DELTEC

Quarterly Global Strategy Outlook

Paradise Lost

Q1 2018

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"I don't know where I'm going from here, but I promise it won't be boring."

David Bowie (1947 - 2016)

Cover Photo: Nevada, USA

Paradise Lost

Market participants are currently benefitting from the combination of strong global economic growth driving higher earnings and a surfeit of liquidity suppressing discount rates, all leading to significant asset price appreciation and the most robust market expansion in over a decade. In the coming periods we will see the end of these idyllic conditions and the commencement of more classic cyclical conditions, which will result in a continuation of asset price appreciation, although also a return of asset price volatility.

From a short term, or tactical perspective, investment markets are driven by second derivatives, primarily growth momentum and liquidity growth. At present, growth momentum is rising, however liquidity growth is peaking, which will lead to a continued positive environment for asset prices amidst bouts of volatility and periods of consolidation, particularly for liquidity and interest rate sensitive assets. From a long term, or strategic perspective, investment markets are driven by the relationship between economic growth, liquidity conditions and asset prices. The global economic expansion is currently only approaching the midpoint, broadening across regions and sectors, against the backdrop of a secular decline in liquidity growth that is only beginning. This will lead to selectively higher asset prices as the cycle progresses.

The key risk to the outlook is no longer a systemic tightening of financial conditions causing deleveraging, political uncertainty suffocating the recovery or idiosyncratic country risks resulting in a premature end to the cycle, but rather the magnitude and extent to which policymakers tighten liquidity conditions. The current subdued inflation outcomes mitigate this risk in the short term, however only productivity growth will mitigate this risk in the long term, unlikely delaying the tightening cycle, though likely suppressing it.

A major regime shift is underway for economies and markets. As we enter this new era, individuals, corporations, investors and policymakers must address its numerous challenges: Ensuring productivity growth amidst a secular decline in liquidity growth, sustaining competitiveness in an environment of protectionism, promoting creativity in an age of commoditization, maintaining free movement of labor in an age of demographic decline and fostering intelligent ideas to shape a world of artificial intelligence. This era will generate immense social and technological changes that will challenge the conventional notions of industrial production, inflation and asset prices. For some, this will lead to tremendous investment opportunities, although for many, this will seem like Paradise Lost.

Contents

Investment Positioning

Strategic Asset Allocation

Preference for Equities and Cash & Money Market Securities over Bonds and Real Assets to capitalize on the continued global economic expansion and secular decline in liquidity growth.

Asset Class	Deltec View
Cash & Money Market	**OVERWEIGHT** Cash and Money Market Securities offer low yields at present, however the global economic expansion accelerate the secular decline in liquidity growth that will result in an increase in short term rates, improving the risk adjusted returns relative to other, more expensive, asset classes.
Bonds	**UNDERWEIGHT** Bonds are expensive on all conventional metrics, and from the current point will generate low or negative real returns as the cycle progresses. Selected areas of Credit are attractive on a risk adjusted basis, as stronger economic growth will result in low default rates, but also slowing liquidity growth. Sovereigns are safe yet expensive, leaving Investment Grade and High Yield better value as the cycle progresses. Floating Rate and Long Duration exposures are preferred, given interest rates are likely to rise further although to a lower neutral rate, leaving the belly of the curve most negatively impacted.
Equities	**OVERWEIGHT** Equities are selectively expensive in absolute terms, however remain undervalued on a relative basis and likely to provide attractive risk adjusted returns as the cycle progresses. Emerging Markets are selectively undervalued relative to Developed Markets, and whilst selective opportunities exist where structural reforms have been implemented, will experience bouts of pressure as liquidity conditions change. Undervalued growth sensitive sectors are preferred, as slowing liquidity growth will negatively impact interest rate sensitive sectors. Developed Market Equities are preferred, primarily Japan, Europe and the US, and selected Emerging Markets, those that have addressed structural issues.
Real Assets	**UNDERWEIGHT** Real Assets are expensive and have been supported in recent years through the combination of a surfeit of global liquidity and a flight to safety, both of which will dissipate as the cycle matures. From a strategic perspective, there are opportunities in selected long duration hard assets, however from a cyclical perspective, improving economic growth and slowing liquidity growth presents downside risk.

Tactical Asset Allocation

Preference for Equities and Cash & Money Market Securities over Bonds and Real Assets, as global growth momentum is strong, however liquidity growth is likely to slow, within a continued economic expansion.

Asset Class	Previous Change	Latest Change	Position	Deltec View
Cash & Money Market	↔	↔		**OVERWEIGHT**
Cash	↓	↔	Neutral	Preference for selected Investment Grade Financials and Corporates over low yielding Sovereigns and Cash. Corporate balance sheets and cash flows are robust, and Money Market rates have also increased with policy rates.
Government Bills	↓	↔	Negative	
Commercial Paper	↑	↑	Positive	
Bonds	↔	↓		**UNDERWEIGHT**
Floating Rate Notes	↔	↑	Positive	Preference for Investment Grade Corporates and High Yield over Sovereigns. Corporate balance sheets are strong and economic growth continues to improve, and whilst spreadshave narrowed,further compression is likely for selected sectors and issues. Floating Rate and Long Duration exposures are preferred, given interest rates are likely to rise further although to a lower neutral rate, leaving the belly of the curve most negatively impacted.
Inflation Linked	↔	↑	Positive	
Sovereign	↔	↓	Negative	
Investment Grade	↑	↔	Positive	
High Yield	↑	↔	Positive	
Equities	↔	↑		**OVERWEIGHT**
Developed Markets	↑	↑	Positive	Preference for selected Developed Markets and selected Emerging Markets. Within Developed Markets, Japan, Europe and the US are preferred over other regions, with undervalued growth sensitive sectors preferred to liquidity sensitive sectors. In Emerging Markets, selected opportunities exist in countries where structural issues are being addressed, and in selected sectors.
Emerging Markets	↑	↑	Positive	
Real Assets	↔	↔		**UNDERWEIGHT**
Commodities	↔	↔	Negative	Valuations on real assets are expensive, especially given the secular decline in liquidity growth. Within Alternatives, Event Driven and Macro are preferred at the current point of the cycle. Private Equity is well positioned for the continued yield premium and potential capital upside over public markets. Commodities, Gold and Real Estate are ineffective inflation hedges and more attractive relative returns are available elsewhere.
Gold	↓	↔	Negative	
Real Estate	↔	↔	Negative	
Alternative Strategies	↔	↔	Positive	

Refer to each section for Key Trades by Region and Asset Class and accompanying Key Trades document for specific securities.

Global

From a short term, or tactical perspective, the current environment is characterized by strong global growth momentum, contained inflation and a surfeit of liquidity. However, this environment will change over the coming periods, with the outlook for inflation key to how long this highly favorable period continues. Whilst economic conditions are expected to remain robust, liquidity growth will selectively slow, the combination of which is likely to lead to higher asset prices, amidst bouts of volatility, particularly for liquidity and interest rate sensitive assets. From a long term, or strategic perspective, outright global economic conditions are strong and driving earnings growth; liquidity conditions are changing rapidly although discount rates remain contained and; asset prices are elevated, although only selectively so. This environment is likely to see higher asset prices as the cycle progresses, although require far greater selectivity at a regional and sector level.

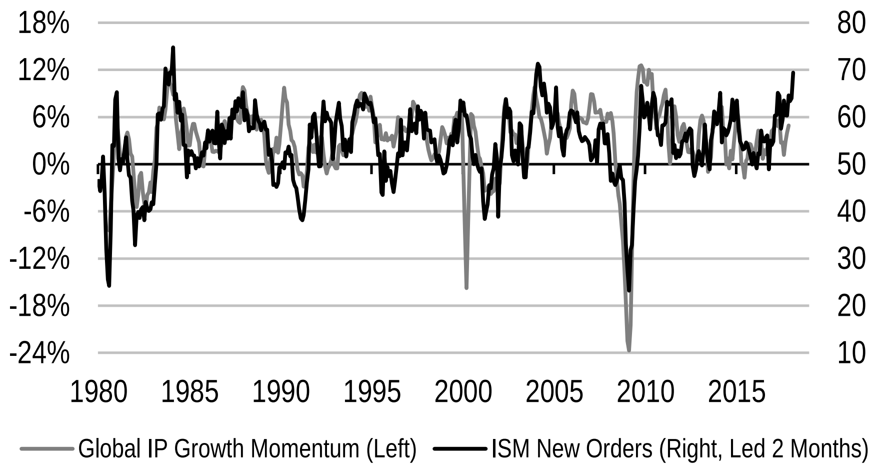
- Global growth momentum is strong, adding to the already robust outright growth environment that has broadened across most regions across the world. Whilst growth momentum is likely to experience a temporary peak over the coming periods, it comes within a synchronized global economic expansion that is likely to extend for at least the next year. US growth remains solid, although is past the midpoint of the cycle, European growth is expanding rapidly towards the midpoint, the Japanese expansion is in its early stages and Chinese growth has peaked, with downside risk.

- Global liquidity growth is currently positive, however the financial crisis era liquidity conditions are being selectively withdrawn within a changing inflation landscape. Tightening rhetoric is now occurring from all major central banks, with rising inflation in the coming months likely to see this rhetoric turn to action throughout 2018.

Investment Conclusion: In the coming period, stronger economic growth will support growth sensitive assets, however changing liquidity conditions will negatively impact interest rate sensitive assets. Equities are currently expensive on conventional metrics, however rising earnings should effect more attractive absolute and relative valuations. Credit is expensive, however can remain so, as economic conditions are consistent with low default rates. Slowing liquidity growth will positively impact Money Market Securities and Floating Rate Notes and negatively impact Bonds, particularly so mid-duration, as limited long term inflation will see long duration assets relatively well supported. Real Assets are expensive in absolute and relative terms. From a relative perspective, undervalued growth sensitive assets will outperform liquidity sensitive assets, with selected Equities providing the best risk adjusted returns, followed by Money Market Securities, Credit, and Real Assets.

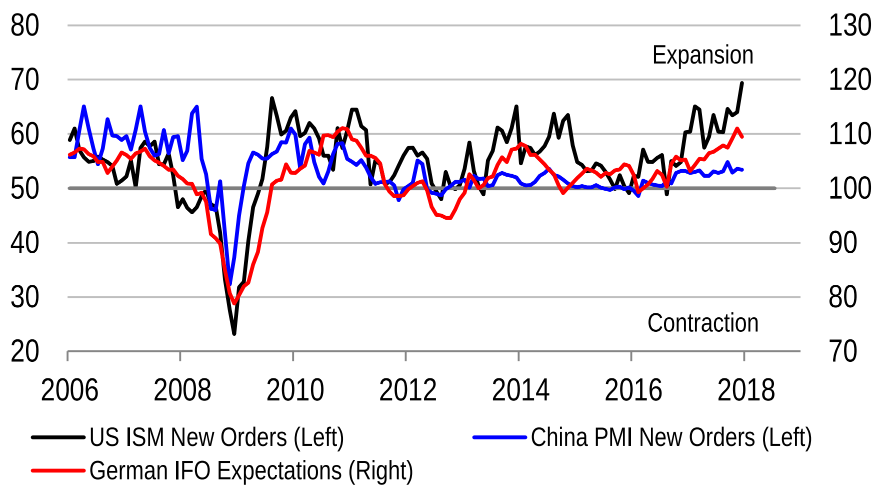
Positives: Developed Market Equities; Selected Emerging Market Equities; Floating Rate Notes; Selected Credit
Negatives: Selected Equities; Sovereigns; Real Assets

US ISM New Orders vs Global IP Growth Momentum



- Global Industrial Production growth momentum – growth in the rate of growth – is strong
- US ISM New Orders is currently consistent with stronger growth momentum in the near term
- Markets will move on growth momentum

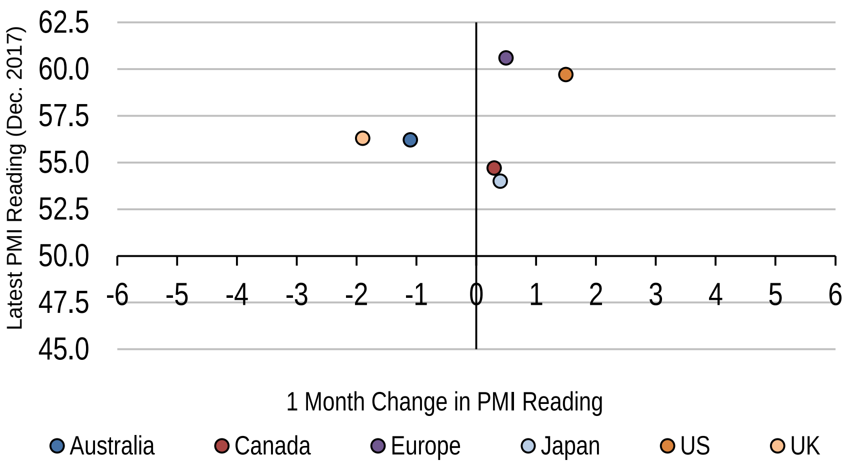
Global PMI New Orders Surveys



- PMI New Order Surveys, leading indicators of growth momentum globally, have continued to increase in recent months, from elevated levels
- The US is rising again, China is stabilizing, and Europe is stabilizing at a high level

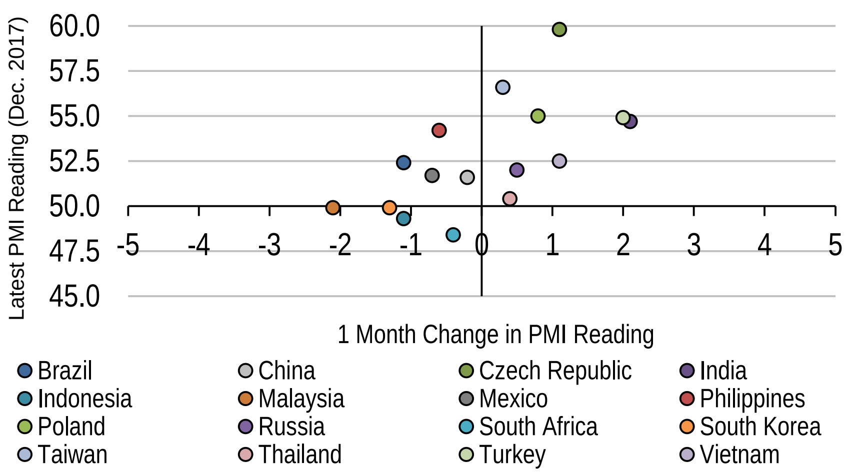
Sources: Bloomberg, Deltec

Developed Market Growth and Growth Momentum



- Leading indicators of Developed Market industrial production growth are strong, and improving
- Developed Market growth is strong
- Growth momentum is accelerating in the US, Japan, Canada and Europe
- Growth momentum is decelerating in Australia and the UK

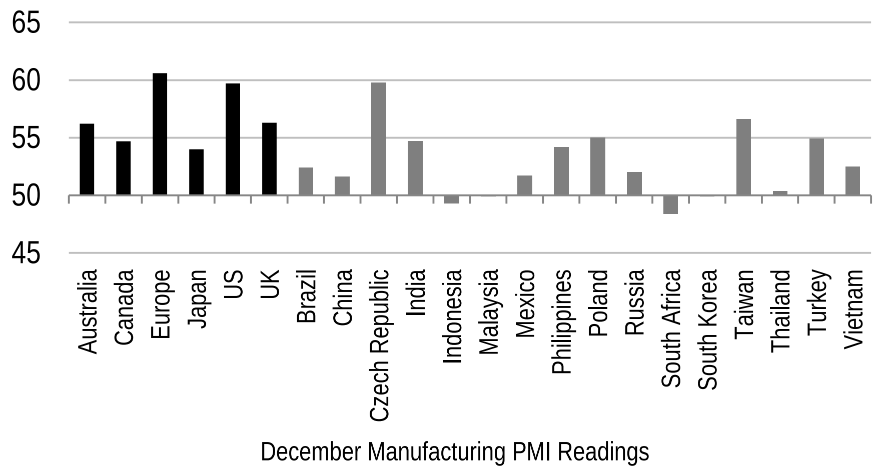
Emerging Market Growth and Growth Momentum



- Leading indicators of Emerging Market industrial production growth and growth momentum are strong and improving
- Growth momentum is accelerating in the Czech Republic, India, Poland, Russia, Taiwan, Thailand, Turkey and Vietnam
- Growth momentum is decelerating in Brazil, China, Indonesia, Malaysia, Mexico, Philippines, South Africa and South Korea

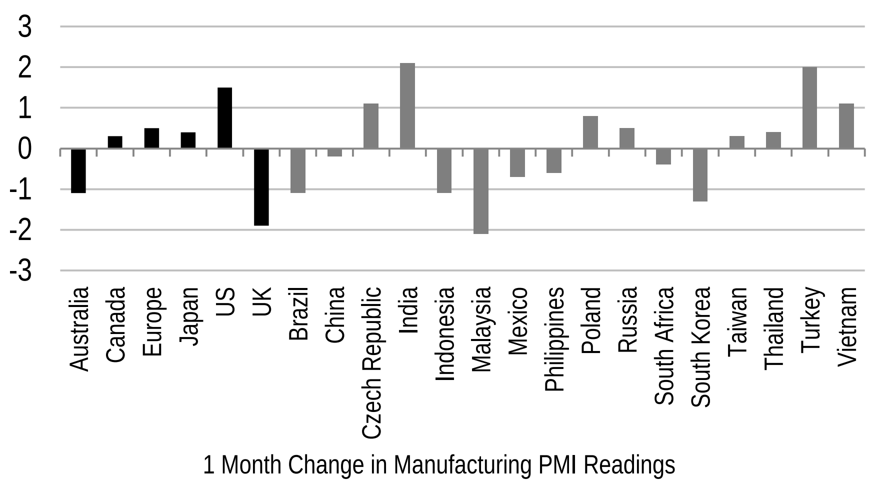
Sources: Bloomberg, Deltec

Developed and Emerging Market Growth



- Leading indicators of growth are stronger across Developed Markets

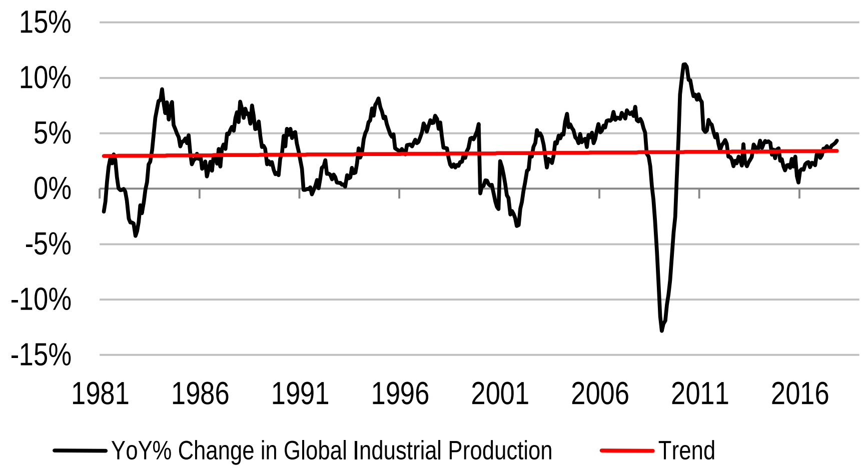
Developed and Emerging Market Growth Momentum



- Leading indicators of growth momentum are strongest across the India, Turkey and the US
- Leading indicators of growth momentum are weakest across Malaysia, the UK and South Korea

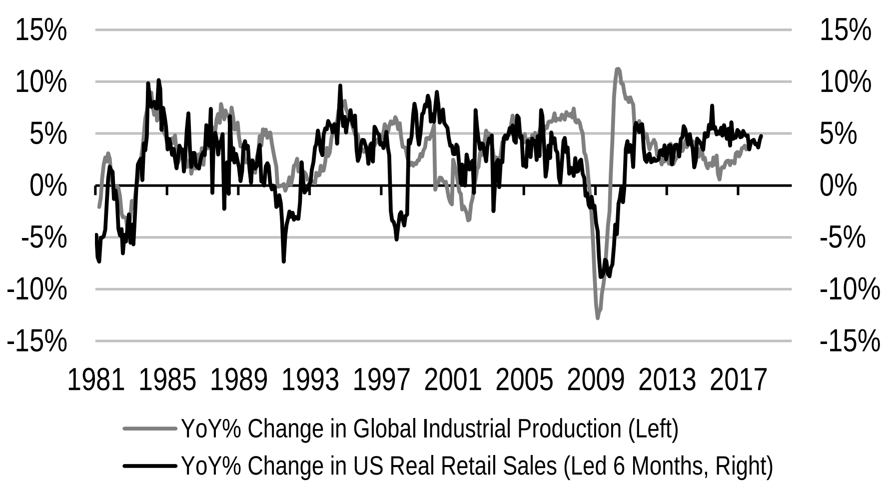
Sources: Bloomberg, Deltec

Global Industrial Production Growth



- Outright Global Industrial Production growth has risen further in the past quarter, with year on year growth now above trend

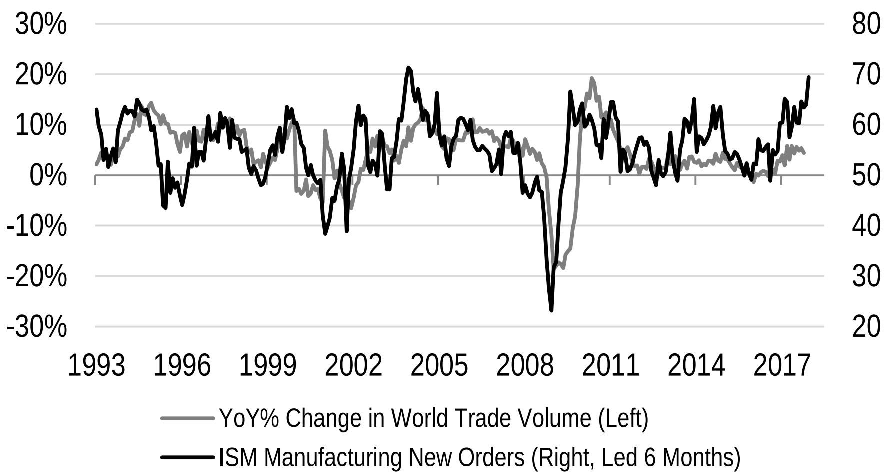
US Consumption vs Global Industrial Production Growth



- US consumption leads global growth by 6 months, and is currently stable
- US consumption growth has recently been led by services and experiences, rather than traded goods

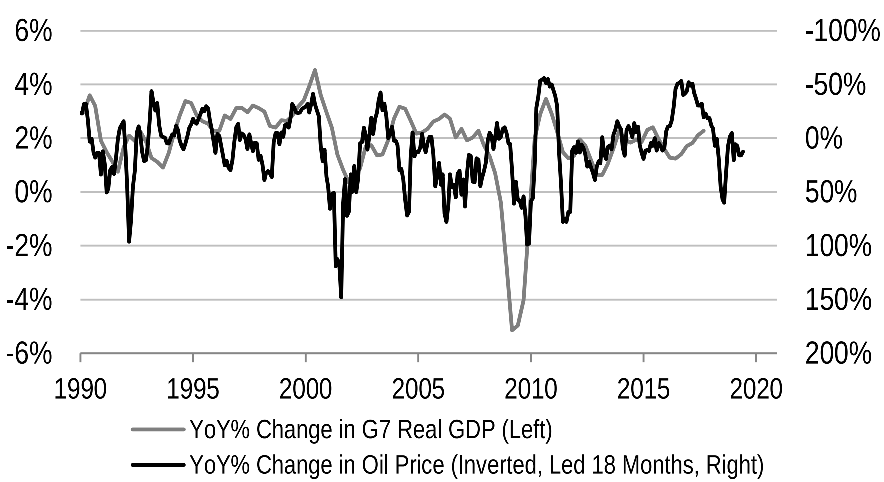
Sources: Bloomberg, Deltec

US New Orders vs Global Trade Volumes



- US New Orders have risen further and global trade continues to follow upwards
- Current level of New Orders is consistent with a ~ 20% improvement in global trade
- Countries with net exports are likely to benefit from improving global trade

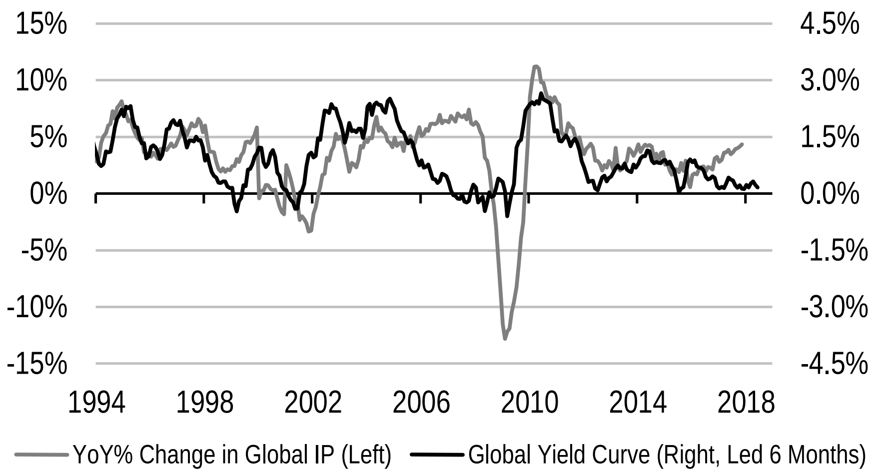
Oil Price vs Global GDP Growth



- Lower oil prices are, in aggregate, positive for global growth
- Recent changes in oil price consistent with slightly lower GDP growth over the coming year

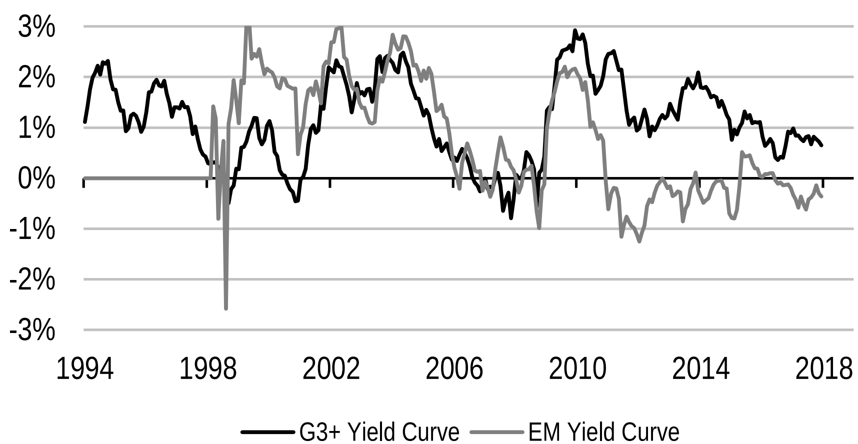
Sources: Bloomberg, Strategas, Deltec

Yield Curve vs Global Growth



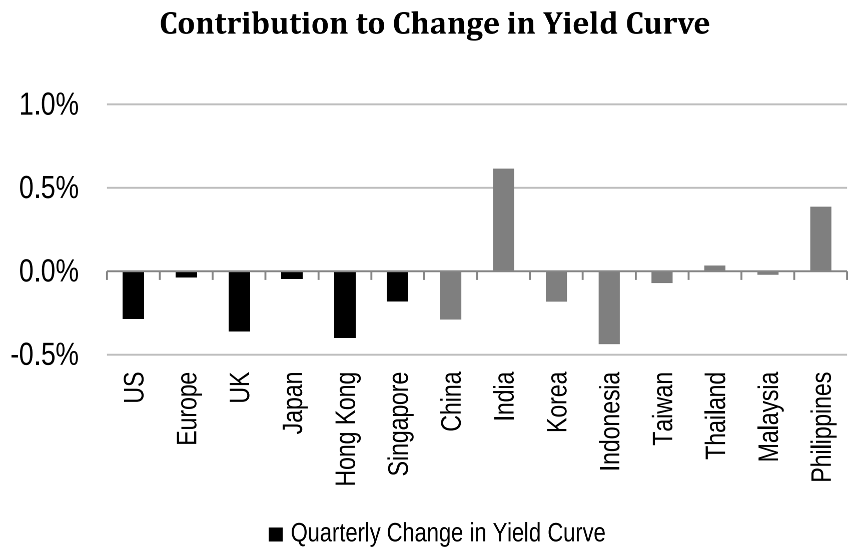
- Global yield curve flattened slightly over the last quarter
- Global yield curve is at levels consistent with lower near term global industrial production growth
- The GDP weighted global yield curve has historically provided a relatively reliable leading indicator to global industrial production growth
- A shortage of long duration assets may be leading to a flattening of the yield curve
- Lower longer term inflation expectations may be leading to a flattening of the yield curve

Global Yield Curve by Region

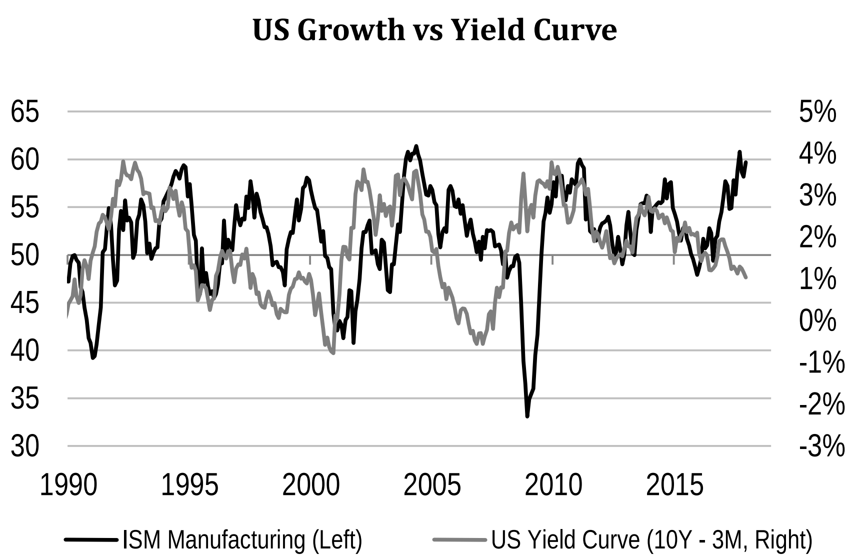


- The Developed and Emerging Market yield curves both flattened over the last quarter

Sources: Bloomberg, Deltec



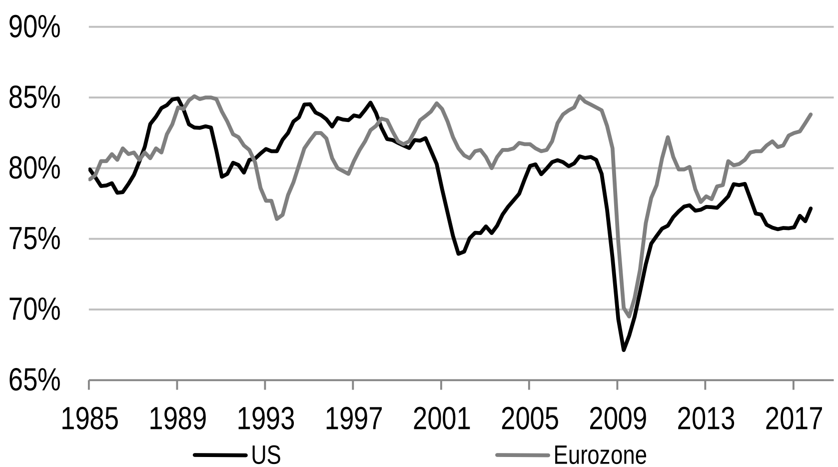
- Global yield curve flattened over the last quarter, driven largely by the US, UK, and China
- Developed market yield curves are flatter
- Long term rates have been largely risen, whilst short term rates have been mixed
- Long rates are likely to continue to increase as the economic expansion increases inflation expectations
- In recent months buying of long duration US treasuries has slowed, despite the global shortage of long duration assets, which should ultimately limit the extent to which long rates rise



- Recent yield curve flattening is not a reflection of weaker growth to come
- Long rates are declining as the market begins to factor in lower long term inflation due to productivity gains

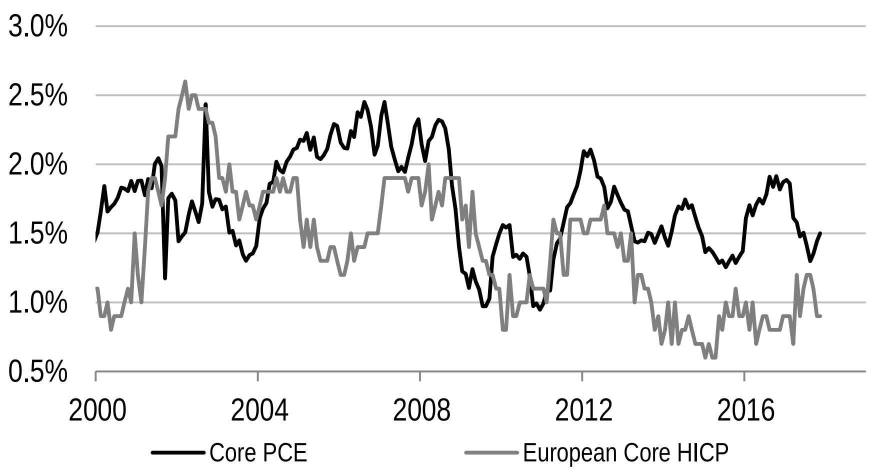
Sources: Bloomberg, Deltec

US and Europe Capacity Utilization



- US capacity utilization is low, although increasing
- European capacity utilization has increased significantly and is near pre-financial crisis highs
- Demand driven inflationary pressures will build in 2018

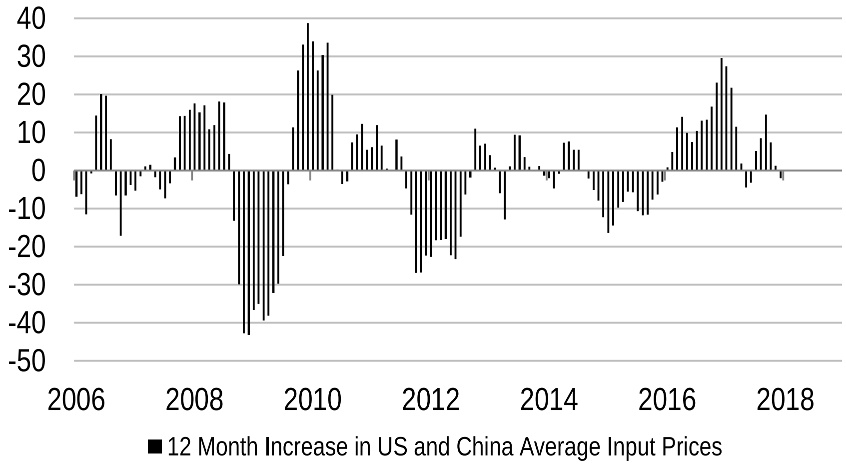
US and Europe Core Inflation



- US core inflation has risen, whilst European core inflation is declining
- Currency movements play a role in the movement of inflation
- The outlook for inflation will be most key to the outlook for markets globally

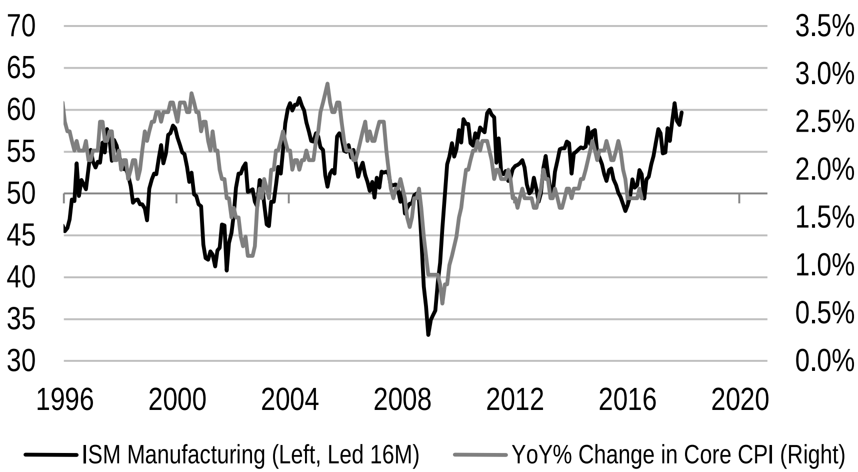
Sources: Bloomberg, Deltec

US and China Leading Indicators of Inflation



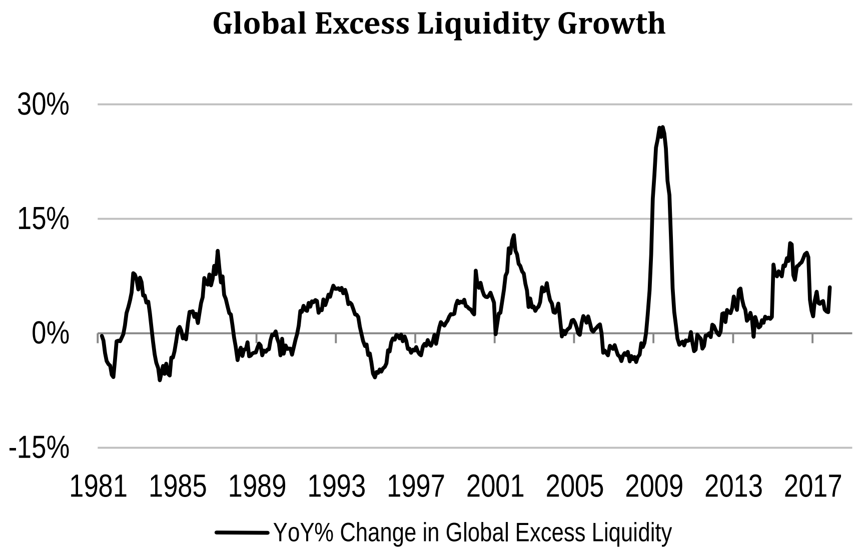
- Leading indicators of US and China inflation have declined again

US Leading Indicators of Inflation



- ISM Manufacturing Index is consistent with an increase in inflation from the current point

Sources: Bloomberg, Deltec

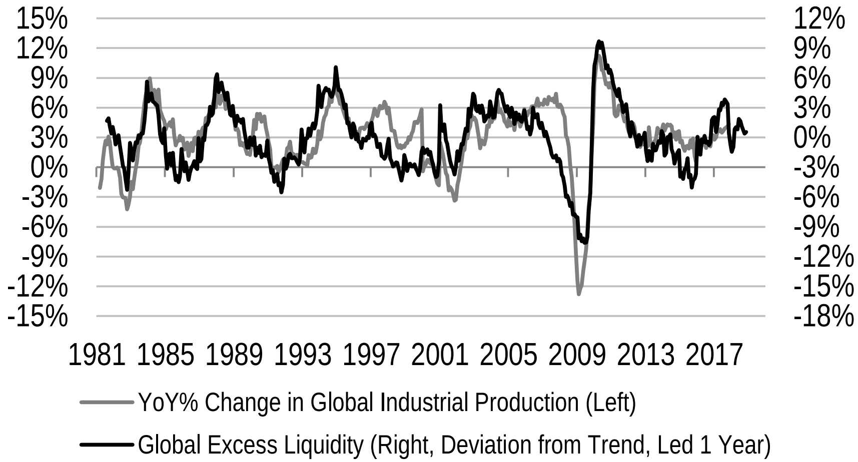


- Excess liquidity growth has re-accelerated and remains positive over the past year
- Excess liquidity growth is likely to decline due to less stimulus from the ECB and to a lesser extent, the BoJ, potential tightening from the BoE, selective tightening from the PBoC and outright tightening from the BoC and Federal Reserve
- Excess liquidity growth is likely to decline this year

- USD excess liquidity growth is slowing, although remains positive over the past year
- The economic impact of declining USD liquidity growth is likely to be most significant on carry trade sensitive assets, in particular Emerging Markets and Commodity Economies

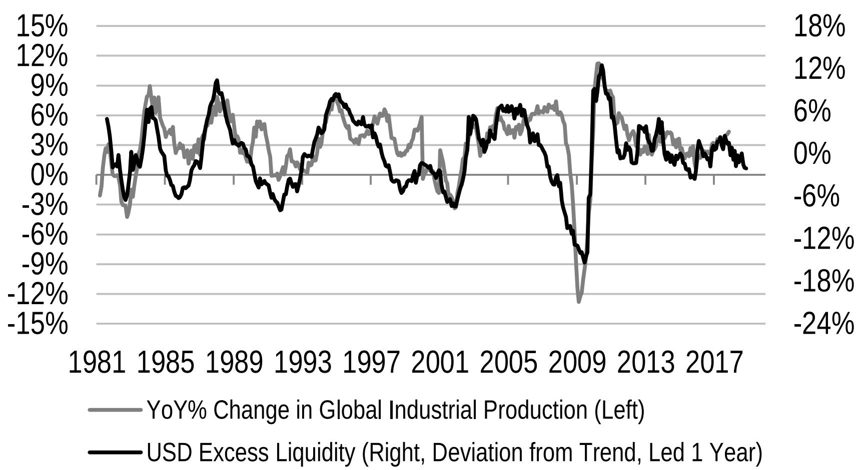
Sources: Bloomberg, Deltec

Global Liquidity Growth and Global Growth



- Global excess liquidity growth is stable, still consistent with above trend global industrial production growth

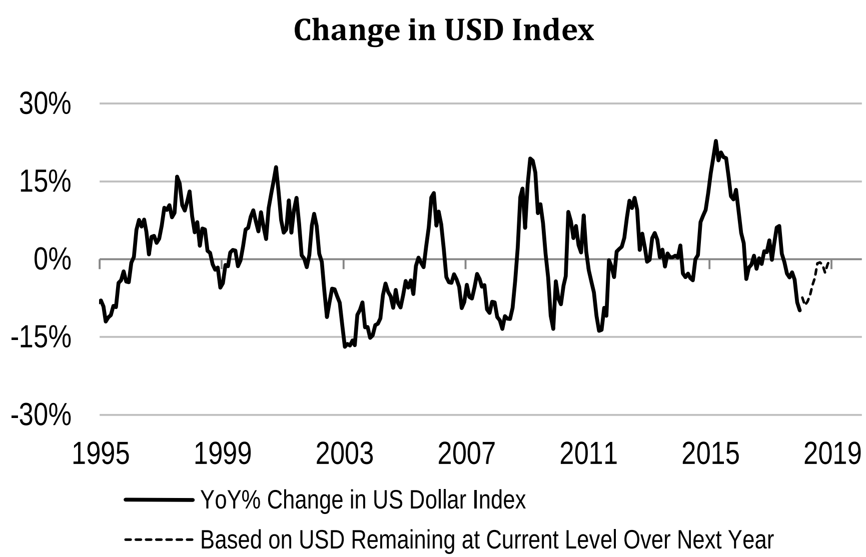
USD Liquidity Growth and Global Growth



- USD liquidity growth is slightly positive, although consistent with lower global growth
- This importance of the USD has been perpetuated by the increasing use of USD credit as a funding source around the world, both from an economic perspective and from a carry trade perspective

Sources: Bloomberg, Deltec

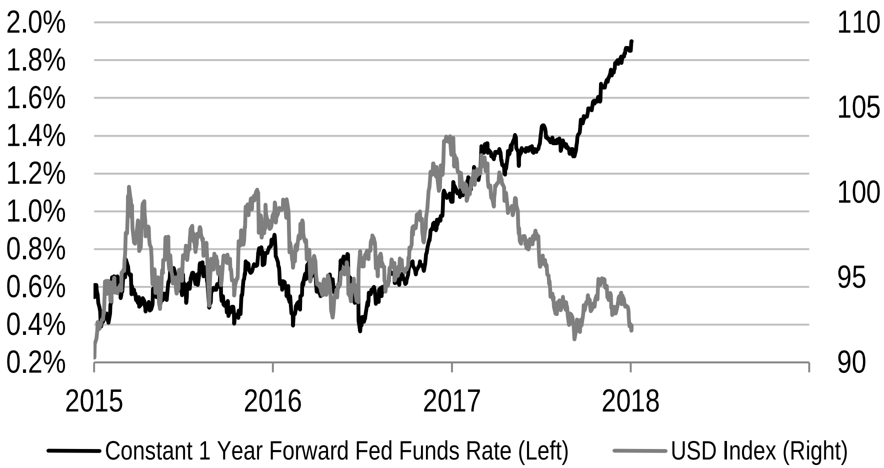
- Aggregate USD liquidity growth has increased in recent months, as proxied by the USD Index
- Continued Federal Reserve tightening and a narrower trade deficit is likely to place upwards pressure on the USD in the coming periods
- USD strength is questionable beyond the medium term, given longer term inflation should be contained



