Altus
Wealth Management, LLC

Reaching Higher

Market & Portfolio Update

April 2017

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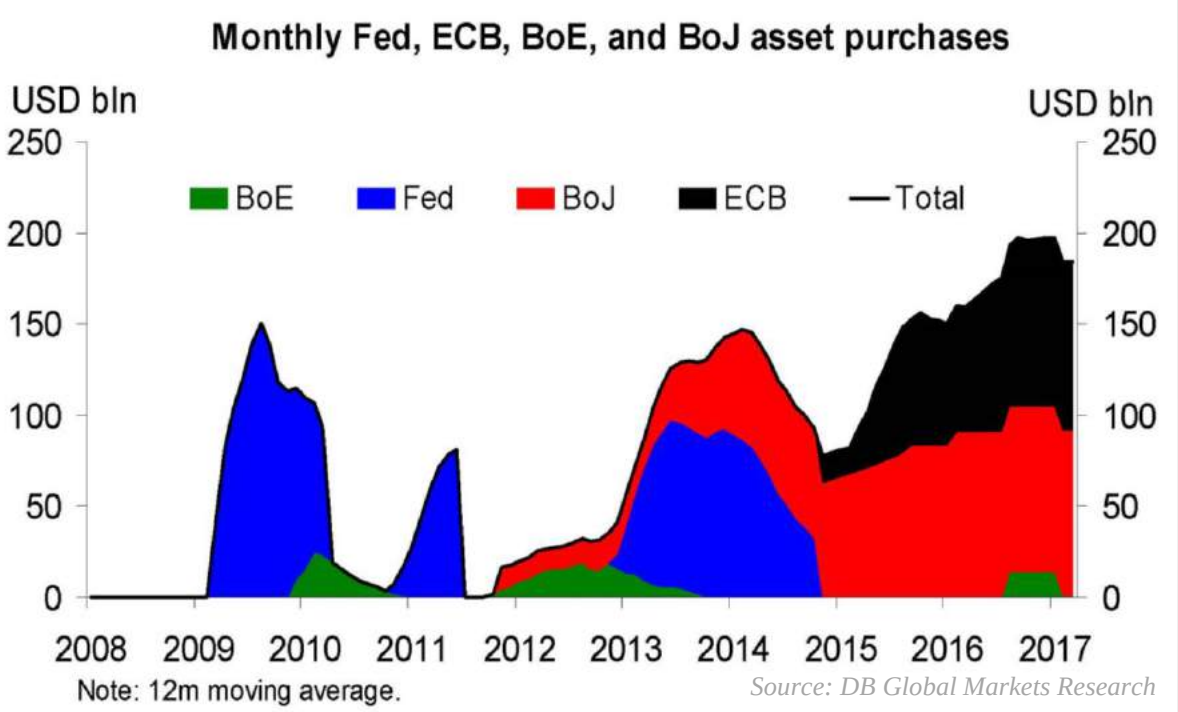
Market Update

The global economic recovery is starting to broaden. Reflation, defined as rising economic growth coupled with accelerating inflation, is beginning to take hold overseas whereas previously, the U.S was the sole driver. Heightened geopolitical tensions continue globally (Syria, Brexit, Trump) causing some investors to question the reflation theme. Make no mistake, global liquidity from central bankers continues to dominate the landscape. The chart (Monthly Fed, ECB, BoE and BoJ asset purchases) shows the staggering amount of money still being printed to ensure reflation occurs globally. Until this stops, money is going to continue to flow into capital markets supporting both stock and bond prices. This was reflected in first quarter equity performance globally (see chart below).



