CORBETT ROAD

MACRO MUSINGS

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2017 FIRST HALF REVIEW

SUMMARY

- Our review of asset class performance shows international investments from stocks, bonds, and real estate outperformed their US equivalents. Commodities continued to struggle while gold is quietly having a good year.
- The S&P 500 returned 9.3% in the first half of 2017, with a minor correction of 2.8%. This kind of strength and lack of volatility in the past was a good sign for the rest of the year.

FIRST HALF ASSET CLASS REVIEW: MORE OF THE SAME SINCE Q1

Our thoughts on Asset Class performance through the first half of 2017:

1. ***Foreign investments, led by emerging markets, continued to outperform.*** We believe multiple factors drove international outperformance for the first time since 2012. First, better economic growth, especially in Europe. Second, lower valuations. Third, and most important, a weaker US Dollar.
2. ***Commodities are struggling (again).*** After a rebound in the first half of 2016, commodities, particularly oil, have struggled. This is despite a weaker dollar which historically has been bullish for the asset class.
3. ***Gold is quietly having a good year.*** Although not doing as well as stocks, gold bullion is up 7.8% through June 30th. Gold had negative returns from 2013-2015 before rebounding last year with a 9% return.

TOTAL RETURNS (%)

Through June 30, 2017. Asset classes ranked by 1 month % total return

Asset Class (index)	1 mo.	YTD	1 yr	3 yr▪
US REITs (MSCI REIT)	2.1	2.7	-1.8	8.2
Foreign High Yield Bonds (Markit Global exUS HY)	1.7	11.8	12.1	-2.1
Emerging Market Stocks (MSCI EM)	1.0	18.4	23.7	1.1
US Stocks (Russell 3000)	0.9	8.9	18.5	9.1
Emerging Market Gov't Bonds (Citigroup ESBI-C)	0.8	10.5	5.6	-3.1
Foreign Inv. Grade Corp Bonds (Citi Non-$ Corp)	0.5	8.2	3.2	-3.2
US High Yield Bonds (iBoxx Liquid High Yield)	0.1	4.4	11.3	3.6
Foreign REITs (S&P Global exUS REIT)	0.0	13.2	9.5	3.0
Cash (3-month T-bill)	0.0	-0.1	-0.2	-0.1
US Inv. Grade Bonds (Barclays US Agg. Bond)	-0.1	2.3	-0.3	2.5
Foreign Devlp'd Mkt Bonds (Citi WGBI exUS)	-0.1	5.9	-5.0	-2.2
Foreign Developed Mkt Stocks (MSCI EAFE)	-0.2	13.8	20.3	1.2
Commodities (Bloomberg Commodity)	-0.2	-5.3	-6.5	-14.8
Foreign Gov't Inflation-Linked Bonds (Citi World Inflation-Linked Securities ex-US)	-0.6	5.8	2.7	-1.1
TIPS (Barclays Treasury TIPS)	-1.0	0.9	-0.6	0.7
Global Market Index†	0.4	8.5	11.4	3.9
Global Market Index-Rebalanced *	0.3	8.5	10.5	3.5
S&P 500	0.6	9.3	17.9	9.6
60/40 US stock/bond (rebalanced) +	0.3	6.5	10.4	6.8
Crude Oil (West Texas Intermediate spot price)	-4.7	-14.4	-4.6	-24.1
Gold (spot price)	-2.1	7.8	-6.1	-2.2
US Dollar Index (spot price)	-1.3	-6.4	-0.5	6.2

Returns based on month-end total return prices, which may differ slightly from returns calculated with daily prices for specific time periods. MSCI EAFE and EM data are net total returns.

▪ annualized

† GMI is a passive, unmanaged, market-value weighted index of all the major global asset classes (excluding cash). Initial allocation based on 12/31/97 market values.

* Rebalanced version of GMI that's rebalanced to 12/31/97 weights every Dec. 31

\+ Initially weighted 60% S&P 500 and 40% Bloomberg US Aggregate Bond, rebalanced to 60/40 every Dec. 31.

