CORBETT ROAD

MACRO MUSINGS

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2018 FIRST HALF REVIEW

SUMMARY

- MACROCAST™ continues to indicate low probability of a recessionary bear market.
- Our review of asset class performance shows strong returns from US equities, led by small cap stocks. International investments have struggled, at least partially driven by a stronger US dollar. Bonds and other interest-rate-sensitive investments have also performed poorly so far this year.
- The S&P 500 was positive each month of Q2 for the third year in a row. Historically, the market performed better than average when this was the case.

THE MESSAGE FROM MACROCAST™

MACROCAST™ is Corbett Road's in-house 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. We use our model to assess the chance of major, protracted bear markets vs. the more common or "normal" corrections (typically 5-15%).

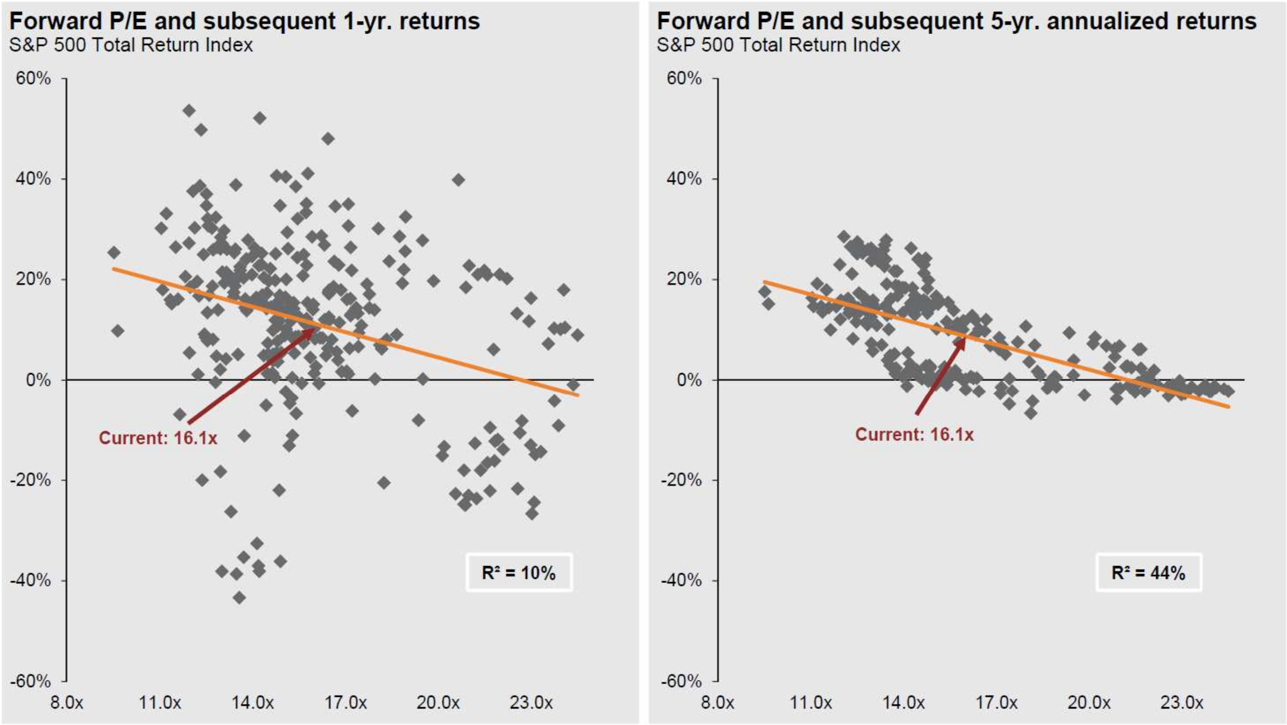
Examples of such major bear markets are the declines of 1973-74, 2000-2002, and the financial crisis of 2008. By potentially avoiding major losses in these types of markets, we can preserve capital and reduce our clients' stress and concern.

While the MACROCAST™ score decreased from June, it continues to **suggest a sustained major market decline is unlikely.**

The strongest reading in MACROCAST™ is coming from the **L**iquidity and **I**nflation categories. **L**iquidity focuses on interest rates and action by the Federal Reserve, while the **I**nflation category looks at the cost of goods and services.

