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PORTFOLIO UPDATE – AUGUST 21, 2018

It has been a busy summer as the global trade conflicts linger and the crisis in Turkey unfolds. With strong indicators across the U.S. economy including GDP growth, consumer spending and confidence, investors continue to anticipate the Federal Reserve's next move regarding interest rates. They will have more fodder this week as the Fed releases the minutes from the most recent Federal Open Market Committee (FOMC) meeting and the Kansas City Fed hosts its annual policy symposium in Jackson Hole, Wyoming. At WCM, we are monitoring this information but have been spending a lot of time looking at economic performance across global markets. Quite simply, the story is not as rosy outside the U.S. With growing signs of weakness in the Eurozone, we have chosen to reduce our equity exposure there and place the proceeds in U.S. small and mid-cap equities.

As we entered 2018, there was optimism (include us in that crowd) regarding synchronous global growth and the persistent recovery. But that optimism was short lived as investor fears were stoked by signs of inflation and the expectation of higher interest rates. The U.S. remains on a solid trajectory due to the tax cut stimulus and strong corporate earnings but there are growing cracks across other regions including Europe, China, and emerging markets due to the trade skirmishes, the strengthening U.S. dollar and high debt levels. Our conviction in the Eurozone has been tested by a number of recent indicators. While the regional economy continues to expand, growth for the most recent quarter came in at 0.3%, the slowest level in two years. Uncertainty regarding the threat of a "global trade war" seems to be a real concern. Business and consumer sentiment has been falling for a number of months. In recent weeks, market technical factors for both Eurozone equities as well as the euro have been consistently weak. There has been notable weakness in the banking sector (see the commentary accompanying our Chart of the Week dated August 21, 2018 posted on the WCM blog). Based on these considerations, we reduced our Eurozone equity exposure and placed the proceeds in U.S. equities across the lower portion of the market cap spectrum. U.S. small business optimism remains high and we continue to believe smaller companies will be less impacted by any trade conflicts.

In terms of overall positioning, we maintain a long-standing preference for the U.S. across equities and fixed income. Within U.S. equities, with the changes discussed above, we now have a broad overweight across the market cap spectrum. Our reduced exposure to the Eurozone increases our underweight within non-U.S. equities. We continue to have a favorable view of emerging Asia countries. Our overweights to these markets are primarily funded from non-U.S. bonds. Within fixed income, we remain underweight in the U.S. with a preference for corporate credit. We do not have any current exposure to non-U.S. fixed income. Our portfolios maintain lower duration than the benchmark. Our cash position is overweight relative to our benchmark.

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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.

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