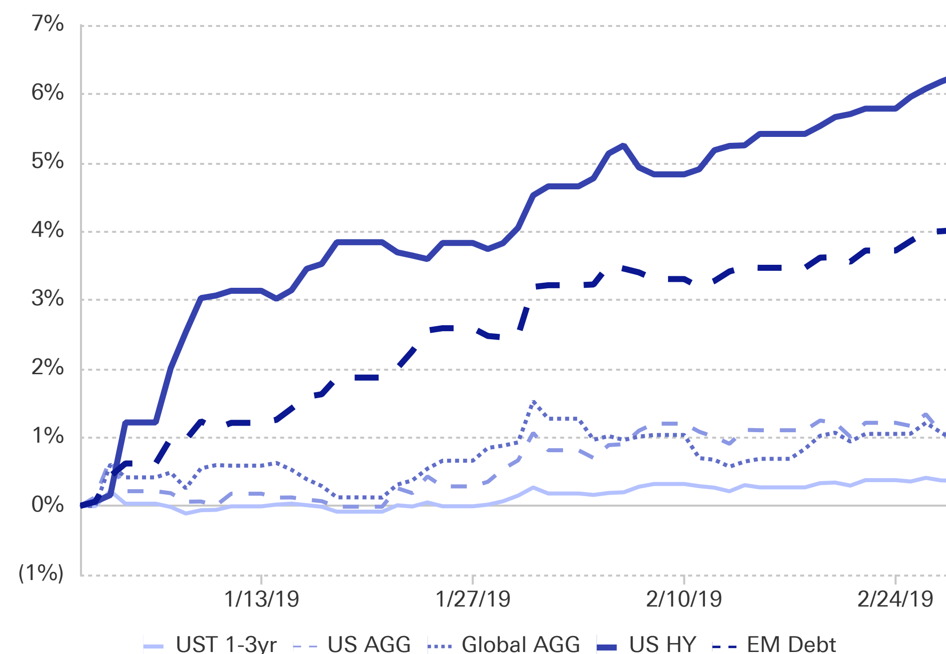
Global Fixed Income

We see the fixed income similarly to equities in that things could change in sectors of the market that are influenced by changes in Fed Policy and a weakening US Dollar.

We maintain our portfolios positioned in higher quality issuance, and with a lean towards the under 5-year maturity positions, as we believe that stance to provide a solid – although not flashy - foundation for the year to come.

However, we are finding opportunities in Emerging Market Debt, as well as other fixed income positions that can take advantage of interest rates going up on the long-end of the curve. Once a potential reflation trade is triggered, we should be poised to move into these sectors with little delay.

Year-to-Date Global Fixed Income Performance



	YTD	2018
US 1-3 YR Treasury Index (TR)	**0.36%**	**1.56%**
US Aggregate Bond Index (TR)	**1.00%**	**0.01%**
Global Aggregate Bond Index (TR)	**0.94%**	**(1.20%)**
US Corporate High Yield Bond Index (TR)	**6.26%**	**(2.08%)**
Emerging Market Bond Index (TR)	**4.01%**	**(2.46%)**

Global Real Assets

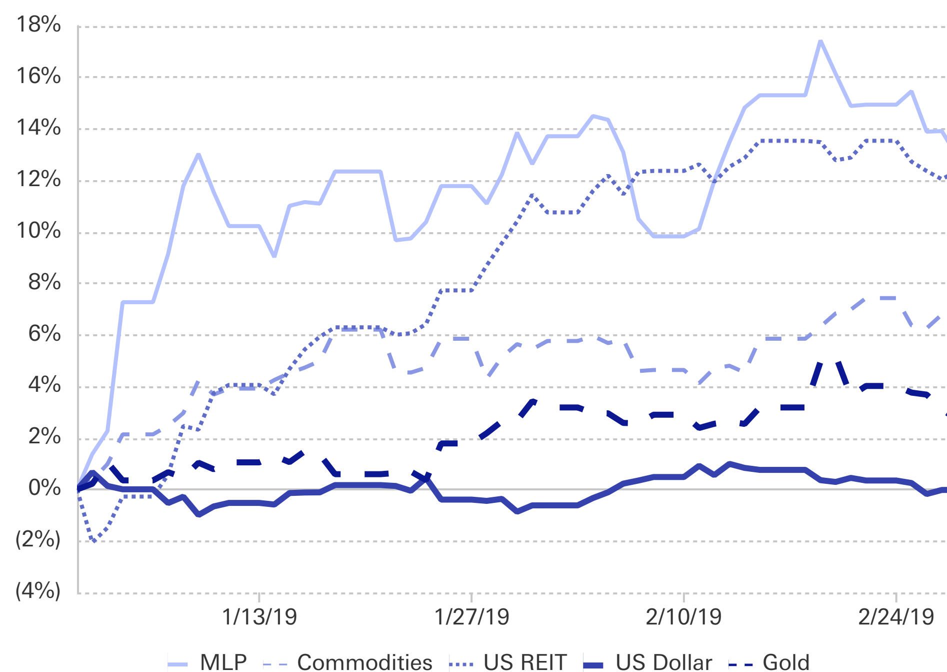
No part of the investment universe could benefit more from a reflation trade than the commodity sectors. Earlier in the year, we began to position our portfolios for the longer-term into small, select holdings in these areas, however we continue to vet additional positions.

Secular changes don't happen quickly, but when they happen, they foster trades that tend to be long-term in nature.

As such, we must be patient and wait until we see the US Dollar rollover. That stated, there is always a chance that the US Dollar could strengthen over the coming months. Real Assets also tend to react to geo-political events as well. If President Donald Trump is actually able to have President Xi Jinping agree to join him at Mar-a-Lago for a summit meeting in late March, we believe the odds significantly shift towards a working resolution of the US/China trade impasse.

If that happens, again IF, we suspect that agricultural and energy commodities may be among the immediate beneficiaries.

Year-to-Date Global Real Asset Performance



	YTD	2018
Alerian MLP Index (TR)	12.94%	(12.42%)
Bloomberg Commodity Index (TR)	6.51%	(11.25%)
Dow Jones US REIT Index (TR)	12.36%	(4.03%)
US Dollar Index (TR)	(0.02%)	4.40%
GSCI Gold Index (TR)	2.72%	(2.14%)

Conclusion

The markets will continue to be heavily influenced by the World Central Banks and their liquidity policies throughout the year. Obviously, we are going to be overtly focused on Fed action and the US Dollar, however we are back to primarily owning the biggest kid on the block, the good ole' US of A. The US allows us the opportunity to invest in the highest quality global markets, with the least amount of global, geo-political risks. And Fed policy could give us opportunities to take advantage of some beaten down sectors at times throughout the year.

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.

We also believe there are some potential big political surprises that could turn markets quickly in either direction this month. Therefore, we are keeping an eye on negotiations of the US/China Trade deal, the Mueller Report, Trump's response, and a possible resolution to Brexit.

*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 Again - 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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