ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW

FIRST QUARTER 2018

First quarter market gyrations demonstrated the extremes of investor sentiment from the *"fear of missing out"* to the *"fear of losing."* The former was evidenced in January, with a 5.8% rise in the S&P 500 followed by the latter in February with an intra-month market correction of over 10%. While the February correction was stressful for many, focusing on strong macro-economic and corporate fundamentals provides the necessary rationale for remaining invested. For the quarter, the S&P 500 and the Barclays Aggregate Bond Index were down 0.8% and down 1.5%, respectively. International markets were mixed with non-U.S. developed equities down 1.9% and emerging market equities up 1.5%. Our fundamental investment outlook as discussed last quarter remains largely intact; however, during the quarter we made incremental portfolio changes to address specific investment risks.

Annualized Benchmark Returns through March 2018*

	1 Quarter	YTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	-0.8%	-0.8%	14.0%	15.6%	10.8%	13.3%	9.5%
Russell 2000	-0.1%	-0.1%	11.8%	18.8%	8.4%	11.5%	9.8%
MSCI World Ex. US Index	-1.9%	-1.9%	14.5%	13.5%	5.8%	6.5%	3.1%
MSCI Emerging Markets	1.5%	1.5%	25.4%	21.5%	9.2%	5.4%	3.4%
Bloomberg Barclays U.S. Aggregate	-1.5%	-1.5%	1.2%	0.8%	1.2%	1.8%	3.6%
Bloomberg Barclays Municipal Bond	-1.1%	-1.1%	2.7%	1.4%	2.3%	2.7%	4.4%
Bloomberg Barclays U.S. High Yield	-0.9%	-0.9%	3.8%	9.9%	5.2%	5.0%	8.3%
FTSE Nareit All REITs	-6.7%	-6.7%	-1.0%	2.6%	3.1%	6.5%	7.0%
Alerian MLP	-11.1%	-11.1%	-20.1%	1.3%	-11.2%	-5.8%	5.6%

Source: Bloomberg *Quarter and year-to-date returns are not annualized.

The Big Picture (click here for full article)

U.S. real Gross Domestic Product grew at a respectable 2.9% in the fourth quarter of 2017. Growth is expected to continue with first quarter 2018 GDP growth projected to be 2.8%, up from an earlier projection of 2.4% by the Philadelphia Federal Reserve. Unemployment remains around 4% and core inflation is at the U.S. Federal Reserve's 2% target. Such data make it not surprising that Consumer Sentiment is at its most positive level since February 2001. Based on continuing economic growth, the recently appointed Federal Reserve Chairman, Jerome Powell, and the FOMC voted to raise the Fed's target Overnight Rate of interest by 25 basis points to a range of 1.5% to 1.75%. Importantly, Chairman Powell implied a commitment to the Fed's current stepwise rate increases but also suggested larger incremental increases in 2019 subject to economic data.

U.S. markets are reasonably concerned about the growing threat of tariffs and their impact on corporate revenues. The situation is unpredictable as President Trump has authority to take action based on the Trade Expansion Act of 1962 under the guise of national security. The historical lessons from the Tariff Act of 1930 (a/k/a Smoot-Hawley) are not encouraging, which witnessed President Hoover push through the Act despite the opposition of over 1,000 economists. Ultimately, the Act undermined U.S. trade and is credited with exacerbating the U.S. Depression. Given the large amount of trade between the U.S. and China, we are monitoring developments closely. Most economic strategists do not forecast a U.S. recession in the near-term but nonetheless caution is warranted.

European regional GDP is expected to grow 2.4% in 2018[1], which was revised higher from estimates as of December 2017. Mario Draghi, Chairman of the European Central Bank, reconfirmed in early March 2018 the bank's ongoing net monthly asset purchases in order to provide liquidity and support to sustain economic growth. We remain quite optimistic on non-U.S. allocations as corporate earnings improve and valuations remain below those found in the U.S.

Emerging markets were the best performing asset class in 2017 and continued to hold that title for the first quarter. Economic growth, corporate earnings expansion, low valuations and favorable currency effects are all providing a strong tailwind to the asset class year-to-date.

