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Why Economic Progress has Outweighed Political Drama and Major Storms

North Korea fires another missile over Japan and the Japanese and South Korean stock markets make new highs in dollar terms. The US endures two of the biggest hurricanes in recent history and US indexes are close to all-time highs. We get lots of feedback that our clients are struggling to understand how to reconcile what they see on the news with strong gains for risk assets – 2017 has been a year of solid returns from US stocks (the S&P 500 is up 13%) and even better returns from stocks outside the US (MSCI World ex US +21%). We think the answer lies in a very positive economic landscape with accelerating global growth and stable low inflation.

We think the reason for strong returns in 2017 is a very positive economic landscape, with accelerating global growth and stable low inflation.

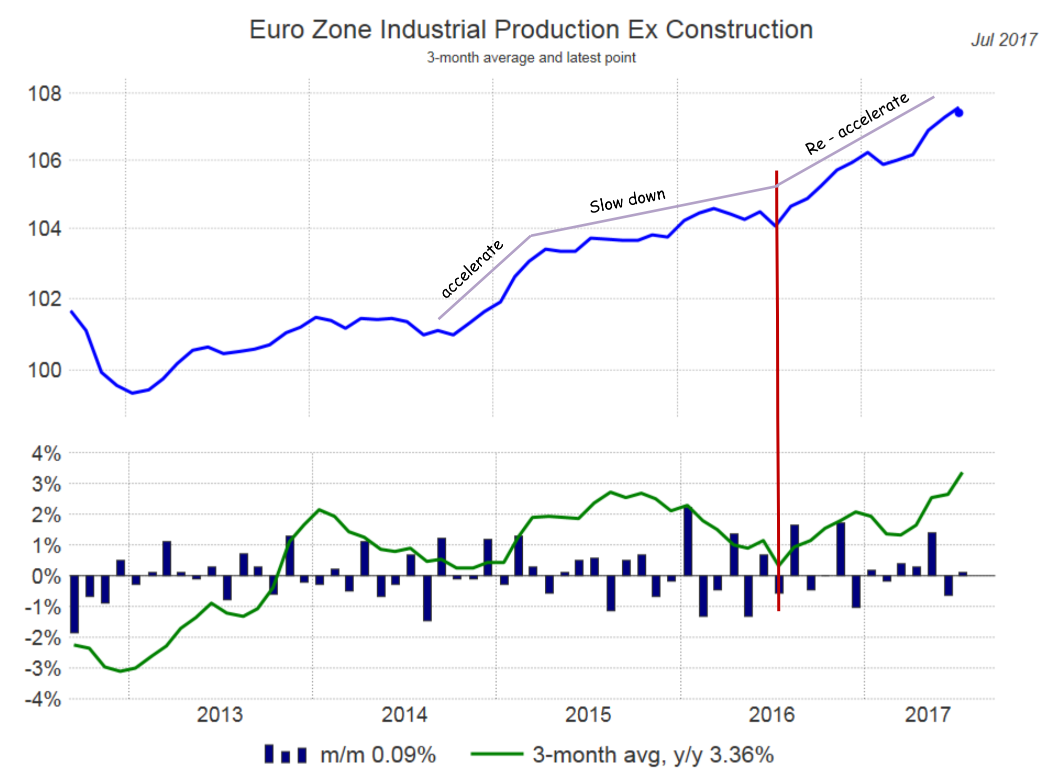
We expect economic forces to continue to drive returns and we remain positive on the economic outlook.

Our risk team will assess unexpected political outcomes if they occur and reduce portfolio risk if necessary.

STORMS, POLITICAL AND REAL: The US has a long history with major hurricanes, and so investors have been conditioned to regard the effects they have on short-term economic data and oil/commodity prices as temporary. We should ask ourselves if there is too much investor complacency regarding climate change, but so far the markets don't seem to be asking those questions. At a future date, we will attempt to grapple with this issue, but first we seek to explain our understanding of why stocks are doing well, and why, on balance, we expect this to continue.

We think the answer to what some might see as a paradox lies in the synchronized global growth that began a year ago (see vertical red line on chart of Euro zone industrial production below) and which, in our view,continues to drive both overseas and US earnings expectations higher as we wrote about in our September 5th weekly "Global Synchronicity: Positive Earnings mirroring Positive Economic Trends".