- USD Index has decreased by 9.9% over the year
- The economic impact of changing USD liquidity growth is likely to be most significant on carry trade sensitive assets, in particular Emerging Markets and Commodity economies

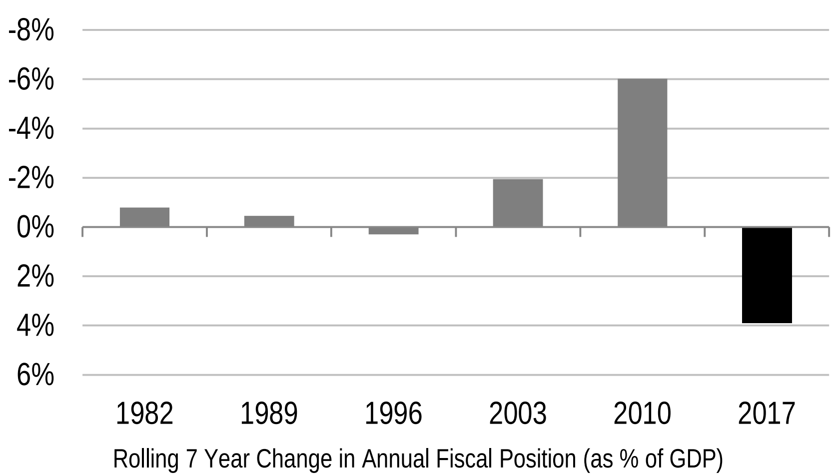
Sources: Bloomberg, Deltec

Change in Fed Funds Rate vs USD Index



- USD is not yet pricing in an increase in the Fed Funds Rate

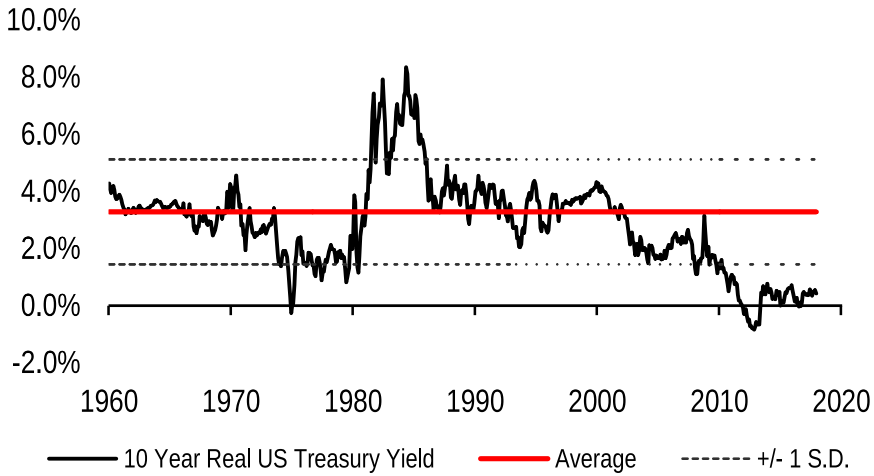
Change in US Fiscal Position



- The past 7 years has seen the largest decline in US fiscal stimulus than any 7 year period in the past 40 years

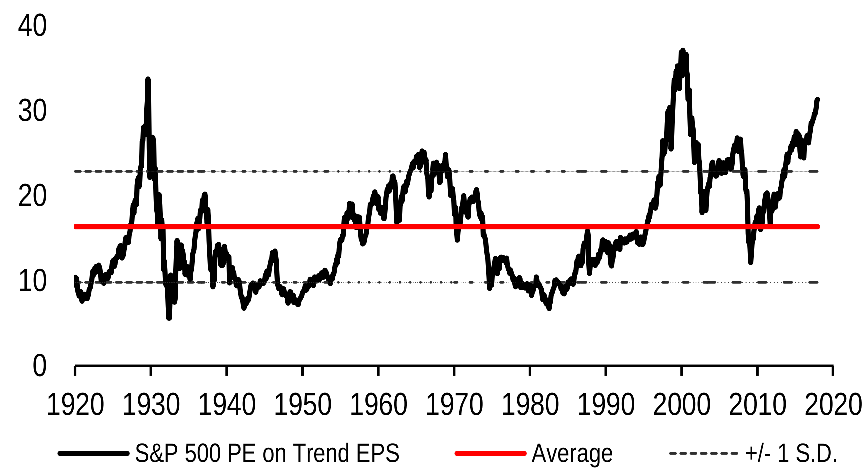
Sources: Bloomberg, Deltec

US Real Treasury Yields



- Real 10 Year Treasuries yields decreased slightly over the quarter
- Inflation should rise in the short term in line with the economic expansion, and due to rising wage pressures
- Rising productivity growth is likely to limit long term inflation
- Investors in 10 Year Treasuries today will earn 0.4% in real terms if held to maturity

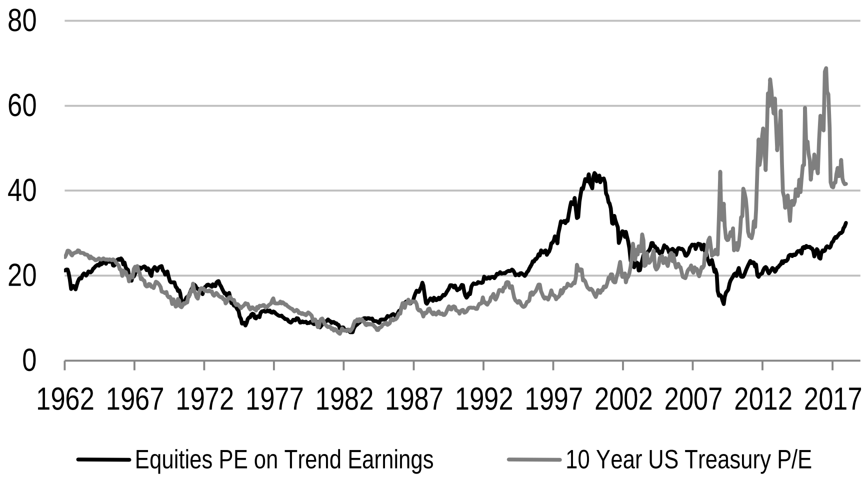
US PE on Trend Earnings



- US Equities remain expensive on trend earnings from a long term perspective, although bubble conditions can persists where bond yields remain low

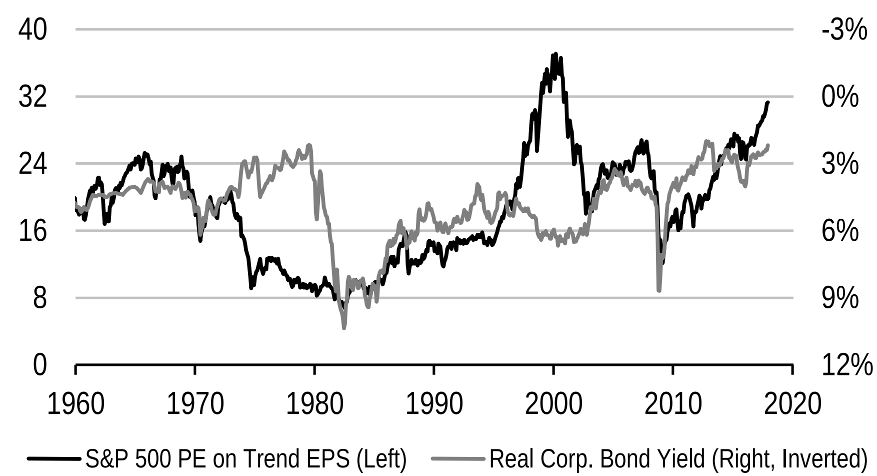
Sources: Bloomberg, Strategas, Shiller, Deltec

US Equities Trend PE vs 10 Year Bond PE



- Although bond valuations have declined from their peak, they remain significantly more expensive than Equities

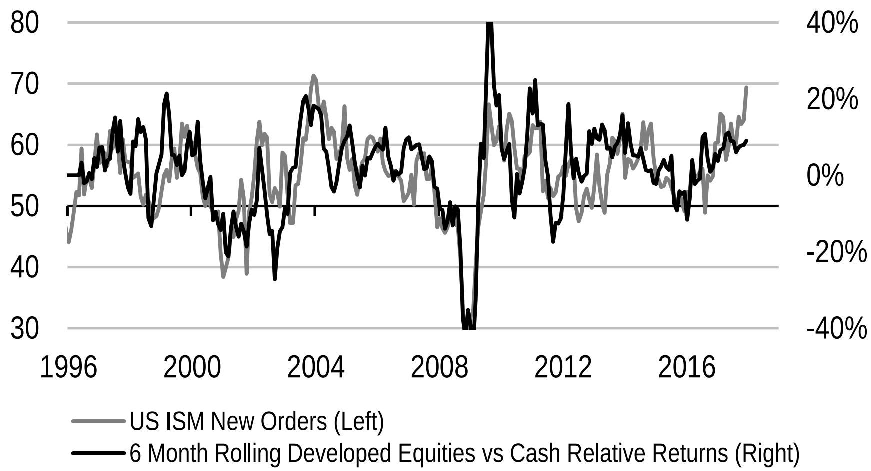
US Equities Trend PE vs Real Bond Yields



- Where discount rates are suppressed, bubble valuations can occur, especially in a rising earnings growth environment
- The greatest risk to Equities is a rise in interest rates coinciding with a lack of earnings growth, resulting in PE compression
- Interest rate and liquidity sensitive assets will be more exposed than growth sensitive assets

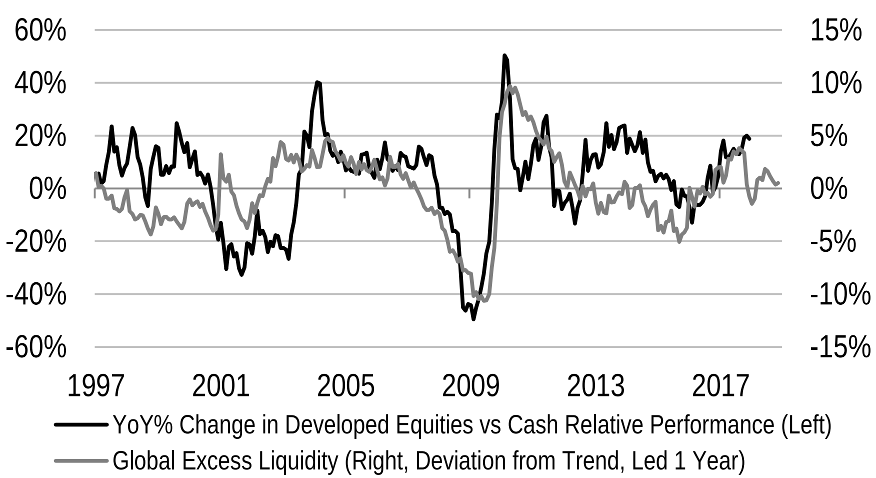
Sources: Bloomberg, Shiller, Deltec

Growth Momentum and Risk Asset Prices



- Global growth momentum will move with ISM New Orders
- Risk assets move with global growth momentum
- On every occasion in the past 20 years when growth momentum has declined, risk assets have followed

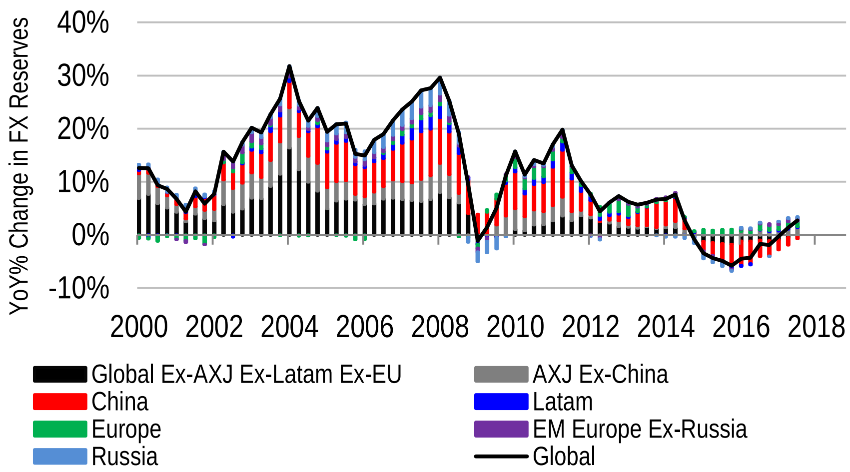
Liquidity Conditions and Risk Asset Prices



- When global excess liquidity growth deviates from trend, asset prices respond
- The reduction already seen in global excess liquidity growth may weigh on liquidity and interest rate sensitive risk assets over the coming periods

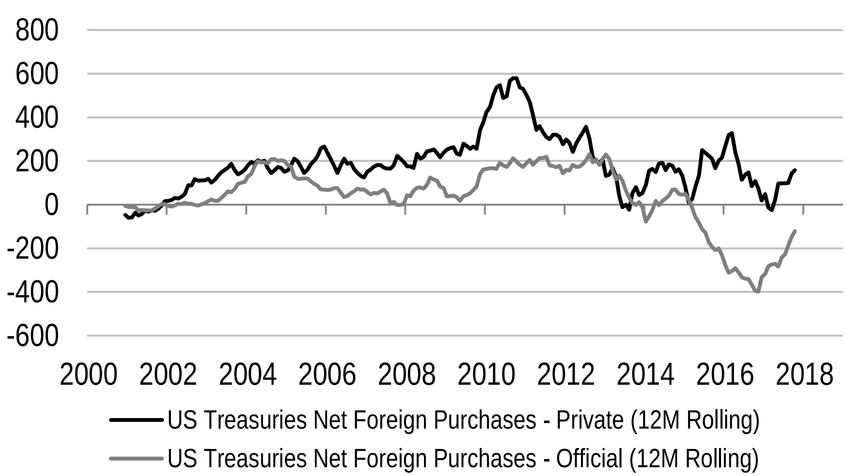
Sources: Bloomberg, Shiller, Deltec

Global FX Reserve Balances



- Global FX reserves rose over the past quarter and have risen 2.7% over the past year
- Global FX reserve balances have been selectively increasing in recent periods.
- Declining FX reserves results in monetary tightening

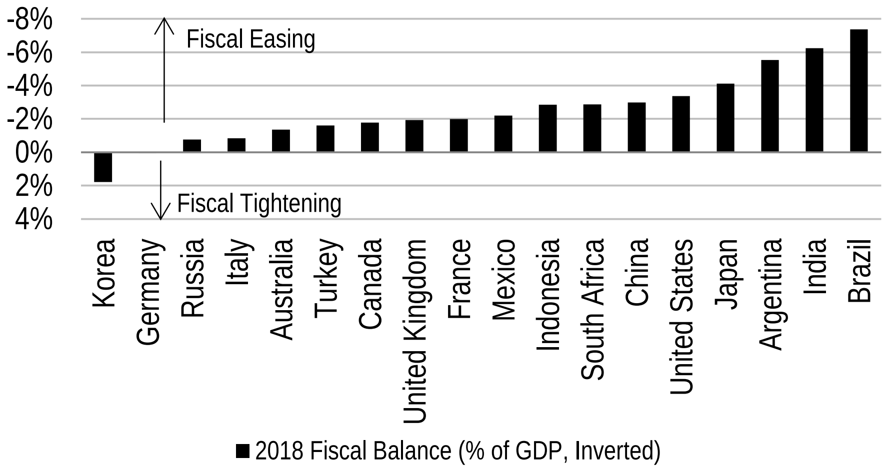
Global US Treasury Holdings



- Over the past quarter, Foreign Private holders have been buying US Treasuries, whilst Foreign Public holders have been selling
- The aggregate rate of buying has been slowing over the past quarter
- China, the largest Foreign Public buyer, has indicated that it will reduce buying and potentially overall holdings of US Treasuries

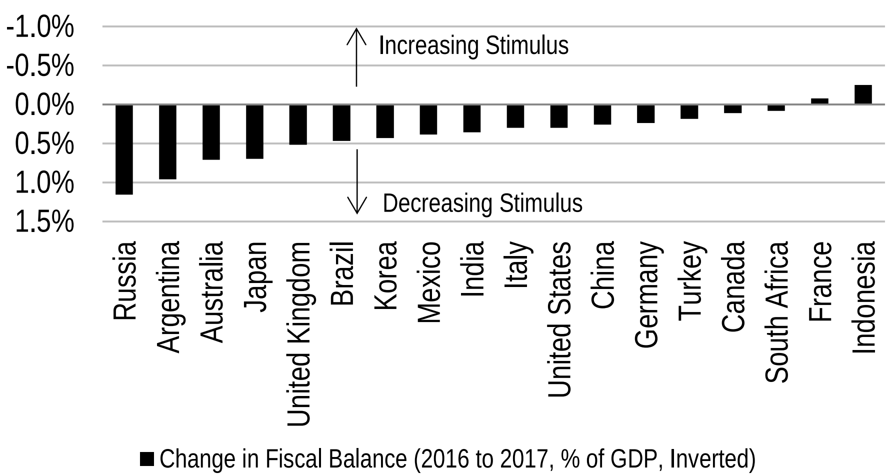
Sources: Bloomberg, Shiller, Deltec

2018 Projected Fiscal Balance



- Brazil, India, Argentina, Japan, US are running significant fiscal deficits

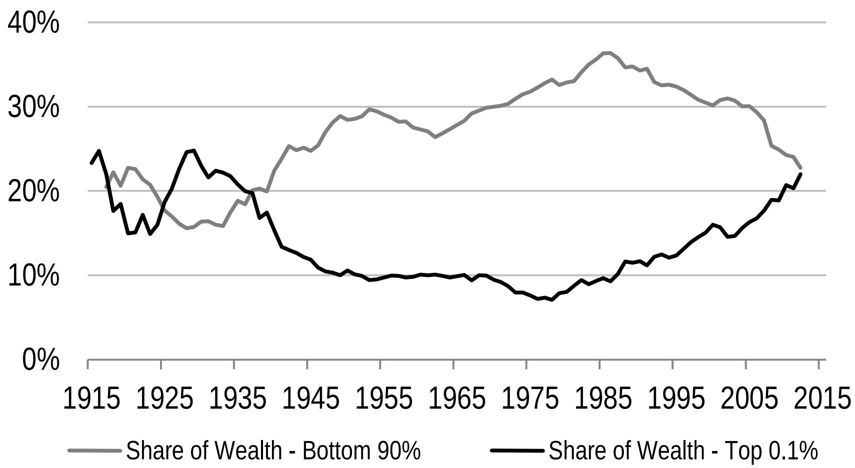
2018 Projected Change in Fiscal Stimulus



- Indonesia, France, South Africa, Canada are increasing fiscal stimulus
- Tightening programs are in place for Russia, Argentina, Australia, Japan in 2018

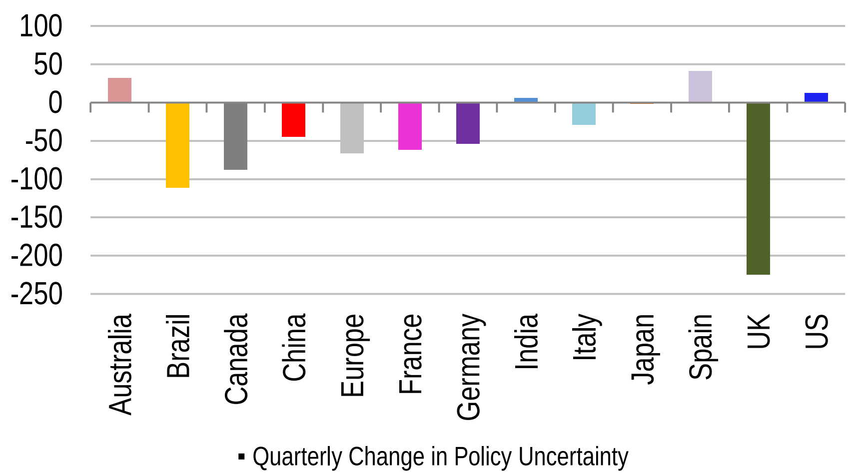
Sources: Bloomberg, IMF; Deltec

Wealth Inequality



- For the first time since the 1930s, in the US the top 0.1% has the same share of wealth as the other 90%

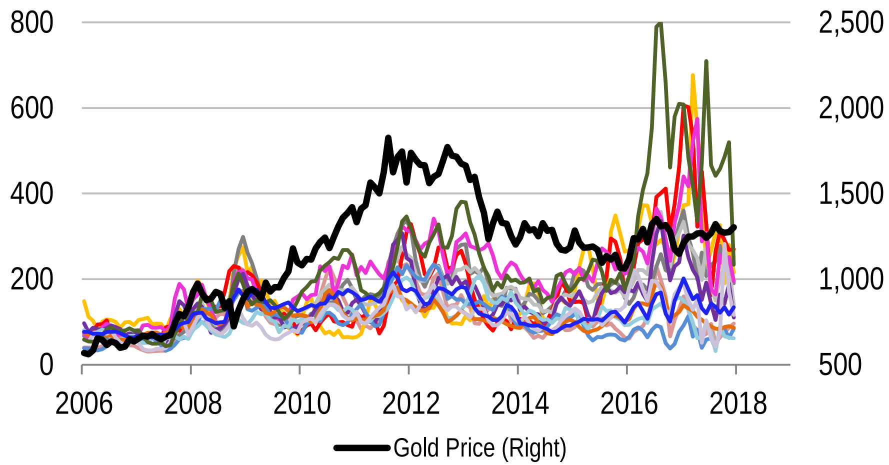
Changes in Global Policy Uncertainty



- Policy uncertainty has broadly fallen from the levels seen last quarter, and last year
- Populism has generally increased policy uncertainty, across the world, in recent years

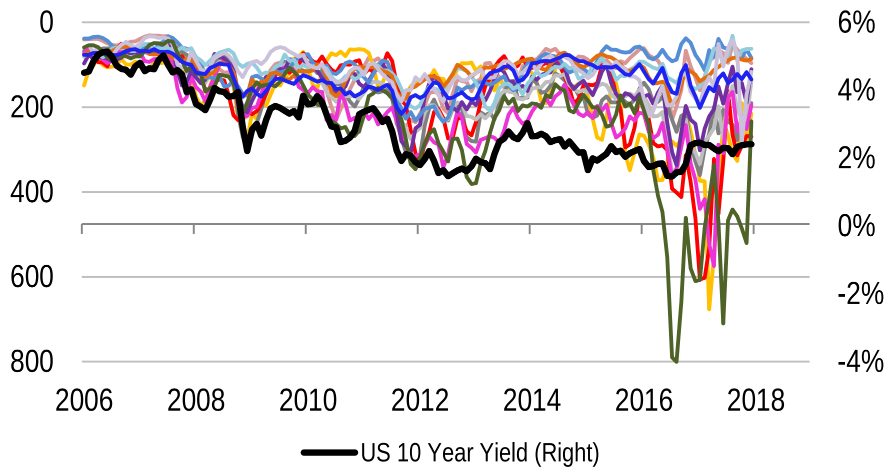
Sources: Bloomberg, Economic Policy Uncertainty, Deltec

Global Policy Uncertainty vs Gold



- Policy, more so than a lack of growth, leads to a shift to safe haven assets
- The shift into less, or non-productive, safe haven assets leads to weaker growth

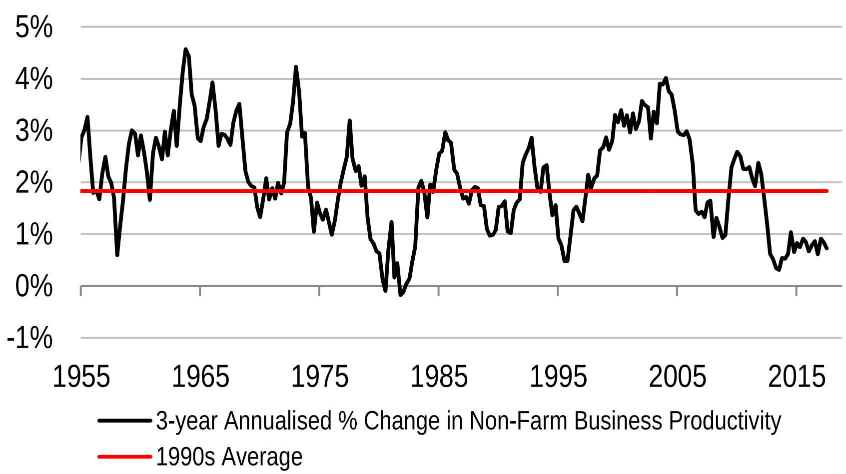
Global Policy Uncertainty vs Treasury Yields



- Yields have increased following the promise of stimulus-driven growth in the US
- Policy, more so than a lack of growth, can lead to a shift to safe haven assets
- The shift into less, or non productive, safe haven assets leads to weaker growth

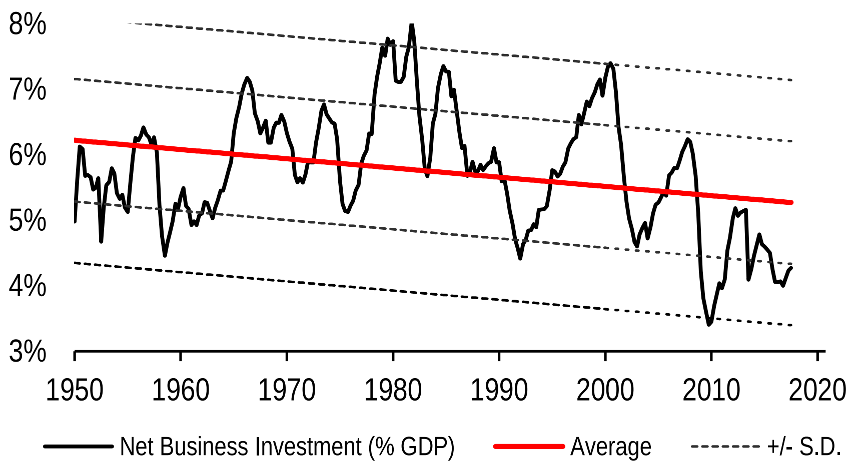
Sources: Bloomberg, Economic Policy Uncertainty, Deltec

Productivity Growth



- Productivity growth remains near the lowest point of the past 20 years, and near the lowest point of the past 60 years, however has started to gradually rise
- Productivity growth is the single biggest opportunity across the world at present

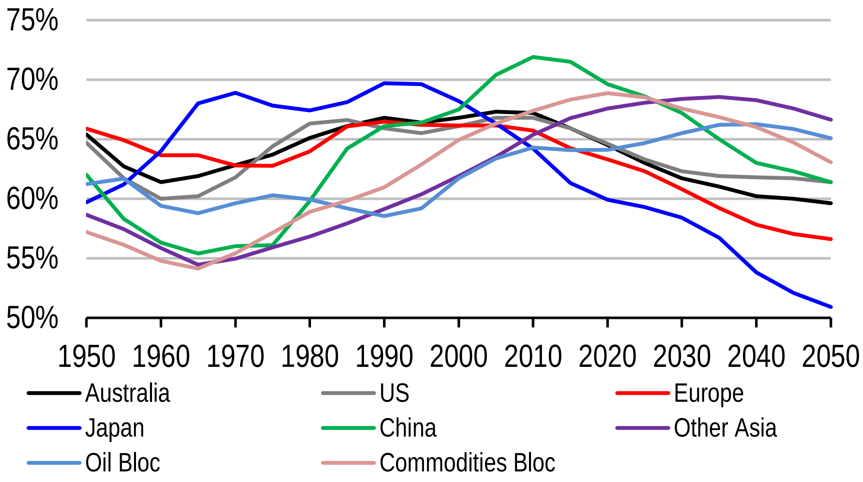
Investment Share of GDP



- Investment share of GDP has risen, however remains more than one standard deviation below trend
- In the current generation, investment share of GDP has been 2 standard deviations above trend

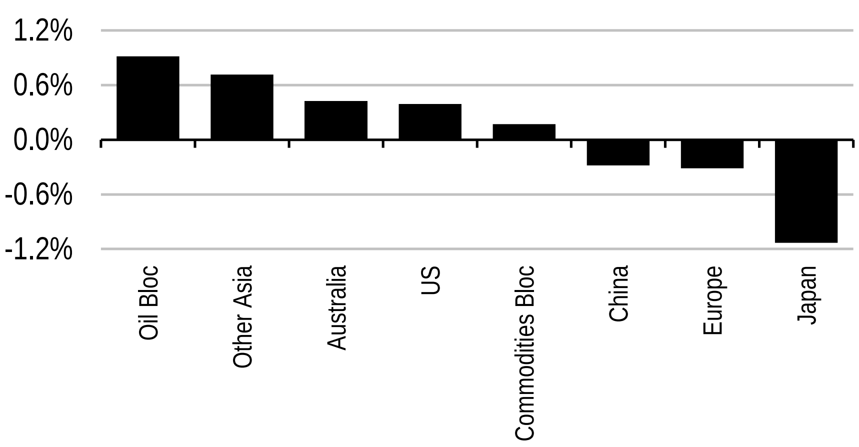
Sources: Bloomberg, Deltec

Global Working Age Population Levels



- Working age populations are declining significantly in selected countries
- Demographic headwinds are likely to continue in Japan, and be exacerbated in China

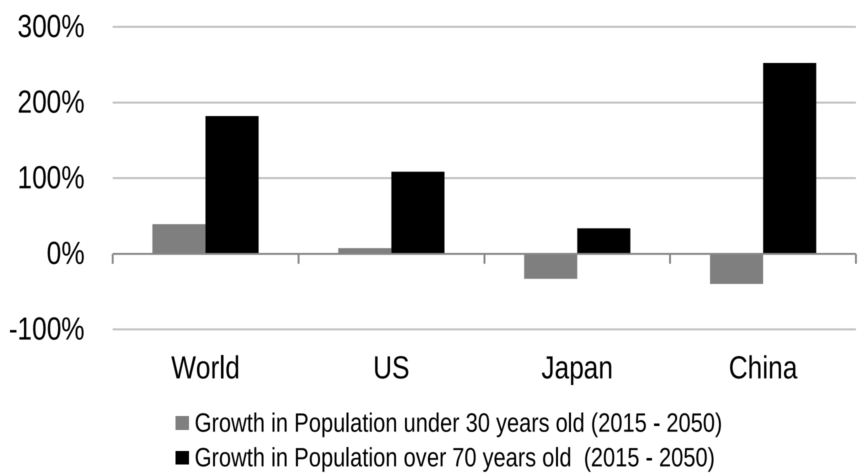
Growth in Working Age Population



- Commodity bloc countries are likely to suffer cyclically, however benefit from strong demographic trends
- The US is likely to benefit cyclically and through demographic trends

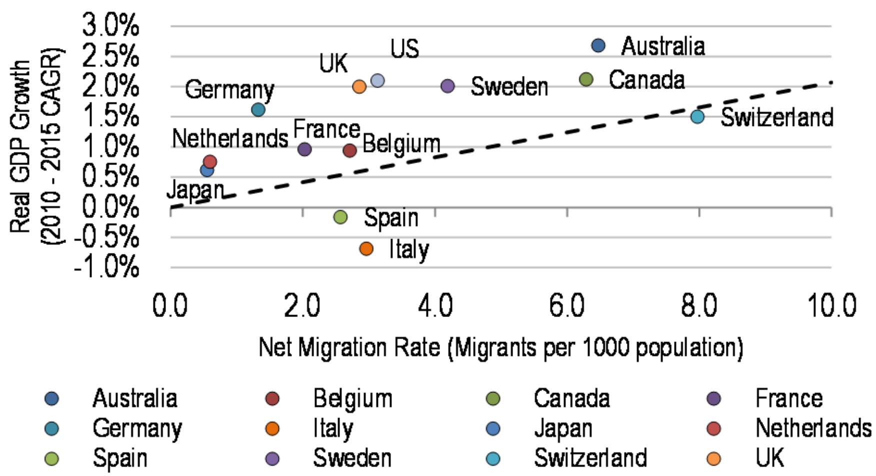
Sources: Bloomberg, Deltec

Growth in Population Aged 70+ 2015 - 2050



- Demographic changes will vary greatly across regions

Net Migration vs Real GDP Growth



- Strong net migration can offset weak demographics and boost GDP outcomes

Sources: Bloomberg, Deltec

Emerging Markets

Emerging Markets

Emerging Markets are experiencing a virtuous expansion, due to the combination of increasing real interest rate differentials, stable USD liquidity conditions, stronger growth momentum and significant earnings upgrades, all driving substantial capital inflows. From a tactical perspective, growth momentum is strong, given the operationally leveraged exposure to improving Developed Market growth. Slowing global liquidity growth in the coming periods will see selected bouts of weakness, given the financially leveraged exposure to Developed Market liquidity, as will the lower growth environment in China for those countries exposed. From a strategic perspective, growth will be highly country and sector specific, as a secular decline in liquidity growth will, at the margin, cause deleveraging, currency depreciation and liquidation of FX reserves. Those markets undertaking the necessary structural reforms coupled with monetary and fiscal measures will outperform those reliant on capital inflows or a drawdown of FX reserves.

- Growth momentum is moderately strong across Emerging Markets, with outright growth strong following a year of improvement. The geneses of the improvement are Developed Market growth and stable USD liquidity conditions, whilst widening real rate differentials, rising earnings and lessening fiscal burdens, encouraging capital inflows and a rebuilding of FX reserves have also assisted. The continued global economic expansion will support growth, however country specific factors, specifically the dependence on global liquidity and China, will determine the next phase in the improvement.

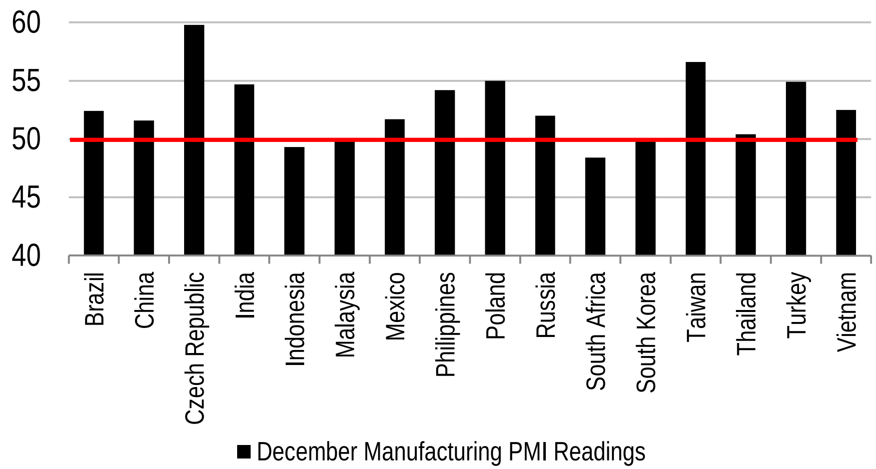
- The outlook for USD and global liquidity conditions, rather than economic growth, will be the primary driver of the outlook for Emerging Markets in the coming periods, as they have the potential to reverse capital flows and asset prices for selected economies. A resurgence of USD liquidity growth and resultant USD weakness has buoyed Emerging Markets over the past year, however this has the potential to temporarily reverse in the coming period, as near term inflation rises with the economic expansion, despite the subdued longer term inflation outlook.

- **Key Risks:** Near term risks for Emerging Market come from slowing global liquidity growth and lower growth in China, although mitigated by bolstered FX reserves that provide a liquidity buffer and strong domestic economic growth.

Investment Conclusion: Despite the appreciation to date, stronger earnings and capital inflows should continue to support asset prices. With the major challenge in the coming periods being slowing liquidity growth, those Emerging Markets with less reliance on USD liquidity conditions, higher real interest rate differentials and stronger FX reserve positions will be better positioned, and those sectors and companies with global exposure will outperform.

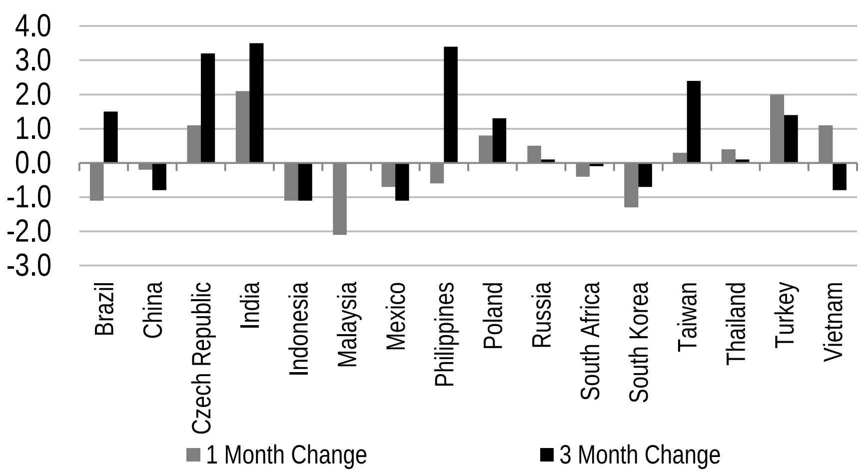
Positives: South Korea; Taiwan; Russia
Negatives: Brazil, China; Ecuador

Latest Manufacturing PMI



- Leading indicators have risen, and remain consistent with higher growth for most countries
- Growth profiles are disparate, with South Africa, Malaysia, Indonesia and Thailand experiencing the weakest growth

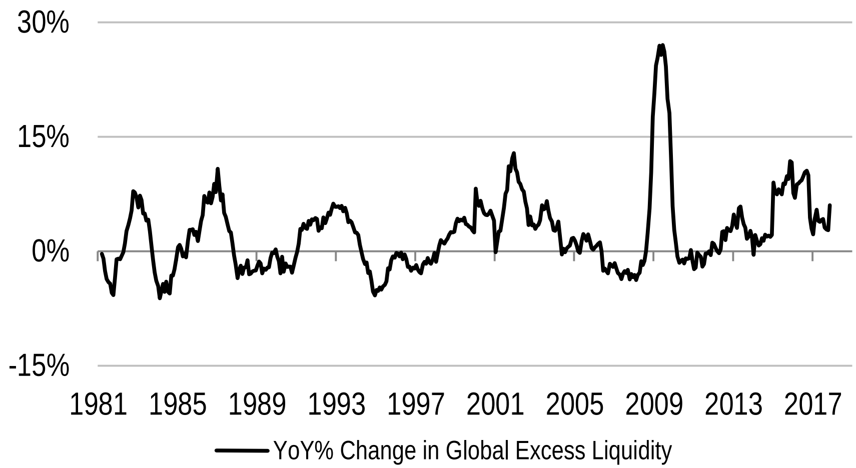
Change in PMI Manufacturing



- Leading indicators of growth are consistent with a stabilization in growth momentum
- A sharp improvement has been experienced in the India, Turkey and the Czech Republic

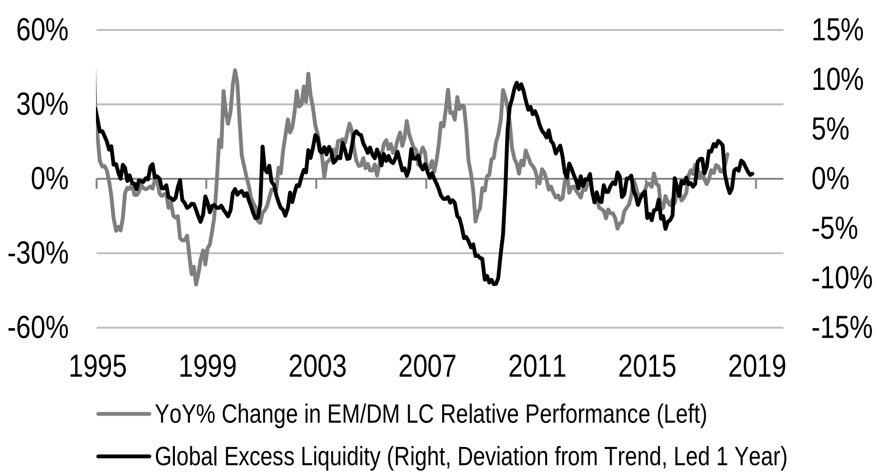
Sources: Bloomberg, Deltec

Global Excess Liquidity Growth



- Excess liquidity growth has re-accelerated and remains remains positive over the past year
- Excess liquidity growth is likely to decline due to less stimulus from the ECB and to a lesser extent, the BoJ, potential tightening from the BoE, selective tightening from the PBoC and outright tightening from the BoC and Federal Reserve
- Excess liquidity growth is likely to decline this year

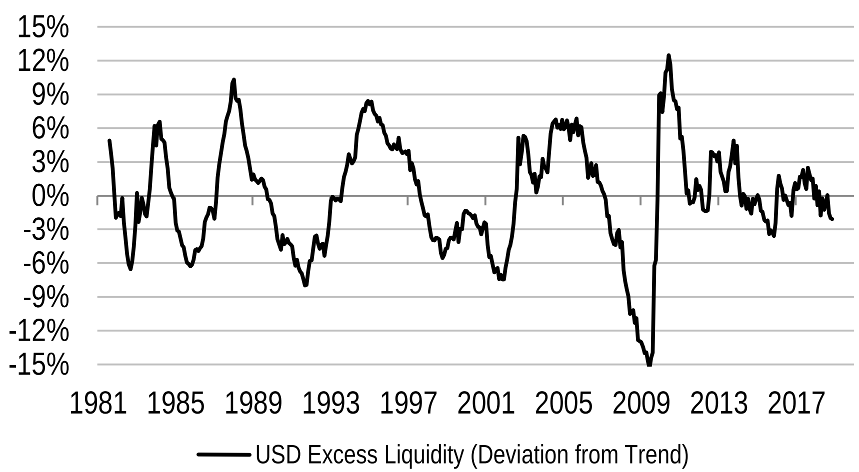
Global Excess Liquidity Growth vs Emerging Markets



- In the short term, excess liquidity growth is at levels consistent with flat Emerging Market relative performance
- Slowing global liquidity growth over the next year may weigh on Emerging Markets
- Medium – long term, declining excess liquidity growth will challenge those Emerging economies yet to address structural issues

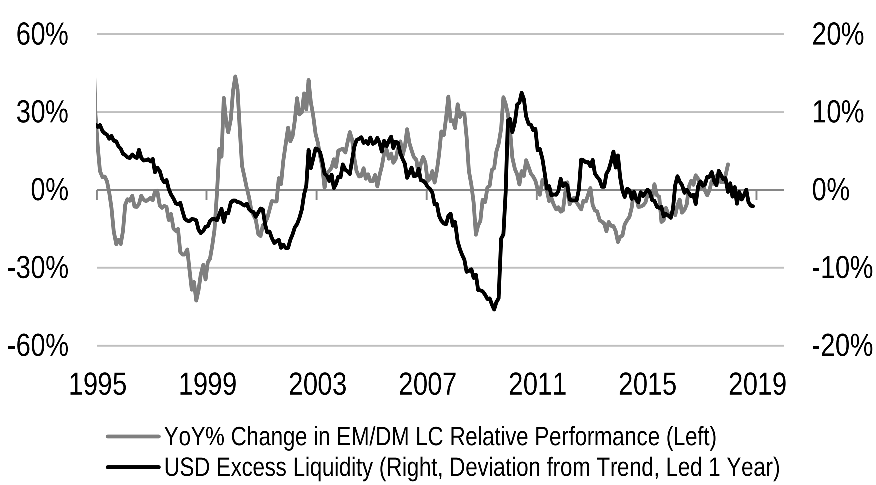
Sources: Bloomberg, Deltec

USD Liquidity Growth



- USD excess liquidity growth has been declining recently
- USD liquidity growth is likely to slow further as a result of monetary tightening
- The economic impact of declining USD liquidity growth is likely to be most significant on carry trade sensitive assets, in particular Emerging Markets and Commodity Economies

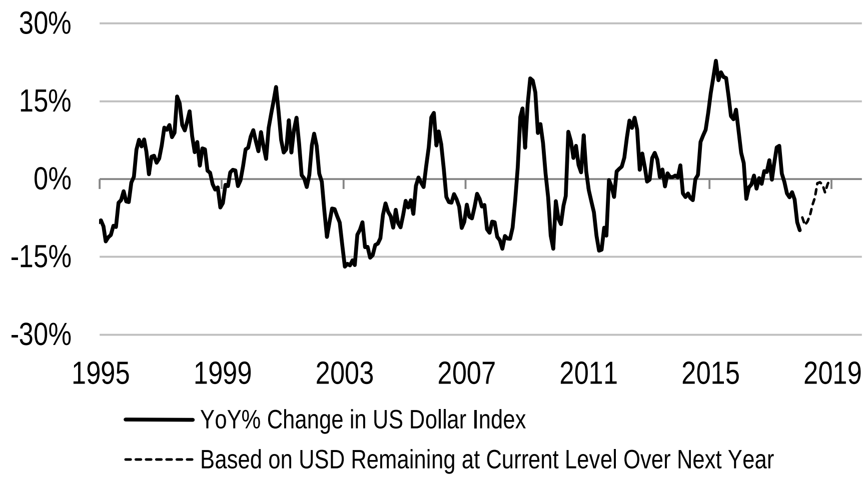
USD Liquidity Growth vs Emerging Markets