Despite consistent increases over the past two years by the Fed, interest rates remain near historic lows. Inflation has also risen, but again, nowhere near previous levels where it has often had a negative impact on stocks. Oil prices also remain low compared to the last 10 years.

Valuation is still the biggest negative within MACROCAST™, but this has been the case for several years. High valuations are not always indicative of how the market will perform over the next six to twelve months. In fact, data from JP Morgan shows that valuations explain very little about the performance of stocks a year out; they are better at determining the performance of the market over 5+ years.



Source: FactSet, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning June 30, 1993. R^2 represents the percent of total variation in total returns that can be explained by forward P/E ratios.
Guide to the Markets – U.S. Data are as of June 30, 2018.

Please see important disclosures at the end of this article

CORBETT ROAD

FIRST HALF 2018 ASSET CLASS REVIEW: US STOCK BACK IN CHARGE

We have outlined our thoughts on Asset Class performance through the first half of 2018 below (data from Bespoke Investment Group):

Asset Class Performance YTD 2018, Q2, and June - Total Return (%)

US Related

ETF	Description	June	Q2	YTD 2018
SPY	S&P 500	0.58	3.55	2.52
DIA	Dow 30	-0.44	1.04	-0.91
QQQ	Nasdaq 100	1.15	7.42	10.62
IJH	S&P Midcap 400	0.44	4.29	3.46
IJR	S&P Smallcap 600	1.04	8.69	9.31
IWB	Russell 1000	0.63	3.49	2.71
IWM	Russell 2000	0.61	7.86	7.67
IWV	Russell 3000	0.65	3.81	3.03
IVW	S&P 500 Growth	0.57	5.17	7.07
IJK	Midcap 400 Growth	0.35	3.19	4.60
IJT	Smallcap 600 Growth	1.30	8.87	11.45
IVE	S&P 500 Value	0.62	1.38	-2.40
IJJ	Midcap 400 Value	0.43	5.30	2.10
IJS	Smallcap 600 Value	0.80	8.60	7.04
DVY	DJ Dividend	0.90	3.60	0.81
RSP	S&P 500 Equalweight	0.97	2.82	1.67
FXB	British Pound	-0.74	-6.02	-2.38
FXE	Euro	-0.16	-5.30	-3.07
FXY	Yen	-1.77	-4.04	1.56
XLY	Cons Disc	3.62	8.19	11.37
XLP	Cons Stap	4.56	-1.34	-8.22
XLE	Energy	0.58	13.43	6.57
XLF	Financials	-1.75	-3.14	-3.97
XLV	Health Care	1.65	2.91	1.67
XLI	Industrials	-3.39	-3.19	-4.58
XLB	Materials	0.28	2.46	-3.25
XLK	Technology	-0.26	6.57	9.36
IYZ	Telecom	2.92	2.73	-4.88
XLU	Utilities	2.81	3.74	0.28

Global

ETF	Description	June	Q2	YTD 2018
EWA	Australia	2.14	4.69	-0.51
EWZ	Brazil	-8.56	-27.43	-19.48
EWC	Canada	-0.01	4.27	-3.05
ASHR	China	-10.37	-15.19	-14.50
EWQ	France	-2.08	-0.77	-0.20
EWG	Germany	-2.96	-4.17	-7.01
EWH	Hong Kong	-5.37	-2.83	-3.25
PIN	India	-0.85	-2.15	-6.86
EWI	Italy	-1.95	-7.62	-2.43
EWJ	Japan	-2.30	-3.82	-2.61
EWW	Mexico	6.87	-7.32	-3.13
EWP	Spain	1.00	-5.22	-5.97
RSX	Russia	0.62	-6.60	0.14
EWU	UK	-1.17	2.47	-0.59
EFA	EAFE	-1.57	-1.96	-2.84
EEM	Emerging Mkts	-4.54	-9.66	-7.44
IOO	Global 100	0.11	1.89	0.41
EEB	BRIC	-3.87	-6.58	-3.37
DBC	Commodities	-1.94	4.12	6.44
USO	Oil	11.14	15.05	25.40
UNG	Nat. Gas	-0.80	5.10	1.63
GLD	Gold	-3.61	-5.68	-4.04
SLV	Silver	-2.01	-1.69	-5.25
SHY	1-3 Yr Treasuries	0.04	0.16	0.02
IEF	7-10 Yr Treasuries	0.20	-0.10	-2.05
TLT	20+ Yr Treasuries	0.65	0.52	-3.01
AGG	Aggregate Bond	0.10	-0.18	-1.64
BND	Total Bond Market	-0.04	-0.22	-1.81
TIP	T.I.P.S.	0.65	0.85	-0.04

