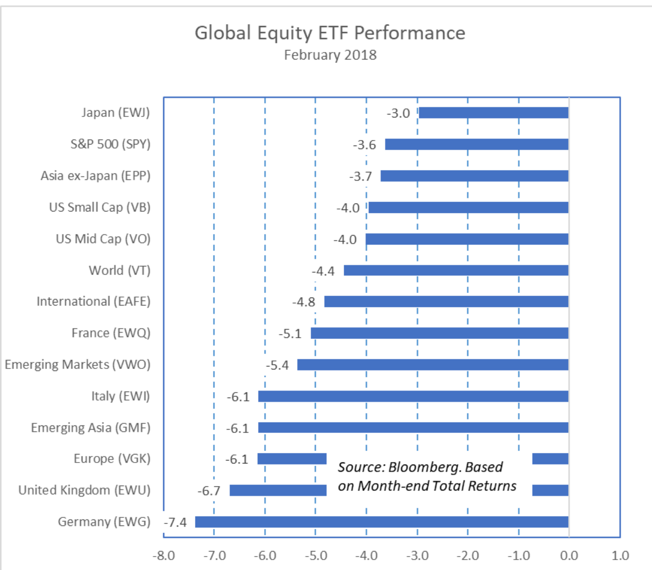
WILDE CAPITAL MANAGEMENT

# FEBRUARY 2018 CAPITAL MARKET REVIEW

February was a brutal month for the world's capital markets – there was only one segment among the global stock and bond markets on our short list, U.S. dollar denominated non-U.S. debt, that posted a positive return. After starting off 2018 with strong advances in several key global stock markets, investors' gains virtually evaporated in the first week of February. Markets did begin to recover over the balance of the month but heightened volatility is likely to remain for the foreseeable future due to lingering concerns about interest rates and the potential for inflation.




## Equity Markets*

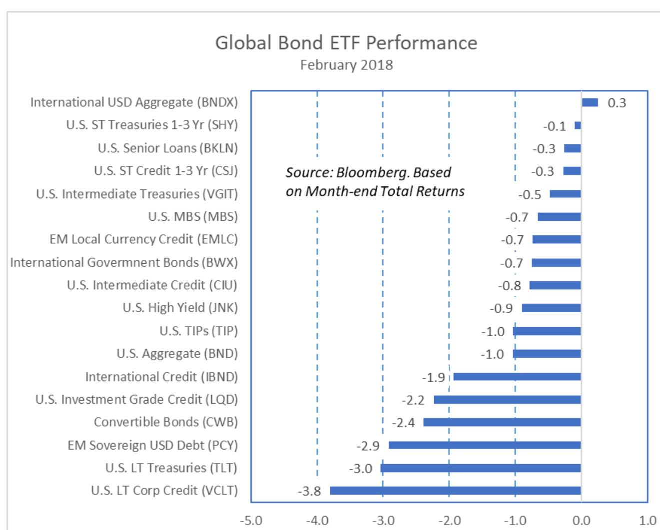
There was virtually nowhere to hide in global stocks during the month of February, particularly in the first week or so of trading. Through February 8th, the ETF tracking world stocks (ticker: VT) contracted about 8.3% before recovering over the balance of the month to post a -4.4% total return.

U.S. and developed market equities in Asia performed better but still declined. The greatest pain was felt in Europe and the emerging markets which all fell greater than 5% during the month.

## Bond Markets*

The continued ascent of U.S. interest rates contributed to weak results in many segments of the global bond markets – the yield on the 10-year U.S. Treasury bond rose from 2.71% to 2.86% over the course of the month.

In the U.S., many sectors contracted. U.S. longer term bonds were the hardest hit with long-term Treasuries contracting 3% and long-term corporate credit falling 3.8%. Even shorter duration U.S. fixed income declined. The only positive returns within global fixed income came from U.S. dollar denominated non-U.S. debt, which rose 0.3%.