2017 Market Returns		Q1
S&P 500	Broad Domestic	**5.53%**
MSCI EAFE	Broad International	**6.47%**
MSCI ACWI Ex USA NR USD	Emerging Markets	**7.86%**

Source: Morningstar ® as of 3/31/2017

Market Update

Domestically, a lot is hinging on the new U.S. administration's growth agenda. The ability to deliver on promised reforms is being questioned, given the recent failure to pass a new health care bill through Congress. Investors are facing the realization that "soft" data (confidence readings and business surveys) doesn't necessarily translate immediately into "hard" data (retail sales, capital expenditures and industrial production). It's the hard data that translates into economic growth and increasing profitability. The hard data is reflected in the Index of Leading Economic Indicators (LEI) see chart below. We follow this index closely, as it is a great predictor of future recessions. Considering the LEI is still reaching new highs and shows no signs of rolling over, **recession risk remains quite low**.

Source: FactSet, U.S. Conference Board. As of Mar. 27, 2017.

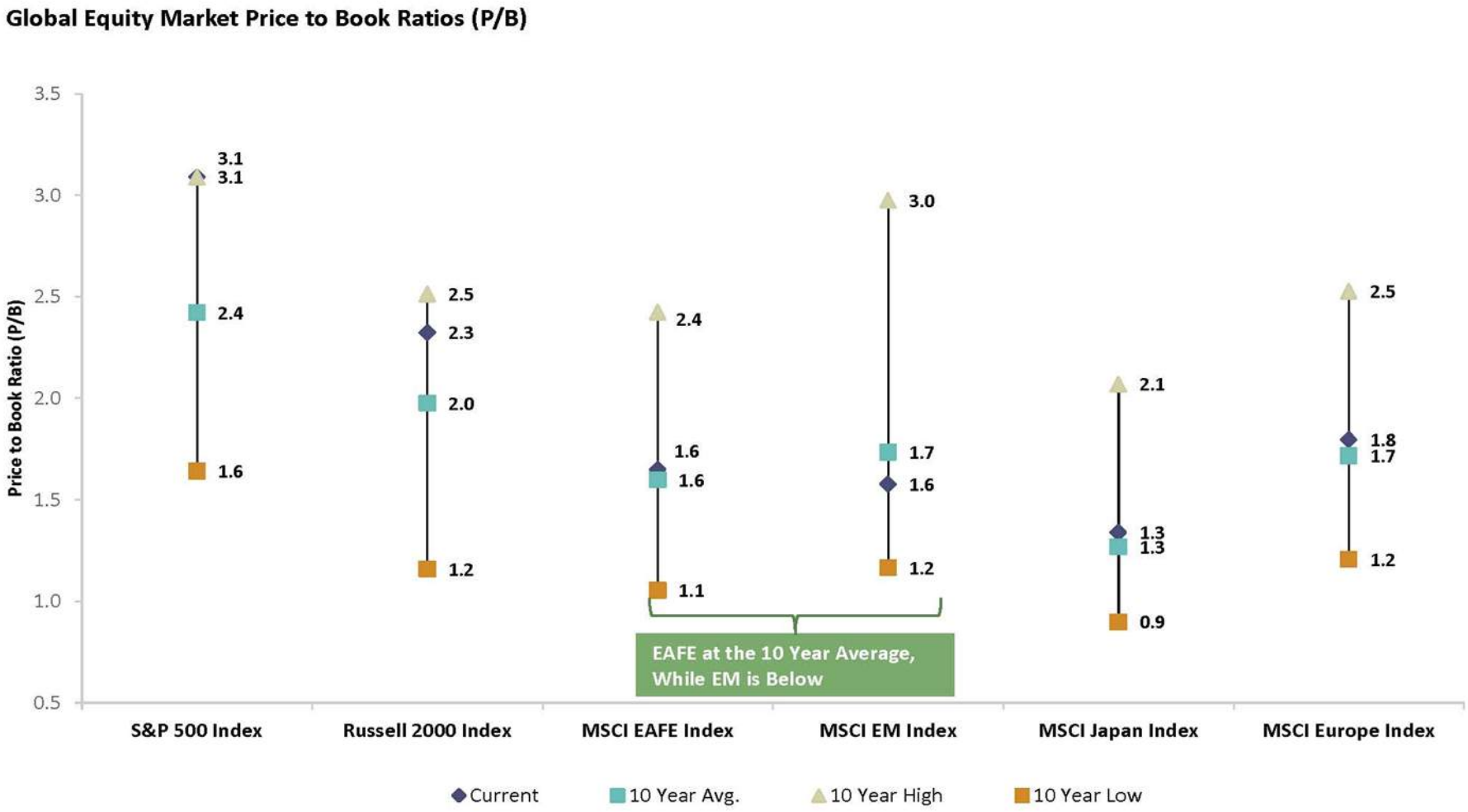
Market Update

Fundamental View –

U.S. equities do not look cheap, and gains since the presidential election have been powered mostly by multiple expansion. We have discussed elevated Price Earnings ratios (P/E ratio) in our previous updates and on our website. This