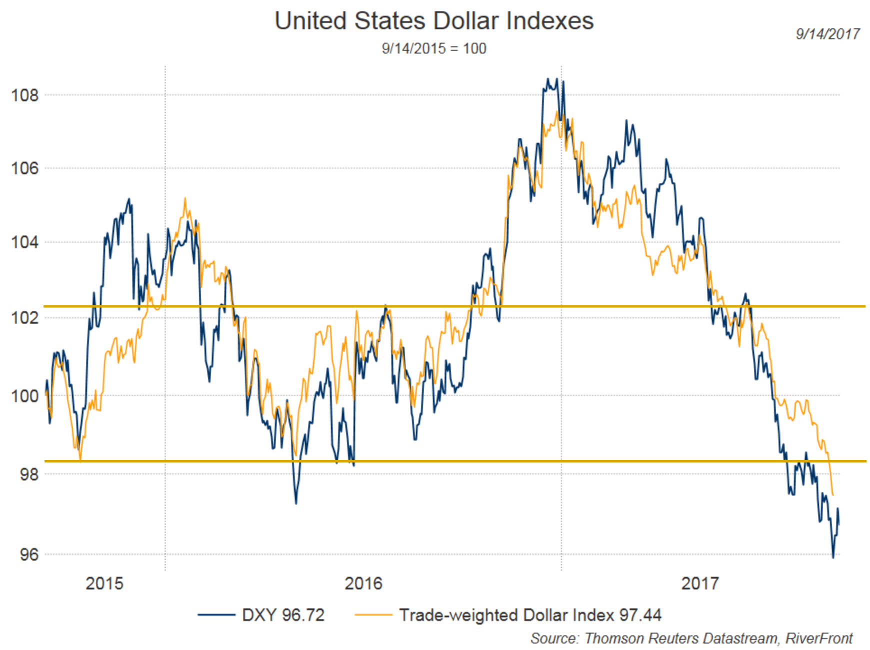
Global recovery well illustrated by re-acceleration in Eurozone manufacturing..



Source: Thomson Reuters Datastream, RiverFront

Assessing the risks of War: We believe many investors have put a relatively low probability on a nuclear war with N. Korea. Within markets, the focus has been on business fundamentals and the prospect of continued-growth-accompanied-by-low-inflation (a "goldilocks" outcome, "not too hot, not too cold...just right."). We think this is a logical response to a now-known outcome – growth; versus an unknowable outcome – N. Korea. Many investors, ourselves included, believe neither the N. Koreans, the US nor the Chinese benefit from, or seek a military confrontation. That doesn't mean it can't happen, but we give it a low probability. The details of our view on the N. Korean situation can be found in our Weekly View: ***"Fire and Fury'*** from August 14th.

What if we are wrong? Should conflict occur, our risk management team will assess the situation and if necessary reduce portfolio risk, but currently, our tactical work is not flashing warnings signs and so our portfolios have not changed much recently and continue to prefer stocks to bonds/cash. We also continue to prefer non-US stock markets. The rationale for overseas stock market outperformance is relatively straightforward. Investor caution was high regarding Europe (ahead of the French Election) and Emerging Markets (ahead of the Trump presidency). In our view, Macron's victory in France produced investor relief and Euro strength against most global currencies, which has been coupled with accelerating economic and earnings data. Emerging Market economies have also been accelerating with the recovery in the global economy, and their stock markets usually outperform when the dollar is weak and commodity prices are rising. Both have been the case recently. The weakness in the dollar has been broad based and largely unpredicted, but a new down-trend in the dollar has been established which has greatly benefitted investors in overseas currencies:



The chart above measures the dollar against other major currencies, dominated by those in Europe (the blue line) and against a broad basket of currencies weightings based on US trade (which gives a much bigger weight to the Canadian dollar and Mexican Peso). The message is the same: An apparent up-trend in 2016 which has reversed, breaking to a three-year low on both measures. In our opinion, the decisive break below the 102 level was a warning signal that the old uptrend was in danger and we think it would now take a break above that level to signal a technical reversal. We believe our portfolios are positioned to benefit from dollar weakness, given our overweight to non US markets both developed and emerging.

Disclosure Information Continued:

Information contained was received from sources believed to be reliable, but accuracy is not guaranteed. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve positive returns, avoid losses, or experience returns similar to those shown or experienced in the past.

Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.

Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.

Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.

Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.

Index Definitions:

You cannot invest directly in an index. Past Performance is no guarantee of future results.

Standard & Poor's 500 Index (S&P 500) measures the performance of 500 large cap stocks, which together represent about 75% of the total US equities market.

MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 developed markets (DM) countries (excluding the US) and 23 emerging markets (EM) countries. (2017.158)