Verdence Capital Advisors

Weekly Investment Strategy Update

Weekly Economic Recap – *Solid Data Continues*

- Home prices as measured by the S&P Case Shiller Home Price Index rose 6.4% (YoY) in October and saw the largest year over year increase in 39 months. In addition, pending home sales rose for the second consecutive month (+0.6% MoM) led by gains in the northeast.
- December consumer confidence, according to the Conference Board, retreated after reaching a 17 year high in November. However, confidence is still ~30% above the historical average since 1967. The jobs plentiful vs. jobs hard to get component hovered near the highest level since 2001. This reading suggests ongoing strength in the labor market as it tends to have a strong relationship with the unemployment rate.
- The December Chicago Purchasing Managers Index rose to the highest level since March 2011. In addition, the Dallas Fed Manufacturing Activity Index rose to the highest level since 2006 in December. This suggests another solid reading for the ISM Manufacturing Index next week.
- Wholesale inventories rose 0.7% (MoM) in November. This is the second biggest monthly jump in the past 11 months while retail inventories modestly rose (0.1% MoM).

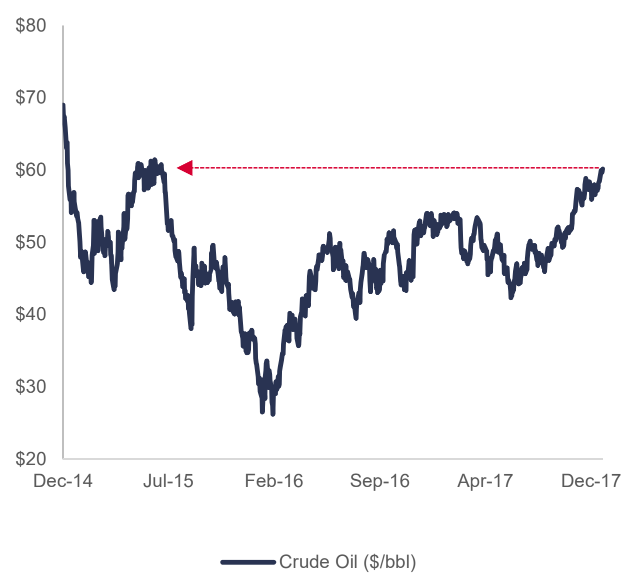
Weekly Market Recap – *Santa Delivers Positive Year End*

- **Fixed Income:** All the major fixed income asset classes finished the week in positive territory. Despite the positive economic data, Treasuries rallied on month end index extensions. Municipals benefitted from a slowdown in issuance and EM debt (local) rallied on risk appetite.
- **Equities:** U.S. equities (S&P 500) posted modest gains into year end but trailed their international counterparts (MSCI EAFE USD). The UK led the developed returns by finishing the year at a fresh record high after Brexit negotiations gained momentum. Within the U.S., real estate was the best performing sector on lower rates and solid housing data. Tech was the laggard for the week led by Apple after iPhone estimates were cut and the company issued a rare apology for the rumored deliberate slowdown of particular iPhones.
- **Commodities/FX:** The Bloomberg Commodity Index saw its biggest weekly gain in 27 weeks as the dollar fell to a three month low and economic data came in better than expected. In fact, after rallying for 12 straight days, the Commodity Index saw its best consecutive daily rally on record. Gold saw its best weekly gain in 11 weeks and copper gained for the third consecutive week. Oil finished the year above $60/bbl after a pipeline explosion in Libya sparked supply concerns.

High Confidence Should Mean Higher Spending

Footnotes: Data as of December 2017.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Crude Oil Rises to Two Year High



Footnotes: Data as of December 29, 2017.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Weekly Investment Strategy Update

Weekly Strategy View – *Recap of 2017*

As 2017 comes to a close, it is time to reflect on some of the good, bad, ugly and even scary things we experienced from an economic perspective, a geopolitical/political viewpoint and from an investment performance standpoint during the year.