analysis**, see chart on the following page labeled Global Valuations,** uses a different valuation method, Price to Book ratio. This ratio is used to compare the price of stocks, to what they are actually worth today, using Book Value per share. Developed foreign markets and emerging markets appear to be the most favorably valued. **In this environment, foreign equities look attractive to us. We see them playing a more prominent role in creating more diversified portfolios for the medium term.**

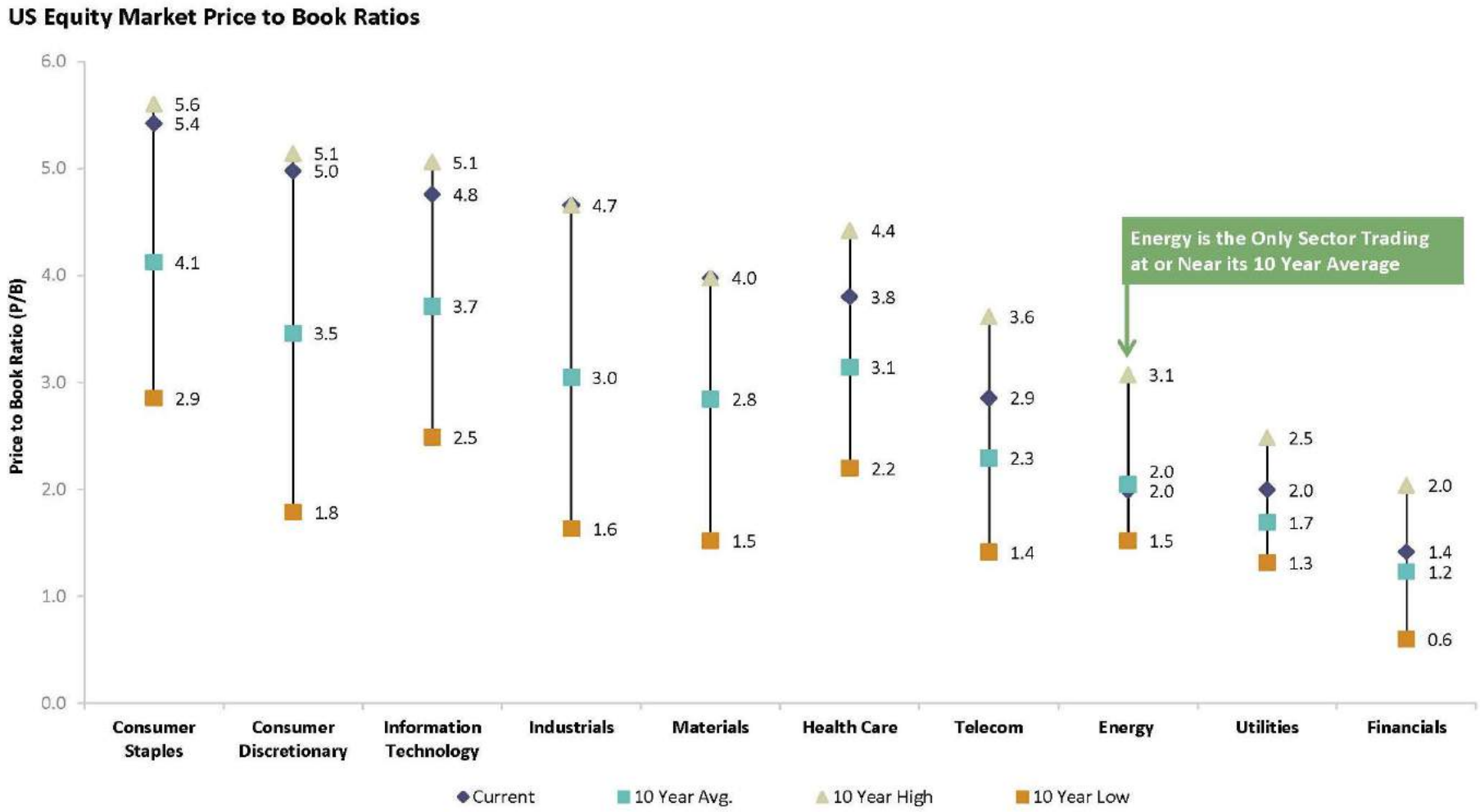
Using the same Price to Book ratio when analyzing U.S. stock sectors gives us actionable insight to help in making investment decisions. See **chart on subsequent page labeled U.S. Stock Sector Valuations.** Valuations for each stock sector vary widely. These valuation disparities show where opportunities may exist to add fresh cash or where it may be time to take profits. For instance, **we recently invested in the Select Sector SPDR Energy Fund (ticker XLE) as valuations and earnings prospect for this sector look bright.** On the other hand, we continue to own a consumer discretionary ETF (ticker XLY) where valuations are clearly stretched. We have made nice gains on XLY since purchasing . All things considered, this will likely be the first place we go when we decide to harvest profits given the extended valuation in this sector.