- Emerging Markets have become more closely correlated to USD liquidity post-financial crisis
- USD liquidity growth is consistent with slightly weaker Emerging Market relative performance

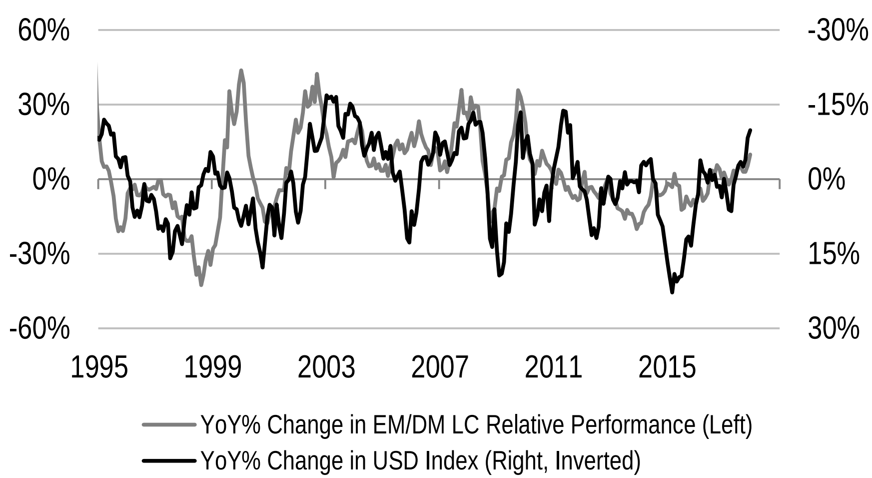
Sources: Bloomberg, Deltec

USD Index



- The USD Index is used as a proxy for USD liquidity growth, as it is effectively the price reflected by the demand and supply of USD
- The economic impact of declining USD liquidity growth is likely to be most significant on carry trade sensitive assets, in particular Emerging Markets and Commodity Economies

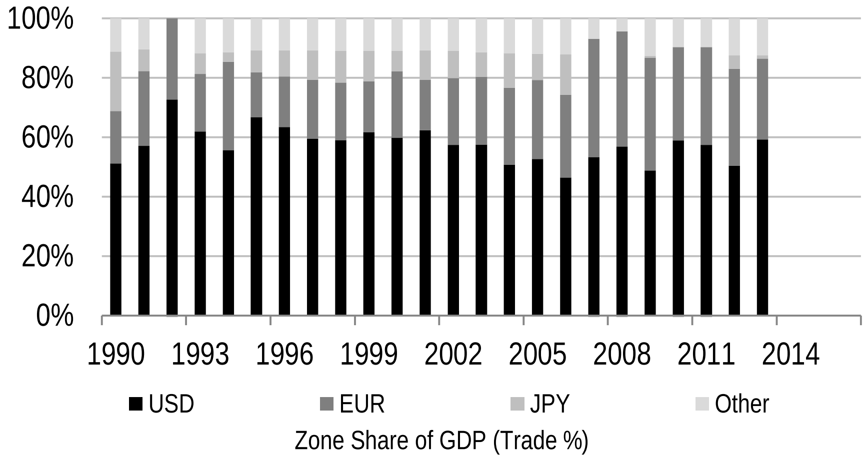
USD Index vs Emerging Markets



- USD Index currently consistent with stronger Emerging Market relative performance
- The relationship between USD liquidity growth and Emerging Markets will become non-linear across countries due to USD debt burdens

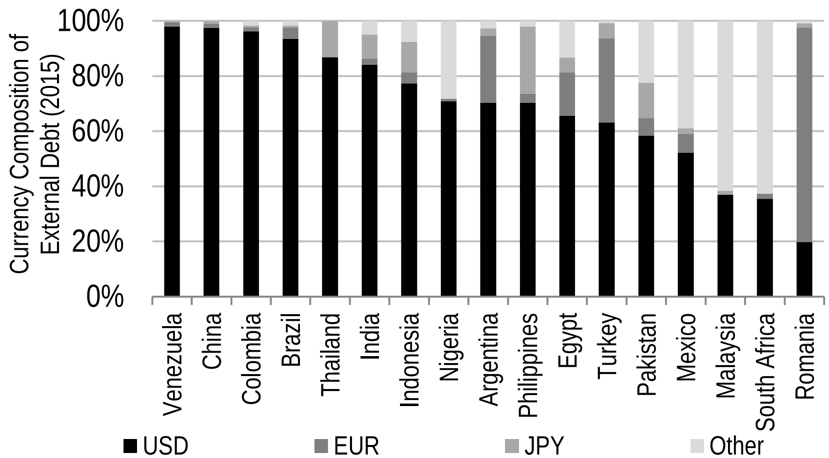
Sources: Bloomberg, Deltec

Currency Zone Share of Global GDP



- USD liquidity matters more given the relative size of the US
- The size of the US monetary stimulus program
- The status of the USD as a reserve currency
- The large percentage of revenues generated and goods traded in USD
- The US being the largest consumer group of goods globally

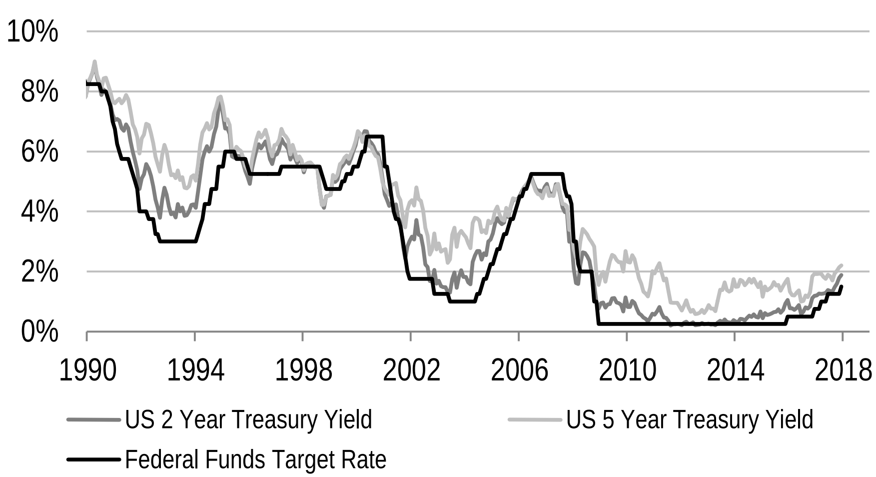
Currency Composition of External Debt



- Several countries have large USD denominated debt positions
- USD debt as a percentage of GDP is lower

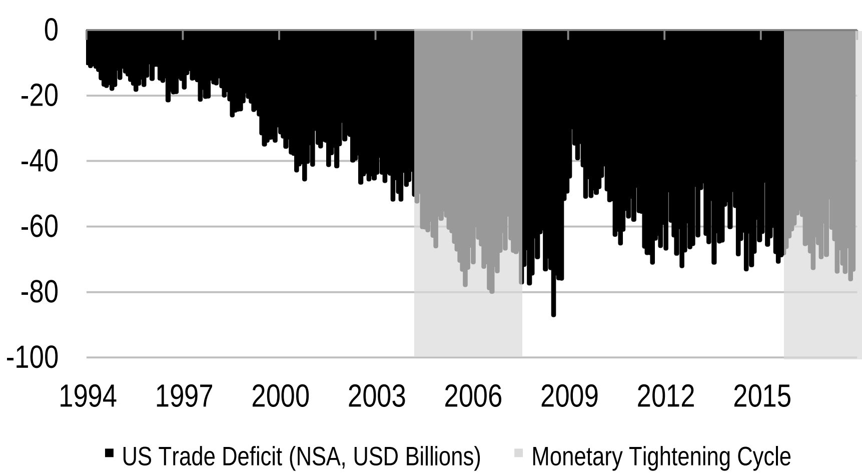
Sources: Bloomberg, BIS, Deltec

US Monetary Conditions



- Tighter US monetary policy is the major driver of slowing USD liquidity growth, with market interest rates rising further
- Market interest rates matter more than the Federal Funds Rate, given carry trades are funded from market interest rates, and Emerging Markets are exposed to market interest rates
- Unlike the 2004 tightening cycle, regulation has curbed financial intermediation, and the potential for a large increase in credit creation via the shadow banking system

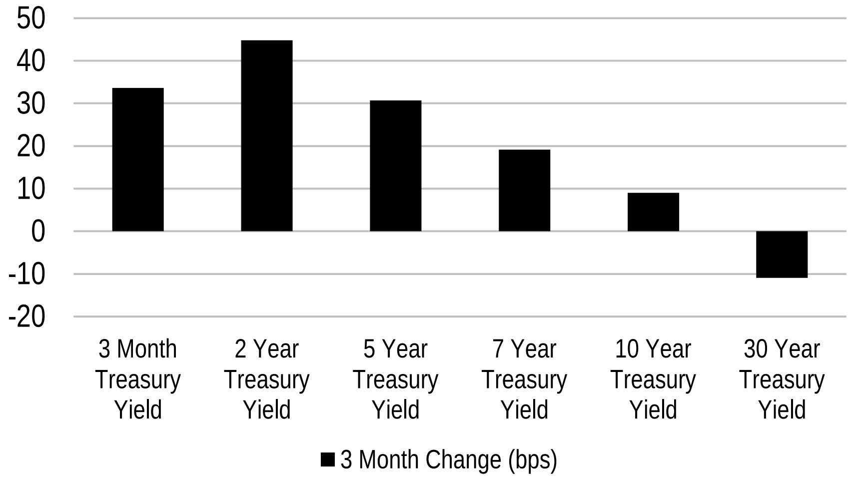
US Trade Balance



- The US trade balance has widened recently, which has added to USD liquidity growth
- US trade balance is likely to narrow in the coming periods due to a shrinking petroleum trade deficit
- Petroleum trade deficit accounted for >40% of the cumulative US trade deficit from 2000-2012
- Unlike the 2004 tightening cycle, the trade deficit has the potential to narrow in this tightening cycle due to energy imports and potential tax and trade reform

Sources: Bloomberg, Deltec

Quarterly Change in US Interest Rates



- USD liquidity growth has recently slowed, evidenced by higher short term market interest rates
- Slowing USD liquidity growth had manifested itself in higher short term market interest rates and a higher USD

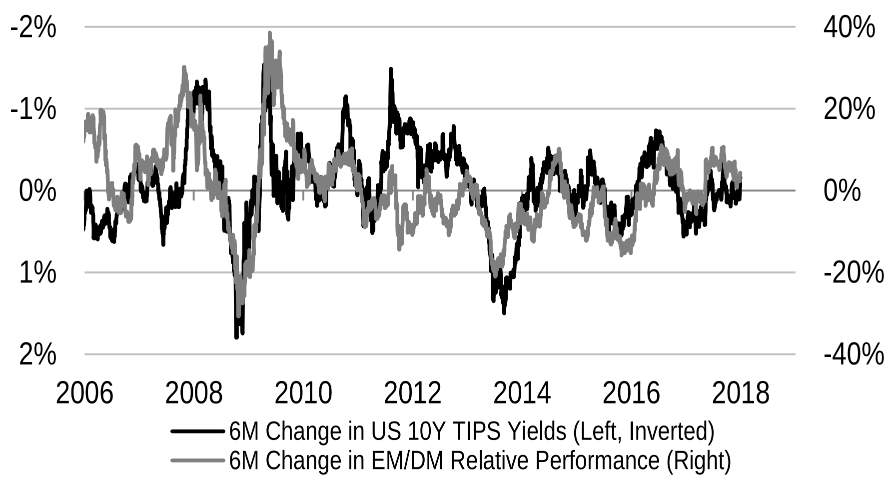
USD TWI Weighted Cross Currency Basis Swaps

- USD shortages have recently stabilized following an earlier easing, as evidenced by narrowing cross-currency basis rates

Sources: Bloomberg, Deltec

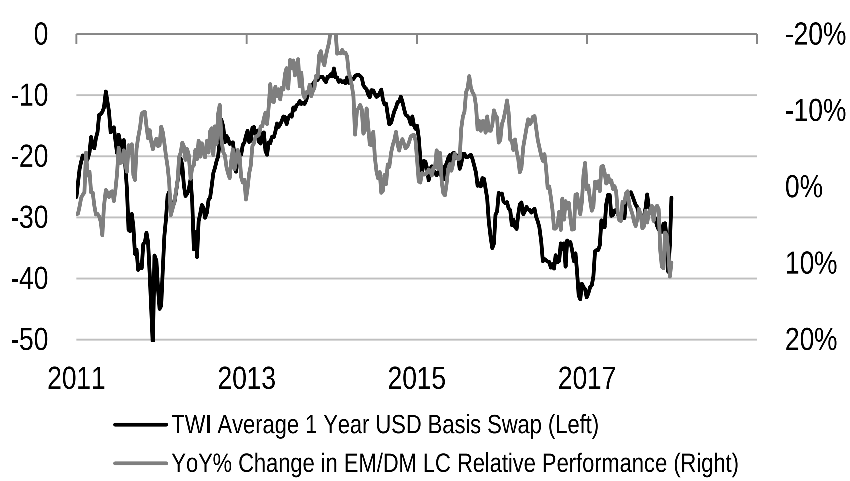
Emerging Markets

US TIPS vs Emerging Markets



- Rising TIPS yields are consistent with Emerging Market underperformance
- TIPS yields are currently consistent with flat Emerging Markets performance

USD Cross Currency Basis vs Emerging Markets

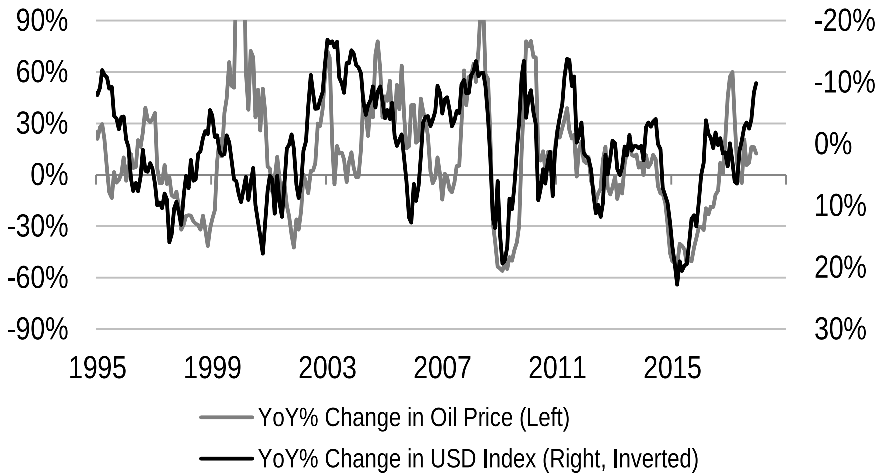


- Despite narrowing cross currency basis swap rates, over recent periods, Emerging Markets have outperformed

Sources: Bloomberg, Deltec

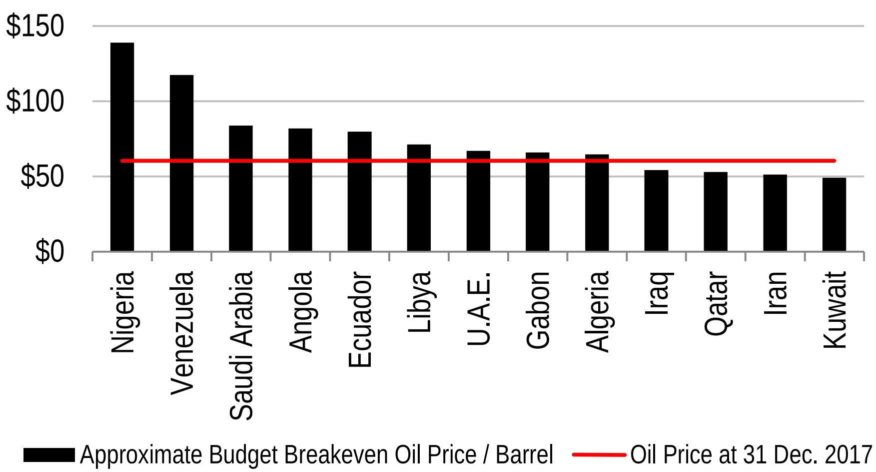
Emerging Markets

USD Index vs Oil Price



- USD liquidity growth is currently consistent with significantly higher oil prices

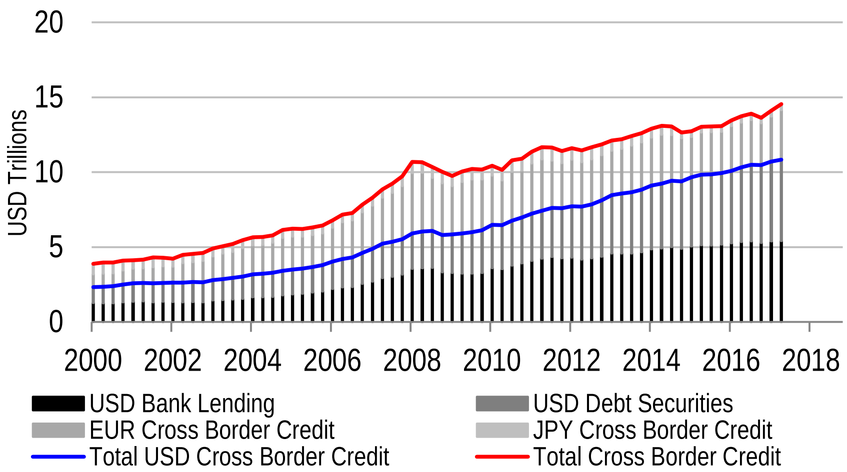
Budget Breakeven Oil Price Levels



- Low oil prices create a dangerous dynamic for oil producing Emerging Market economies, however at current levels, most are economic

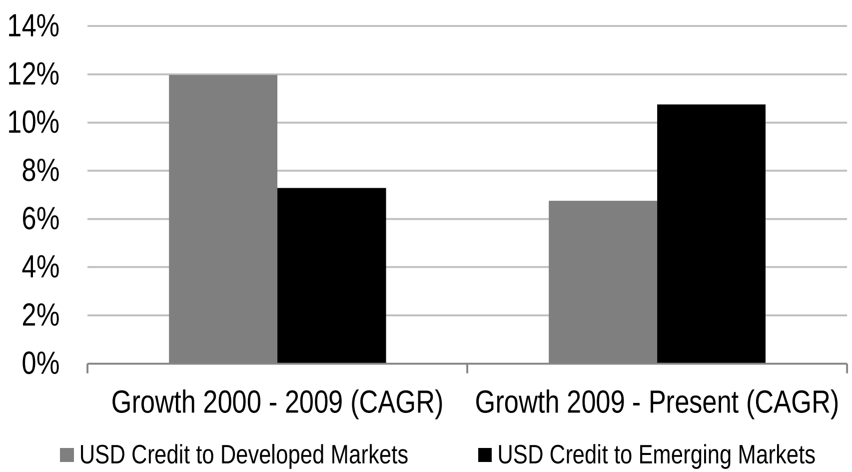
Sources: Bloomberg, The Economist, Deltec

USD and Non-USD Cross Border Credit



- The major concern of the linkage between USD liquidity growth and Emerging Markets is the indebtedness of selected Emerging Markets
- USD credit has been the dominant funding source over the past 15 years, however has recently been declining
- As at June 2017, USD credit extended to borrowers outside of the US was $10.8 trn
- Non-US USD credit is $5.4trn – ie; ex of bank lending, but inclusive of financial sector debt
- The major expansion in credit occurred post-financial crisis, when monetary policy in the US was extremely loose.

USD Cross Border Credit Growth

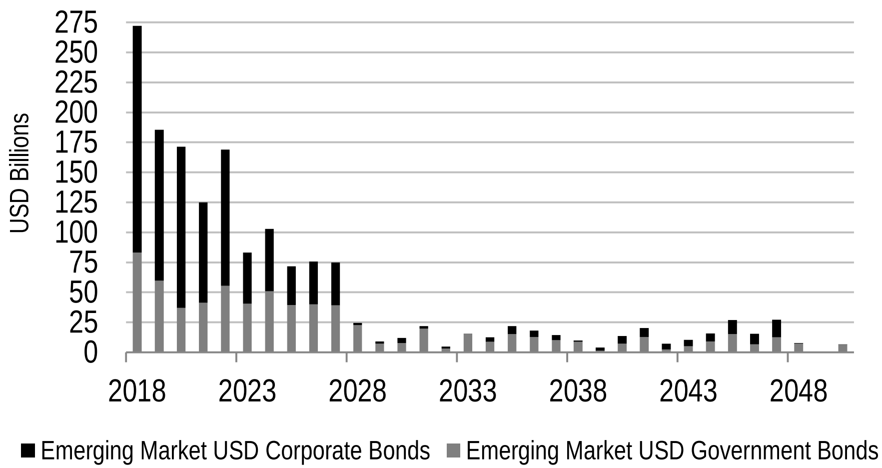


- Post-financial crisis growth in cross border credit to Emerging Markets accelerated, increasing significantly both in absolute terms, and relative to Developed Markets
- Compounded annualized growth rate of USD credit to Emerging Markets from 2000 – 2009 was 7.3%, below the rate extended to Developed Markets at 12%
- The annualized rate of USD credit growth to Emerging Markets from 2009 – Present is 10.8%, nearly 60% more than Developed Markets at 6.8%

Sources: Bloomberg, BIS, Deltec

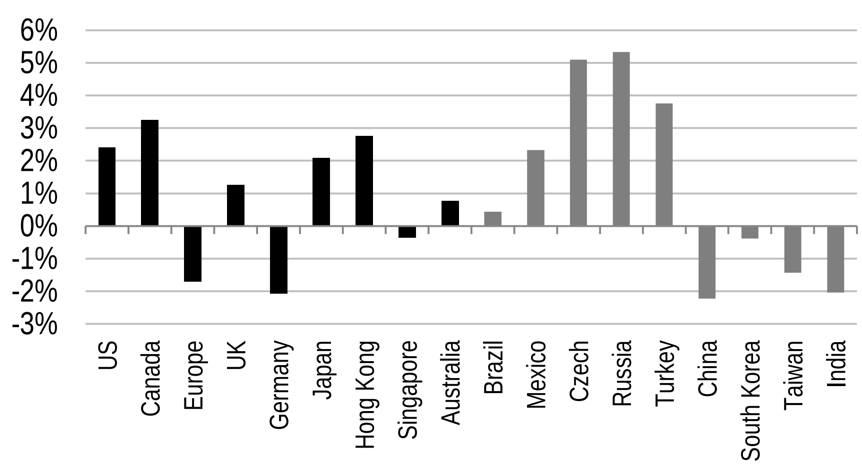
Emerging Markets

Emerging Market USD Debt Maturity



- 2018 is the peak refinancing year for Emerging Market debt, with $272bn of debt maturing
- The debt maturity profile is being extended as refinancing is available
- A cumulative $922bn debt matures over the next five years - assuming no further increase in debt
- Additional flows of USD credit are needed to repay the debt
- Additional flows of USD credit are required to support Emerging Market growth, just to be able to service the debt

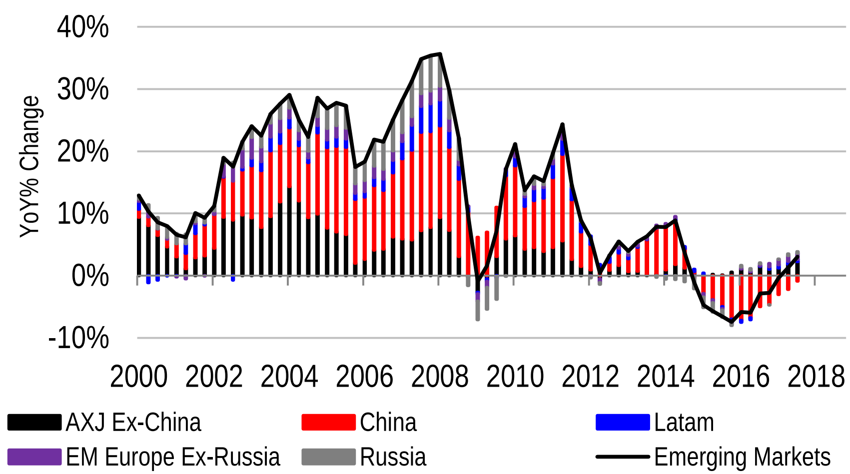
Global EPS Revisions



- Earnings are being upgraded globally, led by Emerging Markets
- Rising earnings growth attracts capital

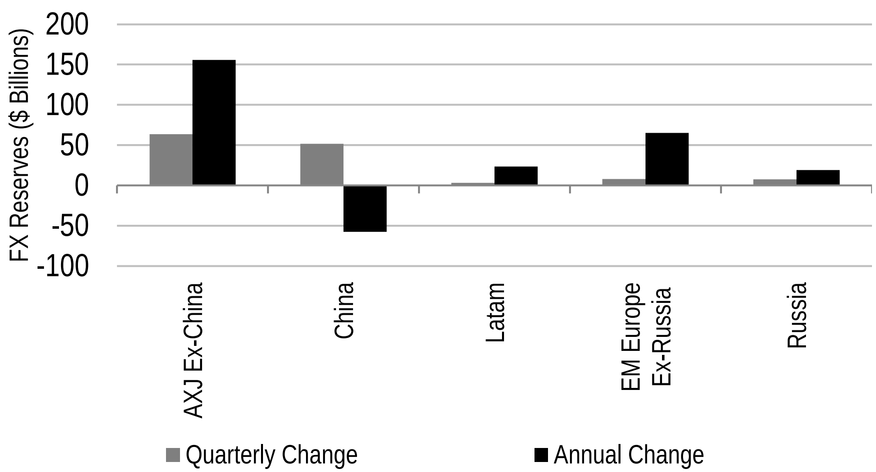
Sources: Bloomberg, BIS, Deltec

Emerging Market Reserve Balances



- Emerging Market FX reserves rose slightly over the past quarter, and are now positive over the year

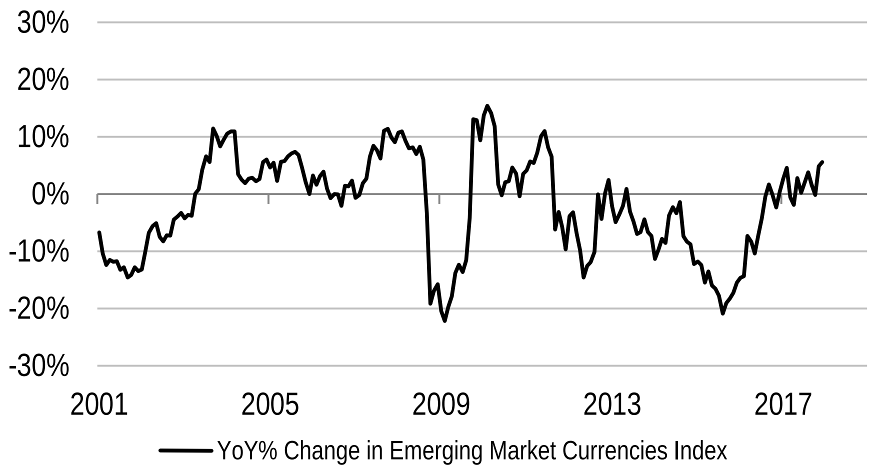
FX Reserves Changes



- Over the past year, China has been the only Emerging Market to see a decline in FX Reserves, however this has slowed and reversed in recent quarters

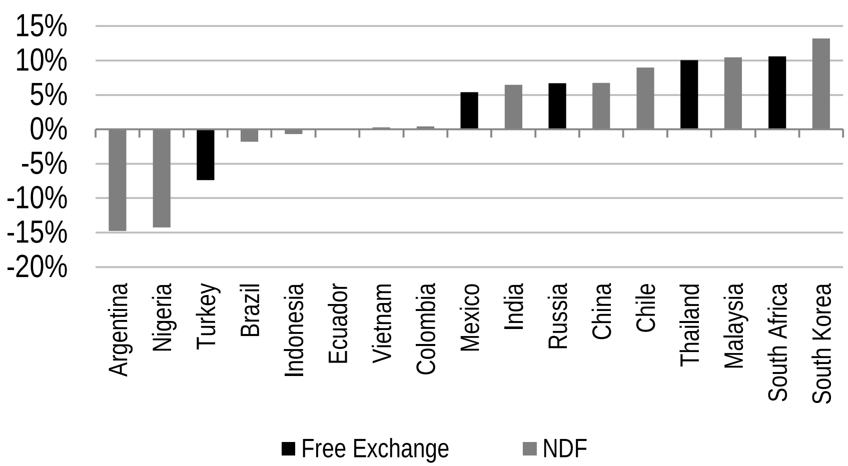
Sources: Bloomberg, Deltec

Emerging Market Currency Index



- Emerging Market currencies are the automatic stabilizer to weak growth
- Currencies are stabilizing and rising, however any weakness in currencies can exacerbate hot money outflows

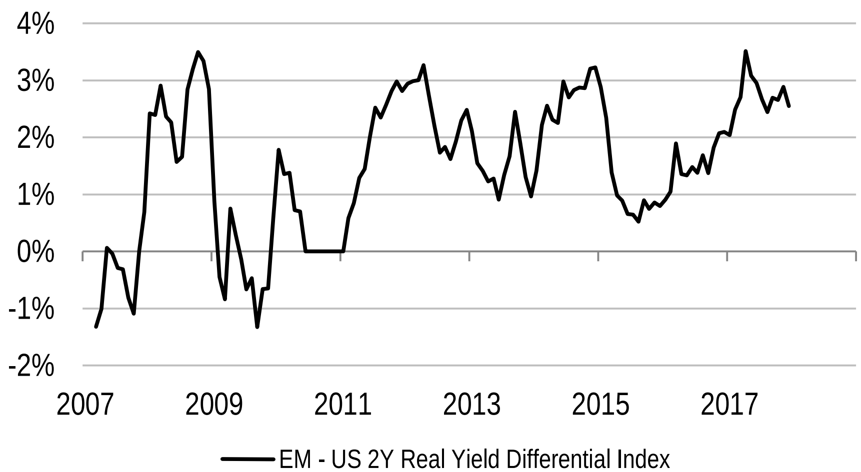
Annual Change in FX vs USD



- Most floating currencies have risen over the past year
- Oil linked currencies have rebounded in response to higher oil prices and capital inflows
- EMFX is reacting in different ways, based on the FX regime of operation
- In the event of a further reduction in USD liquidity, pegged currencies will likely be forced to devalue and dollarized currencies will likely be forced to create alternative currencies

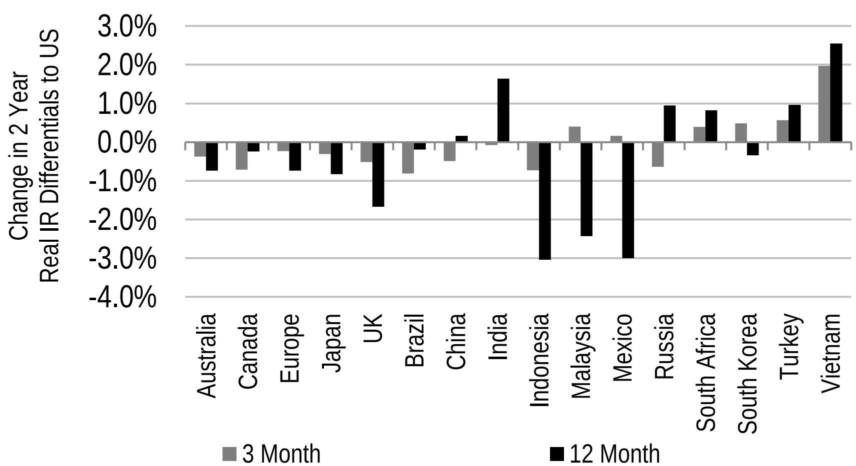
Sources: Bloomberg, Deltec

Change in Real Yield Differentials



- Real interest rate differentials to the US have stabilized over the past year
- On a weighted basis, the increase in China has led Emerging Markets higher

Change in Real Yield Differentials

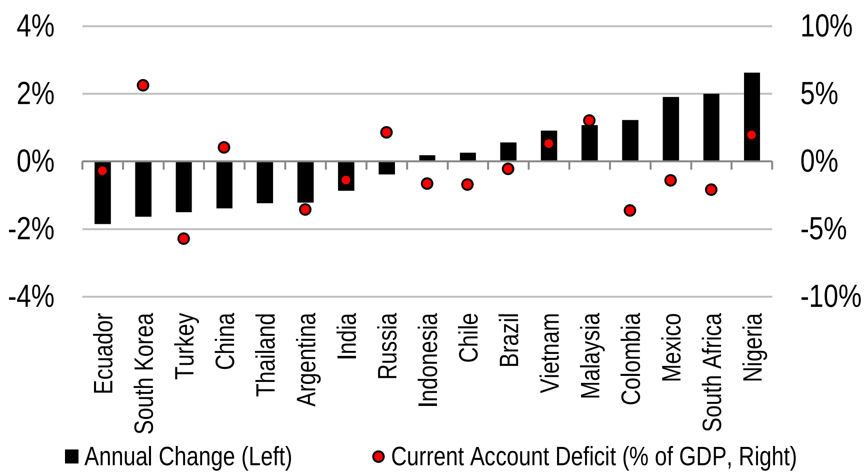


- Emerging Market economies are reacting in different ways to mitigate risks
- Lowering interest rates helps fund economies and stimulate domestic demand, replacing hot money outflows
- Raising rates helps attract external capital to fund economies, although doesn't address structural issues
- Over the past quarter, Emerging Markets real interest rate differentials to the US generally improved
- Over the past year, Emerging Markets real interest rate differentials were mixed, with Vietnam and India rising the most, and Indonesia and Mexico falling the most

Sources: Bloomberg, Deltec

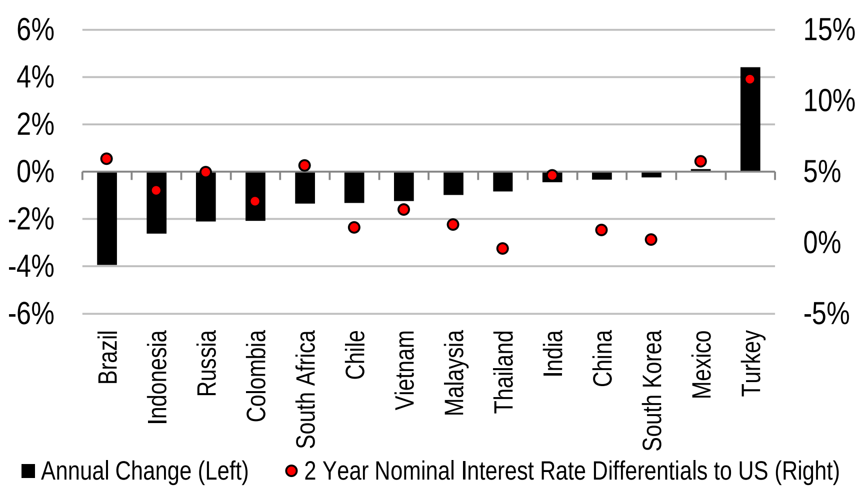
Emerging Markets

Current Account Deficit % of GDP



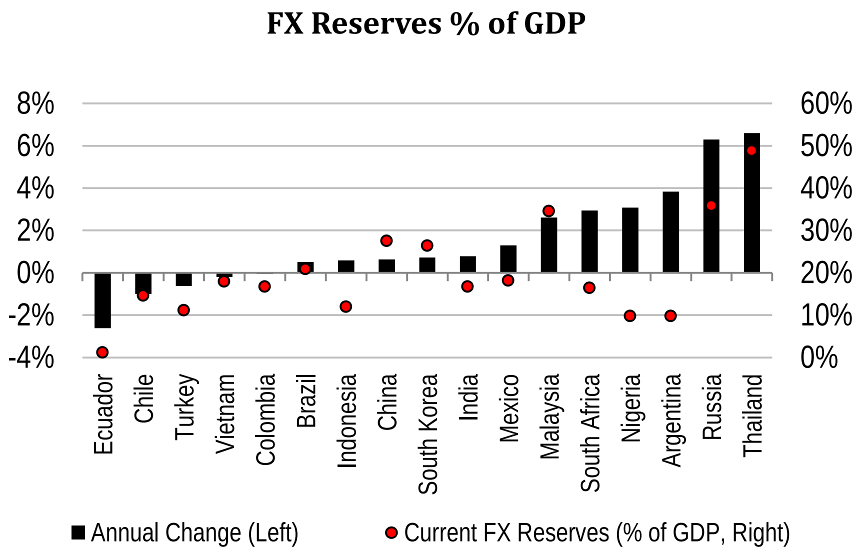
- Colombia, Mexico, South Africa and Nigeria have experienced the largest improvements in their trade positions
- Ecuador, South Korea and Turkey have seen the largest deterioration
- Turkey, Colombia and Argentina are most at risk in outright terms

2 Year Interest Rate Differential vs US

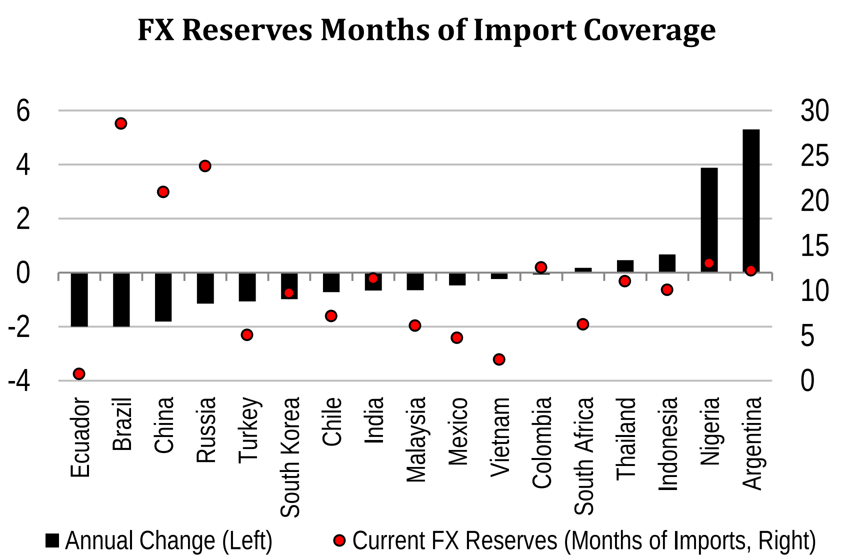


- Turkey experienced the largest increase in nominal interest rate differentials
- Brazil, Indonesia and Russia have experienced the largest decreases in nominal rate differentials
- Thailand, South Korea and China have the lowest nominal rate differential

Sources: Bloomberg, Deltec



- Thailand, Russia, Argentina and Nigeria have experienced the largest increases in FX Reserves as % of GDP
- Ecuador, Chile and Turkey have experienced the largest declines in FX Reserves as % of GDP
- Ecuador, Nigeria and Argentina are most at risk



- Indonesia, Nigeria and Argentina have experienced the greatest increase in Imports coverage
- Ecuador, Vietnam and Mexico are the most at risk

Sources: Bloomberg, Deltec

Emerging Markets

Emerging Market Economies with Largest Improvements

Current Account Deficits:
- Colombia, Mexico, South Africa and Nigeria

Interest Rate Differentials:
- Turkey

FX Reserves:
- Thailand, Russia, Argentina and Nigeria

Import Coverage:
- Indonesia, Nigeria and Argentina

Emerging Market Economies At Risk:

High Current Account Deficits:
- Turkey, Colombia and Argentina

Narrow Interest Rate Differentials:
- Thailand, South Korea and China

Low FX Reserves:
- Ecuador, Nigeria and Argentina

Low Import Coverage:
- Ecuador, Vietnam and Mexico

Access to FX Swap Lines:
- Argentina, Brazil, Chile, Ecuador, India, Indonesia, Mexico, Malaysia, Nigeria, Russia, South Africa, South Korea, Thailand, Turkey, Vietnam

No Access to FX Swap Lines:
- Colombia, Iran, Iraq, Peru, Venezuela

Source: Deltec

UNITED STATES

United States

US growth momentum is currently strong, driving an outright economic expansion that will be durable, even in the upcoming era of declining liquidity growth. Importantly, the expansion is broadening across sectors, as the drivers of economic growth extend from consumption and housing towards industrial production and business investment. From a tactical perspective, in the coming periods growth momentum will experience a temporary peak, inflation will rise and liquidity growth will slow. From a strategic perspective, the economy is past the midpoint, however the outlook is strong, supported by favorable demographics, an improving policy environment, increased capital investment and significant technological change, which will extend the cycle.

- The US is currently experiencing the most robust economic expansion in at least two decades, with growth momentum consistent with a further increase in outright growth in the coming periods. The economic expansion continues to broaden across sectors. Domestic demand via consumption and housing will continue to grow as rising incomes, tax cuts and asset price appreciation offset rising interest rates and higher gasoline prices. Increased global demand is leading to further industrial production growth that will likely continue. Greater policy certainty, stronger earnings, easier corporate credit conditions and tax incentives are finally leading to increased capital expenditure.

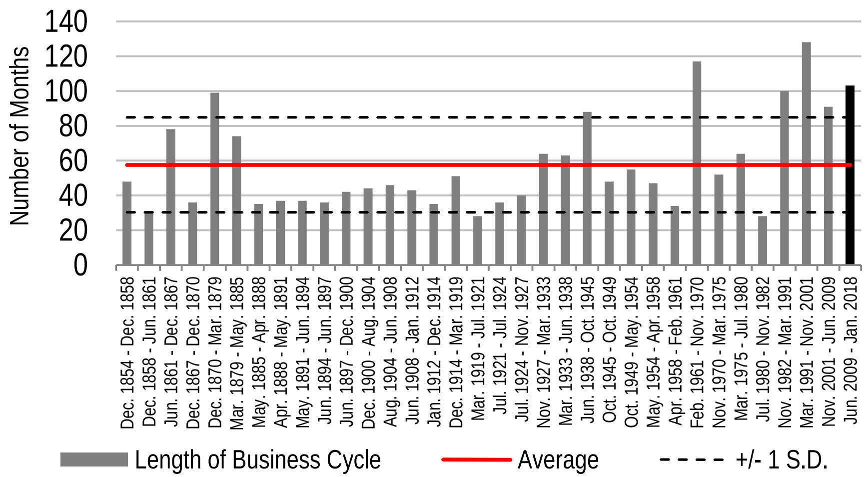
- Rising inflation, the very typical result of stronger economic growth, is likely to lead to a further tightening of liquidity conditions in the coming periods. Whilst wage inflation and imported inflation are likely to rise in the near term, increased capex leading to productivity growth is likely to contain long term inflation, limiting the need for substantially higher interest rates, despite the strong economic expansion. The uncertain timing and extent of liquidity tightening creates risks, ultimately with profound impacts for global economic and financial conditions.

- **Key Risks:** A more aggressive monetary tightening stance would likely limit the expansion prematurely, however inflation is unlikely to spiral, and the impact of any sharp increase in rates is mitigated by lower household and corporate leverage.

Investment Conclusion: Whilst growth momentum is currently strong, valuations are selectively expensive. As the economic expansion is likely to continue for several more periods, rising earnings and a still low discount rate will remain supportive of asset prices, however slowing liquidity growth and rising interest rates will limit the appreciation and cause bouts of volatility. This environment favors undervalued growth sensitive sectors over expensive and liquidity sensitive sectors.