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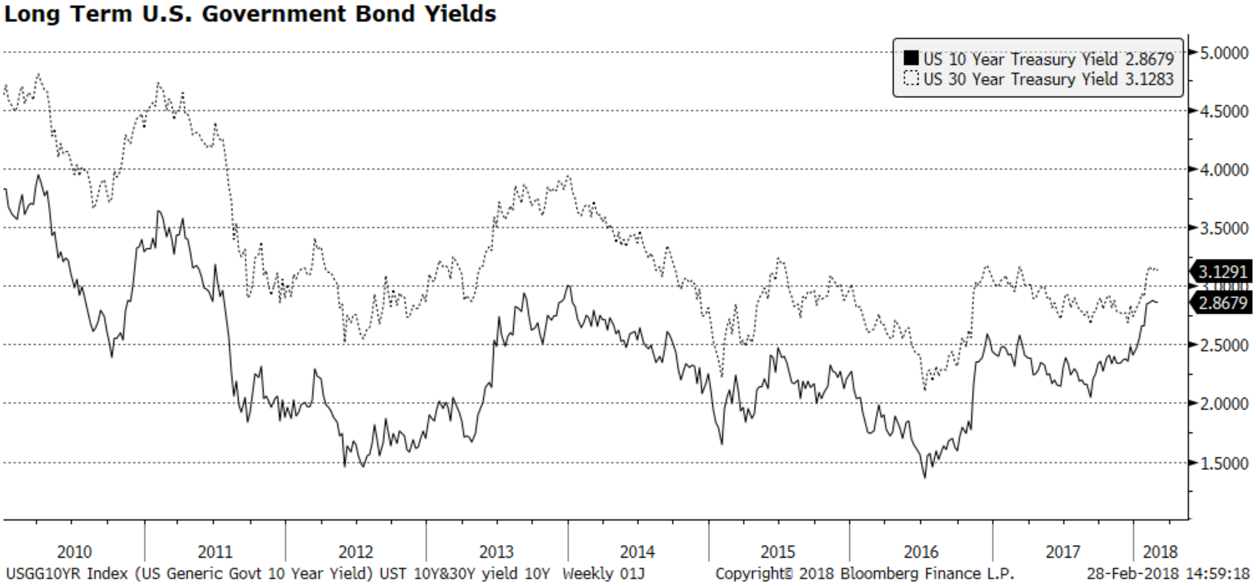
## U.S. BOND YIELDS CAUSING MARKET VOLATILITY:

Stock markets around the world have been gyrating in response to higher interest rates – particularly in the United States. Long-term U.S. Government bond yields have increased significantly over the course of the past year and a half. Yields on the 10 and 30-year U.S. Treasuries have recently reached levels that some market participants believe may become headwinds for equities. While recent advances have been steep, interest rates are still well below what would be considered "normal levels", which would imply more volatility in corporate securities markets across the globe.

**Long Term U.S. Government Bond Yields**




*See the WCM website for more market commentary or contact us with any questions.*

**The returns cited on the prior page reflect total return performance of exchange traded funds listed in the corresponding bar charts.*

> *"February was a brutal month for the world's capital markets – there was only one segment among the global stock and bond markets that posted a positive return. After starting off 2018 with strong returns across markets, investors' gains virtually evaporated in early February. Markets did recover somewhat but heightened volatility is likely to remain for the foreseeable future due to lingering concerns about interest rates and the potential for inflation."*

## PORTFOLIO POSITIONING

In terms of overall positioning, we maintain a preference for U.S. equities and cash. We also have a favorable view of Asia ex-Japan and the emerging markets. Our commitments to these equity markets are primarily funded from non-U.S. bonds. Within fixed income, we are underweight both the U.S. and non-U.S. bonds. 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.

## RISK OUTLOOK

Economic activity generally remains robust both home and abroad. Consumer and business sentiment indicators remain bullish, corporate earnings growth is robust, while inflation remains in check. Fiscal policy in the developed world will most likely continue to be expansionary and monetary policy, on balance, should remain accommodative. These conditions are generally constructive for global risk assets. The following are key risks we are monitoring:

- Jerome Powell was sworn in as the 16th chairman of the Federal Reserve in early February. We remain confident that the Fed will continue to raise the Federal Funds rate at a measured pace throughout 2018. We also expect the Fed to be very cautious and highly transparent as they continue to shrink their $4.5 trillion balance sheet. Any misstep in these two key policy areas could have severe economic and market ramifications.
- The Trump administration needs to continue to execute their policy initiatives. With tax reform now being implemented, the next initiatives – much needed infrastructure improvement and immigration reform – will likely prove to be just as politically heated. President Trump's recent announcement of his plan to impose tariffs on steel and aluminum has ignited fears of a "trade war". We believe it is too early to assess the true impact of what could ultimately play out as trade negotiations. The continuing investigation by Robert Mueller could also hinder further legislative progress in the near term.
- Tensions with North Korea have been improving in recent weeks. Joint activities between North and South Korea at the Winter Olympics in PyeongChang appear to have helped rebuild diplomatic ties. In a further positive development, Kim Jong Un met with senior officials from South Korea for the first time since he took power in 2011. However, based on history, the rogue regime's actions are unpredictable and warrant continued monitoring.