1. ***US equities are outperforming.*** After a strong 2017 from international stocks, the US has once again taken the lead. Strong outperformance from small caps and growth stocks have powered the market higher. Specifically, stocks within the technology and consumer discretionary sectors are leading.

2. ***Traditionally defensive investments are down.*** Stocks in the consumer staples, utilities, and real estate sectors, which are considered "defensive," have seen flat to negative returns in 2018. Many stocks in these sectors pay dividends, which made them vulnerable to the increase in rates. Bonds have also underperformed as a result of higher rates (bond prices typically fall when rates rise).

3. ***Emerging markets are struggling.*** Internationally, you can look at a stronger US dollar as the biggest driver of the weakness. While shifts in the value of currencies have a lot of moving parts, the dollar often strengthens due to the US economy performing better than its international peers. In turn, a stronger dollar hurts international returns for US-based investors. For example, the Euro was down 3% vs. the dollar through June. That means that no matter how well or poorly one of the Eurozone stock markets did, a US investor has to subtract 3% from the market returns in the country's home currency.

THE MARKET WAS POSITIVE IN EACH MONTH OF THE SECOND QUARTER

For the third consecutive year, the S&P 500 was positive in April, May, and June.

Why does this matter? In the past, whenever the market was positive in each month of Q2, it saw higher returns the rest of the year 14 out of 15 times (data from LPL):

WHAT HAPPENS WHEN THE S&P 500 IS UP EACH MONTH IN Q2?

Date	S&P 500	July Return	Q3 Return	Rest of Year Return
06/30/54	29.21	5.7%	10.6%	23.2%
06/30/58	45.24	4.3%	10.7%	22.0%
06/30/64	81.69	1.8%	3.0%	3.7%
06/28/68	99.58	-1.8%	3.1%	4.3%
06/30/75	95.19	-6.8%	-11.9%	-5.3%
06/30/80	114.24	6.5%	9.8%	18.8%
06/30/88	273.50	-0.5%	-0.6%	1.5%
06/30/95	544.75	3.2%	7.3%	13.1%
06/28/96	670.63	-4.6%	2.5%	10.5%
06/30/97	885.14	7.8%	7.0%	9.6%
06/30/03	974.50	1.6%	2.2%	14.1%
06/30/09	919.32	7.4%	15.0%	21.3%
06/30/14	1,960.23	-1.5%	0.6%	5.0%
06/30/16	2,098.86	3.6%	3.3%	6.7%
06/30/17	2,423.41	1.9%	4.0%	10.3%
06/29/18	2,718.37	?	?	?
	Average	1.9%	4.4%	10.6%
	Median	1.9%	3.3%	10.3%
	Higher	10	13	14
	Count	15	15	15

S&P 500 All Year (1950–2017)

	July Return	Q3 Return	Rest of Year Return
Average	1.0%	0.5%	4.6%
Median	1.0%	2.6%	5.0%
% Higher	55.9%	60.3%	70.6%

Source: LPL Research, FactSet 07/13/18

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Moreover, the S&P 500 is up over 4% so far in July. This has happened 10 times since 1950 leading to a positive market returns the rest of the year in all 10 instances, with average returns of 10% over the final 5 months.

THE SECOND EPISODE OF THE CORBETT ROAD PODCAST IS LIVE

In case you missed it, the link below will take you to the latest episode of the Corbett Road Podcast. Topics include the impact of a potential trade war and stock buybacks. It's a quick listen, and we welcome any questions or feedback you have.

https://soundcloud.com/user-402506844-741459357/episode-2