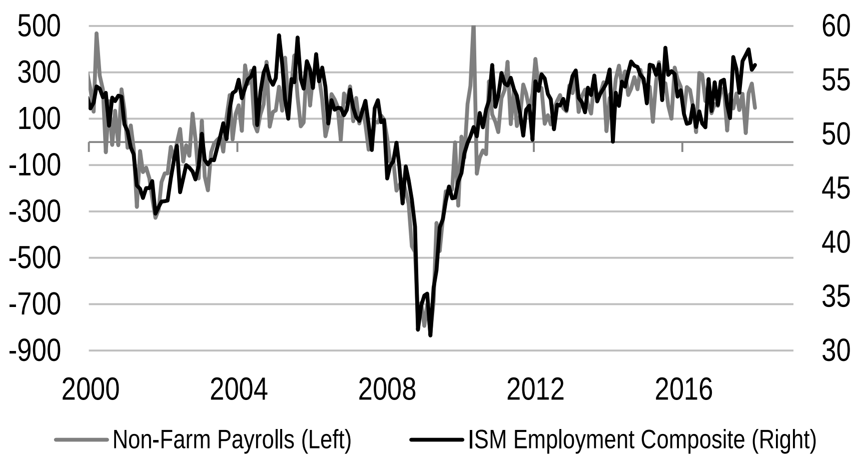
Positives: Selected Technology; Selected Industrials; Selected Financials; Capital Goods; Housing Exposures
Negatives: Utilities; REITs; Consumer Staples; Materials

US Business Cycles



- The current economic expansion has the potential to be the longest ever
- Market performance has been the second best on record, at this point of the economic recovery
- Employment performance has been the second worst on record, at this point of the economic recovery

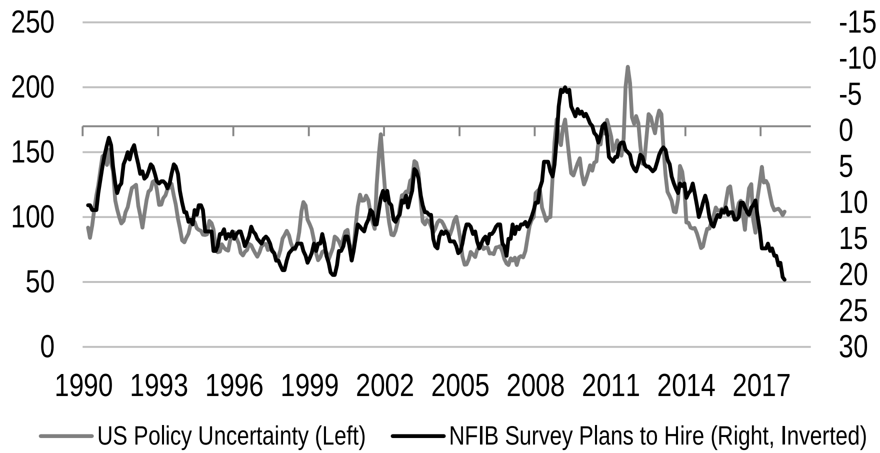
Leading Indicator of Employment



- Leading indicators, using the proprietary ISM Employment Composite (85% Services / 15% Manufacturing), are consistent with a higher rate of employment growth ahead, approximately 300K Non-Farm Payrolls per month
- Employment growth momentum has generally been slowing, as is expected as the economy nears full employment
- Employment gains are likely to be driven by the Services sector

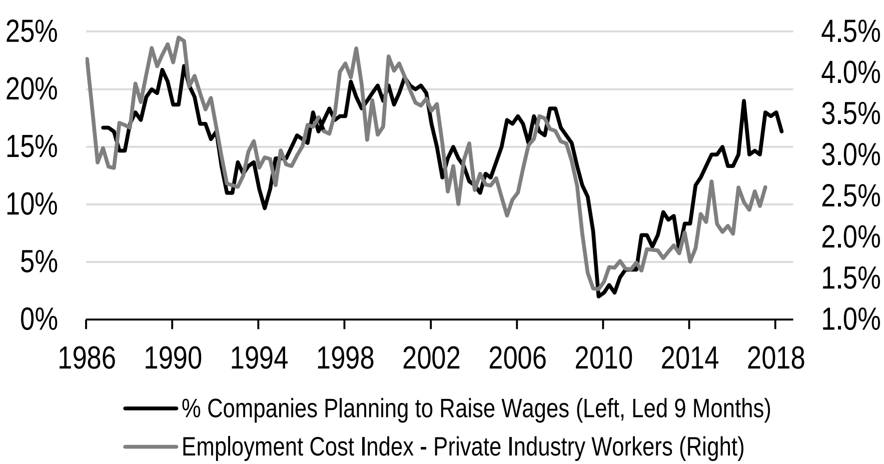
Sources: Bloomberg, Deltec

Policy Uncertainty vs NFIB Plans to Hire



- Plans to hire are at multi-decade highs
- Lower uncertainty regarding the policy outlook is likely to lead to a increased willingness to hire staff
- Uncertainty is likely to decrease as the Fiscal Policy agenda becomes clearer

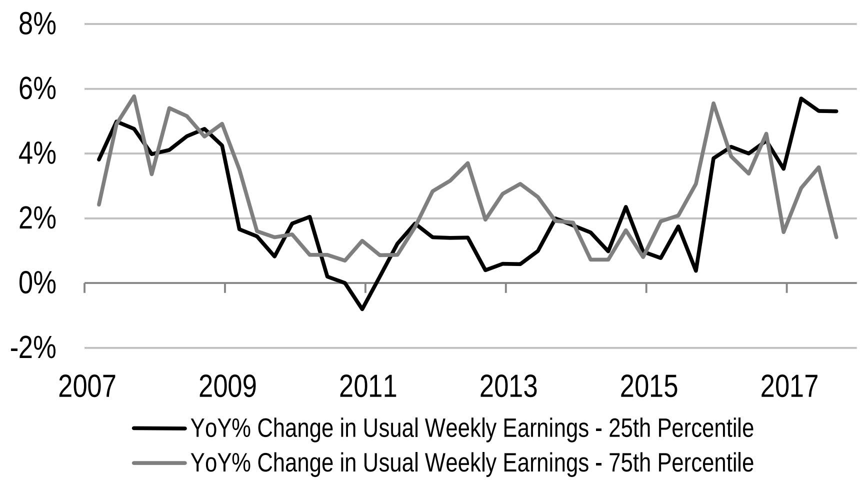
Corporate Wage Expectations vs Wages Growth



- Percentage of companies planning on raising wages remains elevated, consistent with the strongest wages growth in over 10 years, and the economy is still expanding
- Leading indicators or corporate wage expectations consistent with over 3.0% nominal wages growth, the strongest in over a decade
- Wages growth is significantly lagging traditional leading indicators
- The last time wage growth expectations were this strong, the US was late cycle, yet now it is just past mid-cycle

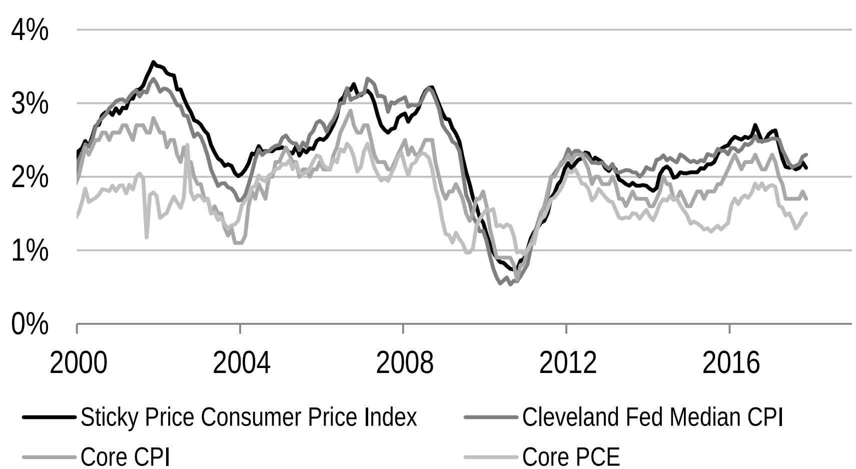
Sources: Bloomberg, Deltec

Wages Growth Across Income Quartile



- Low wage occupations in the 25th percentile have experienced stronger growth than the high wage occupations in the 75th percentile
- Low wage occupations employment growth has increased sharply over the past quarter, although remains low over the past year
- High wage occupations employment growth has been strong over the past year

Measures of Inflation

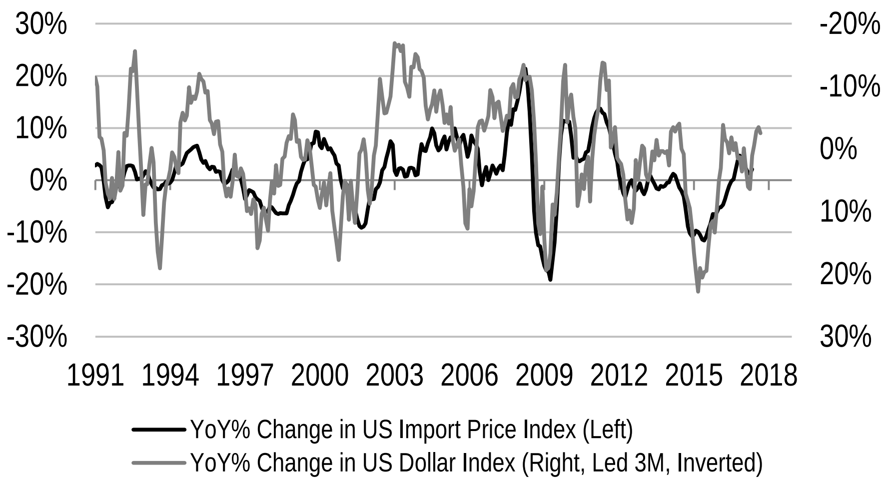


- Inflation measures have risen over the past quarter
- The extent of rate increases is dependent on the extent to which inflation measures continue to rise; the extent to which inflation is transient, and; the extent to which inflation can be curbed through productivity growth

Sources: Bloomberg, Deltec

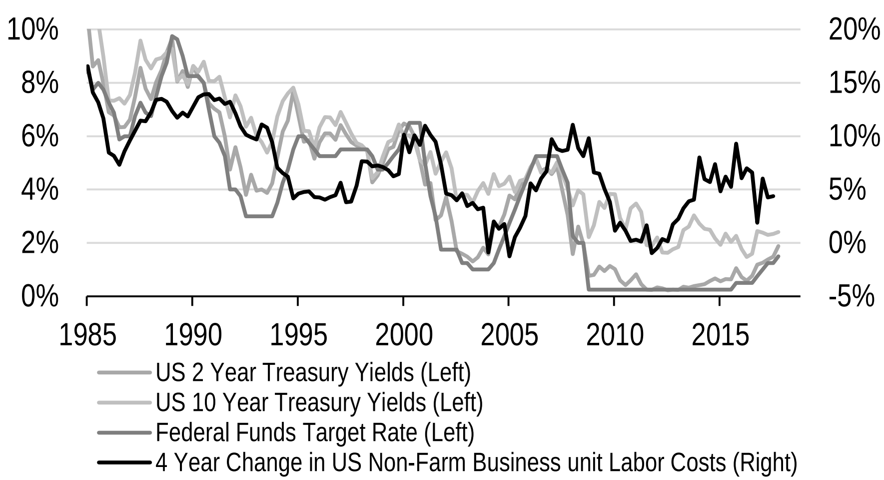
United States

Annual Change in Import Prices



- In addition to rising global inflation, the USD index is consistent with higher imported inflation in the coming period
- As the USD has strengthened and commodity prices have risen, the sharp annual decline in import prices has reversed

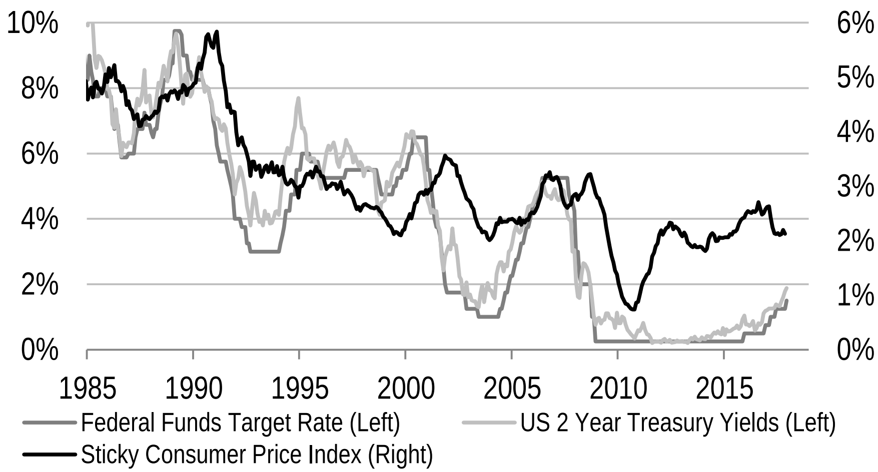
Wages Growth vs Interest Rates



- Rising wages tend to lead to a rising Federal Funds Rate
- Wages growth has decelerated slightly in recent periods, however still remains consistent with a higher Fed Funds Rate
- Rates may rise more slowly as the cycle matures, if productivity growth can be generated
- This is the least data dependent Federal Reserve in recent history, based on labor market data

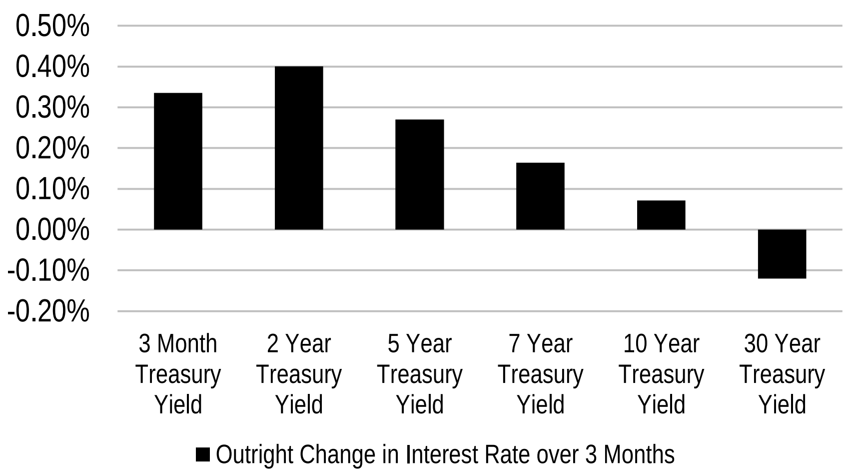
Sources: Bloomberg, Deltec

Wages Growth vs Interest Rates



- Inflation is not in danger of entering an upwards spiral, with productivity growth likely to suppress long term inflation
- Sticky CPI has stabilized recently, but remains elevated, and still consistent with a higher Fed Funds Rate
- This is the least data dependent Federal Reserve in recent history, based on inflation data

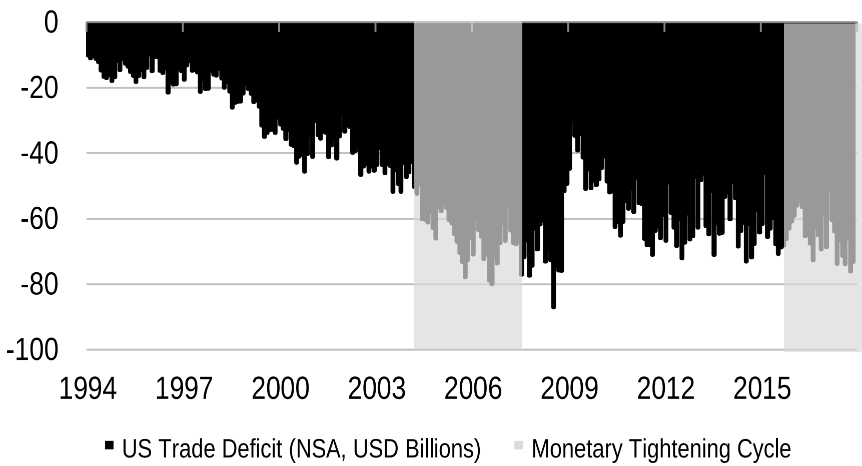
Quarterly Change in Market Interest Rates



- USD liquidity growth has recently slowed, as indicated by short term market interest rates
- Liquidity growth will slow independent of the Federal Funds Rate, via market interest rates

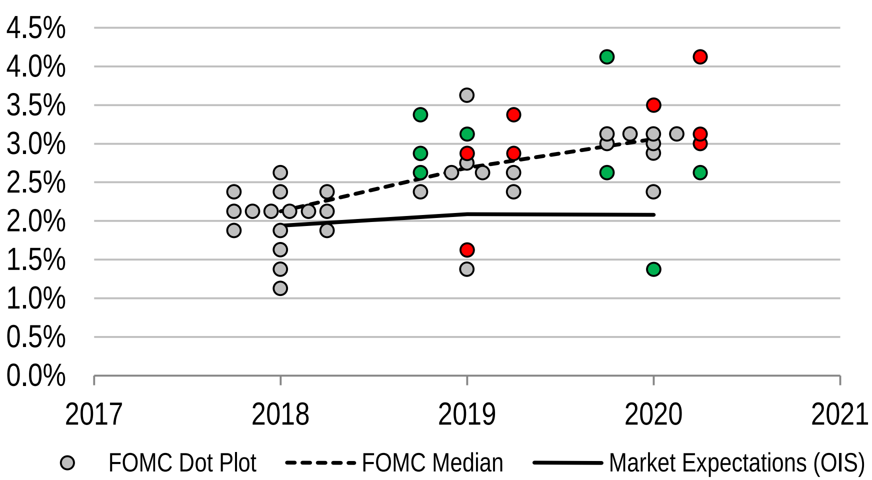
Sources: Bloomberg, Atlanta Federal Reserve Board, Deltec

US Trade Deficit



- The US trade deficit has widened recently, however had largely been narrowing previously, in non-seasonally adjusted terms, limiting USD liquidity growth to the rest of the world via trade
- A narrowing trade deficit would tighten USD liquidity conditions
- Any fiscal led trade reform may see a significant increase in exports and a significant reduction in imports, leading to a narrower trade deficit

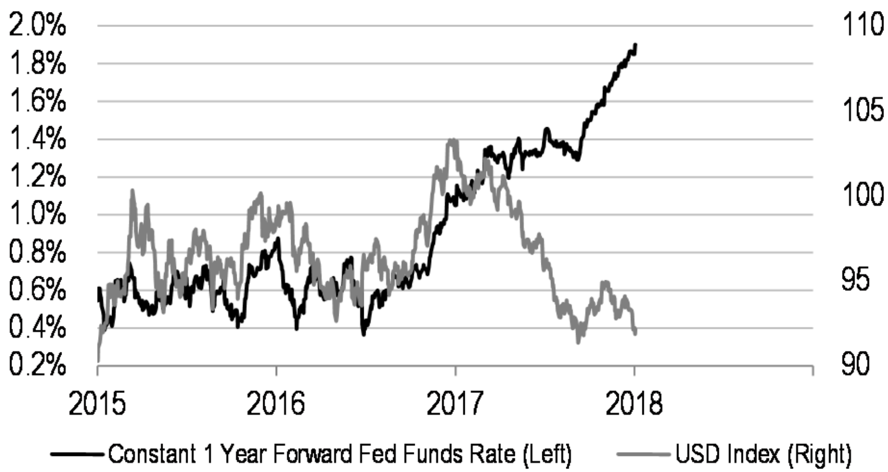
FOMC Expectations vs Market Expectations



- The market is not expecting the same extent of rate increases as the FOMC
- Red dots represent expected FOMC voting members leaving (2018 Evans, Harker, Kashkari, Kaplan leave; 2019 Williams, Bostic, Mester, Mullinix; 2020 Bullard, Evans, Rosengren, George)
- Green dots represent expected FOMC voting members joining (2018 Williams, Bostic, Mester, Mullinix join; 2019 Bullard, Evans, Rosengren, George; 2020 Harker, Kashkari, Kaplan, Mester)

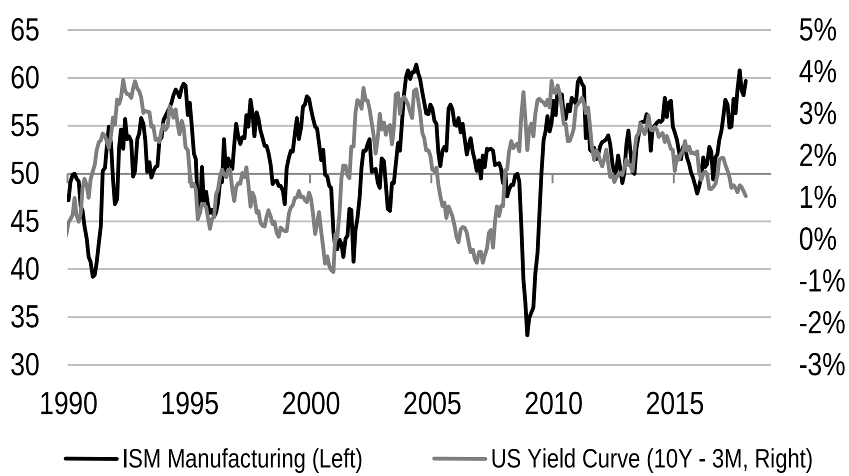
Sources: Bloomberg, Deltec

Fed Funds Rate Expectations vs USD Index



- The USD is not pricing in an increase in the Fed Funds Rate

Growth vs Yield Curve

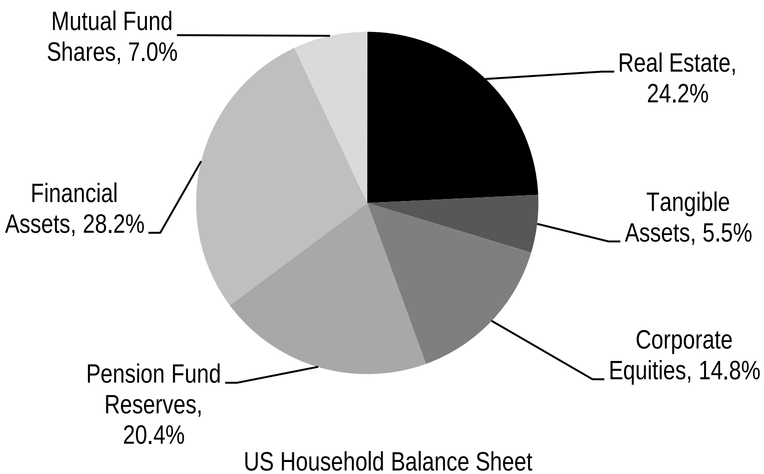


- Leading indicators of growth consistent with a significantly steeper yield curve

Sources: Bloomberg, Deltec

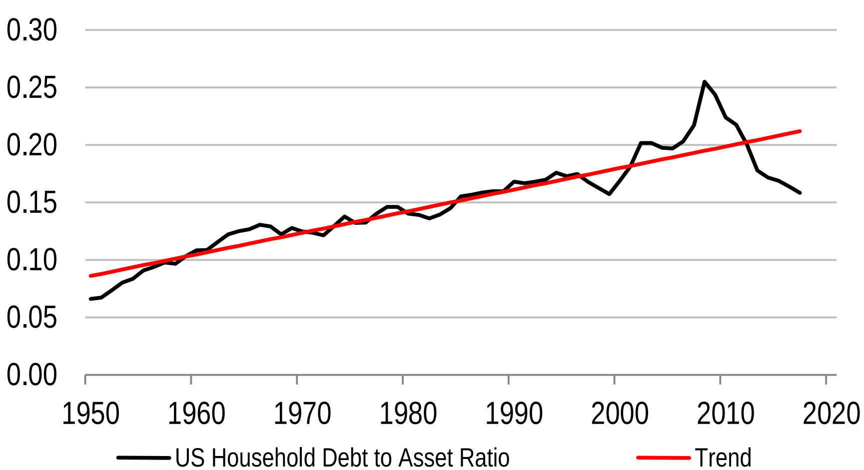
United States

Household Assets



- Consumption is driven by incomes and asset prices
- Approximately 60% of the household balance sheet has recovered significantly in recent years

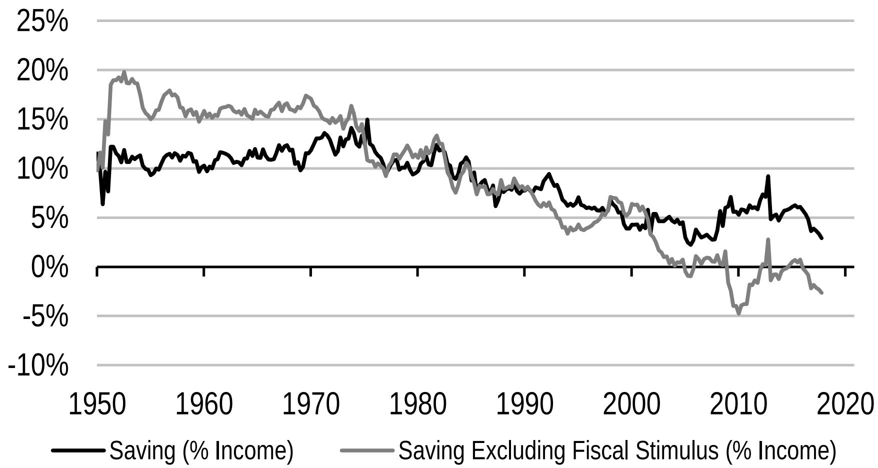
Household Debt to Assets



- US households have deleveraged significantly

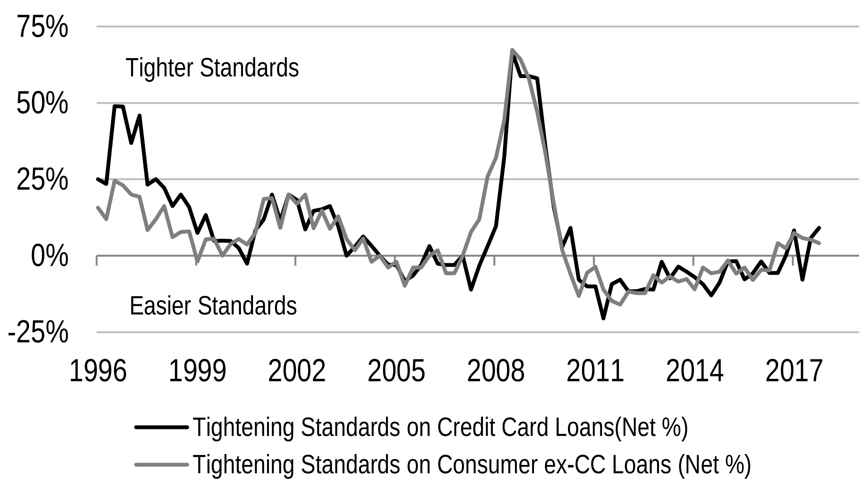
Sources: Bloomberg, Deltec

Household Assets



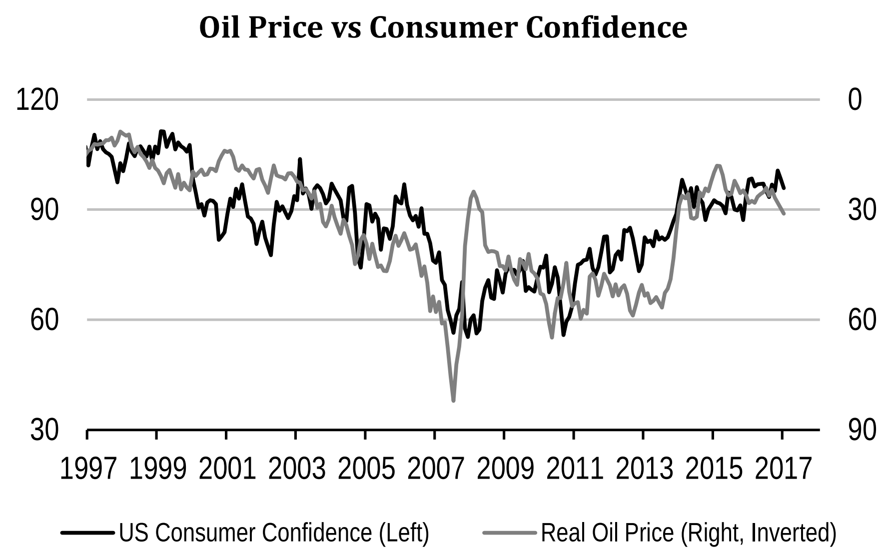
- Savings rates have fallen recently , both including and excluding stimulus
- The structurally lower savings rate may be a phenomena of the credit environment
- Unless US consumers save the real income boost, the increase in consumer confidence should lead to an increase in retail sales

Consumer Credit Lending Standards

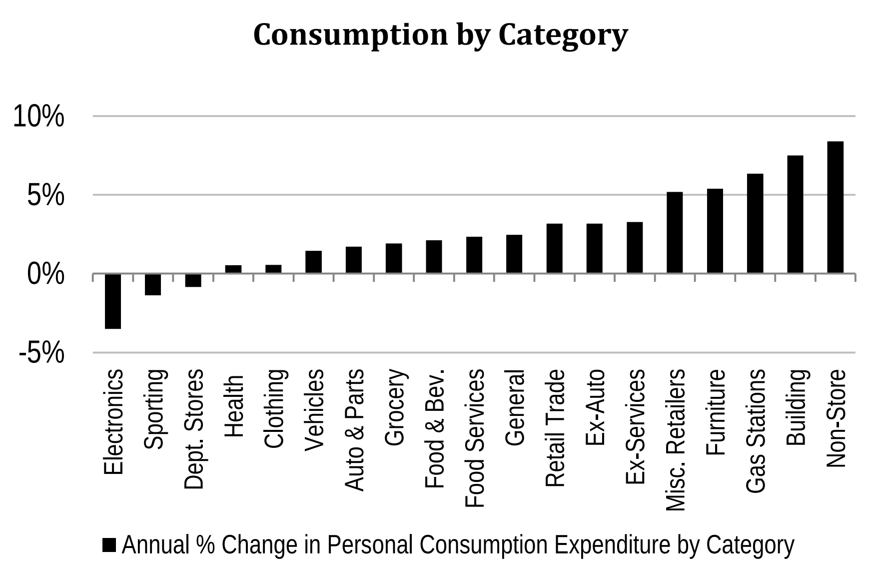


- Bank lending standards are easing slightly on Credit Card loans
- Banks are tightening lending standards to consumers

Sources: Bloomberg, Deltec



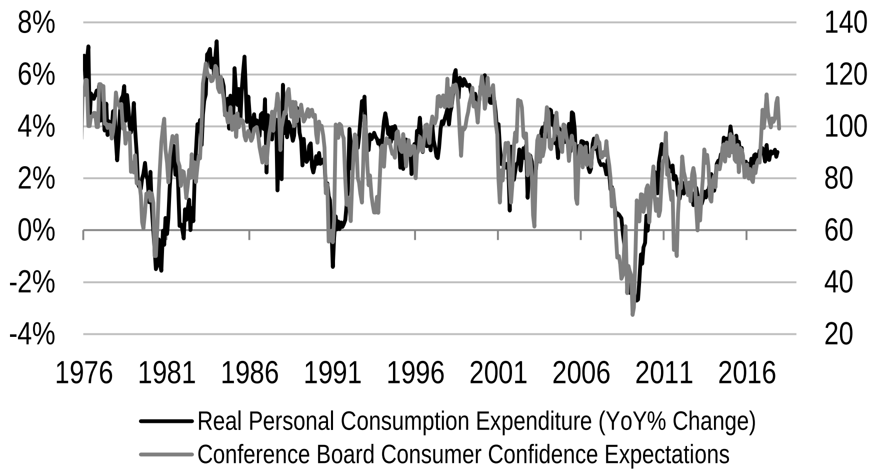
- Oil prices and a reduction in policy uncertainty are providing a significant boost to consumer confidence
- Gasoline prices have recently stabilized, and are now up 6.5% over the year
- Given improved economic, asset price and labor market conditions, consumers are able to cope with higher gasoline prices relative to pre-financial crisis
- Asset price volatility has not impacted consumer confidence over the past year



- Consumer spending patterns have changed, with significantly greater spending growth online, on durable goods, on non-discretionary goods and on experiences

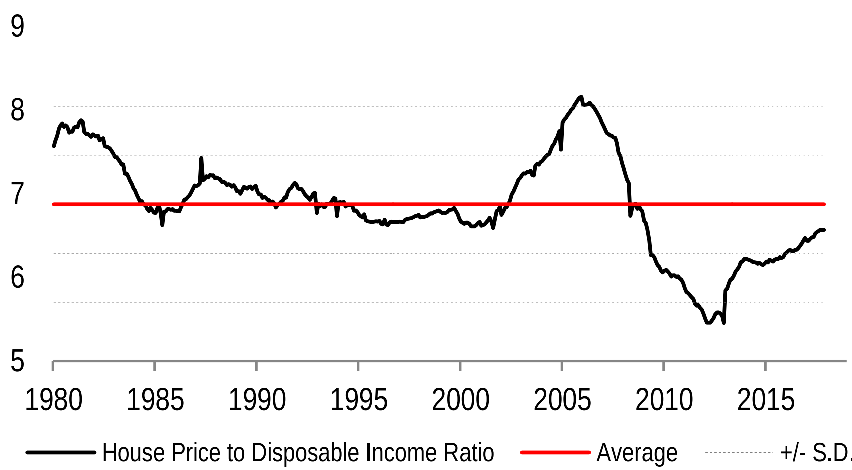
Sources: Bloomberg, Deltec

Consumer Confidence vs Consumption



- The boost to Consumer Confidence is consistent with approximately 4% Consumption growth – the strongest pace in over 15 years
- Retail Sales have recently been stronger, yet volatile, whilst underlying personal consumption measures remain stable
- Consumption is expected to continue to grow strongly as rising wages, personal tax cuts and asset price appreciation offset higher gasoline prices

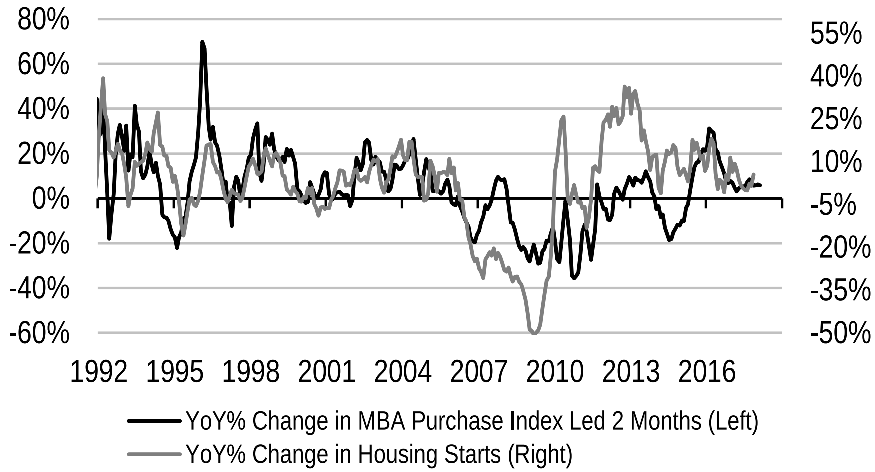
House Prices to Incomes



- House Prices are still under fair value relative to incomes

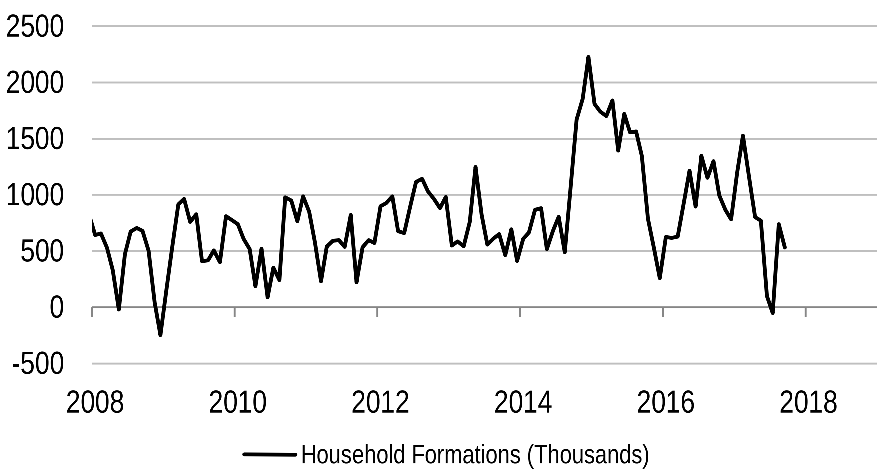
Sources: Bloomberg, Deltec

Housing Loans vs Housing Starts



- Mortgage applications have stabilized over the past year, and are consistent with flat Housing Starts
- Average 30 Year Mortgage Rates have decreased from 4.39% to 4.25% over the past year, prior to further discounting, and remain low in outright terms

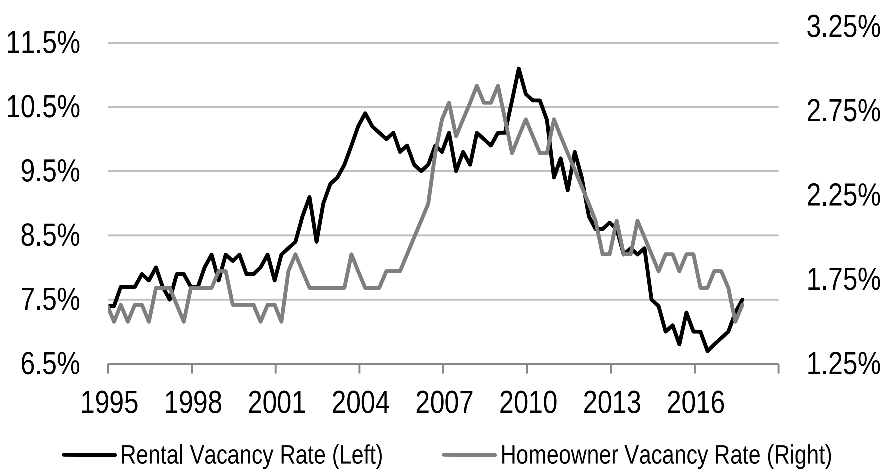
Household Formation



- Household Formations have recently risen, after falling sharply
- Continued strong housing prices may be limiting affordability

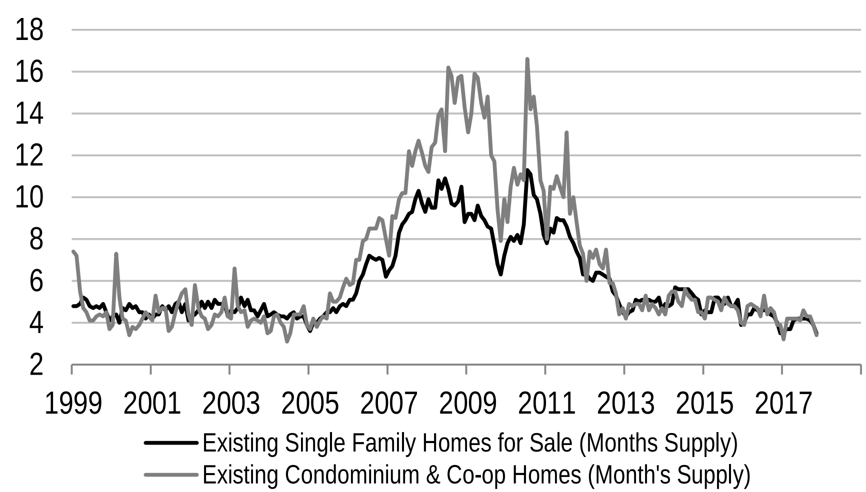
Sources: Bloomberg, Deltec

Household Vacancy Rates



- Household vacancy rates have risen slightly, however remain near multi-decade lows, suggesting rents may increase further from the current point
- The rental vacancy rate has risen slightly, however remains near 20 year lows
- Higher rents create a more attractive buy vs rent environment

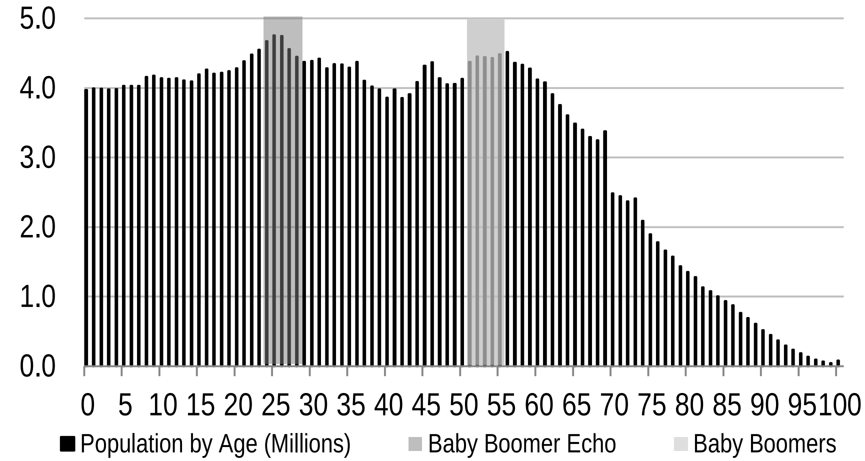
Months Supply of Homes For Sale



- Supply of homes for sale has stabilized over the past quarter, yet remains close to the lowest level in over a decade

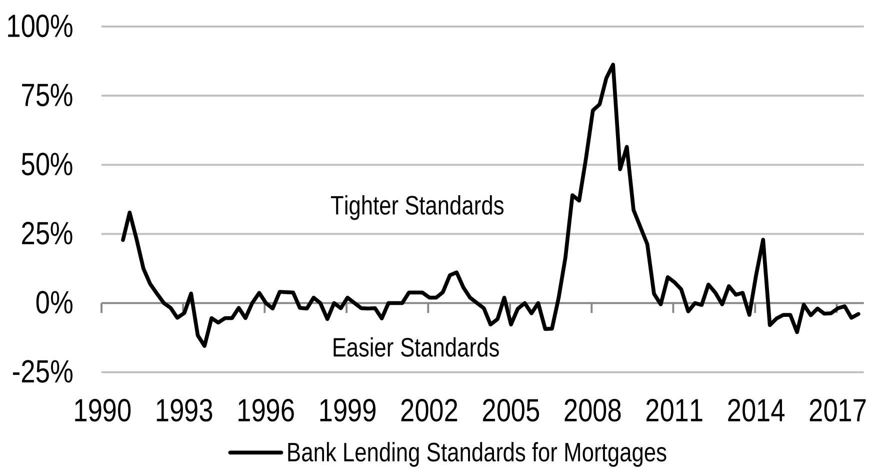
Sources: Bloomberg, Deltec

US Demographics



- Another baby boomer echo is due over the coming years as the children of baby boomers have children, which will provide a further boost to population growth

Mortgage Lending Standards



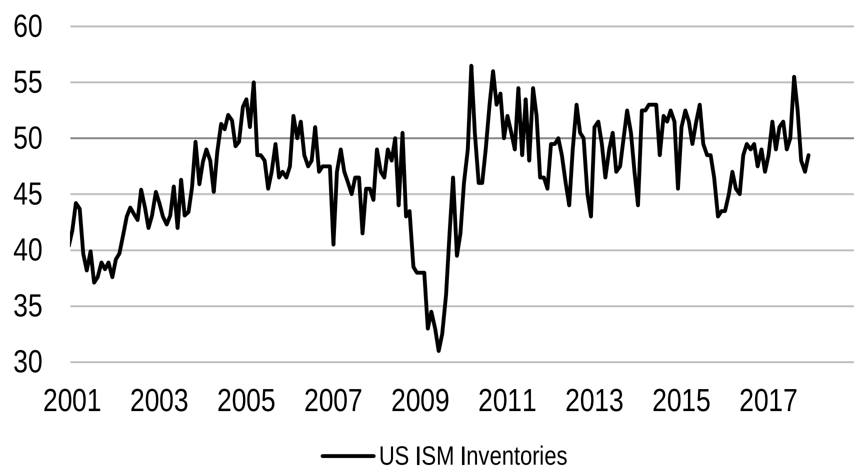
- A significant number of individuals with poor credit ratings now no longer have foreclosures on their credit history, given it has been 7 years since the peak in foreclosures
- Mortgage lending standards are easy, and becoming easier
- Banks have been tightening lending to commercial real estate in recent years, however this has recently stabilized

Sources: Bloomberg, Census, Deltec

ISM New Orders

- Manufacturing new orders have recently re-accelerated, to the strongest pace in 15 years
- The ISM New Orders does not tend to remain above 60 for a long period

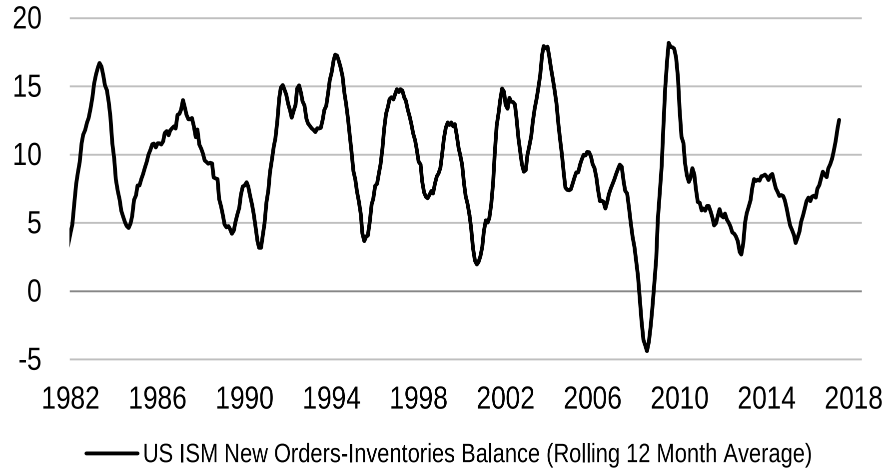
ISM Inventories



- ISM inventories have decelerated recently, and are now in contractionary territory
- Improving consumption should continue to draw down inventories, which should result in a rising New Orders-Inventories balance over the coming quarters

