Investment Strategy Update

ASCENTIAL WEALTH ADVISORS
AN INDEPENDENT PRACTICE

Market Report — Quarter 4 • 2017

Equities Show Continued Strength

Market volatility has remained surprisingly low in light of heightened geo-political uncertainty. Equities posted another strong quarter, supported by a backdrop of broad global growth, and fueled by improved earnings and economic indicators. International equities continued to outperform US stocks, with the MSCI Emerging Markets the best performer, returning 27.23% through the end of September. In the US the S&P 500 posted its 8th consecutive quarterly gain, growth style stocks continued to outpace value, and the NASDAQ was again a top performer up 20.7% YTD.

US GDP growth was revised upward for quarter two, from 2.6% to 3.0%, helped by consumer spending and business fixed investment. Growth is expected to show a temporary drop for third quarter due to hurricanes Harvey and Irma, but the long-term trend remains positive. Outside the US, economic growth has been picking up as well, leading to a synchronized global growth phenomena we have not seen for some time. This should be supportive of earnings growth and higher equity prices.

Interest rates closed the quarter relatively unchanged, with the yield on the 10 year US Treasury at 2.3%. With inflation at 1.7%, below its 2.0% target, the Federal Reserve did not raise the benchmark rate and has taken a more cautious approach, not wanting to impede economic growth by tightening policy too quickly.

Index	*2017 (through 9/30)*
S&P 500	+14.24
DJIA	+15.45
EAFE (Int'l)	+19.96
BC Ttl Bond	+3.14

Dow Jones Relative Risk Benchmarks	
Conservative	+4.35
Moderate	+10.46
Aggressive	+15.35

2017 Outlook

FIXED INCOME — Pre-2008 the Fed's portfolio held about $900 billion in Treasuries, which ballooned to almost $4.5 trillion of assets by 2014, and has remained at that level since. This demand has been one of the forces keeping bond yields low, and according to a Fed study from April 2017, the US 10 year Treasury yield is about 1% lower than it otherwise would be (Blackrock, June 2017). Now the Fed plans to let the portfolio shrink over the next 3-5 years, with the intended effect of allowing interest rates to climb. However rates in the US will continue to be pressured by demand stemming from low global rates. For comparison, the German 10 year bund is yielding less than 0.5% today. Based on these competing factors, rates in the US are likely to grind higher but over an extended timeframe. We recommend a bond portfolio that is less sensitive to rising rates, with some intermediate maturity and corporate bonds to enhance yield.

Our View — *Remain positioned for slowly rising rates, with a preference for intermediate maturities.*

US EQUITIES — Markets have displayed resiliency as investors have gained confidence in corporate earnings which have seen solid growth and a boost from a weakening US dollar this year. The S&P 500 is now trading at 17.7 times forward earnings (20 year average is 16), with very few sectors cheaper than average. Further price increases will likely depend on the dollar remaining weak and/or an uptick in economic growth. However the S&P 500 has historically been positive in the fourth quarter, with a 25 year average return of +4.9% and positive returns 80% of the time (BTN Research). With safer asset yields remaining well below historical averages, equities remain an attractive option. We look to maintain our weightings in US stocks, but rebalance portfolios as needed to take some profits.

