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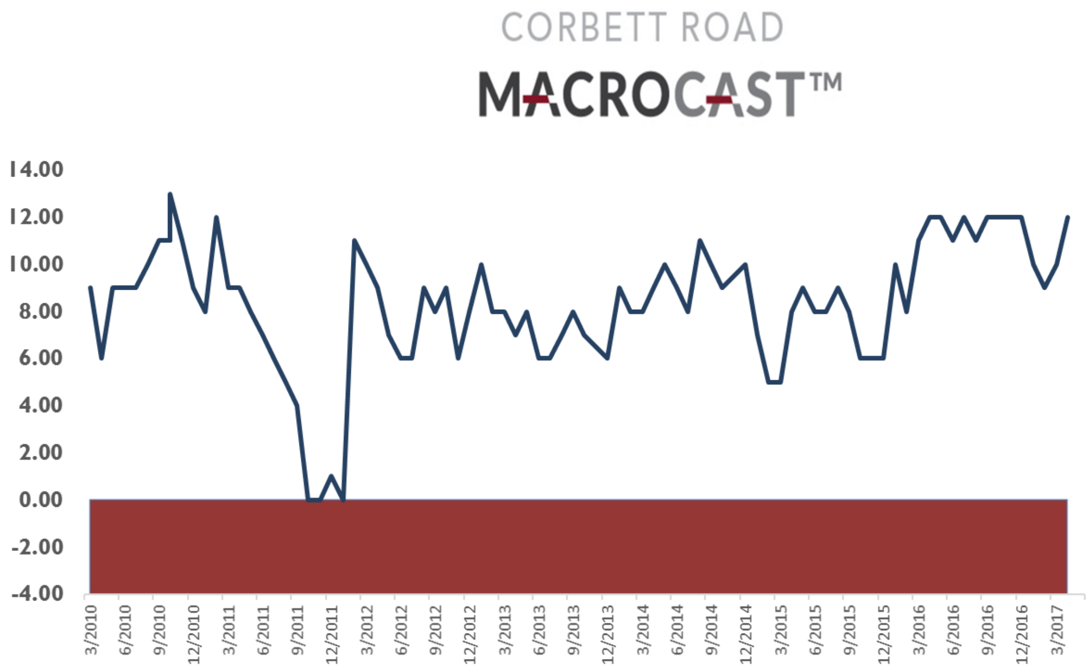
2017 FIRST QUARTER REVIEW

SUMMARY

- Our review of asset class performance shows that international stocks were the big winners in the first quarter, along with technology stocks. The dollar weakened, commodities slumped, and the so call "Trump Trade" took a breather.
- The market was up over 5% in Q1. When this happened in the past, it predicted good returns for the rest of the year.

THE MESSAGE FROM MACROCAST™

As a reminder, MACROCAST™ is Corbett Road's proprietary model that measures the attractiveness of risky assets by looking at the **VITALS** of the market—**V**aluation, **I**nflation, **T**echnical Analysis, **A**ggregate Economy, **L**iquidity, and **S**entiment. Through assessment of these factors, we are able to better gauge overall market conditions and the probability of a major market decline. The following chart shows MACROCAST™ as of April 21, 2017:



The most recent score for MACROCAST™ is +12. This is up 2 points from March, and consistent with levels we've observed since Spring 2016. **A score of +12 suggests a sustained major market decline is unlikely.**

The strongest reading in MACROCAST™ is coming from the **A**ggregate Economy. Economic indicators that we follow are nowhere near recessionary levels. While we don't see robust growth ahead, we do not think an economic downturn is in the cards over the next 6-12 months.

The biggest area of concern remains **V**aluation. High valuations are not enough to cause a market decline by themselves, but they do suggest that **major** gains for stocks at this point are likely capped. In order to see major upside the rest of the year, we will need either significant growth in earnings, or the willingness of investors to pay even more for each dollar of earnings growth.