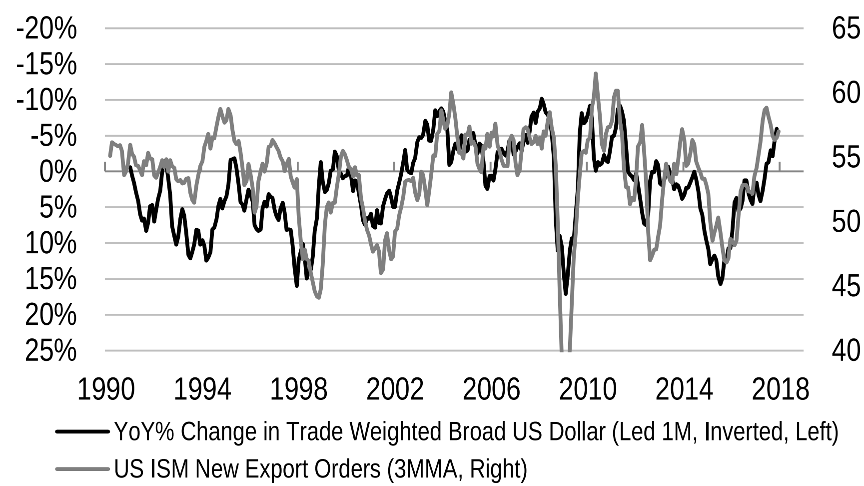
Sources: Bloomberg, Deltec

Rolling 12 Month ISM New Orders-Inventories Balance



- From a broader cycle perspective, the US remains just past the midpoint of the cycle, rather than late cycle
- The ISM New Orders-Inventories balance continues to move higher
- The 1994 decline subsequently led to the longest period of industrial production expansion in the past 30 years
- Average cycle length is 26.6 months
- Current cycle has lasted 25 months
- 2013 cycle lasted 15 months
- 1990s cycle lasted 42 months

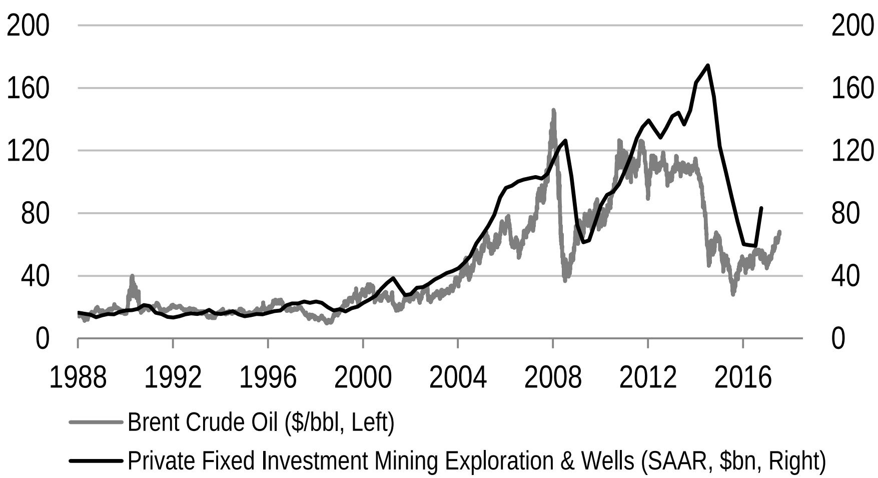
USD and US Exports



- USD is currently consistent with stable exports
- The weaker USD, coupled with a recovery in global growth, has aided US exports

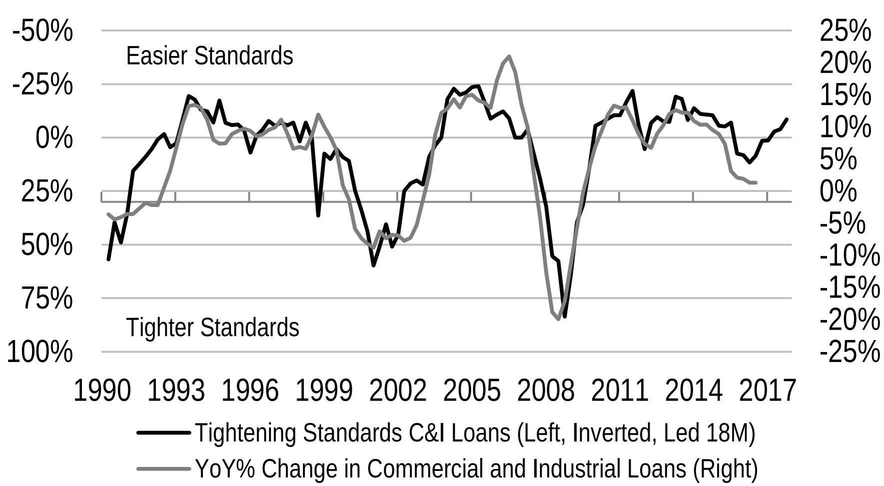
Sources: Bloomberg, Deltec

Oil Price vs Energy Fixed Asset Investment



- Stabilizing oil prices have led to a sharp recovery in energy capex
- Energy investment is < 12% of total non residential fixed asset investment and < 1% of US GDP
- Energy employment is < 0.5% of nonfarm labor force
- If consumers spend the increase in real income, this will more than offset the decline in energy fixed asset investment since the peak

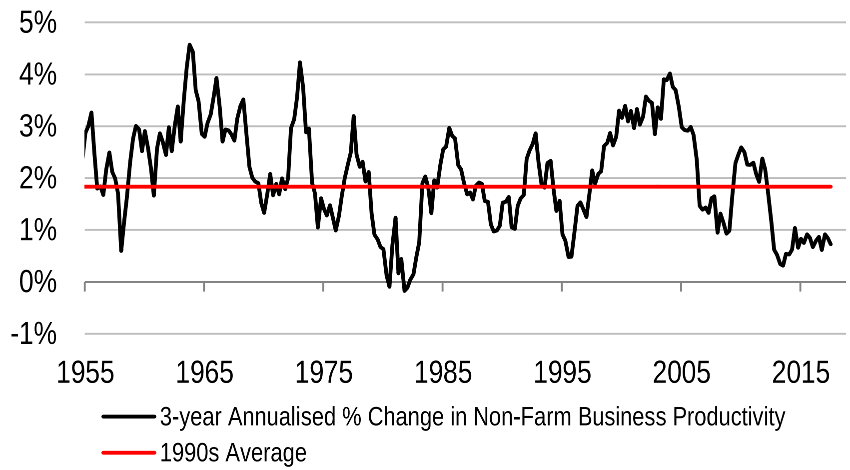
Commercial Lending Standards



- Banks remain willing to lend to businesses, and have eased standards further in recent periods
- Easier lending standards are consistent with 10% corporate credit growth

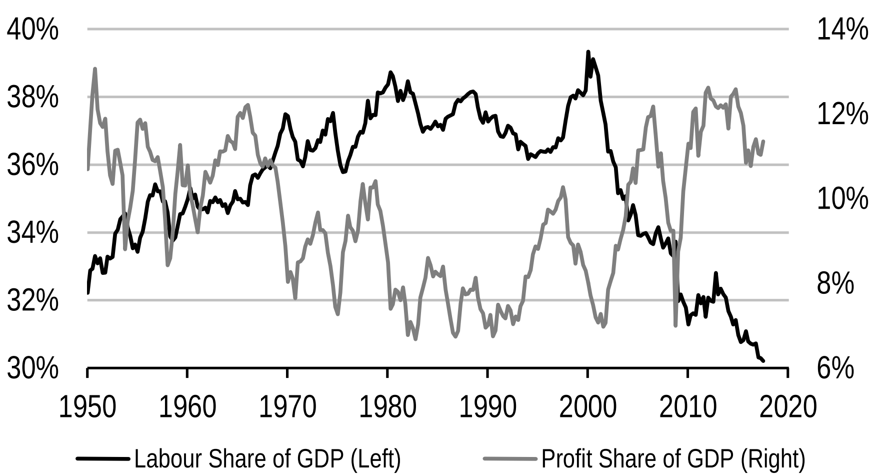
Sources: Bloomberg, Strategas, Deltec

Productivity Growth



- Productivity growth remains at the lowest point of the past 20 years, and near the lowest point of the past 60 years, although has stabilized

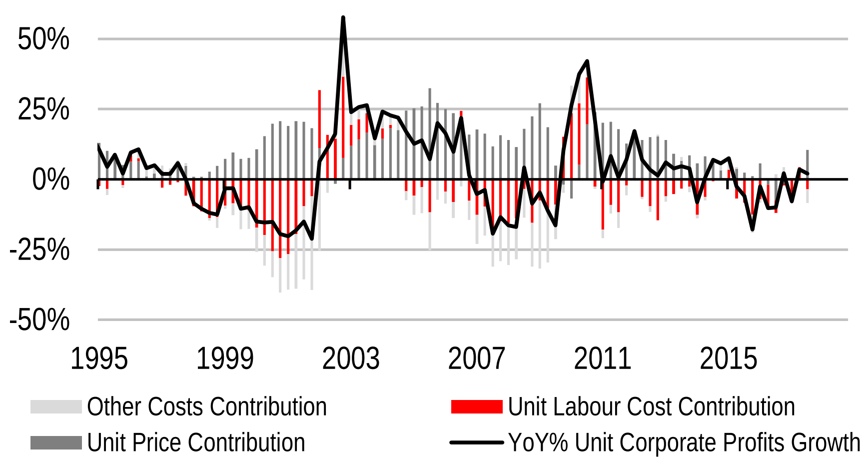
Profit and Labor Share of GDP



- Profit Share of GDP has stabilized over the past quarter
- Labor Share of GDP is at an all time low, and has fallen further in recent periods
- Labor Share of GDP may increase as wages growth rises, however increased capex, especially into productive assets, will limit this

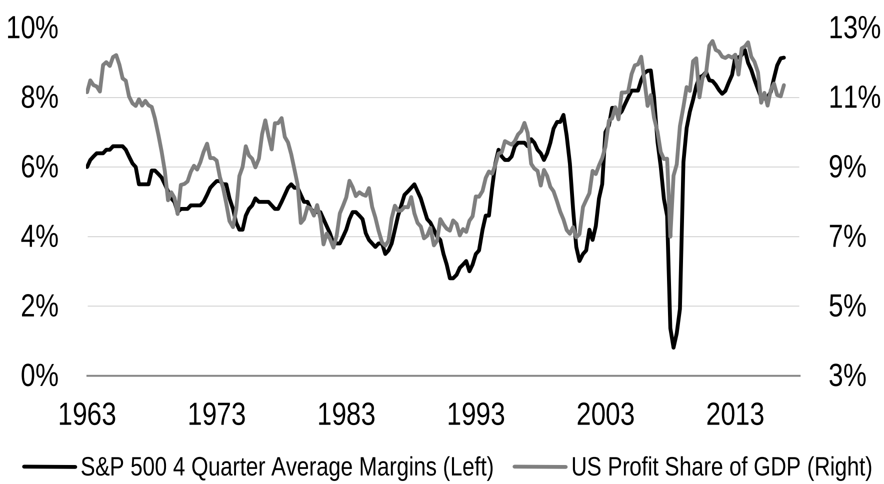
Sources: Bloomberg, Deltec

Corporation Contribution to Profits



- Corporate profit growth has fallen slightly over the last quarter
- There is low ability to reduce unit labor costs, hence productivity growth through investment in productive assets is essential from the current point

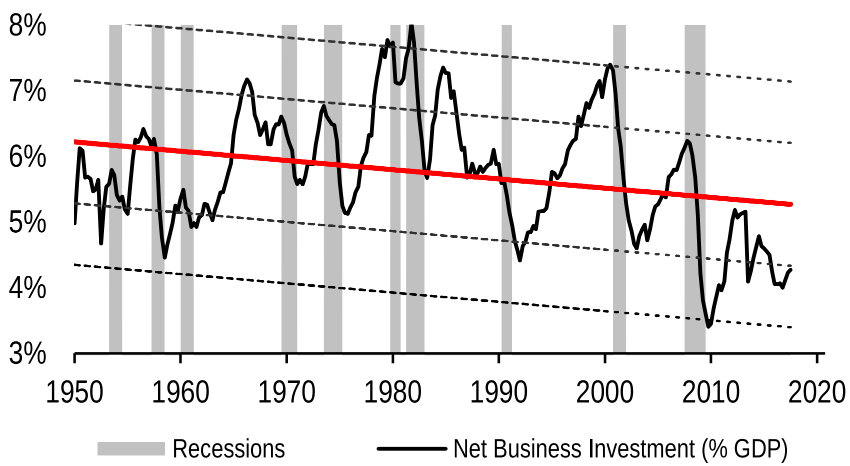
Profit Margins vs Profit Share of GDP



- US profit margins have risen slightly over the past year
- USD strength is impacting US profit margins selectively
- Firms should be investing in productive assets to maintain profit margins

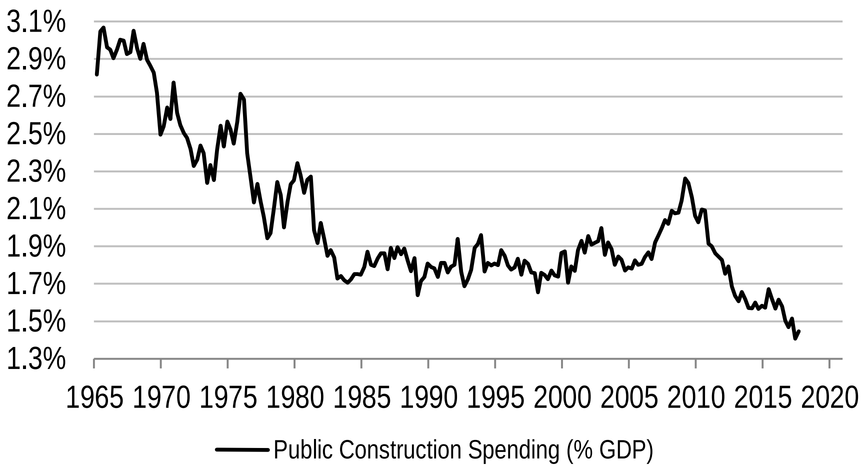
Sources: Bloomberg, Federal Reserve, Strategas, Deltec

Private Investment Share of GDP



- Investment share of GDP has risen, however remains more than one standard deviation below trend
- In the current generation, investment share of GDP has been 2 standard deviations above trend

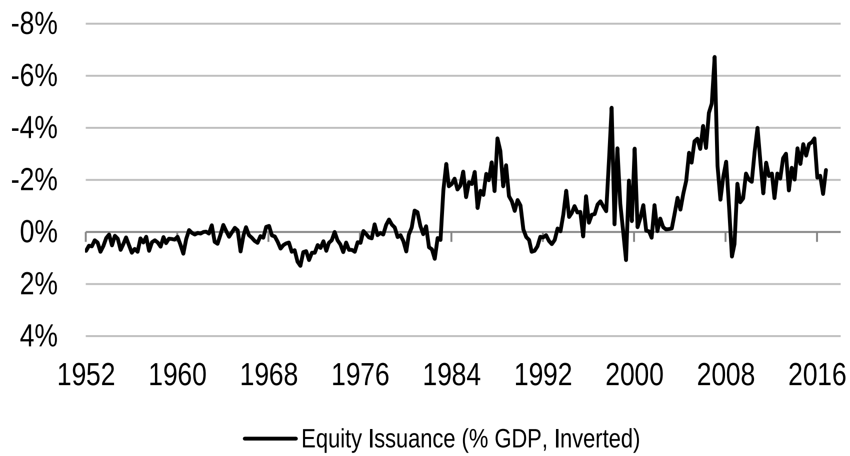
Public Investment Share of GDP



- Public construction spending continues to proportionately decline, and represents a small share of GDP
- This has been a private sector driven recovery

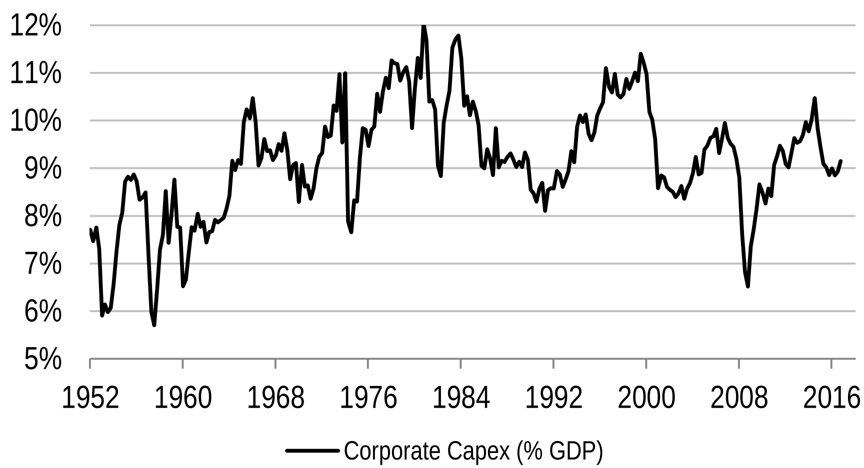
Sources: Bloomberg, Federal Reserve, Strategas, Deltec

Share Buybacks



- Share buybacks have risen slightly over the past quarter

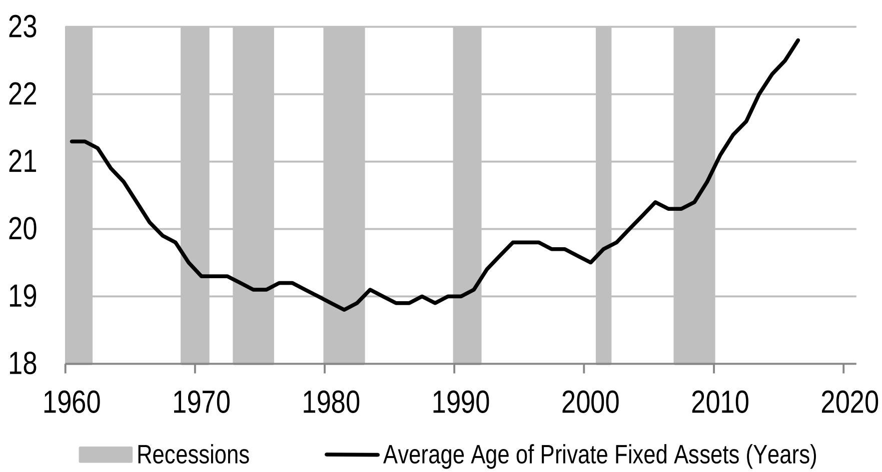
Capex



- Capex rose over the quarter

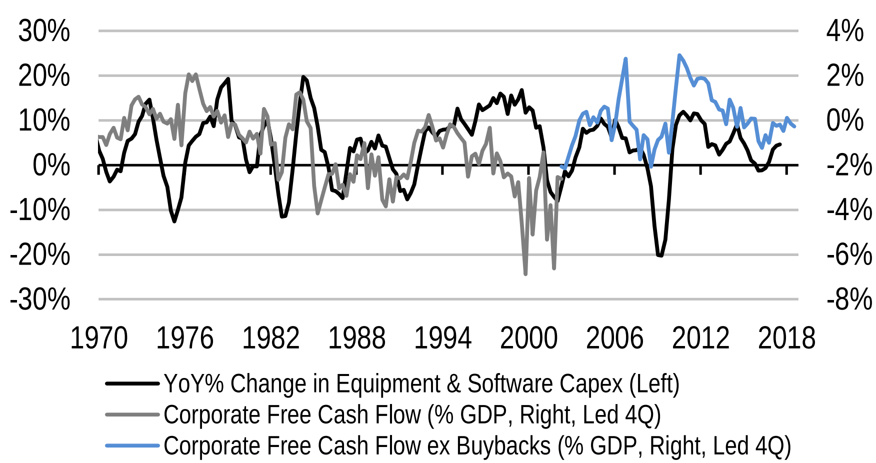
Sources: Bloomberg, Federal Reserve, Strategas, Deltec

Fixed Asset Age



- The average age of fixed assets is the highest it has ever been
- Whilst higher quality items will require a longer replacement cycle, this is also reflective of underinvestment

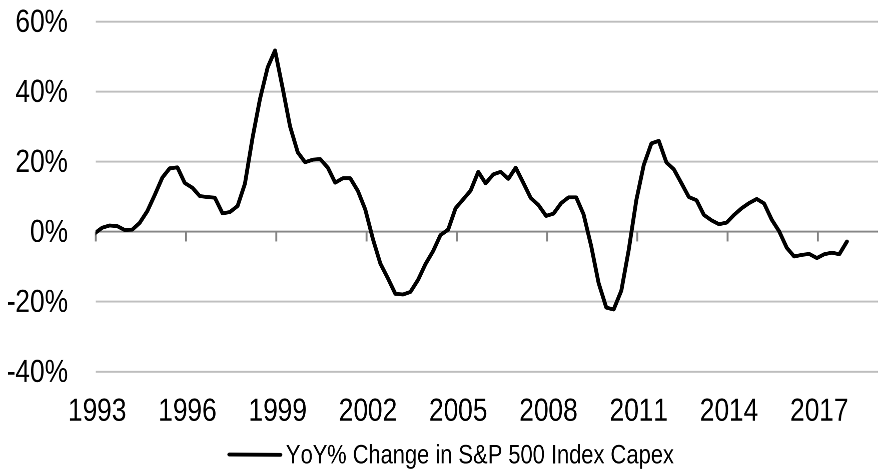
Corporate FCF ex Buybacks since 2001 vs Capex



- Corporate free cash flows have been recovered strongly from their post-crisis lows
- Corporate free cash flows are recovering due to stronger earnings
- Corporates still have sufficient cash flows to fund a significant increase in capex and investment, excluding share buybacks
- Corporates have the means to invest

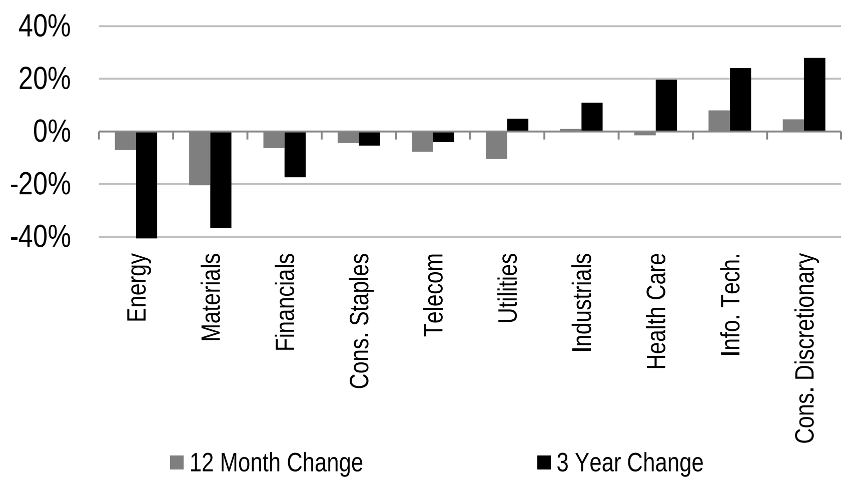
Sources: Bloomberg, Federal Reserve, Strategas, Deltec

S&P 500 Capital Expenditure



- US capex growth is improving

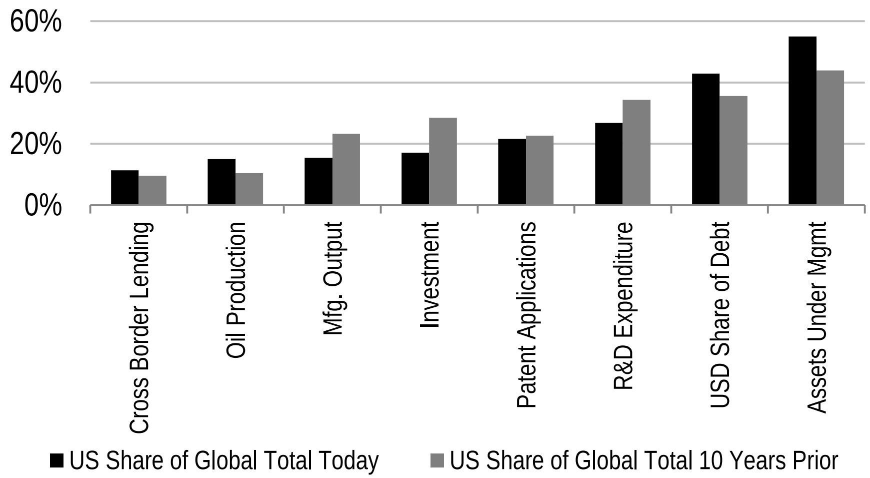
S&P 500 Sector Capital Expenditure



- Capex has fallen significantly across Commodity related sectors over the past year, however has risen across Consumption related sectors
- The energy capex decline has been significant over the past three years, however the increase in capex across other sectors, especially Healthcare, Technology and Consumer Discretionary, has been strong

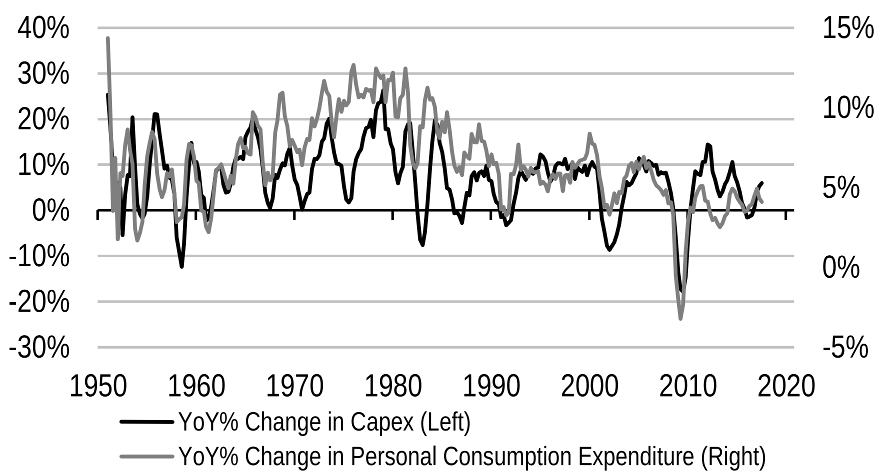
Sources: Bloomberg, Factset, Strategas, Deltec

US Share of Global Total



- The place of the US in the world has shifted, particularly with regard to investment levels
- The US has shifted from capital investment to capital allocation
- The US has shifted from energy consumption to energy production

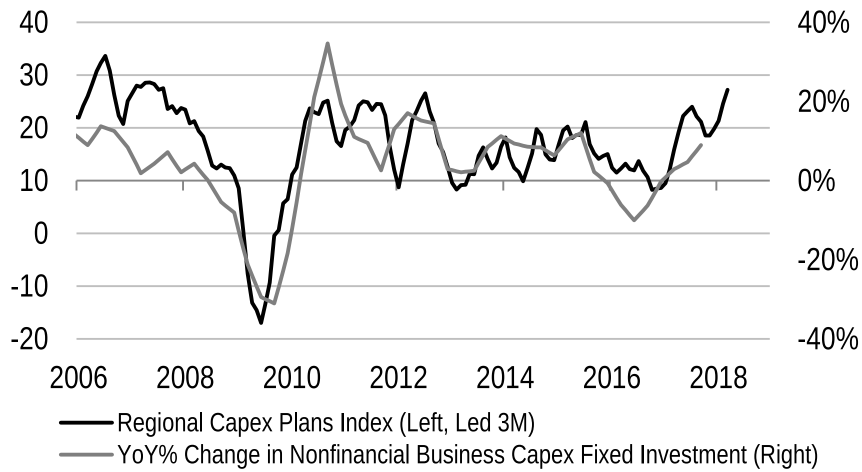
Consumption Growth vs Capex Growth



- Consumption growth tends to be required for capex growth
- Improving consumption growth is likely to result in increased capex

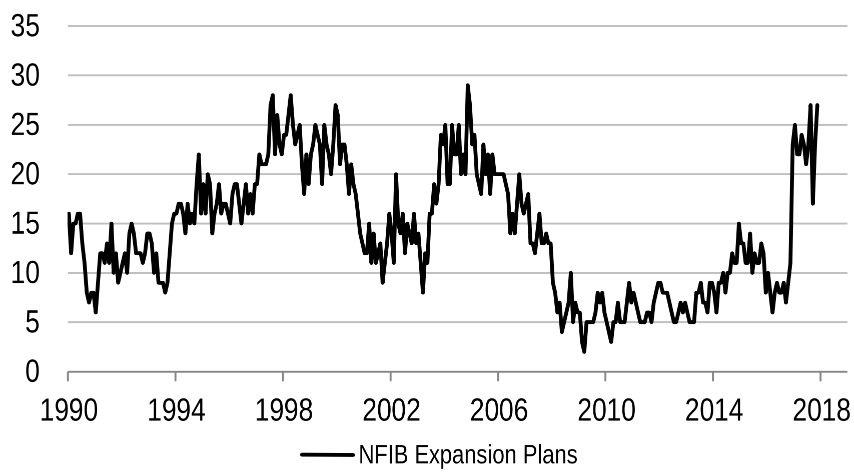
Sources: Bloomberg, UNESCO, US EIA, World Bank, Towers Watson, BIS, WIPO, Deltec

Capex Intentions



- Leading indicators of capex are at 10 year highs
- Capex is beginning to recover, and should recover further as consumption rises
- Leading indicators of capex are still consistent with higher levels of capex than what is being experienced

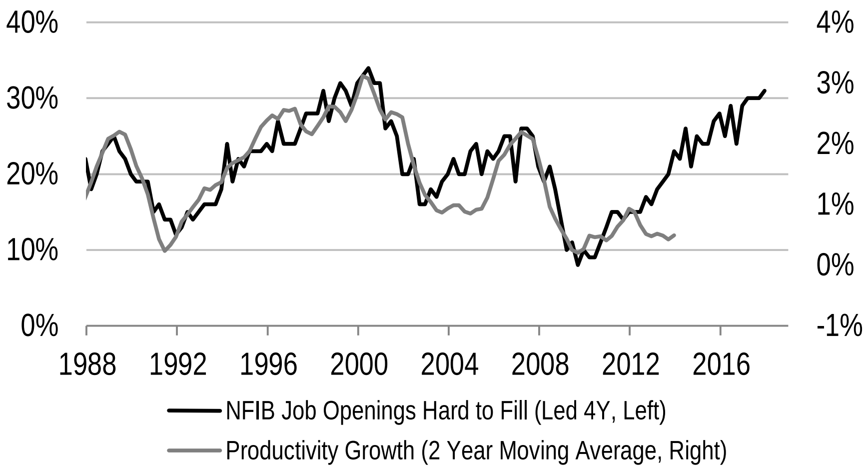
Expansion Intentions



- Small business expansion plans have risen again, and remain in line with their mid-2000s peak

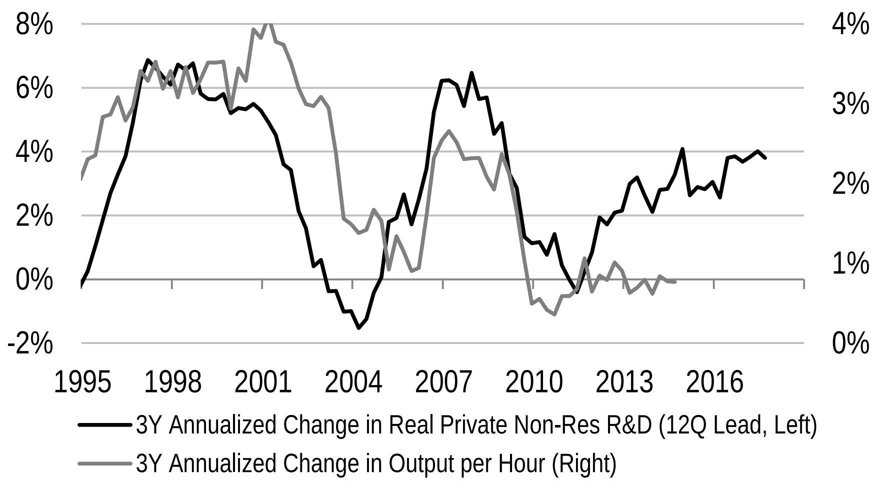
Sources: Bloomberg, Deltec

Employment and Productivity



- Tightening employment markets are consistent with rising productivity over the coming years
- Productivity growth has lagged in this cycle, although a similar lag occurred following the 2001 recession

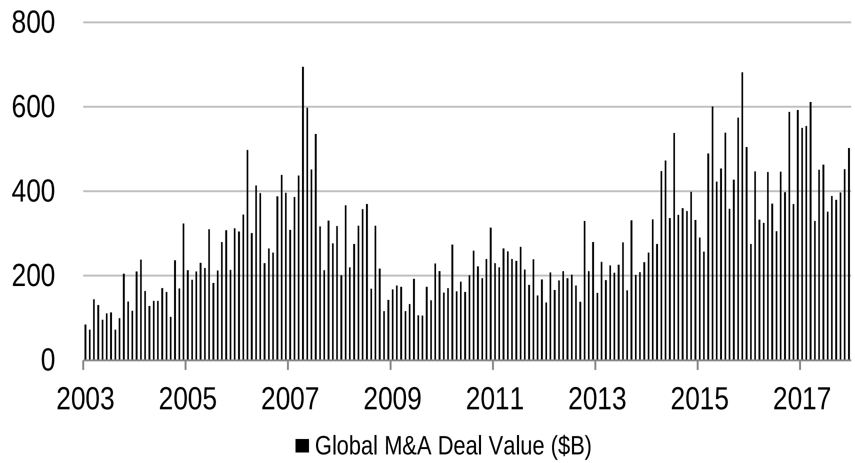
Capex and Productivity



- There is a clear relationship between capex and worker productivity
- Productivity should rise in the coming periods

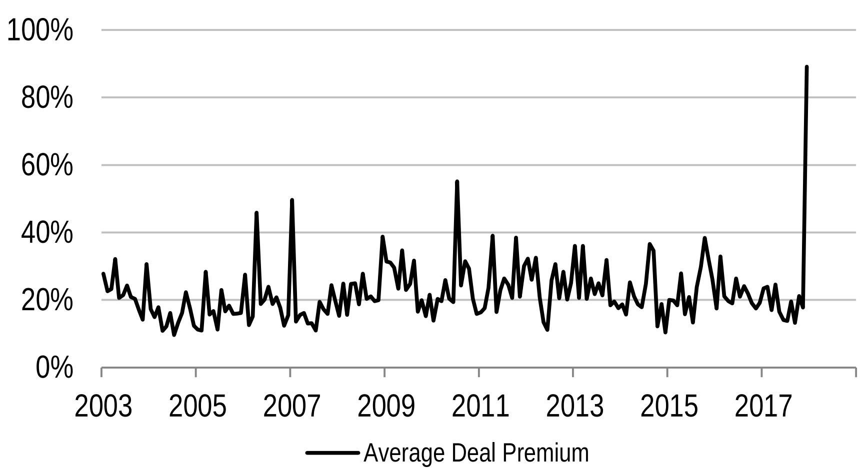
Sources: Bloomberg, Federal Reserve, Deltec

Global M&A Activity



- Global M&A Activity rose over the past quarter
- Share buybacks and M&A activity are easier than undertaking capex or investing in organic growth

M&A Deal Premium



- Average deal premiums has recently risen sharply, however had previously fallen

Sources: Bloomberg, Federal Reserve, Deltec

EUROPE

Europe

European growth momentum is strong and leading indicators of outright growth are at multi-decade highs, with the private sector driven expansion able to withstand any residual policy uncertainty across the region. From a tactical perspective, an improvement in global conditions is lifting trade and industrial production, and a stabilization in domestic conditions is lifting consumption and asset prices. Current loose monetary conditions are likely to begin to turn in the coming periods, however the economy and banking sector are well positioned to withstand these changes. From a strategic perspective, the economic expansion is not yet at the midpoint, leaving several more periods for continued cyclical growth. Demographic factors, differentiated fiscal priorities and a lack of structural reform present risks, however rising capital investment and technological progress, if maintained, should alleviate these challenges.

- Growth momentum is strong, with leading indicators consistent with an improved outlook for economic growth and financial stability. The economy is now firmly expanding, both in magnitude and breadth across countries and sectors, owing to a stronger global economy, and at a point where even a higher currency and the threat of a resurfacing of policy uncertainty are unlikely to derail the expansion. Rising capital investment should drive the next phase of the expansion.

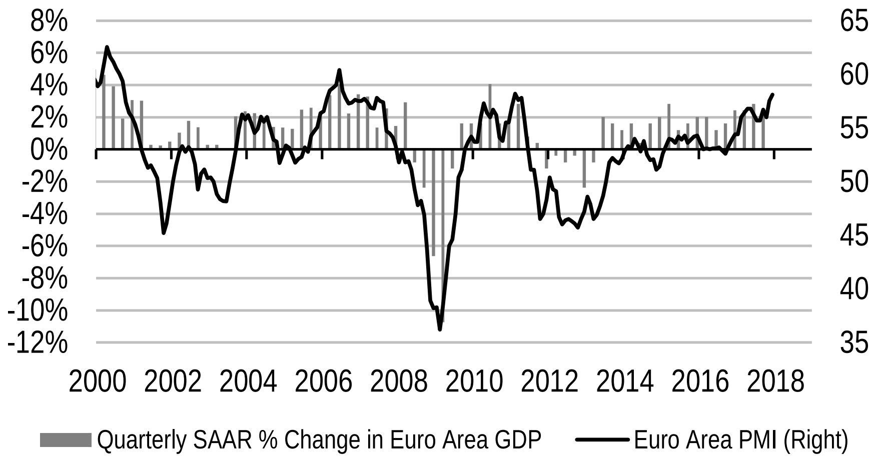
- Liquidity conditions are currently sound, however with growth improving, liquidity growth will slow in the coming periods, although policymakers are still highly sensitive to downside risks. With capital increases and government support, any decline in liquidity is unlikely to negatively impact the banking sector. The onus of supporting growth is now transitioning to the private sector and fiscal policymakers, which will serve as the discriminating factor at the country level and sector level.

- **Key Risks:** Policy uncertainty, both fiscal and monetary, remains a risk, however is mitigated by the momentum of the private sector driven expansion. A stronger currency from current levels would also begin to negatively impact. Slowing growth from China remains a risk, however this will likely slow growth momentum rather than derail the expansion.

Investment Conclusion: The strengthening economic expansion is likely to lead to a further improvement in earnings growth in the coming periods, with the rising currency remaining a headwind for certain sectors. Given this interplay, greater selectivity is required going forward, with the preference remaining for financials, cash flow generative cyclicals and beneficiaries of increased corporate capex, as interest rate sensitive exposures are susceptible to tightening liquidity conditions.