Source: CapitalSpectator.com

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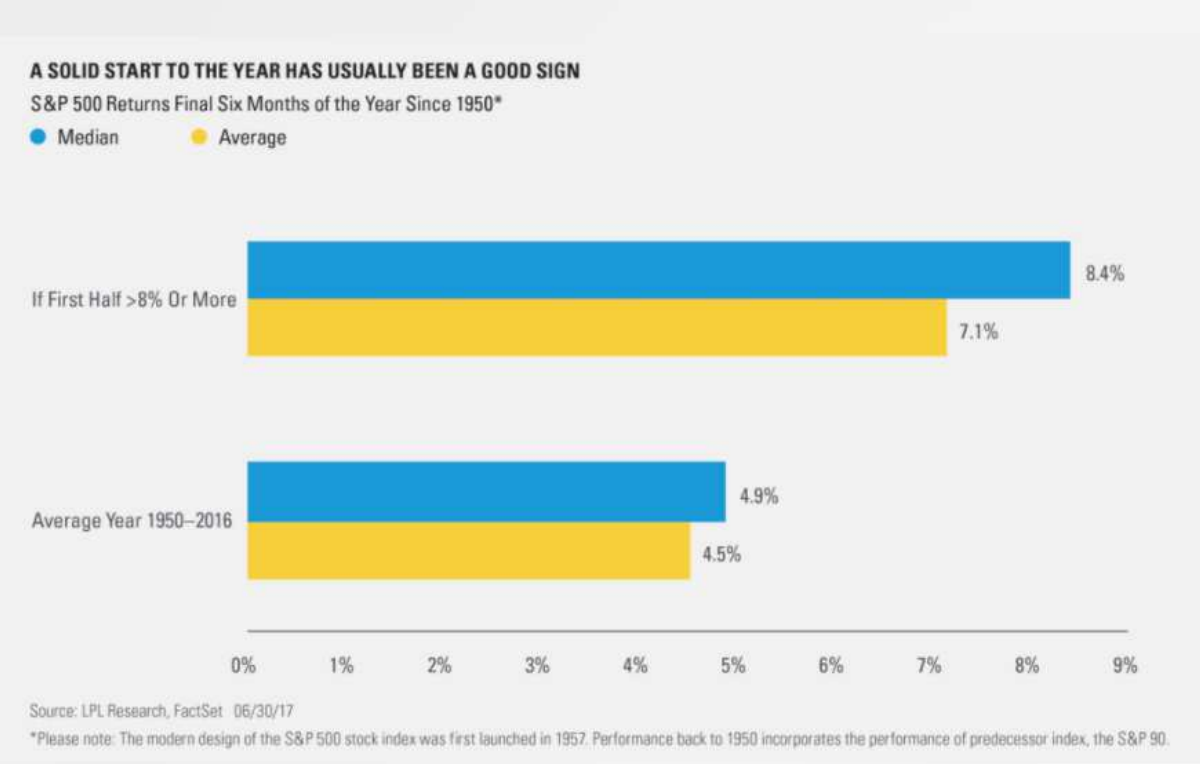
A STRONG FIRST HALF HAS HISTORICALLY BEEN POSITIVE FOR THE MARKET

The market gained 9.3% through June 30th. In the chart below, the team at LPL Research shows that when returns are strong in the first six months of the year, it historically led to better returns in the second half.



Not only were returns strong in the first half of the year, but we hardly experienced any volatility in the market. The peak to trough decline was 2.8%, which is the second lowest in history. Again, the lack of volatility in the market led to better than average gains. When the market has declined by less than 5%, future returns have been higher and future volatility has been lower on average. In addition, the market return has been positive 81% of the time (data from Schaeffer's Investment Research).

Please see important disclosures at the end of this article

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S&P 500: 2nd Half Returns

1st Half Max Drawdown	Less Than 5%	5% to 15%	Over 15%
No. of Return	**16**	54	18
Average Return	**7.84%**	1.47%	6.29%
Median Return	**9.14%**	3.08%	14.20%
Percent Positive	**81%**	63%	61%
Avg. Positive	**10.14%**	8.47%	22.13%
Avg. Negative	**-2.09%**	-10.44%	-18.61%
Std. Deviation	**7.69%**	11.35%	24.57%

We still believe a decline of greater than 5% will occur at some point in the year. However, with MACROCAST™ showing positive metrics and strong market momentum, we believe any decline should be limited to the 5-15% range, as opposed to a 20%+ decline that is associated with recession.