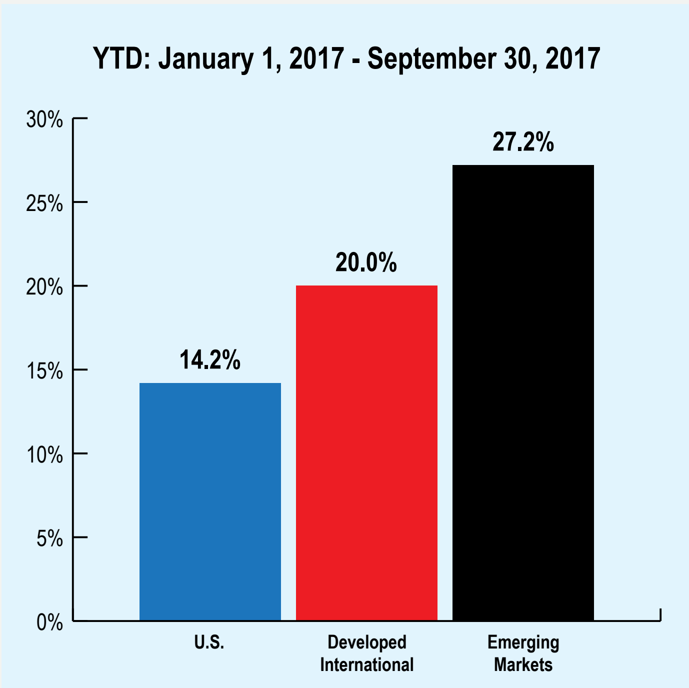
Our View — *Maintain weightings, rebalance portfolios to take profits.*

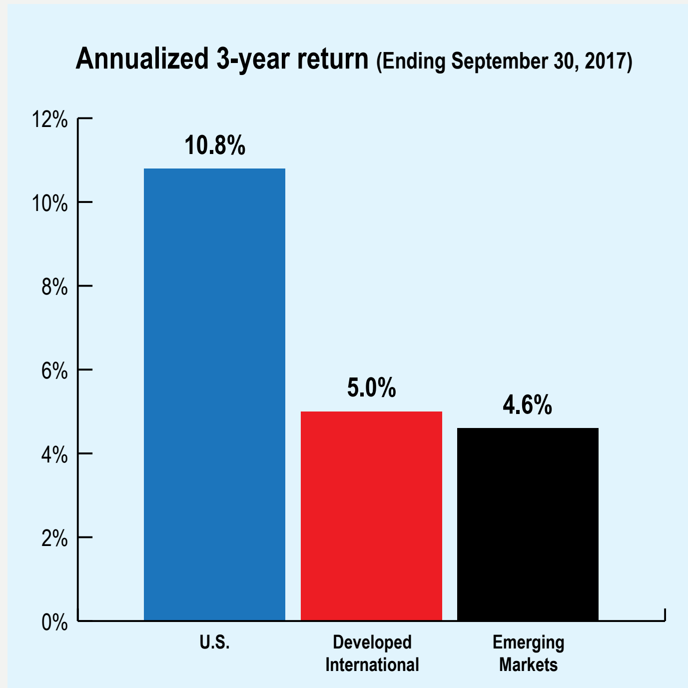
INTERNATIONAL EQUITIES — Both developed and emerging market indexes have outpaced the US this year, driven by improving economic conditions around the globe. The global Purchasing Manager's Index, which measures manufacturing and services activity for 34 countries, is now reading more than 75% of countries showing expansion (Blackrock, Sept 2017). This synchronized growth environment should continue to aid foreign stocks. Valuations also remain cheaper overseas, with the MSCI All Country World ex-US index near its long term average at 14.2 times earnings. We see further opportunity and plan to maintain a slight tactical overweight position.

Our View — *Maintain slight tactical overweight in international equity.*

A New Leader

The US stock market has outperformed international equities since 2013, with the S&P 500 Index annualized return more than doubling the returns of both developed and emerging market indexes over the past 3 years. In fact, from the market bottom in 2009 through September 30, 2017, the S&P 500 is up 272%, whereas the All Country World Index ex-US is only up 117% (JP Morgan Guide to Markets, Sept 2017). The indices were moving up at relatively the same pace until the divergence in 2013. However it appears that foreign markets are looking to catch up, making a strong comeback in 2017. We believe there is ample opportunity for this rally to continue, and an overweight allocation to international equities will be advantageous.





Source: Raymond James Performance Reporting System, 10/4/17. Returns are represented by the following indices: US is represented by the S&P 500 Index. Developed Intl is represented by the MSCI EAFE (Net Div) Index. Emerging Markets is represented by the MSCI Emerging Markets (Net Div) Index. Annualized 3 Year Return is calculated from 9/30/14-9/30/17.

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