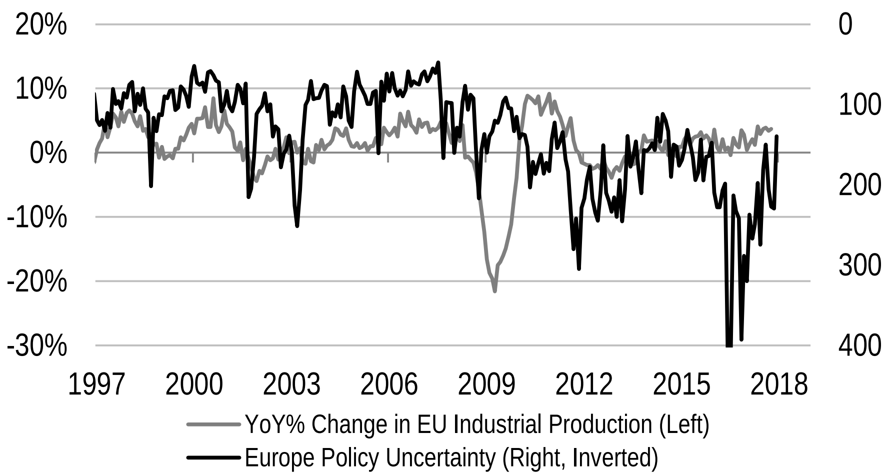
Positives: Selected Financials; Travel & Leisure; Capital Goods; Technology; Industrials
Negatives: REITs; Utilities; Consumer Staples

PMI vs GDP Growth



- PMI Survey data is consistent with the strongest growth outcomes in over 10 years
- Growth momentum has strengthened recently
- Policy uncertainty has diminished, as has its potential to impact the expansion

Policy Uncertainty vs Industrial Production

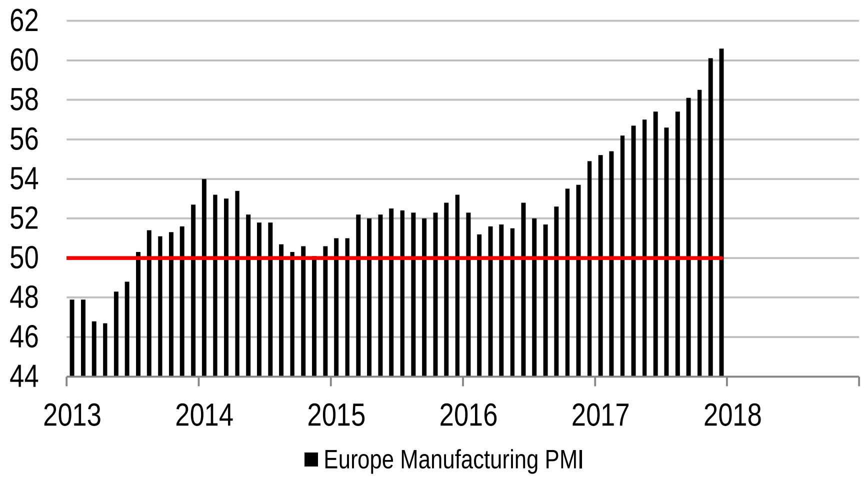


- European policy uncertainty has recovered to pre-Brexit levels, and has diminished further following European elections
- When policy uncertainty is high, consumption, manufacturing and investment are sharply negatively impacted
- Policy uncertainty still has some potential to have a significant negative impact on economic growth, however the private sector led recovery is increasing its resilience

Sources: Bloomberg, Economic Policy Uncertainty, Deltec

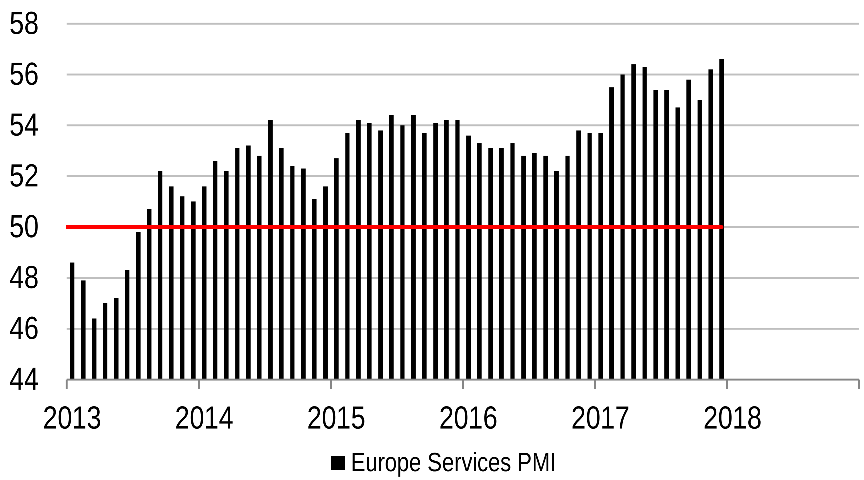
Europe

Manufacturing PMI



- Manufacturing PMI has accelerated sharply in recent periods and is now firmly above 50, a level typically associated with expansion
- A sharply stronger EUR may limit a further near term increase
- Weaker growth in China may start to limit a further expansion, having previously aided the expansion

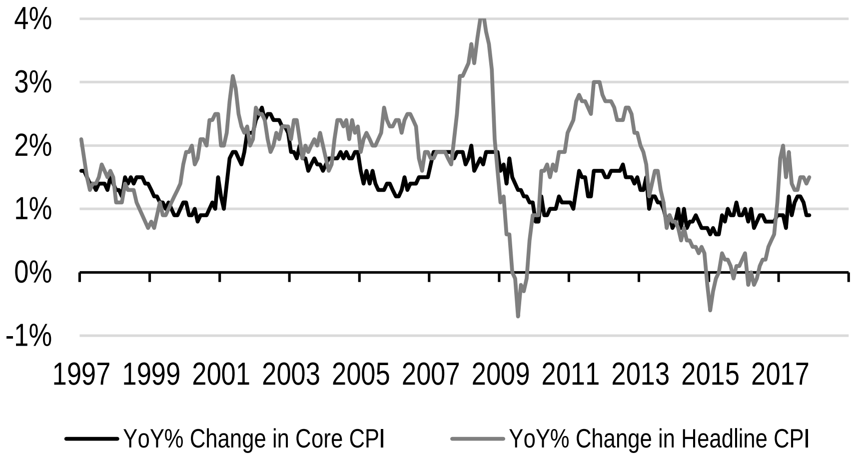
Services PMI



- Services PMI has risen recently, and remains firmly above 50

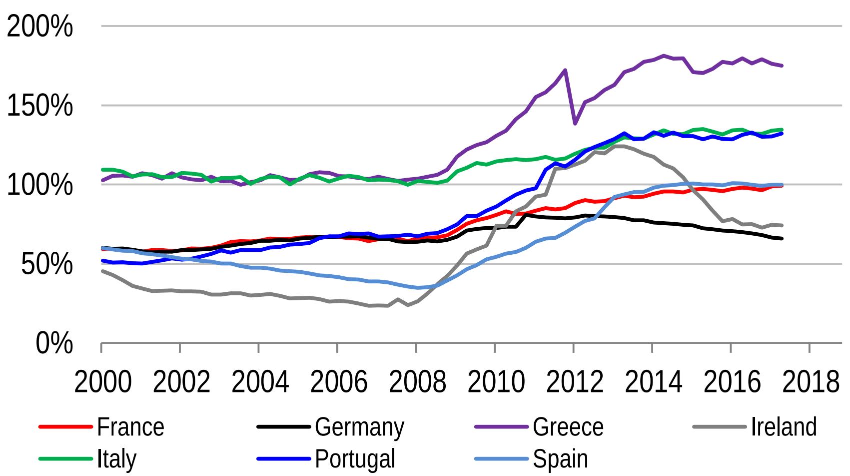
Sources: Bloomberg, Deltec

Inflation



- Headline inflation was stable over the last quarter
- Core inflation fell recently

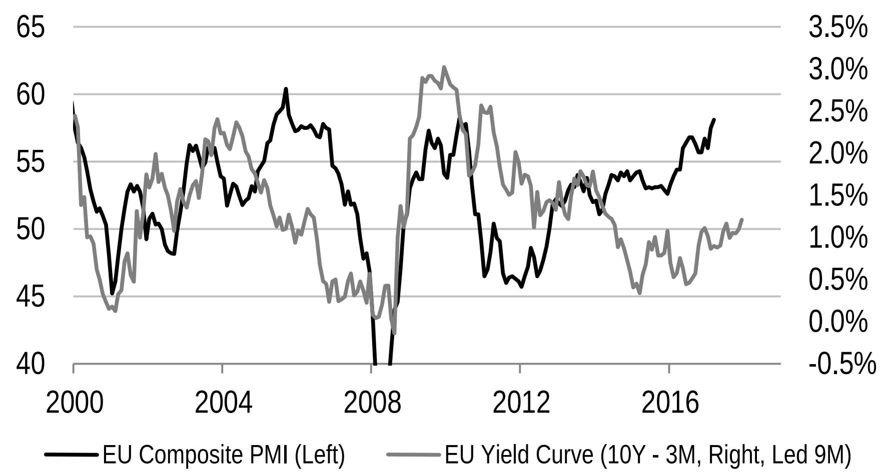
Government Debt to GDP



- Government Debt to GDP levels are continuing their gradual decline, however have risen slightly in France, Portugal and Italy recently
- Following the 2012 debt haircut, Greece's Government Debt to GDP rebounded
- Reducing Debt to GDP in a credit driven economy is extremely difficult

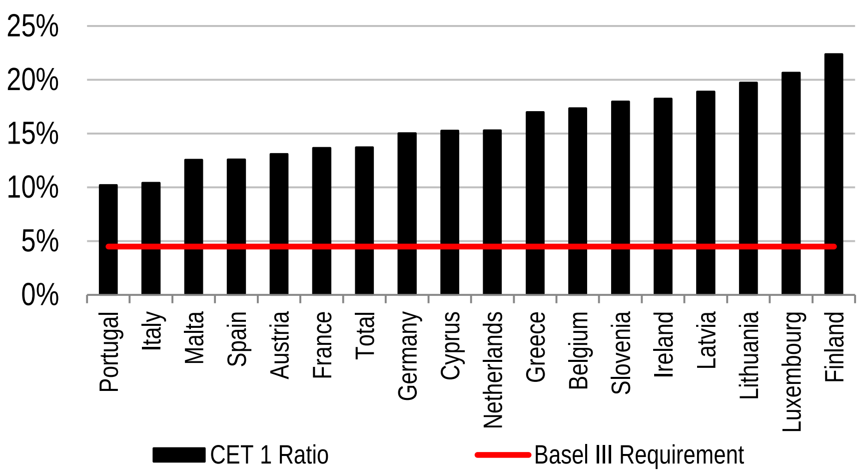
Sources: Bloomberg, Deltec

Growth vs Yield Curve



- Leading indicators of growth consistent with a significantly steeper yield curve

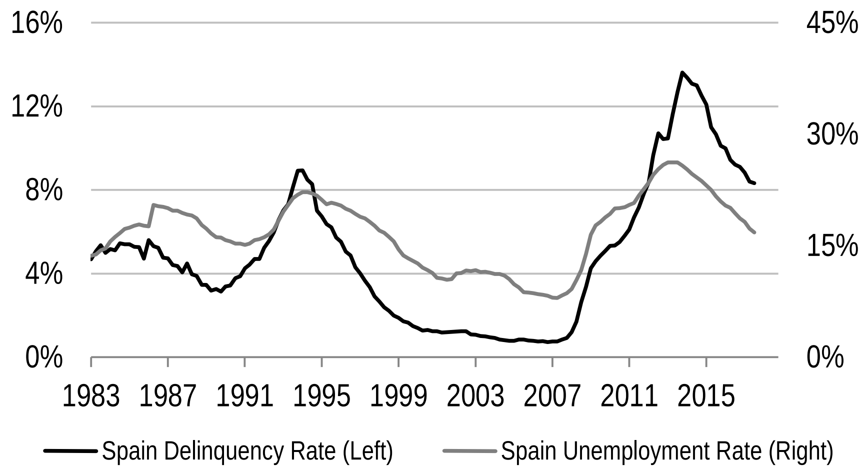
Bank Capital Levels



- European banks are sufficiently capitalized, and any further decline in non-performing loans an improvement in earnings will further increase the capitalization

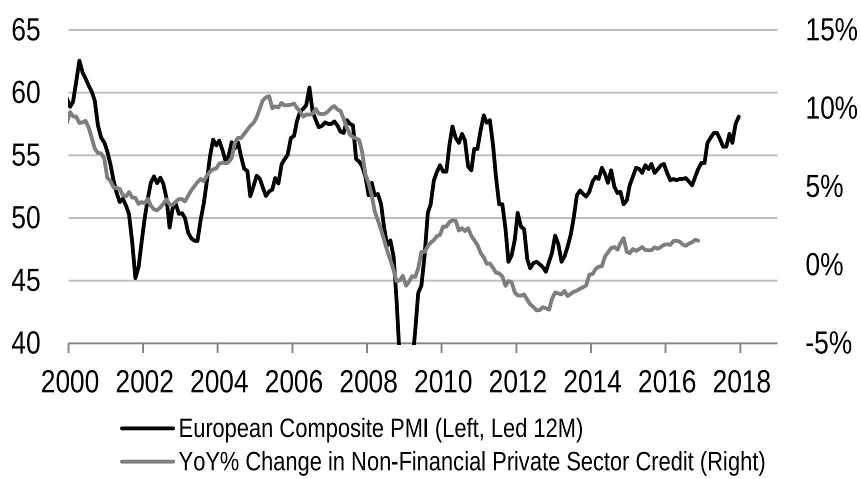
Sources: Bloomberg, Deltec

Spain Delinquency and Unemployment Rates



- Unemployment across Europe continues to decline consistently, now near 9%, with declines also occurring in peripheral Europe
- Housing delinquency rates are declining
- Policy is likely to remain intact and shift from monetary to fiscal to ensure the recovery continues
- The more positive asset price and employment environment, coupled with government support is a strong positive for the commercial bank sector, however historic high NPLs may necessitate further capital raisings

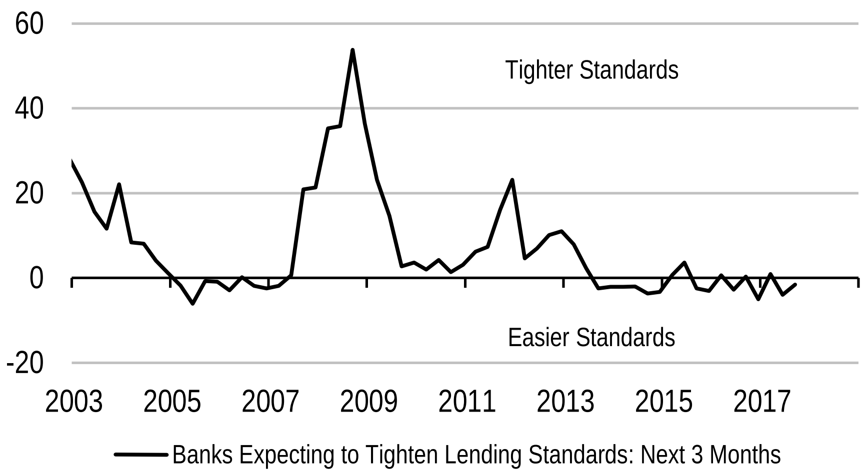
Growth and Private Sector Credit



- Economic growth consistent with stronger credit growth ahead
- Stronger credit growth will create a virtuous cycle for economic growth

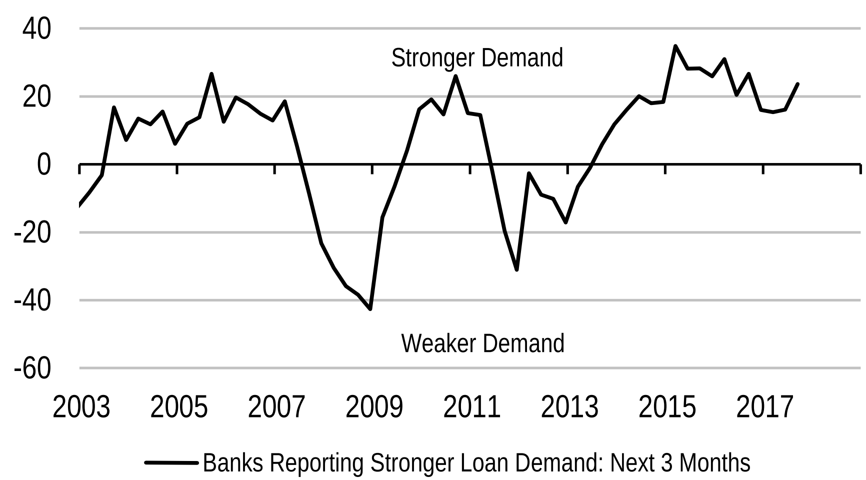
Sources: Bloomberg, Deltec

Bank Lending Standards



- Bank lending standards have tightened slightly, yet remain easy by historical standards
- Bank capital raisings, as well as reductions in Non-Performing Loans, organically or via sales, may further ease lending standards

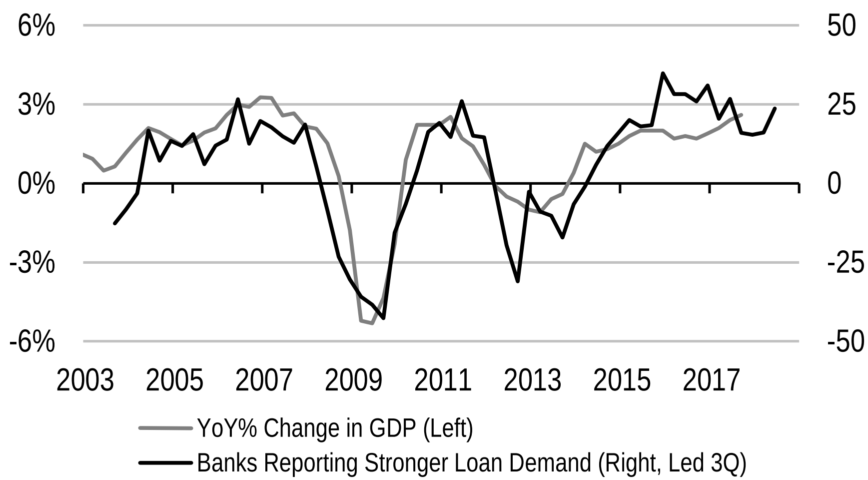
Bank Loan Demand



- Demand for loans has risen, and remains strong in outright terms
- Demand for loans may decline in response to reduced investment in the region following Brexit

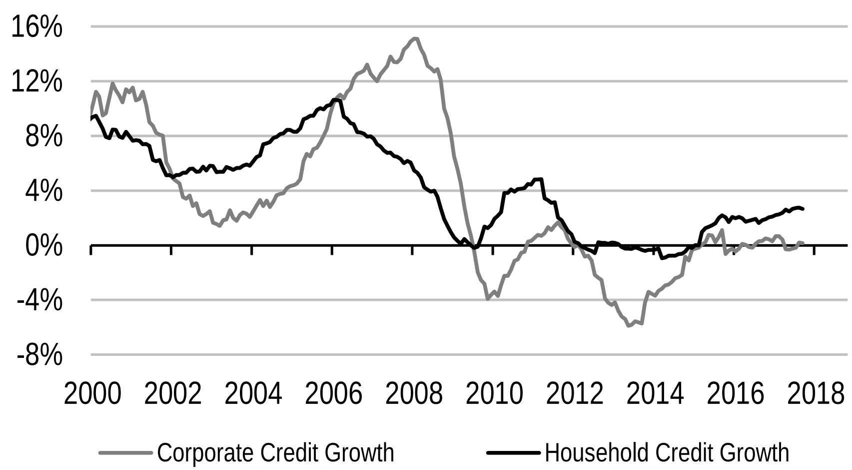
Sources: European Central Bank, Deltec

Bank Loan Demand vs GDP



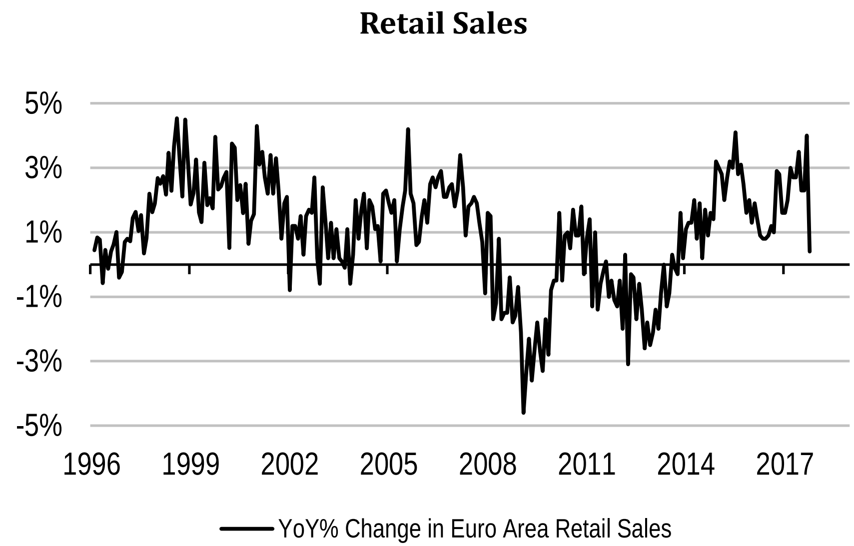
- Loan demand remains elevated, and is consistent with stable GDP growth

Credit Growth

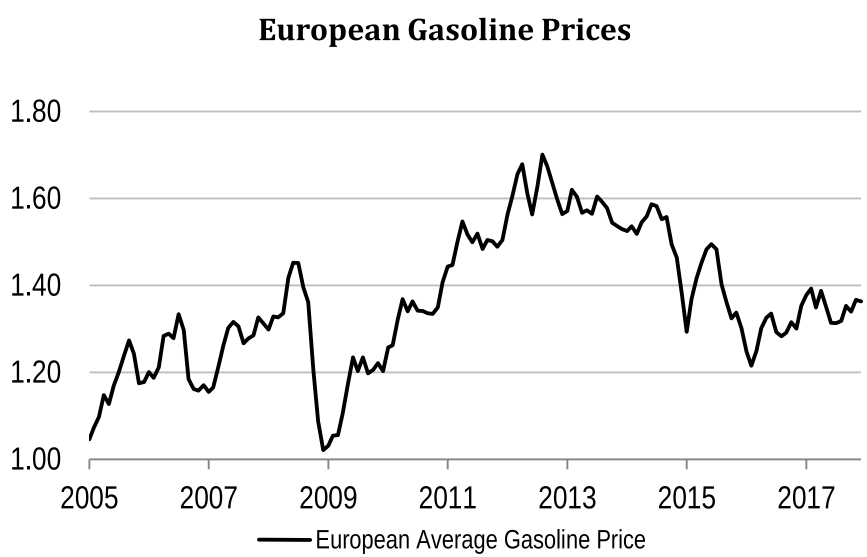


- Credit growth continues to recover, however remains weak in outright terms
- Credit growth from both households and corporates has improved significantly
- In a credit driven economy, growth is difficult to achieve without credit
- Credit growth slows when there are NPL and deleveraging pressures, as occurred in Q1 2016
- Household credit growth is the strongest it has been post the 2011-12 European financial crisis

Sources: Bloomberg, European Central Bank, Deltec



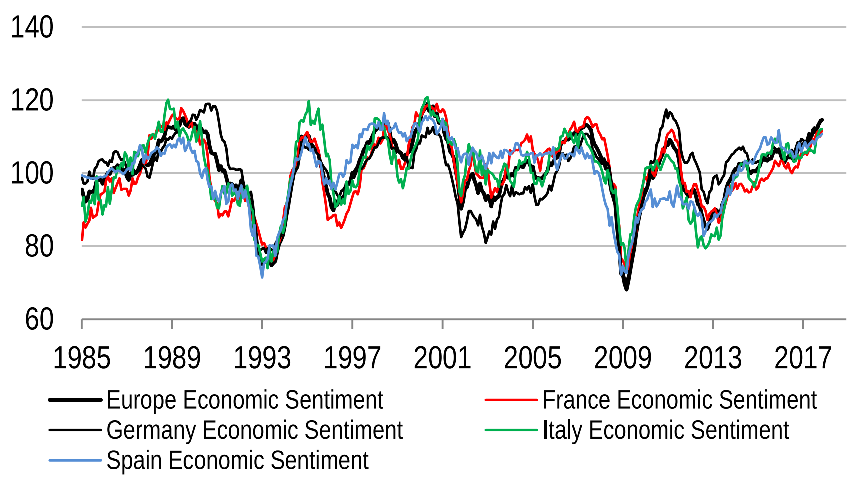
- Retail Sales have recently declined, after an earlier acceleration



- The gasoline price has risen recently, in line with strengthening in global oil benchmarks, however remains significantly lower than in prior years

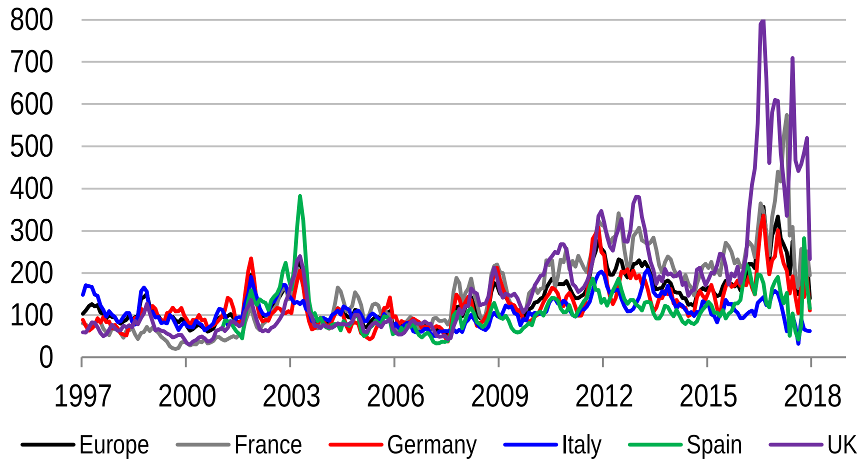
Sources: Bloomberg, Deltec

Economic Sentiment Surveys



- The recovery in sentiment continues, following market friendly election outcomes and strong economic growth
- Sentiment is now at multi-decade highs

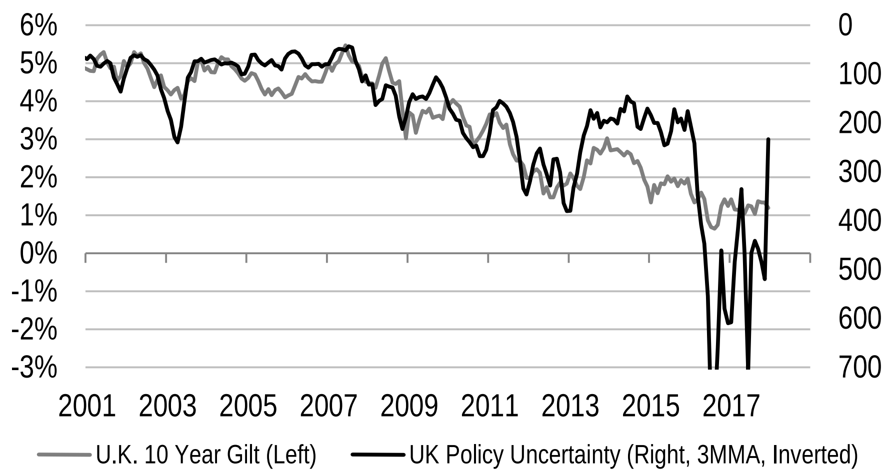
Pan-European Policy Uncertainty



- Policy uncertainty has declined sharply, and whilst it may rise again, it is unlikely to derail the economic expansion
- Italy policy uncertainty is now close to the lowest in 20 years
- A stronger EUR hinders the German manufacturing sector, which may lead to an increase in policy uncertainty

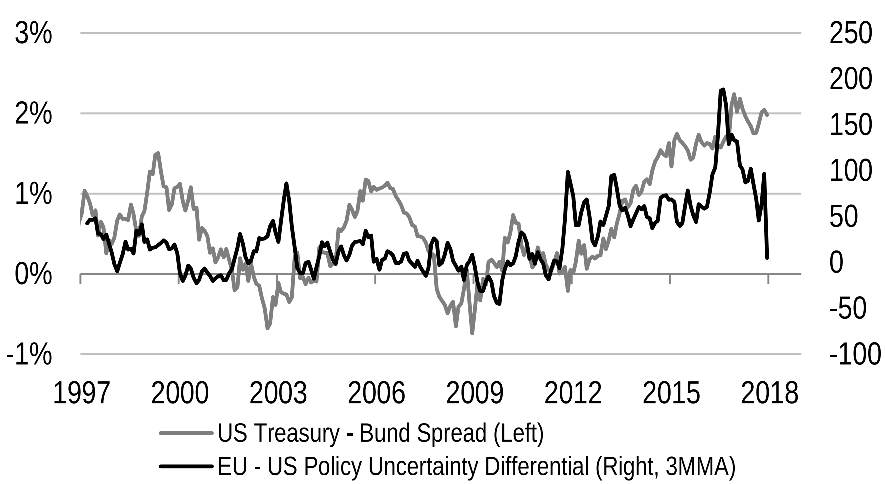
Sources: Bloomberg, Economic Policy Uncertainty, Deltec

UK Policy Uncertainty vs Sovereign Bond Yields



- UK policy uncertainty has decreased significantly, and is now consistent with significantly higher bond yields
- Policy uncertainty is likely to increase as Brexit negotiations continue, which may result in lower bond yields, even with higher UK inflation

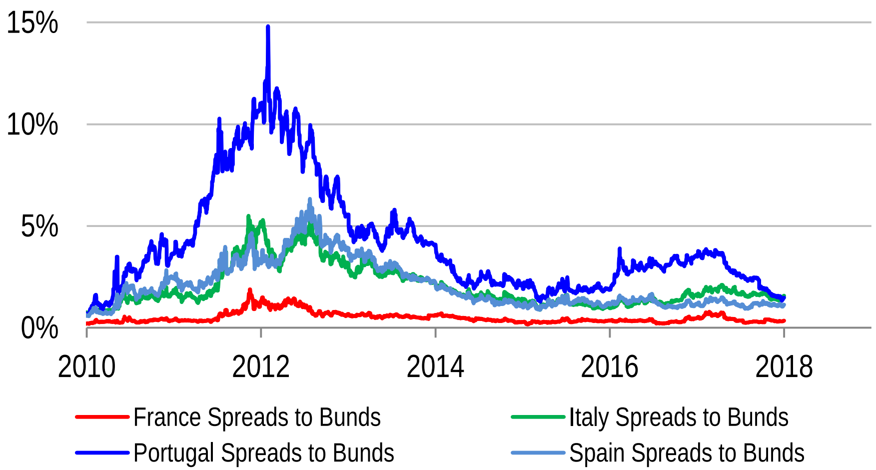
Policy Uncertainty vs US-Europe Bond Spreads



- European policy uncertainty is partially driving the US Treasury – German Bund yield differential
- Relative growth and policy outcomes are driving much of the yield differential
- Declining policy uncertainty differential consistent with significantly narrower UST-Bund Spread

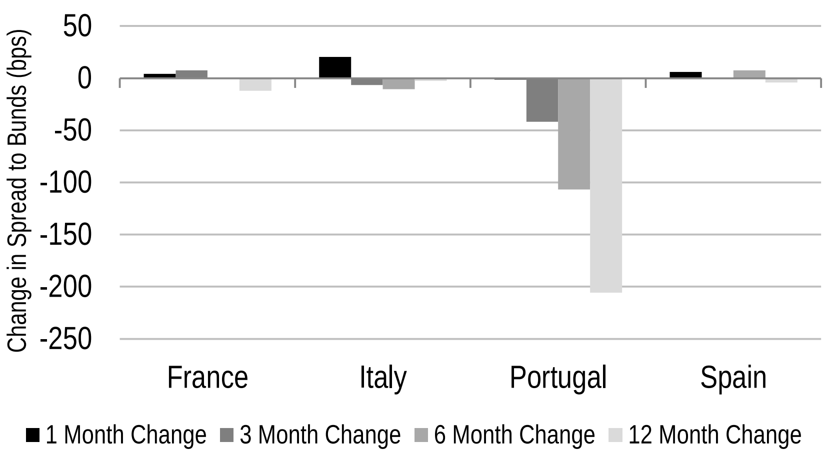
Sources: Bloomberg, Economic Policy Uncertainty, Deltec

Sovereign European Spreads to Bund Yields



- Spreads to bunds have broadly decreased, and remain very low relative to the spreads seen in 2012
- Capital inflows into Peripheral Europe remain strong, and are likely to continue into an ECB easing environment
- Stronger growth nations remain attractive from a flows perspective

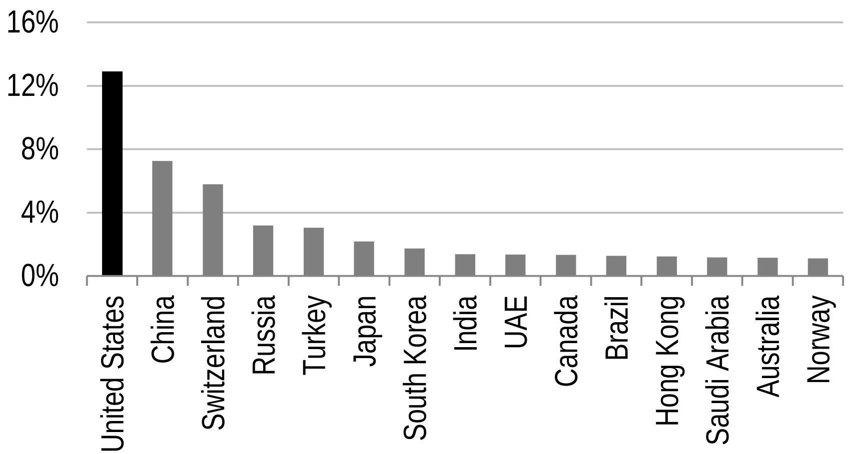
Change in Sovereign European Spreads to Bund Yields



- Spreads have increased across France, Italy and Spain over the past month
- Spreads in Portugal have decreased significantly after S&P upgraded the sovereign debt to Investment Grade

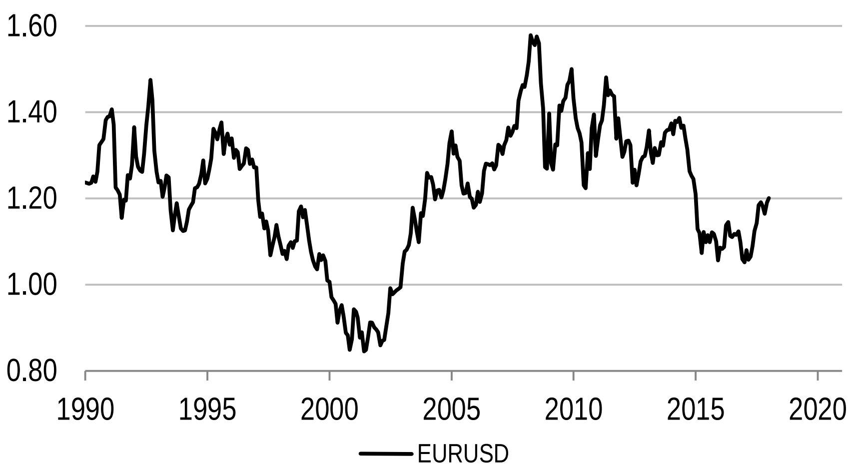
Sources: Bloomberg, Deltec

Europe Gross Export Partner Country Share



- Europe's largest gross export partner is the US
- US economic growth remains strong
- China may create a drag on European growth into 2018

EURUSD Exchange Rate



- The EUR is significantly lower relative to prior years, although it has risen sharply in recent months
- Stronger European growth outcomes and a decline in policy uncertainty are likely to encourage capital inflows
- A declining Euro has aided the competitiveness of Europe
- Chinese growth is key to European trade, and vice versa

Sources: Bloomberg, Deltec

JAPAN

Japan

Japan's growth momentum is improving strongly and outright economic growth is now firmly in the expansion phase, with several indicators the strongest they have been in several decades. From a tactical perspective, strong growth and a diminution of fiscal policy risks will soon lead to a change to the current loose monetary conditions. From a strategic perspective, the outlook is strongly positive for the first time in almost three decades, without broad investor acknowledgement, as fund flows remain lackluster. Japan is the best leveraged developed market to the more positive global economic cycle, with capital investment countering the domestic demographic headwind.

- Growth momentum is improving strongly, led by an improvement in external demand, and now aiding domestic demand. Japan has benefitted from the strong increase in global growth momentum in recent months, further assisted by a weaker currency, and whilst both are likely to fade, the expansion is now firmly intact. The domestic economy is also participating in the recovery, with employment markets strong, wages stabilizing and consumption improving.

- Liquidity conditions remain loose, with demand for credit now improving, helping its efficacy. With policy credibility being regained through the yield curve targeting regime, liquidity growth is likely to slow at the margin as economic conditions improve, although remain highly supportive in outright terms, and relative to other regions. Whilst the significant trade and capital flows exposure to China remains an external risk, the combination of the significant benefit of lower energy prices and operating leverage to a global economic recovery leave the economy well positioned.

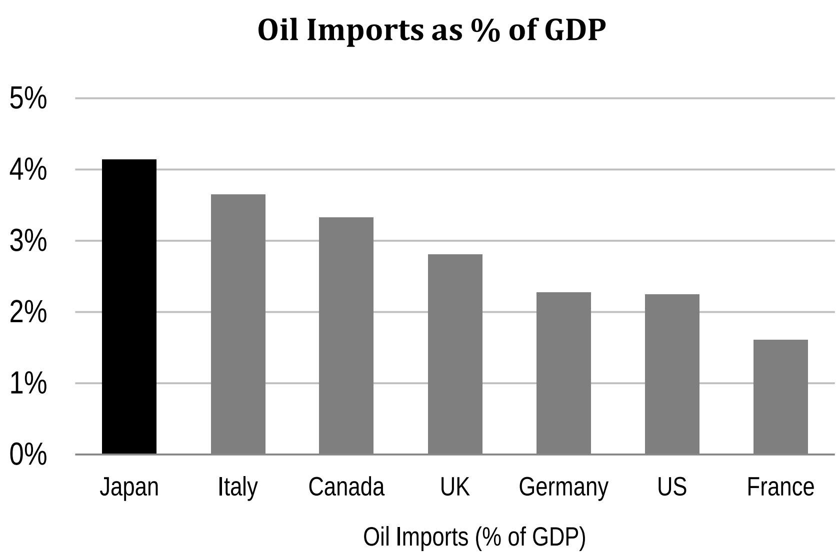
- **Key Risks:** An appreciation in the JPY, stemming from either marginal changes in monetary policy, Chinese capital outflows, or geopolitical concerns, have the potential to limit the economic expansion although unlikely derail it. Government indebtedness remains an issue, however improving growth is delaying the reckoning.

Investment Conclusion: Strong growth momentum will drive further earnings growth and earnings upgrades, amidst an attractive absolute and relative valuation backdrop and a lack of foreign fund inflows. As such, the market presents amongst the best risk adjusted returns opportunities available globally. Risks to the outlook are driven by exposure to China and changes in monetary policy, however these are contained at present. Sectors exposed to the global economy are likely to benefit in volume and value terms, whilst those sectors exposed to the domestic economy should continue to improve, though to a lesser extent given the longer term domestic headwinds.

Positives: Technology; Capital Goods; Industrials
Negatives: Materials

Japan

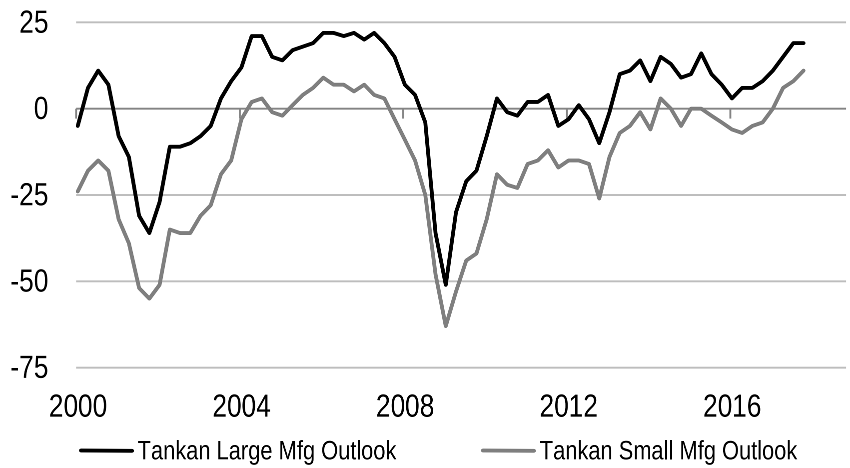
- Japan is a high beta economy, leveraged to a US and global growth recovery via the export sector
- Equities are linked to US inflation via the USDJPY carry trade



- Japan's economy remains highly sensitive to lower oil prices, in addition to the benefit that global GDP growth receives from lower oil prices

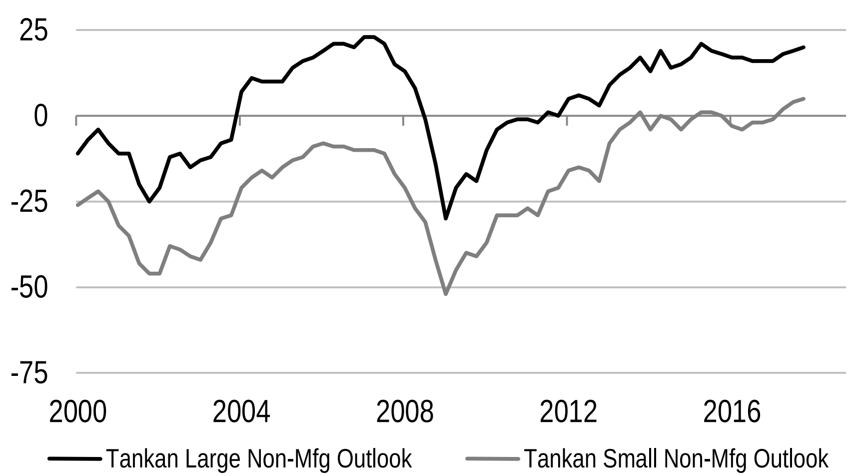
Sources: Bloomberg, Deltec

Tankan Manufacturing Outlook



- The outlook for large firms is strong and stabilizing
- The outlook for small firms is strong and strengthening

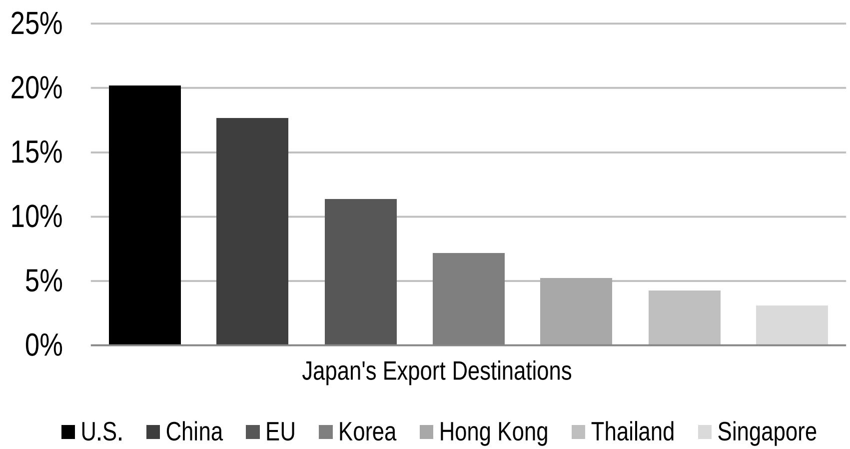
Tankan Non-Manufacturing Outlook



- The outlook for large firms is strong and improving, whilst the outlook for small firms is strengthening, having improved further in recent periods

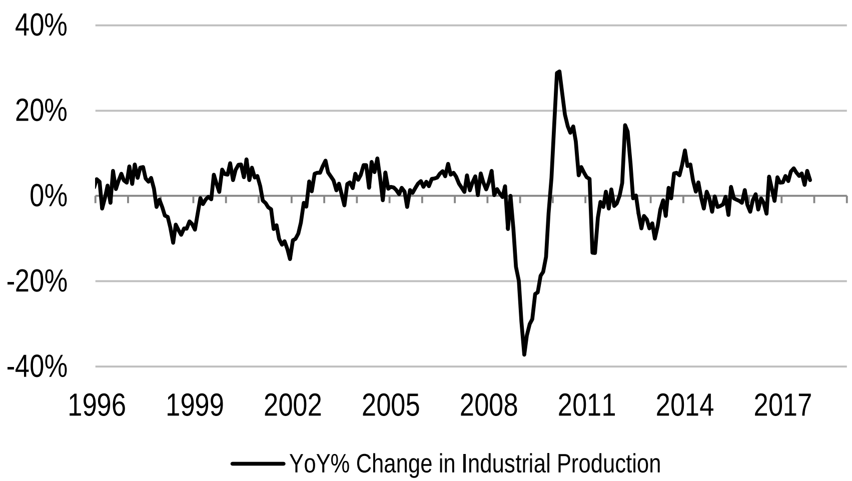
Sources: Bloomberg, Deltec

Export Destinations



- US and China are clearly the largest export destinations
- Export exposure to China remains the key risk to the economy
- Other EM nations, and other nations impacted by China, are large exposures

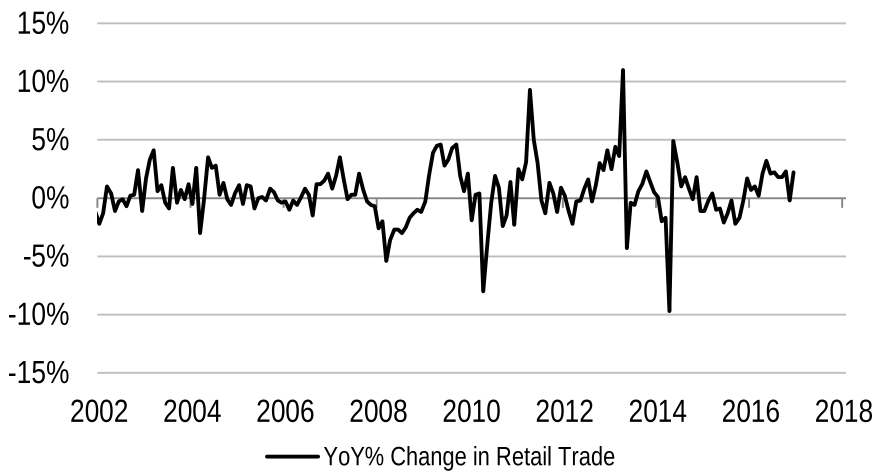
Industrial Production



- Industrial production growth is stabilizing, after rising at the fastest pace in 3 years
- Japan is highly exposed to a recovery in global GDP growth

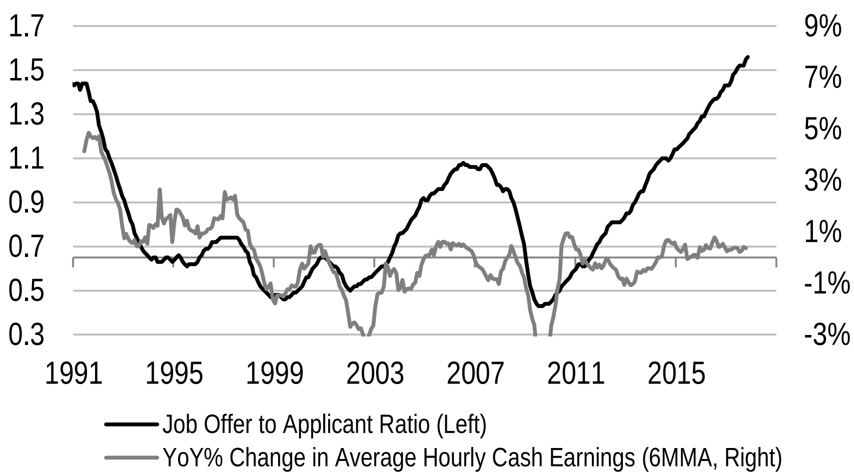
Sources: Bloomberg, Deltec

Retail Sales



- Retail sales growth has accelerated recently, and is likely to recover further as incomes rise and consumer credit increases

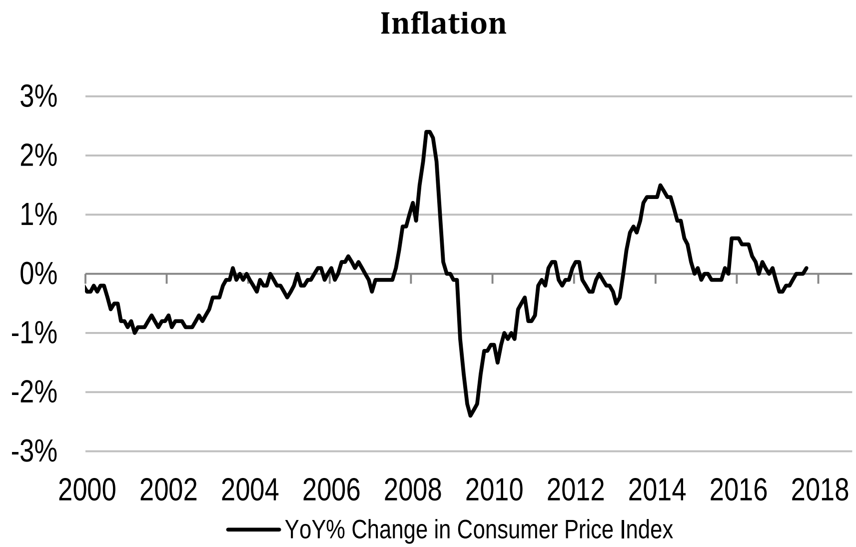
Employment Markets and Wages Growth



- Despite tight and strengthening employment markets, wages growth remains flat, following an earlier sharp rise
- Wages growth remains volatile on an intermonth basis
- Stronger economic growth is required to justify higher wages from the current point