Summary of Allocation Recommendations

Asset Class	Recommendation	Comment	Asset Class Summary Link
U.S. Large Cap	Neutral/Underweight	Earnings remain strong, but relative valuations remain elevated	U.S. Large Cap Review
U.S. Small & Mid Cap	Neutral	Tax reform expected to benefit SMID cap. M&A potential as multi-nationals repatriate cash	U.S. Small Cap Review
Non-U.S. Developed	Overweight	A continuing storyline…attractive relative valuations and improving macro and corporate fundamentals	International Equity Review
Emerging Markets	Overweight	Strong economic and corporate earnings growth continues	International Equity Review
Fixed Income	Neutral	Maintain safe haven assets to counter equity volatility, floating rate loans to alleviate interest rate risk, and shorter duration given flat yield curve	Fixed Income Market Review
Tactical	Neutral	Robotics and cybersecurity	Tactical Investments Review
Alternative	Hedge Funds & Private Equity	For appropriate allocations	Contact your Wealth Advisor

[2] Acronym for Facebook, Apple, Amazon, Netflix and Google.

Market volatility and risk, more so than return, are clearly on the minds of investors and this will continue to be the case in 2018. Investors seem to be increasingly sensitive to negative news and are demonstrating a "sell now and ask questions later" mentality—from February's wage growth report induced correction and Trump tariff proposals to the recent downdraft in FAANG[2] stocks due to U.S. government inquires. The heightened market volatility is unnerving, but is more a reflection of a move back to historical averages. This is not to imply we are complacent about managing risk, but simply pointing out that volatility in the past year reached levels well below historical averages which, in our view, was unsustainable. Longer-term risks may include changing control of Congress after U.S. November midterm elections and higher debt issuance by the U.S. Treasury to meet fiscal deficits. We will continue to monitor these factors and their potential impact on portfolio allocations.

The Outlook

We continue to recommend a neutral/underweight allocation to U.S. Large Cap Equities, as upside is likely modest in the near-term. The good news is that the S&P 500's valuation on future earnings has declined to below its 5-year average. This obviously is due in part to the market decline but also due to favorable earnings forecasts as earnings growth estimates remain in the double-digits. While these factors make for a more attractive opportunity, international valuations have declined as well, and we continue to favor investment abroad on a relative basis. Active management has performed well year-to-date versus passive management and we believe this may continue as issues such as tariffs or tweets impact companies differently.

Similar to last quarter, we are recommending a neutral allocation to U.S. SMID Cap Equities. SMID cap outperformed large cap this quarter, possibly due to the greater certainty of tax rates. In light of the recent proposed tariff escalations, should actual tariffs formalize, we suspect SMID cap equities would benefit to the extent they are more focused on domestic consumers. Despite these potential tailwinds, we remain neutral considering the stronger opportunity set in international markets.

Our positioning in non-U.S. developed markets remains an overweight allocation. Economic conditions remain favorable in Europe and Brexit negotiations do not seem as punitive as expected. We continue to allocate to emerging markets as economic growth continues to improve. Regarding our EM exposure, we have received inquiries as to our continued support in light of eye-popping returns in 2017. In reference to the chart on page 1, EM equities have lagged significantly over the past 5 and 10-year periods. We believe valuations have room to improve relative to the economic growth experienced in emerging market countries.

We continue to recommend a neutral allocation to fixed income. During the quarter we reduced fixed income duration across client portfolios to a level that is about 33% below that of the Barclays Aggregate Bond Index. This was facilitated through investment in floating rate loans and ultra-short maturity bonds, the former of which was one of the best performing fixed income sectors during the quarter.

Our Tactical recommendation no longer includes Master Limited Partnerships. We liquidated the investment across all client portfolios. We continue to recommend investments in a robotics ETF and a cybersecurity ETF. Both have performed well year-to-date, exceeding their small cap benchmark.

[2] Acronym for Facebook, Apple, Amazon, Netflix and Google.

Tax and Financial Planning News

Facebook's sharing of user data with Cambridge Analytica has rightfully raised concerns in Washington and the general public. While people generally acknowledge that their data is "out there" they seldom take action to protect that data. In the wrong hands, personal data may be used inappropriately. As we look to the future, The Internet of Things posits that all of our personal lives will be increasingly tied to the Internet and technology. It is important to catalog and document access to your personal online data. For more on this subject, please click the following link for a short summary of suggestions in **protecting your personal online data as well as your digital estate.**

Firm News

Please join us in congratulating Mariella Foley, CFP®, ADPA℠, CDFA™ on her promotion to Senior Managing Director. Mariella has helped the firm grow for nearly two decades and over the past several years has led our Women's Empowerment initiative with great success. Great job Mariella!

Respectfully submitted,
Round Table Wealth Management