ASSET CLASS REVIEW: THE RETURN OF INTERNATIONAL RETURNS

The following table from Bespoke Investment Group shows returns through early April:

Asset Class Performance in Since End of February, Since Inauguration, and YTD 2017

US Related ETF	Description	Since End of Feb.	Since Inaugur.	2017 YTD
SPY	S&P 500	-0.51	3.76	5.25
DIA	Dow 30	-0.69	4.34	4.57
QQQ	Nasdaq 100	1.72	7.31	11.63
IJH	S&P Midcap 400	-1.40	1.87	2.84
IJR	S&P Smallcap 600	-2.15	0.01	-1.15
IWB	Russell 1000	-0.58	3.61	5.20
IWM	Russell 2000	-1.33	1.16	0.85
IWV	Russell 3000	-0.69	3.39	4.85
IVW	S&P 500 Growth	0.71	5.34	7.87
IJK	Midcap 400 Growth	-1.00	2.91	4.12
IJT	Smallcap 600 Growth	-1.45	1.45	0.42
IVE	S&P 500 Value	-1.97	2.01	2.33
IJJ	Midcap 400 Value	-1.87	0.66	1.36
IJS	Smallcap 600 Value	-2.96	-1.45	-2.84
DVY	DJ Dividend	-1.72	2.20	2.40
RSP	S&P 500 Equalweight	-0.95	2.63	4.20
FXB	British Pound	0.07	0.42	0.71
FXE	Euro	0.56	-0.48	1.08
FXY	Yen	1.39	3.31	5.43
XLY	Cons Disc	1.17	4.11	7.35
XLP	Cons Stap	-1.09	3.65	5.40
XLE	Energy	-1.92	-6.08	-7.05
XLF	Financials	-3.63	2.16	1.72
XLV	Health Care	-0.86	6.45	7.84
XLI	Industrials	-1.31	2.45	4.46
XLB	Materials	-0.02	2.25	5.11
XLK	Technology	1.61	6.82	10.00
IYZ	Telecom	-0.78	-6.17	-4.35
XLU	Utilities	-0.62	5.78	5.93

Global ETF	Description	Since End of Feb.	Since Inaugur.	2017 YTD
EWA	Australia	2.16	5.33	10.85
EWZ	Brazil	0.53	3.41	13.77
EWC	Canada	0.52	0.00	2.60
ASHR	China	0.54	2.53	7.87
EWQ	France	5.94	4.81	6.97
EWG	Germany	4.22	5.02	8.31
EWH	Hong Kong	4.07	8.49	15.45
PIN	India	6.06	15.86	18.98
EWI	Italy	7.48	2.96	5.00
EWJ	Japan	0.76	2.24	5.65
EWW	Mexico	11.96	20.99	17.33
EWP	Spain	10.33	10.90	13.62
RSX	Russia	4.76	0.24	-0.42
EWU	UK	1.18	3.58	5.20
EFA	EAFE	2.85	4.50	7.50
EEM	Emerging Mkts	4.40	8.90	13.28
IOO	Global 100	1.74	5.28	6.48
EEB	BRIC	1.59	4.63	10.33
DBC	Commodities	-2.54	-3.47	-3.28
USO	Oil	-6.45	-5.95	-8.60
UNG	Nat. Gas	16.07	-3.54	-16.86
GLD	Gold	0.30	3.95	9.11
SLV	Silver	-0.23	7.04	14.69
SHY	1-3 Yr Treasuries	-0.03	0.04	0.06
IEF	7-10 Yr Treasuries	0.17	0.96	0.96
TLT	20+ Yr Treasuries	-0.48	1.02	1.70
AGG	Aggregate Bond	-0.20	0.43	0.45
BND	Total Bond Market	-0.22	0.35	0.37
TIP	T.I.P.S.	0.03	0.86	1.34

Source: Bespoke Investment Group

Our thoughts on Asset Class performance in the first quarter of 2017:

1. ***International Stocks, led by Emerging Markets, outperformed the U.S.*** Equities from both developed nations, (represented above by the exchange traded fund EFA), and emerging countries (represented by EEM) saw greater returns than all major U.S. based indexes, except for the technology heavy Nasdaq. Will this international outperformance last through the end of the year? Time will tell, but as we highlighted in last month's Macro Musings, emerging market stocks have started out strong in several previous years, only to falter afterwards.
2. ***The "Trump Trade" lagged.*** After the election, many sectors saw large gains on the hopes that the new administration would implement tax and regulatory reform. Financials, industrials, and small cap stocks rocketed higher, while Mexican stocks collapsed. Fast forward 4 months and Mexico has recovered, while other sectors have pulled back, or consolidated some of their gains. The performance of these sectors the rest of the year will depend a lot on how quickly Washington implements some of the expected reforms.
3. ***The dollar weakened against major currencies.*** One reason international stocks did well was a weaker dollar. Foreign currency strength adds to the returns of the international index. Conversely, international stocks have done poorly relative to the U.S. throughout the past 5 years due to the dollar being stronger. Some dollar weakness would allow diversified portfolios to see better returns.
4. ***Commodities other than precious metals struggled.*** Commodities trade in dollars, so when the dollar weakens it is often positive for the asset class. But despite a weaker dollar, commodities struggled in Q1. Gold and Silver were major exceptions, rising more than most equity markets. Oil struggled, as more supply came back online, and natural gas plummeted, thanks to an unusually warm winter in most parts of the country. Cheaper commodities are good for the U.S. because we are a consumer driven nation, so we do not consider this a large negative event.

A Strong Q1 for the S&P 500, What Happens the Rest of the Year?

The market gained 5% in the first quarter (a great start to the year any way you look at it). LPL Financial researched the correlation of a strong start and the returns experienced through the remainder of the year. Here are the results going back to 1950:

A BIG FIRST QUARTER HAS BODED WELL FOR FUTURE GAINS

S&P 500 Gains 5% or More in 1Q Since 1950

Year	S&P 500	1Q Return	April Return	2Q Return	Rest Of Year	Full Year Return
1951	21.48	5.1%	4.4%	-2.4%	10.7%	16.3%
1954	26.94	8.6%	4.9%	8.4%	33.6%	45.0%
1956	48.48	6.6%	-0.2%	-3.1%	-3.7%	2.6%
1958	42.10	5.3%	3.2%	7.5%	31.1%	38.1%
1961	65.06	12.0%	0.4%	-0.6%	10.0%	23.1%
1963	66.57	5.5%	4.9%	4.2%	12.7%	18.9%
1964	78.98	5.3%	0.6%	3.4%	7.3%	13.0%
1967	90.20	12.3%	4.2%	0.5%	7.0%	20.1%
1971	100.31	9.0%	3.5%	-0.6%	1.6%	10.8%
1972	107.20	5.1%	0.4%	-0.1%	10.1%	15.8%
1975	83.36	21.6%	4.7%	14.2%	8.2%	31.5%
1976	102.77	13.9%	-1.1%	1.5%	4.6%	19.1%
1979	101.50	5.6%	0.2%	1.4%	6.3%	12.3%
1983	152.96	8.8%	7.5%	9.9%	7.8%	17.3%
1985	180.66	8.0%	-0.5%	6.2%	16.9%	26.3%
1986	238.90	13.1%	-1.4%	5.0%	1.4%	14.6%
1987	291.70	20.5%	-1.1%	4.2%	-15.3%	2.0%
1989	294.87	6.2%	5.0%	7.8%	19.8%	27.3%
1991	375.22	13.6%	0.0%	-1.1%	11.2%	26.3%
1995	500.71	9.0%	2.8%	8.8%	23.0%	34.1%
1998	1,101.75	13.5%	0.9%	2.9%	11.6%	26.7%
2011	1,325.83	5.4%	2.8%	-0.4%	-5.1%	0.0%
2012	1,408.47	12.0%	-0.7%	-3.3%	1.3%	13.4%
2013	1,569.19	10.0%	1.8%	2.4%	17.8%	29.6%
2017	2,362.72	5.5%	?	?	?	?
		Average	2.0%	3.2%	9.6%	20.2%
		Median	1.4%	2.6%	9.1%	19.0%
		% Positive	75.0%	66.7%	87.5%	95.8%
Average Return All Periods			1.5%	1.7%	6.4%	8.9%
Median Return All Periods			1.2%	1.9%	7.3%	11.4%
Historical % Positive All Periods			70.1%	59.7%	73.1%	71.6%

Source: LPL Research, FactSet 04/03/17

There have been 24 instances that the S&P 500 was up 5% or more in the first quarter. Only three of those years that saw negative returns the rest of the way. 1987 is the big exception, with a 15% decline after Q1. Examining the entire data set suggests that most years that start strong finish strong. Average additional return of nearly 10% and positive returns in 21 of 24 years. There are never any guarantees, of course, but those are encouraging numbers. From the perspective of market momentum, things are looking upbeat.

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