Sources: Bloomberg, Deltec

Japan

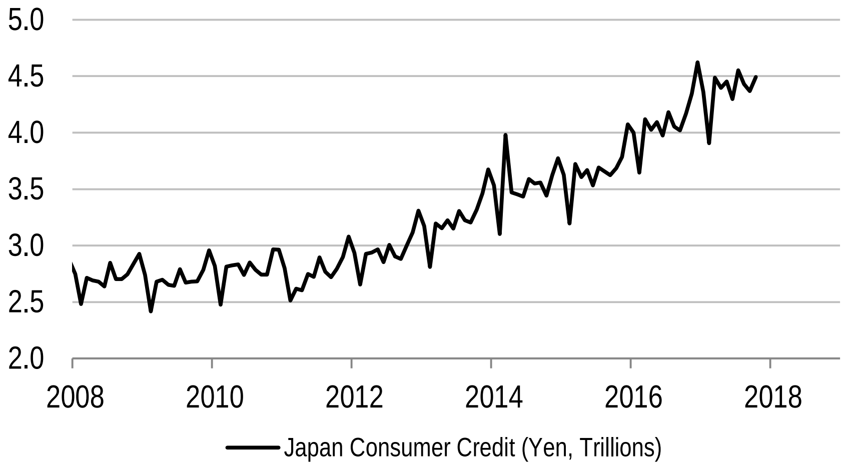


- Inflation has started to rise, although not consistently enough to warrant a tightening of monetary policy

- Bank Loan growth has fallen slightly, after rebounding in recent periods
- Banks are incentivized to engage in offshore lending, given the negative rate environment in Japan

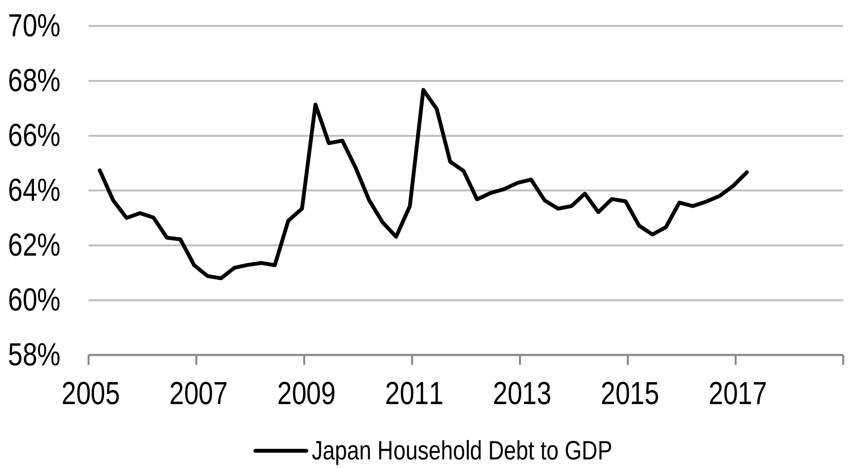
Sources: Bloomberg, Deltec

Consumer Credit



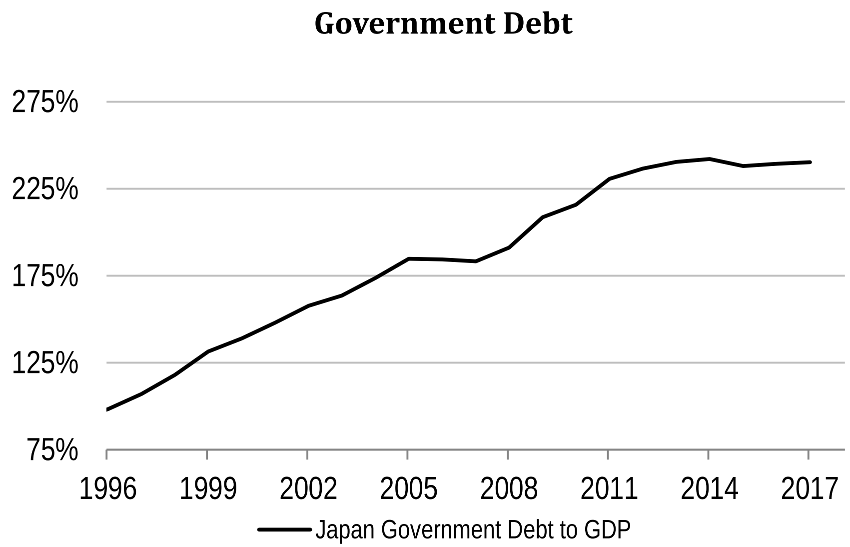
- Consumer Credit growth has fallen slightly over the past quarter
- Previously, consumer credit had risen steadily in line with consistent reductions in the Prime Lending Rate

Household Debt

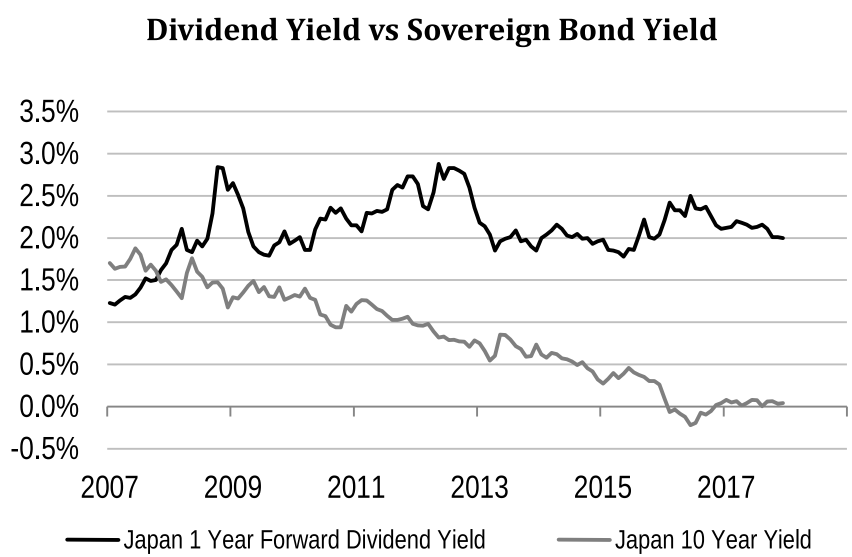


- Household leverage levels have risen in recent periods

Sources: Bloomberg, Deltec



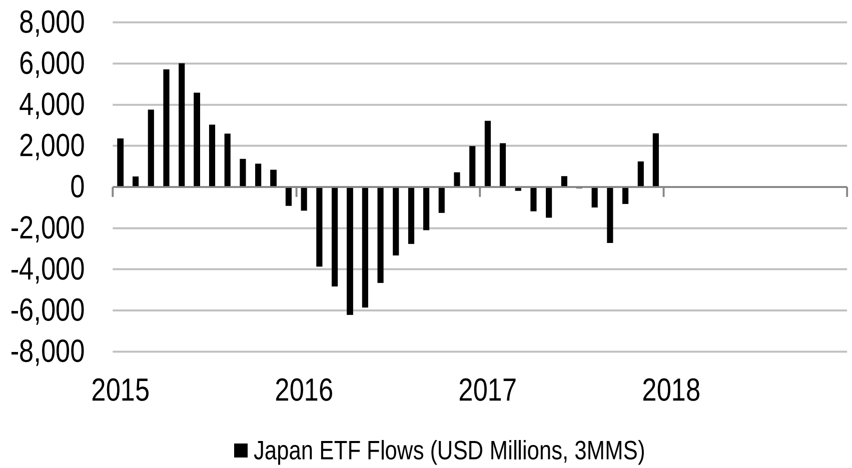
- Government Debt to GDP has stabilized recently, however remains among the highest in the world



- Equities are significantly attractive relative to bonds, including for the BoJ, which now owns 60% of ETFs

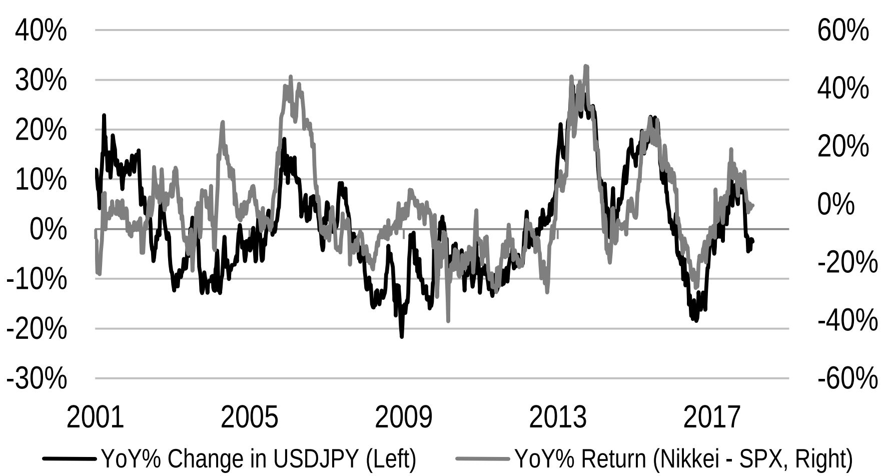
Sources: Bloomberg, Deltec

Fund Flows



- Fund flows into Japan have started to improve, however remain low by historical standards

USDJPY vs Japan Relative Performance



- Movements in the JPY are a large driver of market performance
- Given the impact of movements in the currency on Equities, hedging the currency increases the downside risk should the USDJPY decline result in a market decline

Sources: Bloomberg, Deltec

CHINA

China

China's growth momentum is slowing and outright growth is stable at an elevated level, benefitting from the afterglow of the prior significant stimulus programs coupled with the broadening global economic expansion. From a tactical perspective, the global economic expansion is likely to continue to provide a tailwind, however changing global liquidity conditions inducing capital outflows coupled with fading domestic stimulus and structural reform introduce downside risks, particularly for fixed asset investment. From a strategic perspective, imbalances are currently being successfully addressed, and in recent periods policymakers have managed the economy exceptionally well. However, structural challenges still abound, including continued attempts to transition the economy from investment to consumption, ongoing deleveraging, demographic headwinds and the goal to maintain industrial production dominance borne from labor in an age of transformative technology borne from capital.

- Growth momentum is currently experiencing a mild slowdown as domestic headwinds partially offset the global trade tailwind. The domestic sector is likely to drag as the stimulus fades and selective policy tightening is imposed, chiefly impacting infrastructure and property activity. Against this, the external sector remains strong due to the global economic expansion, which is now broadening across trading partners, benefitting trade and manufacturing. Capital outflows are currently contained, though may reaccelerate as USD and global liquidity conditions tighten.

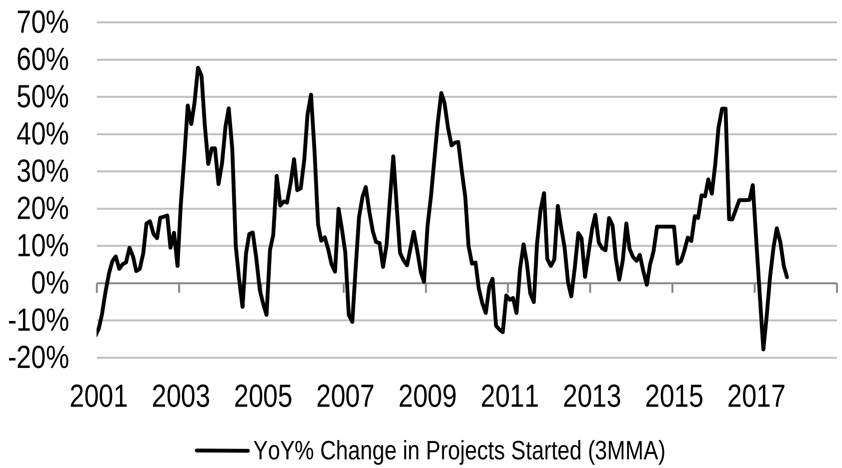
- Liquidity growth is already slowing, as policymakers curb the significant expansion in money supply, with reduced capital outflows providing a modest offset at the margin. In the coming year, tightening global liquidity conditions have the potential to lead to even tighter capital controls.

- **Key Risks:** Slowing infrastructure and property markets are positives from a longer term perspective, although in the near term fading stimulus and asset price declines may lead to negative wealth effects and renewed capital outflows. Whilst indebtedness remains a risk, serviceability of this debt is not a near term issue and controlled deleveraging is occurring.

Investment Conclusion: Stable economic conditions, selective policy support and a positive Emerging Markets backdrop are likely to continue be supportive of markets, particularly those that are globally exposed. Against this, changing global liquidity conditions, fading domestic stimulus and structural reforms are likely to weigh on certain sectors, particularly those exposed to fixed asset investment. Strategic short opportunities remain in derivatives of Chinese fixed asset investment, including Commodities, Commodity Economies and Commodity Currencies.

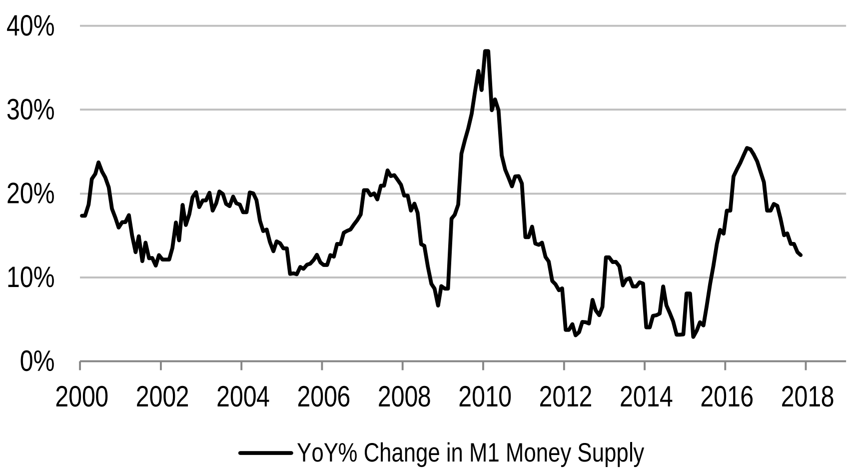
Positives: Globally exposed sectors; Industrials
Negatives: Financials; Materials

Fiscal Stimulus



- Fiscal stimulus is slowing again
- Growth in new infrastructure projects in 2016 was the strongest it has been since 2009, however on an economic base that is significantly larger
- Projects Started are not growing significantly

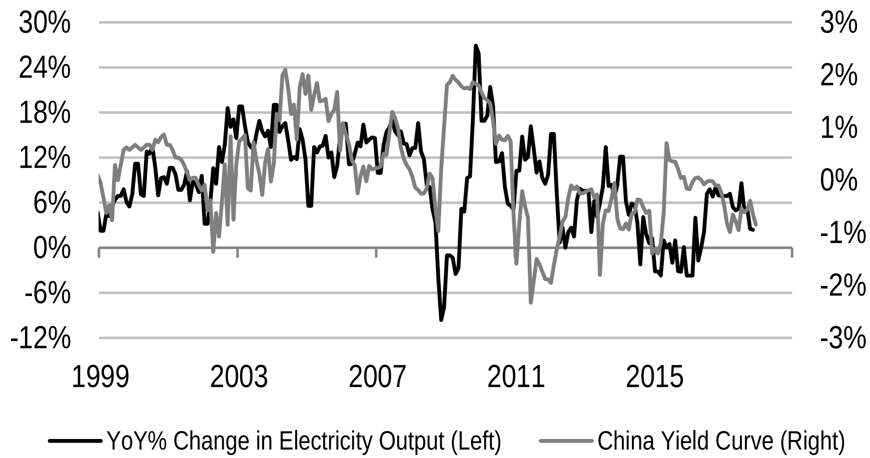
Monetary Stimulus



- Monetary stimulus is now fading, and being selectively tightened
- Money supply growth in 2016 was the strongest it has been since 2009, however on an economic base that is significantly larger

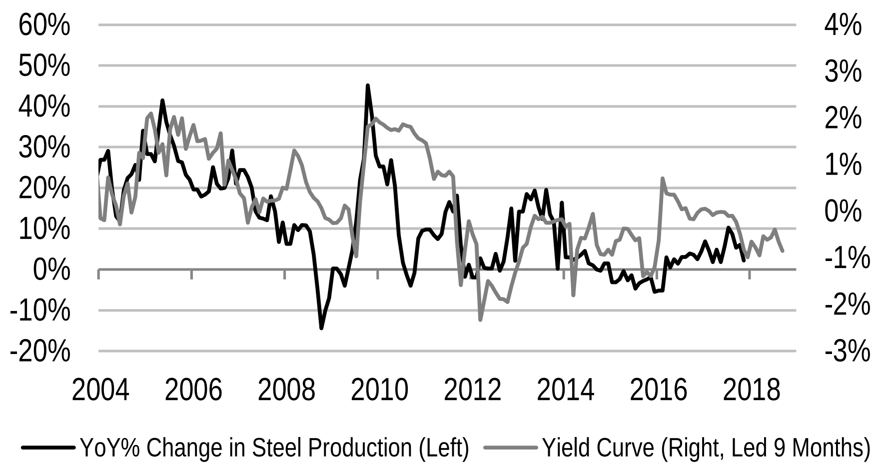
Sources: Bloomberg, Deltec

Yield Curve vs Electricity Output Growth



- The yield curve is consistent with growth stabilizing at its current level

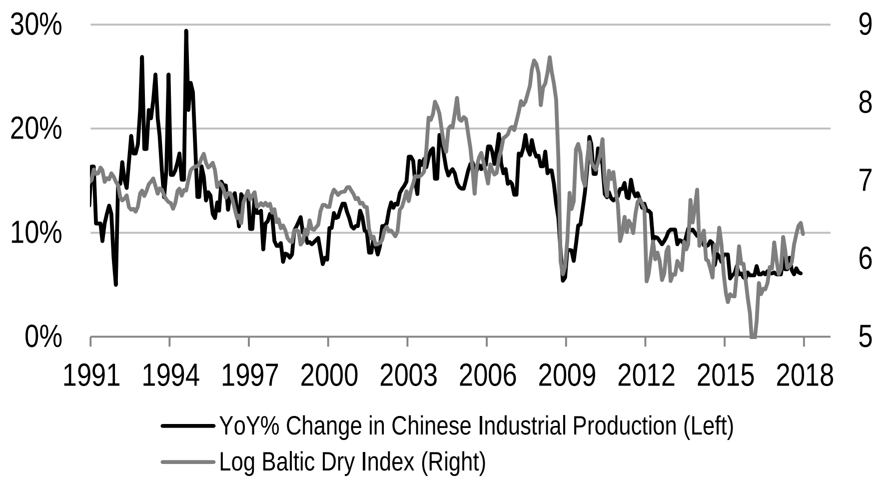
Yield Curve vs Steel Production Growth



- Yield curve consistent with stabilizing fixed asset investment and steel production growth
- Steel production is becoming more of a function of availability of credit from a cyclical perspective, and mandated structural changes to supply, from a secular perspective
- Steel prices have risen elevated in response to increased Chinese demand and supply cuts, however the risk is to the downside due to property markets and new curbs
- Fixed asset investment growth rates are likely to remain below the prior decade averages, despite the recent stimulus driven cyclical bounce

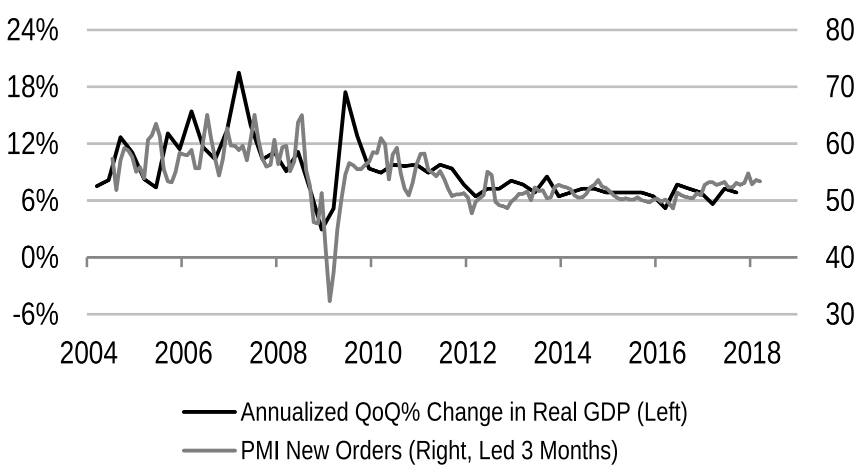
Sources: Bloomberg, Deltec

Baltic Dry Index vs Industrial Production



- Baltic Dry Index is consistent with higher industrial production growth, near 10%, yet well below the approximate 20% rates of growth seen in the last decade

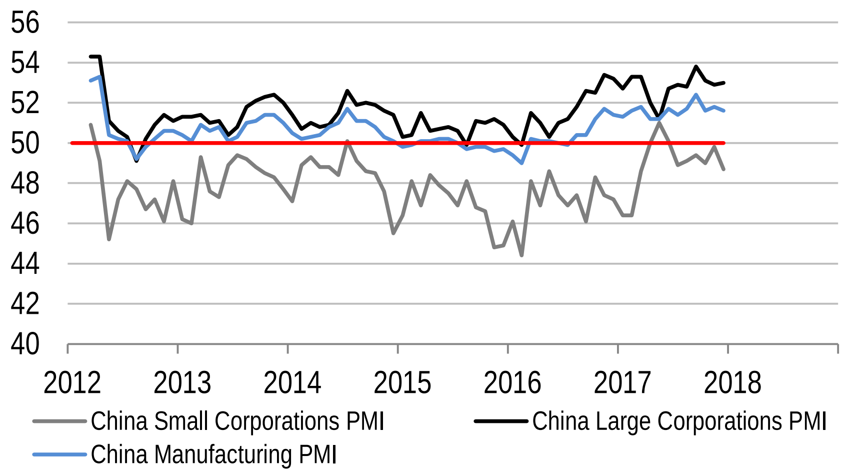
PMI New Orders vs GDP



- PMI New Orders Index has stabilized, yet consistent with approximately 7% GDP growth
- Recent PMI data is the strongest in several years

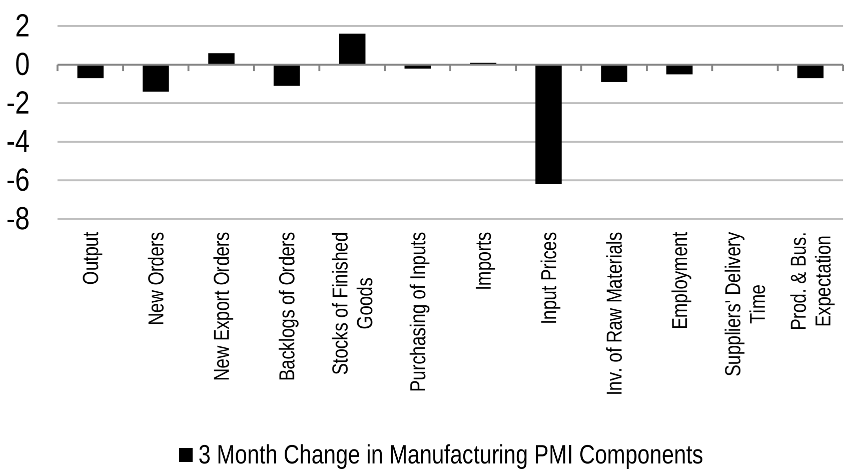
Sources: Bloomberg, Deltec

PMI by Size of Corporation



- PMI data has recently stabilized
- PMI data is consistent with slowing growth momentum
- There remains a disparity between the current business conditions and outlook for small firms and large firms within China
- The outlook for large firms is strong, and stabilizing
- The outlook for smaller firms is neutral, and declining

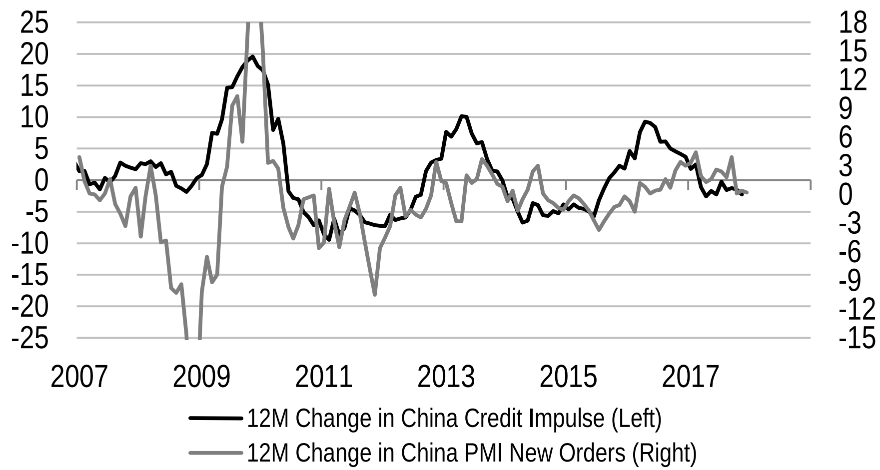
Change in PMI Components



- PMI components have been mixed over the past quarter, although New Orders are slowing
- Input prices have fallen sharply
- New Export Orders and the Backlog of Orders consistent with a global demand driven recovery

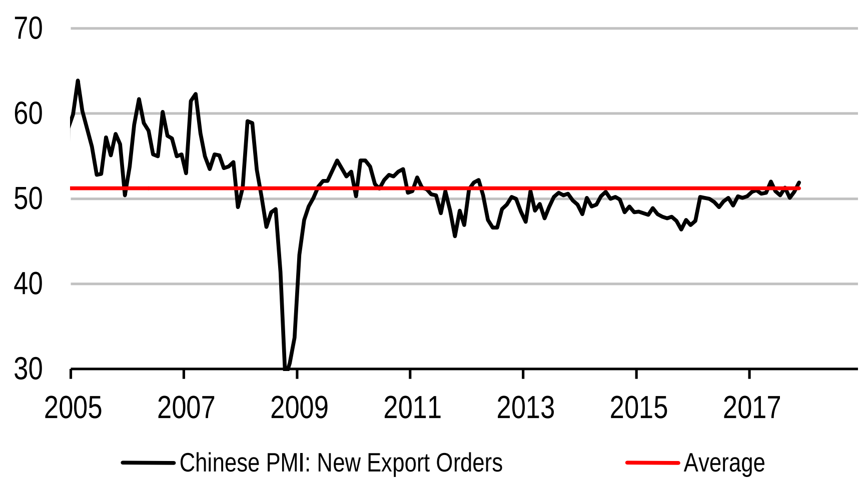
Sources: Bloomberg, Deltec

Credit and New Orders



- Credit impulse is consistent with stable PMI New Orders
- Credit impulse is new credit % of GDP = 12 month flow of total social finance, net of equity issuance + local government bond issuance / four quarter rolling sum of nominal GDP

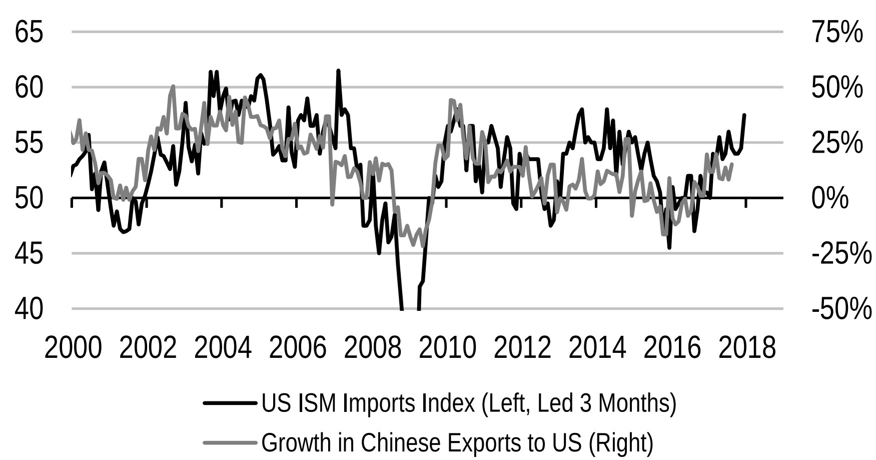
PMI New Export Orders



- New Export Orders have risen, and are now slightly above the long term average
- New Export Orders should improve as global consumption increases further, particularly so Europe, and global growth continues to expand

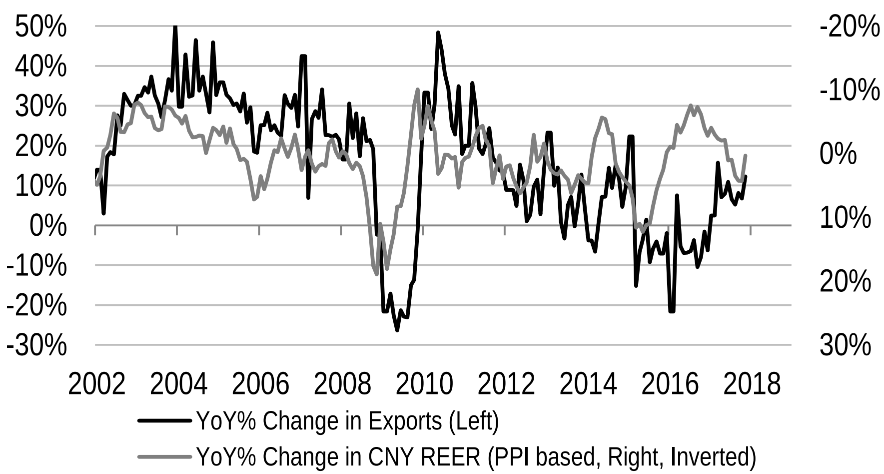
Sources: Bloomberg, Deltec

US ISM Imports Index vs Chinese Exports to the US



- US ISM Imports have risen, consistent with stronger exports to the US
- US consumption is likely to continue rising, which should drive a recovery in US imports and Chinese exports over the next year
- Trade negotiations with the new US government are a risk, albeit diminishing
- Non-US import demand, particularly Europe, is also recovering

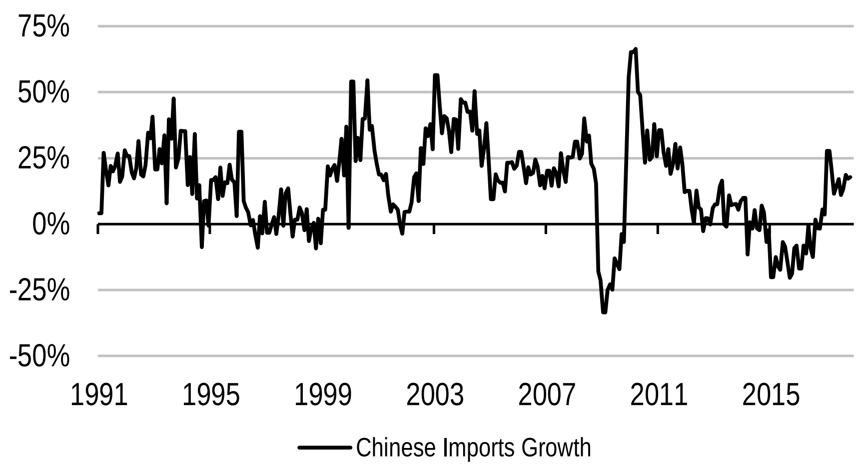
Export Growth



- Chinese exports growth has re-accelerated in recent months

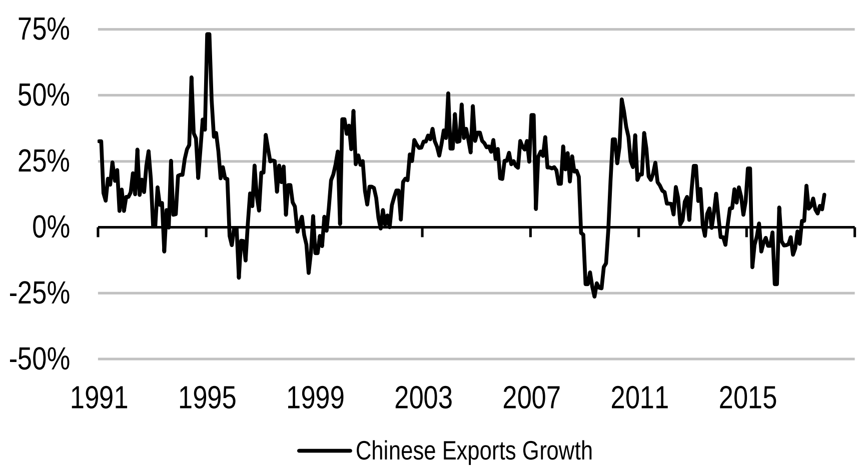
Sources: Bloomberg, Deltec

Imports Growth



- Import growth has stabilized following a sharp rise in response to a stimulus driven recovery in domestic demand and a significant recovery in fixed asset investment, which resulted in an increase imports of raw materials

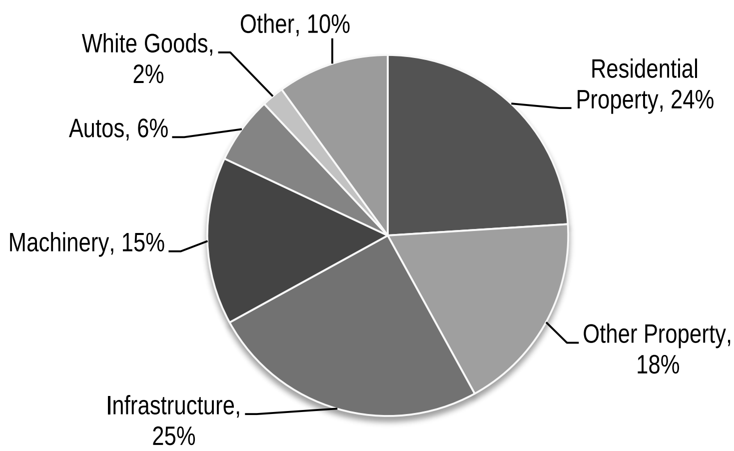
Exports Growth



- The Trade Balance has fallen slightly, as exports have risen more than imports
- Export growth has risen in recent months

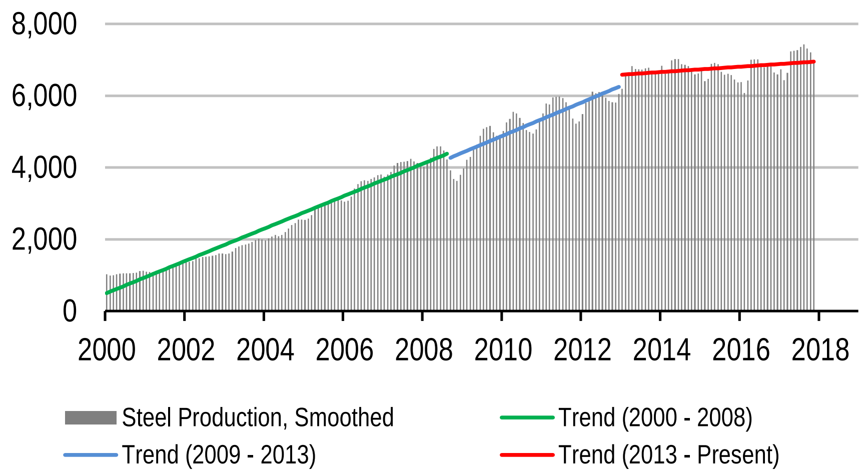
Sources: Bloomberg, Deltec

Sources of Chinese Steel Consumption



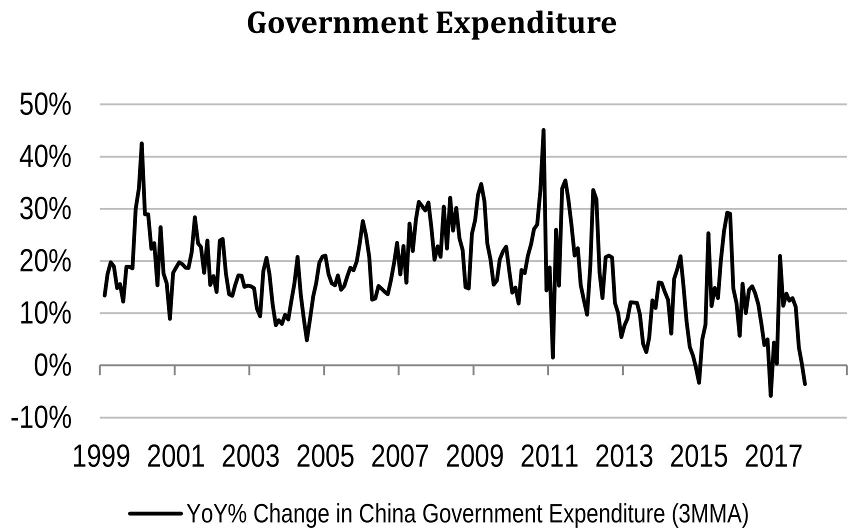
- Property accounts for > 40% of steel consumption
- Absent any large increases in infrastructure (25% of consumption), the outlook for steel consumption will be driven by property markets
- Residential property is the cyclical factor for steel production

Steel Production Trends

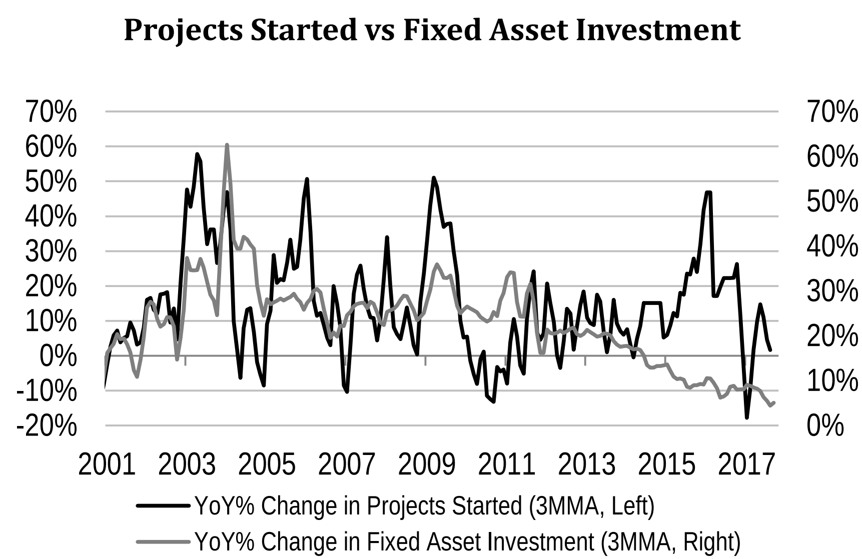


- Trend growth rates of steel production since 2013 are well below the rates pre and post financial crisis
- Trend growth rates are now slightly positive, following monetary and fiscal stimulus supporting the sector last year
- Against this weak secular backdrop, spikes in steel production occur as stimulus is injected and credit is eased, as occurred in 2016

Sources: Bloomberg, Deltec



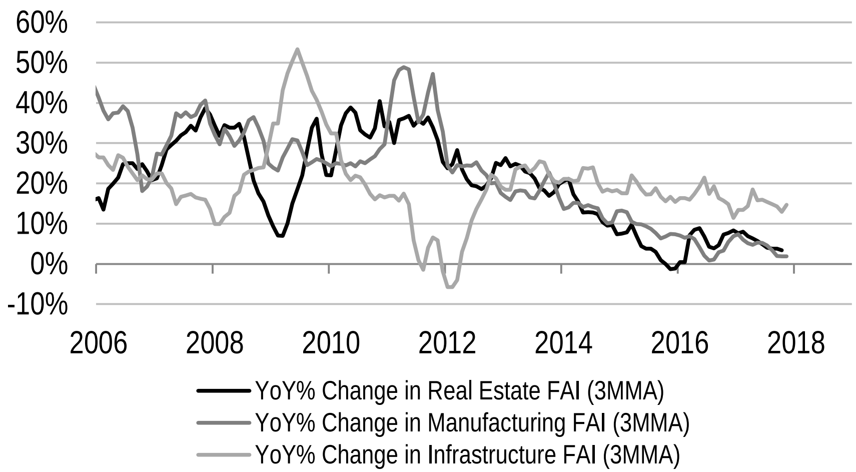
- Growth in government expenditure is now declining, and has turned negative, following large stimulus programs in late 2015 and throughout 2016



- Government expenditure has declined after a sharp rise, with the growth in new projects started consistent with 20% fixed asset investment growth

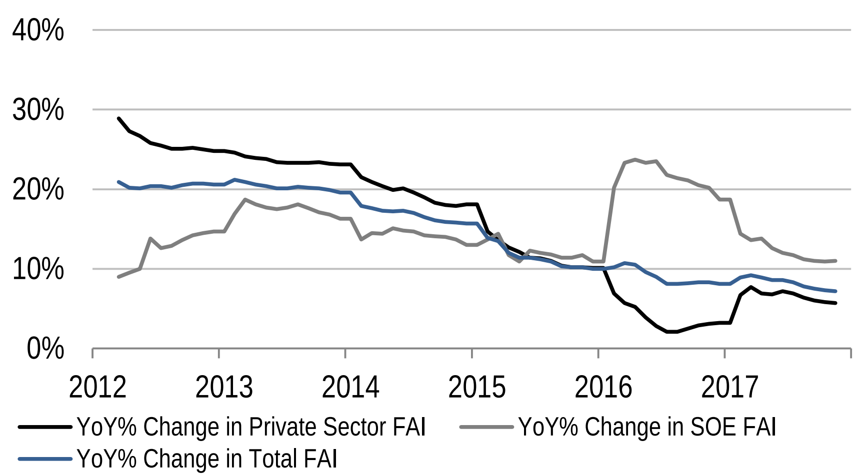
Sources: Bloomberg, Deltec

Fixed Asset Investment Components



- Infrastructure Fixed Asset Investment has picked up recently
- All areas of Fixed Asset Investment growth are in a declining trend

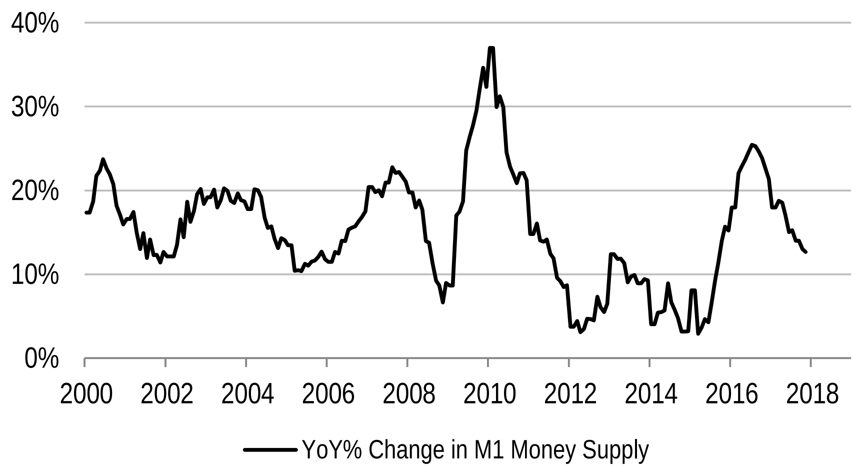
Fixed Asset Investment Growth



- Private Sector FAI has declined
- Public Sector FAI has declined
- Total FAI is now declining

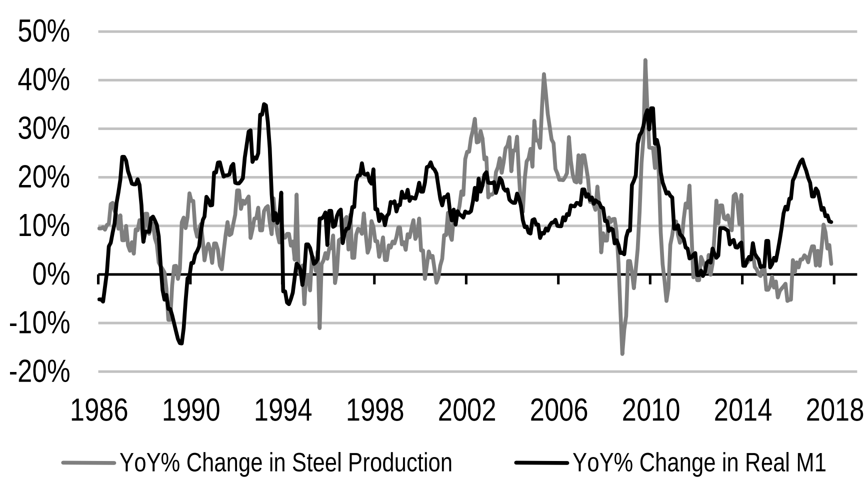
Sources: Bloomberg, Deltec

Money Supply Growth



- Money supply growth has rolled over, following a sharp stimulus-driven rise in 2015 and 2016
- Stimulus is impacting a range of sectors, although particularly property and fixed asset investment
- Commodity speculation is increasing following the sharp increase in money supply