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# KEY EVENTS IN MARCH

**Week 1**

- 3/2 U.S. Univ. of Michigan Sentiment Surveys (Feb.)
- 3/4 Japan Nikkei Composite PMI
- 3/4 China Caixin Composite PMI (Feb.)
- 3/5 Markit Composite PMI (U.S., Eurozone)
- 3/5 U.K. Markit/CIPS Composite PMI
- 3/5 Eurozone Sentix Investor Confidence
- 3/7 U.S. Federal Reserve releases Beige Book
- 3/7 Japan 4Q GDP (Final)
- 3/7 Eurozone 4Q GDP (Final)

**Week 2**

- 3/8 Eurozone ECB Rate Decisions
- 3/8 China Price Index Surveys
- 3/8-3/9 Japan BOJ Policy Targets
- 3/9 U.S. Employment Surveys
- 3/13-3/14 U.S. Price Index Surveys

**Week 3**

- 3/16 U.S. Housing Surveys
- 3/16 Eurozone CPI
- 3/20 U.K. Price Index Surveys
- 3/20 Eurozone ZEW Expectations Survey
- 3/20 Japan Leading Indicators
- 3/21 U.S. FOMC Rate Decision

**Weeks 4&5**

- 3/22 U.S. Conf. Board Leading Indicators
- 3/22 U.K. BOE Bank Rate and Asset Targets
- 3/22 Eurozone ECB publishes economic bulletin
- 3/27 U.S. Conf. Board Sentiment Surveys
- 3/27 Eurozone EC Confidence Surveys
- 3/28 U.K. GfK Consumer Confidence
- 3/29 U.S. Univ. of Michigan Sentiment Surveys
- 3/29 U.K. 4Q GDP (Final)

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any money manager, fund, asset class, style, index or strategy will provide positive performance over time.

Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

Portfolios that invest in fixed income securities are subject to several general risks, including interest rate risk, credit risk, the risk of issuer default, liquidity risk and market risk. These risks can affect a security's price and yield to varying degrees, depending upon the nature of the instrument, and may occur from fluctuations in interest rates, a change to an issuer's individual situation or industry, or events in the financial markets. In general, a bond's yield is inversely related to its price. Bonds can lose their value as interest rates rise and an investor can lose principal. If sold prior to maturity, fixed income securities are subject to gains/losses based on the level of interest rates, market conditions and the credit quality of the issuer.

Foreign investments are subject to risks not ordinarily associated with domestic investments, such as currency, economic and political risks, and may follow different accounting standards than domestic investments. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems that can be expected to have less stability than those of more developed countries. These securities may be less liquid and more volatile than investments in U.S. and longer-established non-U.S. markets.

An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

Portfolios that invest in real estate investment trusts (REITs) are subject to many of the risks associated with direct real estate ownership and, as such, may be adversely affected by declines in real estate values and general and local economic conditions.
Portfolios that invest a significant portion of assets in one sector, issuer, geographical area or industry, or in related industries, may involve greater risks, including greater potential for volatility, than more diversified portfolios.

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Exchange-traded funds (ETFs) are investment vehicles that are legally classified as open-end investment companies or unit investment trusts (UITs), but differ from traditional open-end investment companies or UITs. ETF shares are bought and sold at market price (not net asset value) and are not individually redeemed from the fund. This can result in the fund trading at a premium or discount to its net asset value, which will affect an investor's value. Shares of certain ETFs have no or limited voting rights. ETFs are subject to risks similar to those of stocks.

ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

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.

Certain ETFs have elected to be treated as partnerships for federal, state and local income tax purposes. Accordingly, investors in such ETFs will be taxed as a beneficial owner of an interest in a partnership. Tax information for such ETFs will be reported to investors on an IRS schedule K-1. Investors should consult with their tax advisors in determining the tax consequences of any investment, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.