- **The good**: U.S. economic activity posted an astounding year in 2017. Whether it was the unemployment rate falling to the lowest level since 2000, consumer confidence rising to a 17 year high, homebuilder optimism at the highest level since 1999, manufacturing at a 13-year high or small business optimism at a 34 year high, the U.S. economic recovery gained momentum during the year. Global equities responded with the MSCI AC World Index, S&P 500, German DAX, FTSE 100, Brazil Bovespa and Korean Kospi being a handful of major equity markets to hit a record high in 2017. In the U.S., albeit positive, growth outperformed value by the widest margin since 2009 and large cap outperformed small cap by the most in three years. Despite the Fed raising interest rates for the fifth time in 2017, the Barclays Aggregate Index rose for the 17th time in the past 18 years. Even the 10 year Treasury was positive as the yield ended the year nearly unchanged. EM (local) and high yield led the fixed income returns with EM local bonds experiencing their best yearly gain in five years. Select commodities benefitted from better global growth with oil rising for the second consecutive year and copper posting its best gain since 2010. Gold saw its best annual return in seven years on dollar weakness and geopolitical tensions.
- **The bad**: The Dollar Index was a disappointment in 2017 despite interest rate differentials between the U.S. and Europe remaining near the highest level since 1989.* Political uncertainty given President Trump's legal woes and deficit fears due to the fiscal expansionary actions taken by the new Administration (e.g. tax reform) put pressure on the dollar.
- **The ugly:** The world was reminded about the dangers of North Korea as well as cyber attacks in 2017. North Korea launched over 20 missile attacks and each one became more advanced than the last while cyber attacks targeted major companies such as Equifax and Yahoo (affecting more than 150 million people). From an investment perspective, volatility as seen by the VIX Index declined ~30% as central bank liquidity kept the risky asset euphoria alive. Investors in a volatility ETF saw over a 70% decline in their investment while short bias hedge funds declined for the fifth year in the past six.**
- **The scary**: Complacency reared its head in 2017. Whether it was the VIX Index at a record low, the S&P 500 only experiencing a one percent move (up or down) during eight trading days (the least amount of moves since 1964), the trailing P/E of the S&P 500 at the highest level in over a decade or an investment like bitcoin that few understand and has no store of value rising nearly 1500%, complacency may be a danger to risky assets as we enter 2018. Happy New Year!

Asset Class Performance

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	24,838	0.2%	4.4%	11.6%	28.3%	28.7%
S&P 500	2,688	0.1%	2.5%	7.6%	21.9%	22.4%
Russell 1000 Growth	1,360	0.1%	1.5%	9.0%	30.1%	30.9%
Russell 1000 Value	1,229	0.3%	3.4%	6.0%	13.9%	14.2%
Russell Midcap	2,089	0.7%	2.3%	7.0%	18.8%	19.1%
Russell 2000	1,549	0.2%	1.0%	4.4%	15.3%	15.6%
Nasdaq	6,950	-0.2%	0.6%	8.0%	29.3%	30.6%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	514	0.5%	2.0%	6.4%	25.0%	24.7%
MSCI EAFE (USD)	2,043	0.5%	1.5%	4.5%	26.4%	25.2%
MSCI Europe ex UK (USD)	2,106	0.1%	0.3%	1.5%	25.6%	23.9%
MSCI Japan (USD)	3,432	0.4%	1.1%	8.4%	24.1%	24.6%
MSCI UK (USD)	1,237	1.1%	4.1%	5.7%	29.7%	27.6%
MSCI EM (USD)	1,154	1.7%	0.8%	7.8%	38.7%	36.9%
MSCI Asia ex Japan (USD)	711	1.6%	0.0%	8.4%	42.7%	41.2%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	2.7%	0.4%	0.0%	0.2%	3.9%	3.4%
U.S. Govt/Credit	2.7%	0.4%	0.0%	0.4%	4.3%	3.9%
U.S. 10 Year Treasury	2.4%	0.5%	-0.6%	-0.6%	2.6%	1.9%
U.S. TIPS (1-10YR)	2.2%	0.3%	0.0%	0.1%	2.1%	1.7%
U.S. High Yield	5.7%	0.2%	0.3%	0.5%	7.5%	7.5%
EM Bonds (Local)	4.9%	0.8%	1.0%	2.4%	14.8%	14.0%
Municipal Bonds	2.4%	0.6%	1.0%	0.7%	5.6%	5.4%

Commodites	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	88	2.8%	1.1%	3.6%	-0.1%	0.2%
Crude Oil (USD/bbl)	$59.8	2.6%	3.2%	16.1%	10.7%	11.4%
Gold ($/oz)	$1,294.9	2.8%	1.4%	1.7%	12.5%	13.0%
Copper	$330.9	3.1%	8.3%	11.4%	32.3%	31.4%
Wheat	$427.8	0.0%	-1.8%	-8.5%	-10.1%	-10.6%
U.S. Dollar	93	-1.0%	-0.9%	-0.8%	-10.1%	-9.7%
VIX Index	10	5.8%	1.5%	6.6%	-21.4%	-27.5%

*Footnotes: Data is weekly and as of December 28, 2017. *Using respective 10 year yields. **Using the Hedge Fund Research Short Bias Index.*
Source: Bloomberg Finance LP, Verdence Capital Advisors.

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Past performance is not indicative of future returns