Market Update – Global Valuations



Source: Bloomberg Finance L.P, State Street Global Advisors. As of February 28, 2017.
Characteristics are as of the date indicated and should not be relied upon as current thereafter. `

Market Update – U.S. Stock Sector Valuations



Source: Bloomberg Finance L.P., State Street Global Advisors. As of February 28, 2017
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Market Update

Interest Rates -

After launching an aggressive communication campaign that more rate hikes will soon be coming, the Fed raised rates, the third time since the end of the Great Recession. The Federal Open Market Committee, (FOMC) raised its Fed funds target range from (0.50% - 0.75%) to (0.75% - 1.00%). The more important outcome of the meeting was that Fed officials left their projection of three rate hikes for all of 2017 unchanged. Many market participants were expecting a more aggressive Fed to come out forecasting four hikes for 2017.

The more important Fed policy decision, rather than the level of interest rates, is how they plan to reduce the size of their bloated balance sheet. The March FOMC minutes revealed some clues as to what the Fed may be planning with respect to when and how it will reduce its balance sheet. The minutes made it evident that most Fed members agreed that "a change to the Committee's reinvestment policy would likely be appropriate later this year." However, uncertainty around how the Fed would reduce reinvestments persists, as well as how the Fed will react if economic data weakens. **Bottom line, reducing liquidity to the markets is likely to increase volatility in both bond and stocks markets.** This is the inverse of what is currently happening on a global scale, as was discussed on the first page of this update. Accordingly, we will be closely monitoring what decisions all central bankers make regarding liquidity conditions!

We hope you find this information useful. As always, we encourage you to reach out to your advisor if you would like to talk further about any of the information presented.

Sincerely,
Your Altus Team

Altus Wealth Management, LLC

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Leading Economic Index (Indicators) is an index that is a composite average of leading indicators and is designed to signal peaks and troughs in the business cycle.

Composite Index of 10 leading Indicators is an index that is a composite average of ten leading indicators in the US complied by the Conference Board. It is designed to signal peaks and troughs in the business cycle, generally known as the leading economic index (LEI). Components of the LEI include average weekly manufacturing hours, average weekly initial claims, new orders for consumer goods and non-defense capital goods, building permits and stock prices. Other components are indexes of supplier deliveries and consumer expectations, M2 money supply and the interest rate spread between 10-year Treasury bonds and federal funds

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