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PORTFOLIO UPDATE – MARCH 22, 2017

The first quarter of 2017 in the U.S. has been dominated by stories of dissension in the halls of Washington as President Trump works to push his agenda. With many investors positioned for “reflation”, the (lack of) progress in Washington is being closely followed. As we suspected, even with a Republican Congress, Mr. Trump is having difficulties advancing his campaign promises. As the debate over the Obamacare repeal rages on, there is growing doubt regarding the approval and timing of other Trump imperatives including tax reform, regulatory roll-backs and fiscal stimulus. Outside the U.S., U.K. Prime Minister May is making progress toward initiating the Brexit process, but the populist movement is showing signs of stalling with Geert Wilders’ second place finish in the Netherlands elections and the fading presidential chances of Marine Le Pen in France. This heightened level of gridlock and geopolitical uncertainty is somewhat of a concern as we evaluate our tactical positioning. While we remain bullish on equities, we have chosen to selectively reduce our exposure by exiting the U.S. Energy sector and a dedicated position in Canada. The sale proceeds will be held in cash.

Our decision to re-enter the Energy sector back in November was based on attractive valuations, improving market technical, and indications of tightening supply/demand dynamics. Over the last few months, while OPEC has made efforts to restrict oil supply, we have seen the U.S. rig count increase as shale producers seek to take advantage of higher pricing. In the near term, we expect a continuing supply glut, capping oil prices and impeding industry economics. Reflecting the continued imbalance, Energy technicals have deteriorated. In the near term, the sector appears unattractive and we believe it is prudent to eliminate our exposure.

Our exposure to the Canadian market was predicated on the belief that Energy and Financials, two of the most dominant sectors in this northern economy, would strengthen based on market dynamics and central bank policy. Per our discussion above, the Energy sector has deteriorated. Because Canadian banks are closely tied to the energy patch, the potential for improvement in Financials is not compelling enough to us to maintain the exposure and we have chosen to exit the position.

In terms of overall positioning, we continue to maintain a preference for the U.S. with lower exposure to international assets than our underlying benchmarks. We also have a favorable view of Asia and the emerging markets while continuing to avoid exposure to European asset classes. As a result of today’s sales, we are holding significant cash positions in portfolios, mainly at the expense of European equities and non-U.S. bonds. Within fixed income, we also favor the U.S. over the rest of the world with a preference for short duration corporate credit. Our portfolios maintain lower duration than the benchmark and broad exposure to non-U.S. bonds at weights below our benchmark. We have no emerging market debt at this time.

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For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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