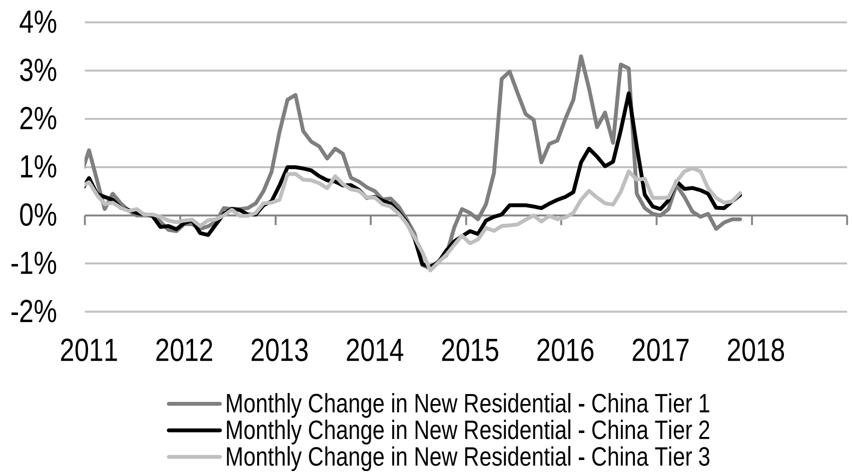
Money Supply and Steel Production



- Money supply growth has rolled over from the peak, and is now consistent with stable steel production growth

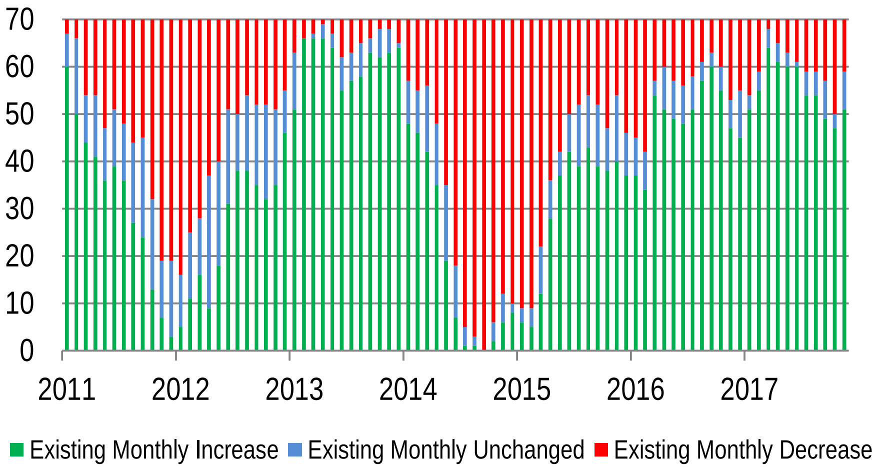
Sources: Bloomberg, Deltec

New Property Price Growth



- Change in New Property prices across 70 Chinese cities indicates that prices growth has re-accelerated in Tier 1, 2 and 3 cities
- Prices continue to fall in Tier 1 cities, however at a slower pace than before
- Government policy is now firmly tightening property markets, which will likely see reduced volumes

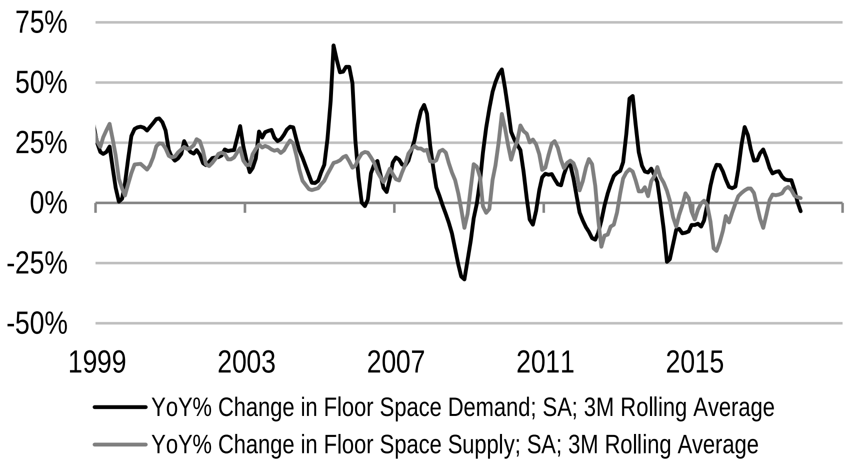
Existing Property Prices



- Change in Existing Property prices across 70 Chinese cities indicates that price declines have stabilized
- Government policy has recently moved from easing to tightening of property markets, which will likely see price declines

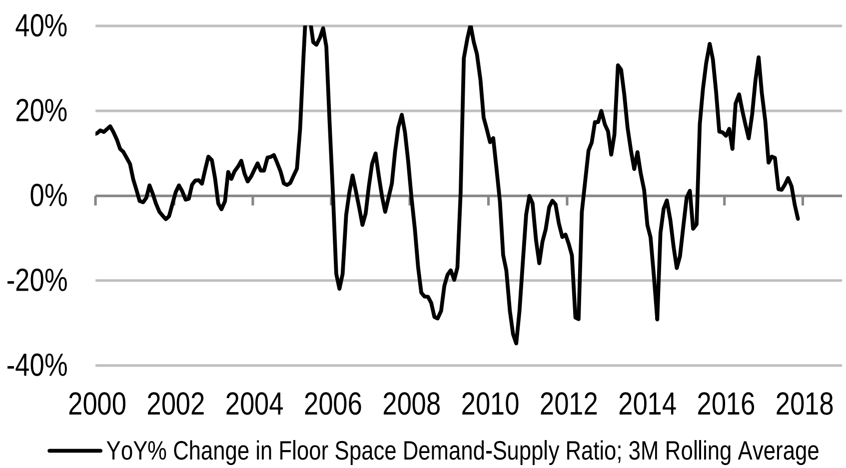
Sources: Bloomberg, Deltec

Property Demand Growth vs Property Supply Growth



- Property demand growth has fallen
- Property Supply growth has stabilized
- Property demand and supply growth continue their downward secular trend

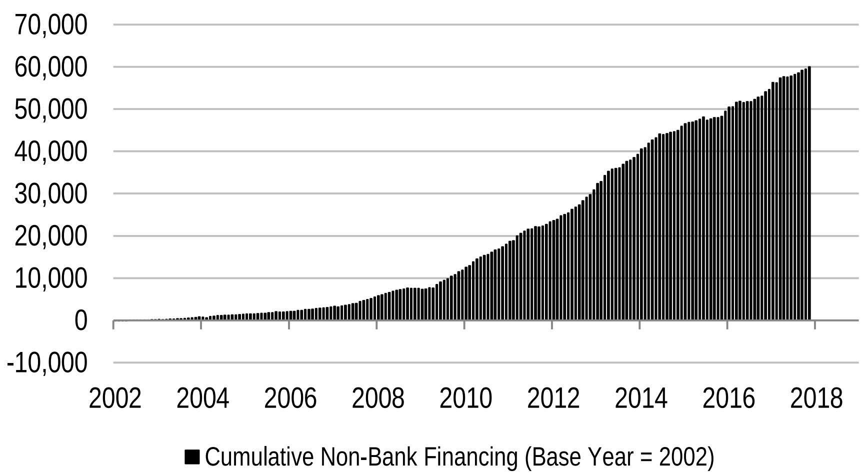
Property Demand Growth vs Property Supply Growth



- The property demand-supply imbalance has fallen, although remains volatile, due to government policy impacting both demand and supply factors

Sources: Bloomberg, Deltec

Non-Bank Financing



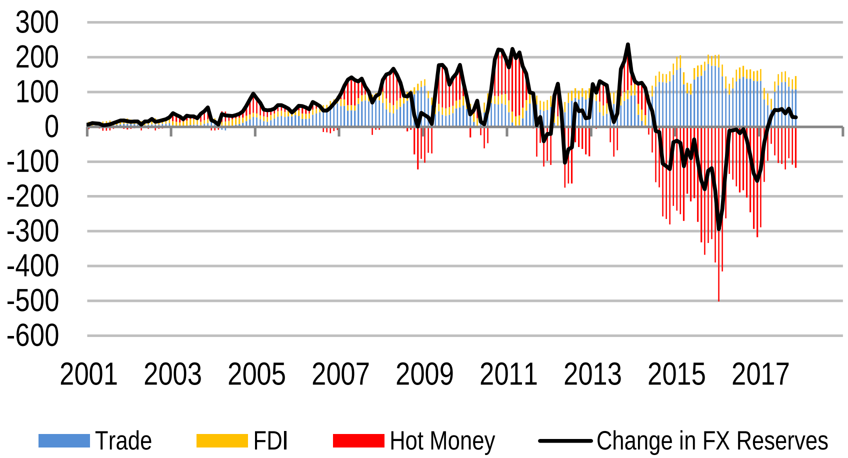
- Non-bank financing has grown significantly post-financial crisis
- Non-bank financing, including trust financing, remains a significant risk to the economy
- USD cross border credit has increased significantly post-crisis, with a large percentage of the increase moving to China

Debt to GDP

- Debt to GDP has risen rapidly in recent years, however much of this debt is denominated in RMB, and is concentrated in the private sector, somewhat reducing whole economy risk
- USD denominated debt, and the financial system, remains at significant risk
- Although non-cyclical, this has created issues of sustainability, imbalances and uneconomic investment across the economy
- Increased short term debt does provide the PBoC with a more powerful lever when setting interest rates

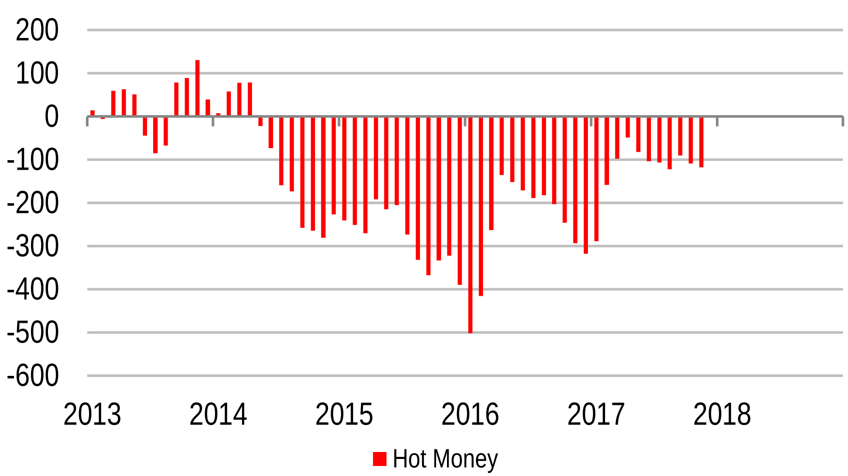
Sources: Bloomberg, Deltec

Contribution to FX Reserves Growth



- FX Reserves growth has decelerated slightly
- Hot money has flowed out at a stable pace in recent months
- Some FX reserve reduction has been used to fund local banks, rather than flowing out of the economy

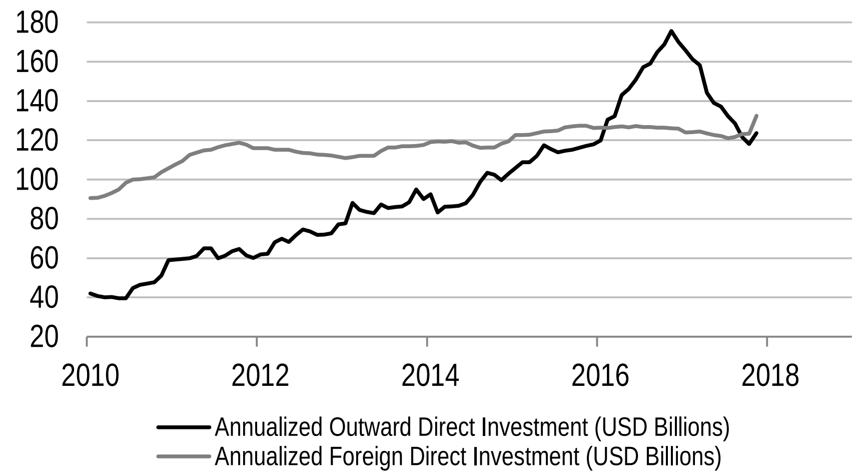
Hot Money Flows



- Hot money flows are pro cyclical, and linked to US and other central bank liquidity programs
- The combination of the US liquidity growth slowing and structurally slower growth in China is likely to lead to even greater hot money flows out of China, tightening financial conditions
- An overvalued RMB, and the potential for further devaluation can exacerbate hot money outflows
- Hot money is flowing into hard assets in gateway cities, and more generally into Developed Market Economies

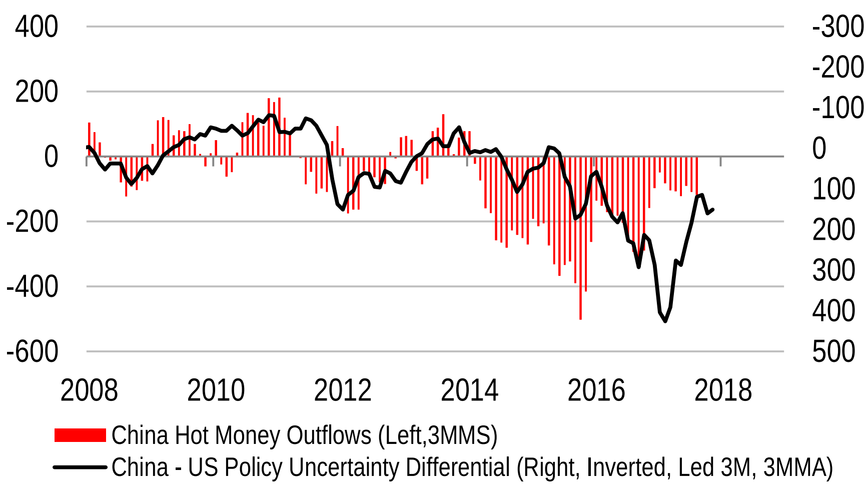
Sources: Bloomberg, Deltec

Inward Investment and Outward Investment



- Outward investment from Chinese firms has re-accelerated in recent months
- Recent restrictions on cross-border M&A and capital outflows may limit further outbound investment growth

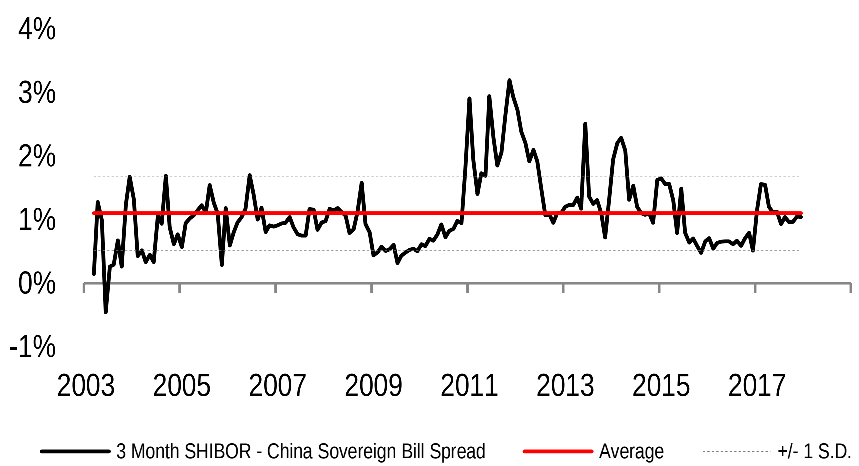
Hot Money Flows and Policy Uncertainty



- Hot money flows are pro cyclical, and linked to US and other central bank liquidity programs, and policy uncertainty

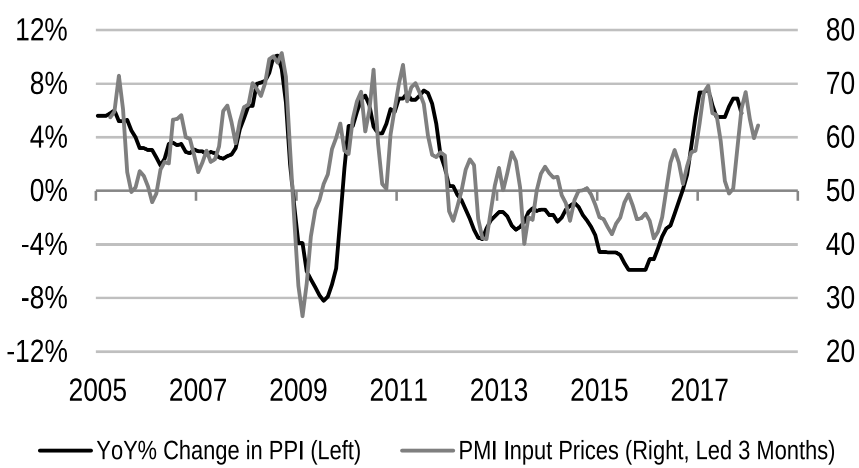
Sources: Bloomberg, Deltec

Short Term Money Market Rates



- Money market spreads have risen slightly as reference rates moved higher
- Stimulus is likely to be further removed in the near term, given the stabilization in growth

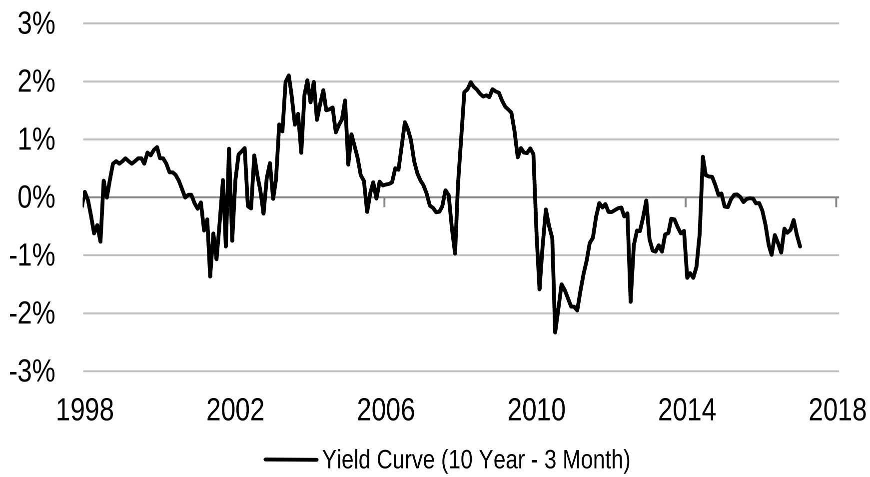
PMI Input Prices vs PPI Inflation



- Official inflation has stabilized, and leading indicators signal stabilization in pricing pressures in the coming months
- Rising inflation would give policymakers less room to provide stimulus in the event of a renewed downturn in growth

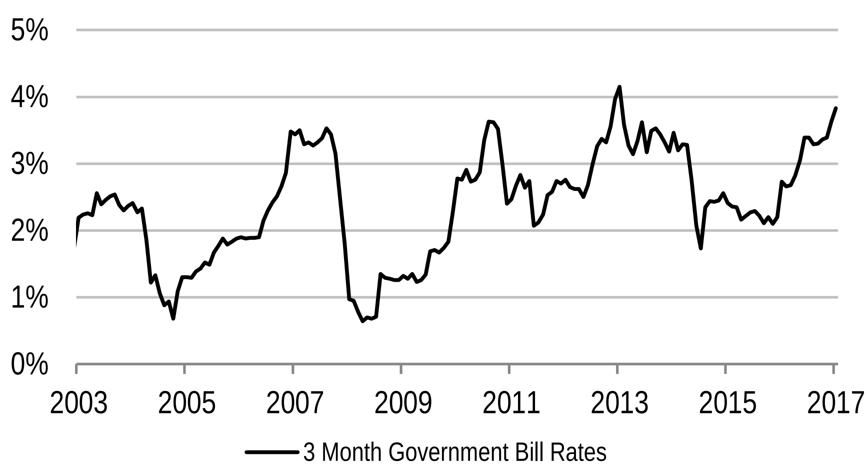
Sources: Bloomberg, Deltec

Yield Curve



- The yield curve, as measured by the 10 Year minus 3 Month interbank rates, has remained inverted over the last quarter
- Yield curve may not be as reliable if stimulus at short end of the curve is not flowing into broader economy
- China's further moves towards a market based peg allows the PBoC to take greater control of Chinese monetary policy

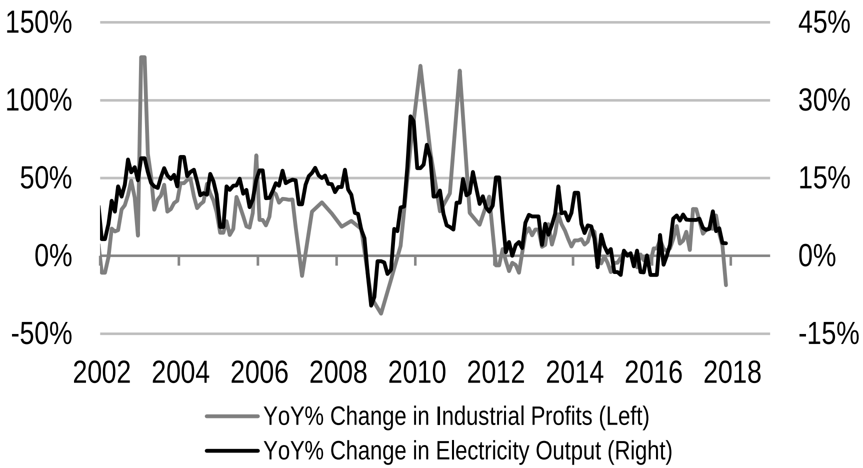
Short Term Rates



- Short term rates have risen further over the past quarter
- Short term rates are likely to continue to rise from current levels

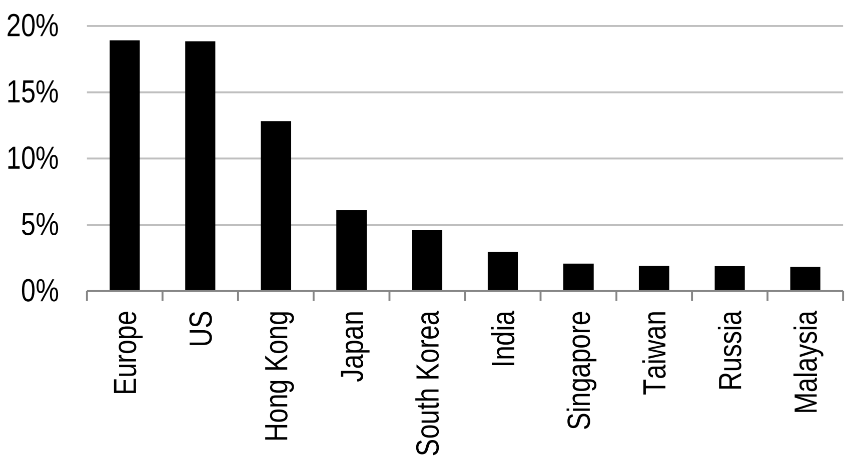
Sources: Bloomberg, Deltec

Economic Growth and Industrial Profits



- Industrial profits growth is highly sensitive to changes in broad economic growth
- Industrial profits have fallen, and year on year growth is now negative

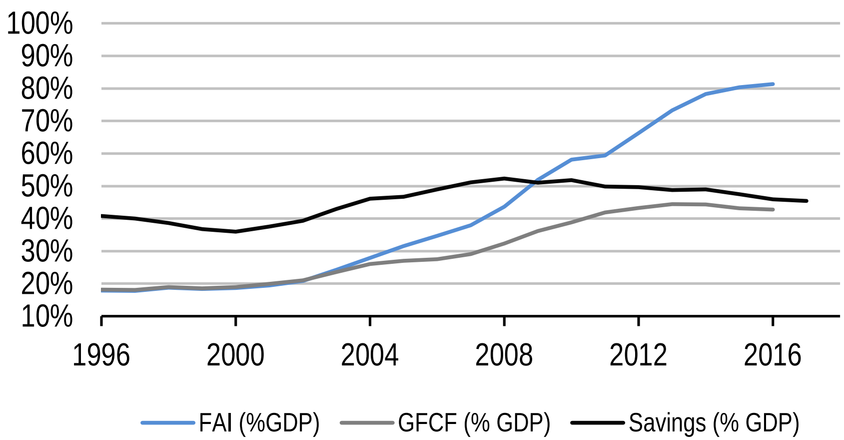
China Exports by Country



- China's growth remains heavily reliant on developed economy growth and consumption
- US consumption is likely to be stable in the coming period, and European consumption is now recovering modestly

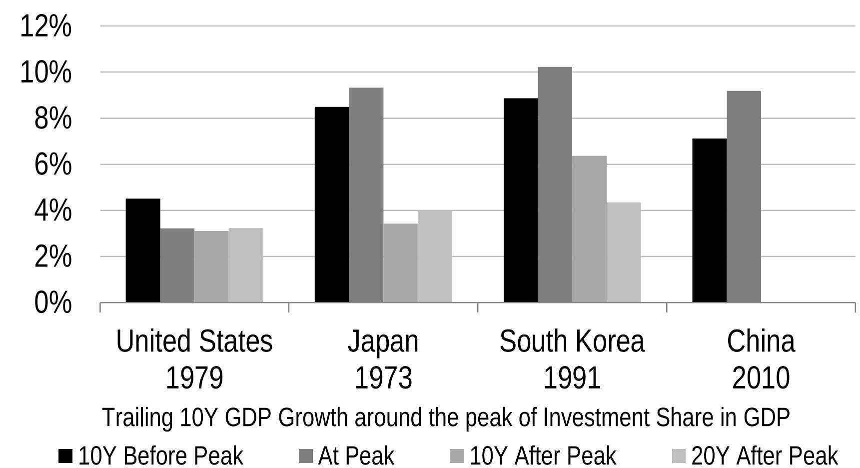
Sources: Bloomberg, Deltec

Gross Fixed Capital Formation vs FAI vs Savings



- The rebalancing from investment to consumption is occurring, although very slowly
- Any rebalancing will be difficult to achieve smoothly
- Gross Fixed Capital Formation in line with Savings as a % of GDP, limiting any further increase in investment, without the use of borrowing

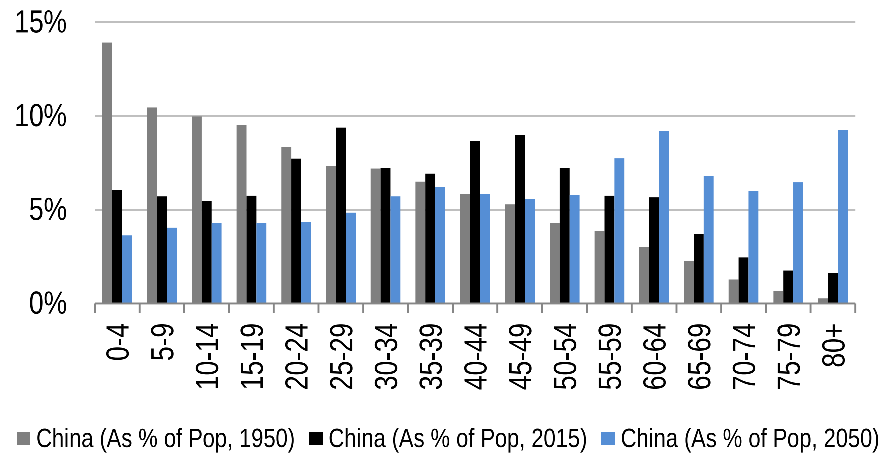
Investment Share of GDP across Economies



- No economy has managed to sustain this level of investment share of GDP for a prolonged period without collapse

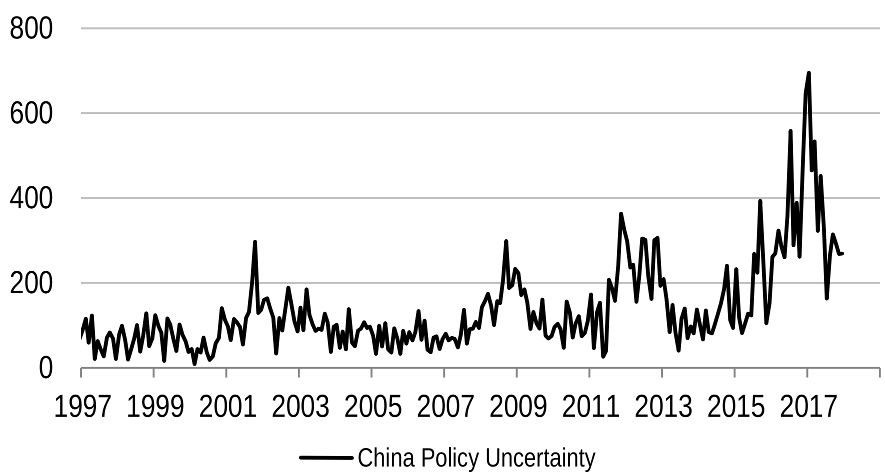
Sources: Bloomberg, Penn World Tables, Deltec

Demographic Profile



- China's population will become significantly older by 2050

Policy Uncertainty



- China policy uncertainty is stabilizing, after declining sharply from its recent peak

Sources: Bloomberg, Economic Policy Uncertainty, Deltec

COMMODITIES

Commodities

The outlook for commodity prices is driven by global economic growth and global liquidity growth. At present, global economic growth is strong although compositionally changing, whilst global liquidity growth is likely to slow in the coming periods. Chinese fixed asset investment growth, the primary demand driver for commodities, is now slowing, whilst USD liquidity conditions, the primary funding source for commodity carry trades, are likely to tighten. Whilst the downside to commodities has been mitigated through the significant improvement in global growth, parts of the complex are stretched from a longer term perspective, with only selected commodity providing opportunities.

- Energy prices have upside risk, as demand growth continues to improve, even as supply growth is rising again. Medium term dynamics for oil are more favorable given the unique reliance on both the level and growth in global industrial production, however the rapidity of the supply response may limit the upside.

- Agricultural commodities have suffered from favorable weather conditions in recent periods, despite the backdrop of relatively attractive secular demand dynamics. This environment is unlikely to change in the near term, leaving the commodities range bound.

- Industrial Metals are currently supported by strong global growth, however are likely to experience downside over the next year, as global liquidity conditions change.

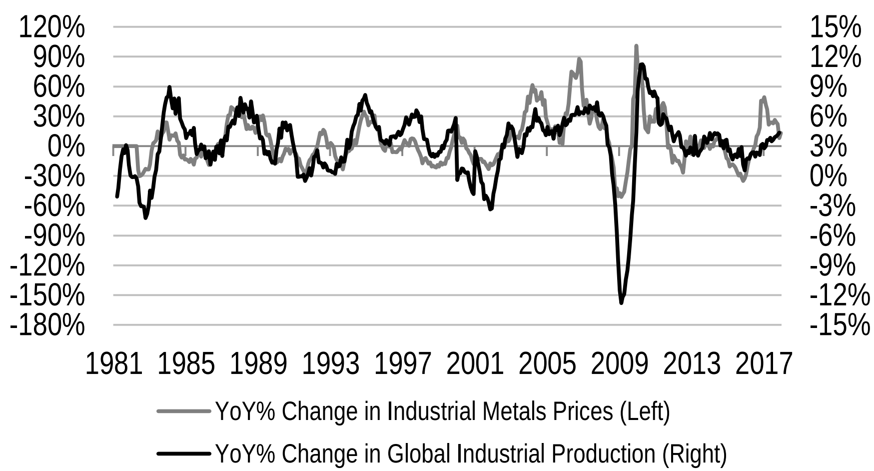
- Bulk commodities are likely to decline over the next year, as rising iron ore supply is met by slowing Chinese fixed asset investment growth, steel production cuts and the potential for property price declines.

- Gold remains expensive in absolute and relative terms, as the perception of an inflation and safehaven hedge supersedes historic overvaluation. This should be erased by slowing global liquidity growth and limited long term inflation.

Investment Conclusion: The sharp rally in commodity prices has been supported by a significant improvement in global growth. However, slowing USD and global liquidity growth and declining Chinese fixed asset investment growth are likely to negatively impact commodities in the coming periods. Energy provides the best opportunities as favorable demand dynamics and current pricing. Agricultural commodities will remain volatile given stable weather. Industrial Metals and Bulks carry downside risk. Gold is expensive, with better risk adjusted returns elsewhere.

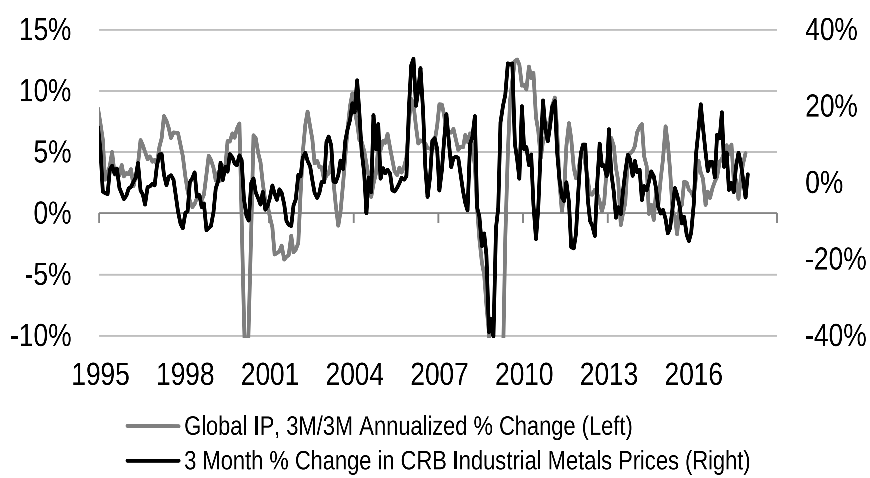
Positives: Selected Energy
Negatives: Bulk Commodities; Industrial Metals; Gold

Global Industrial Production Growth vs Industrial Metals



- 3.5% Global Industrial Production growth is required for flat Industrial Metals prices
- Industrial metals prices are currently in line with global industrial production growth, pricing in approximately 3% industrial production growth over the coming year

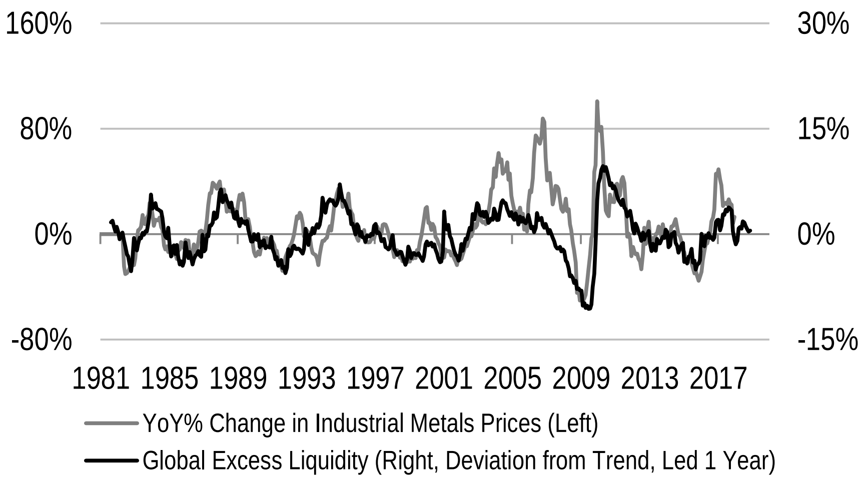
Global Growth Momentum vs Industrial Metals



- A slowdown in growth momentum is partially priced into Industrial Metals prices
- Global growth momentum is currently strong, and will likely temporarily slow this year

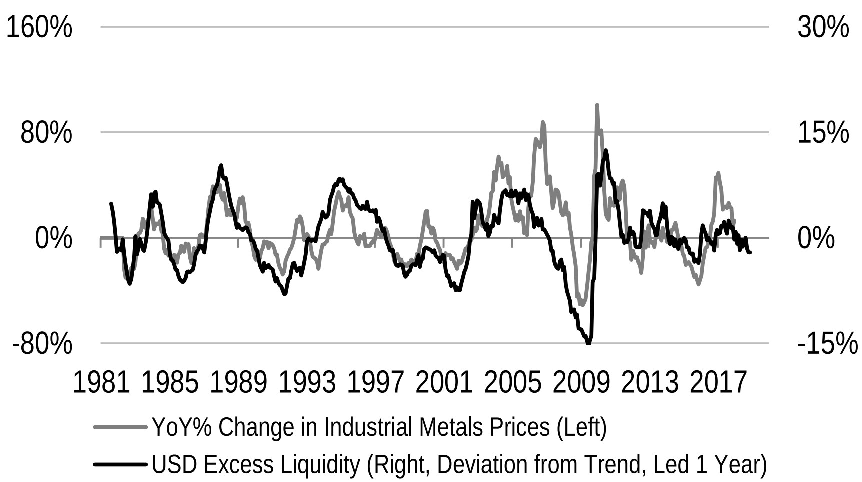
Sources: Bloomberg, Deltec

Global Excess Liquidity vs Industrial Metals



- Industrial metals are highly sensitive to changes in liquidity
- Excess liquidity is consistent with flat industrial metals prices in the near term
- The negative cyclical view of liquidity conditions is exacerbated by the potential for industrial metals to anticipate the reduction in USD liquidity through a 1993-94 style decline
- Secular negative view is exacerbated by the potential for deleveraging of industrial metals in China

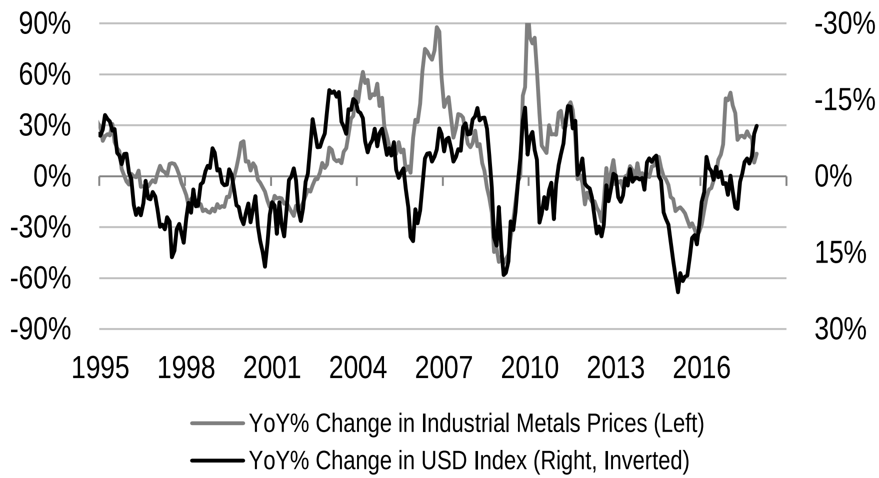
USD Excess Liquidity vs Industrial Metals



- USD Liquidity growth has declined following the stabilization earlier in the year, and is now consistent with lower industrial metals prices

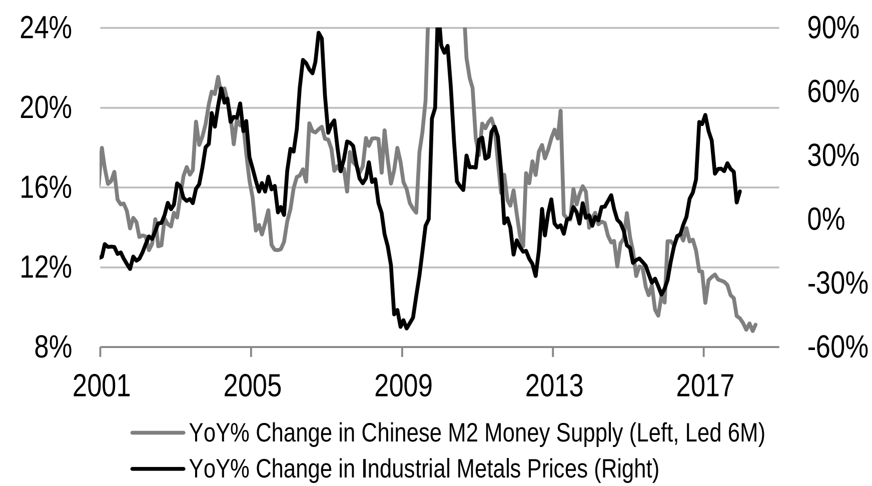
Sources: Bloomberg, Deltec

Industrial Metals vs USD Index



- The USD Index is currently consistent with stable Industrial Metals prices
- As USD liquidity conditions tighten this year and the USD rises, there will be downwards pressure on Industrial Metals

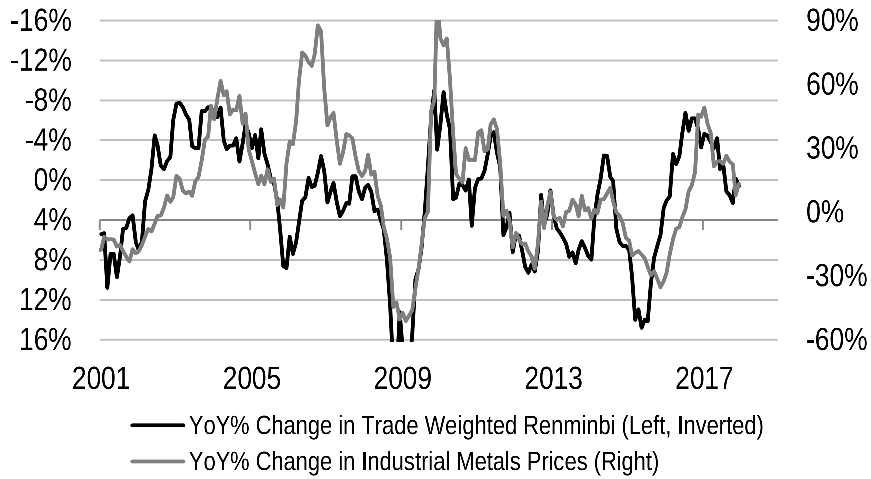
China M2 Money Supply vs Industrial Metals



- Chinese money supply growth is consistent with a significant decline in Industrial Metals prices

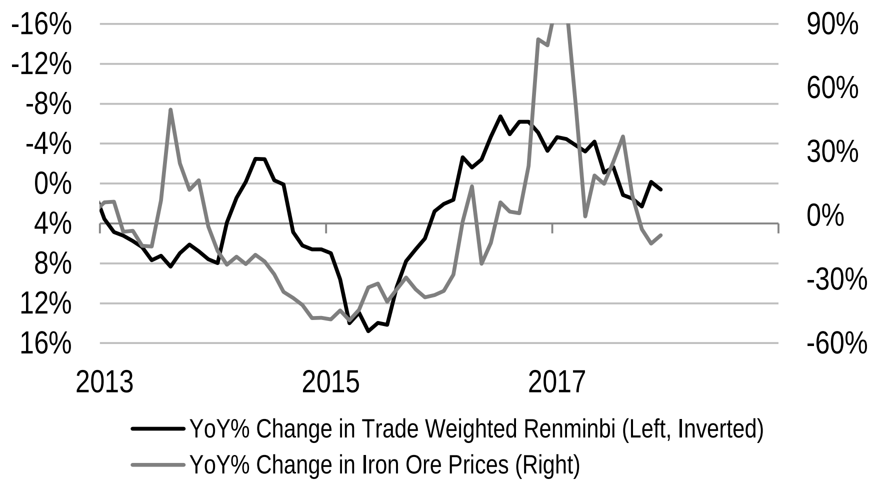
Sources: Bloomberg, Deltec

RMB Changes vs Industrial Metals



- A stronger RMB is negative for Commodity prices
- Industrial Metals are currently pricing in a stable RMB

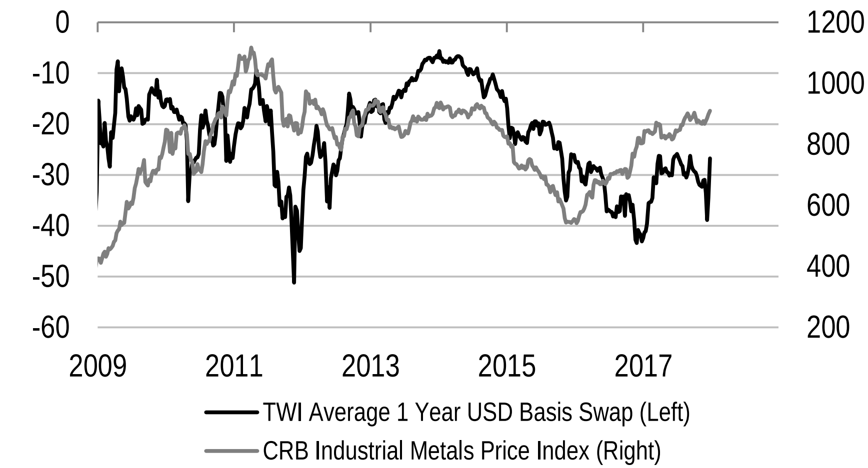
RMB Changes vs Iron Ore



- A stronger RMB is negative for Commodity prices

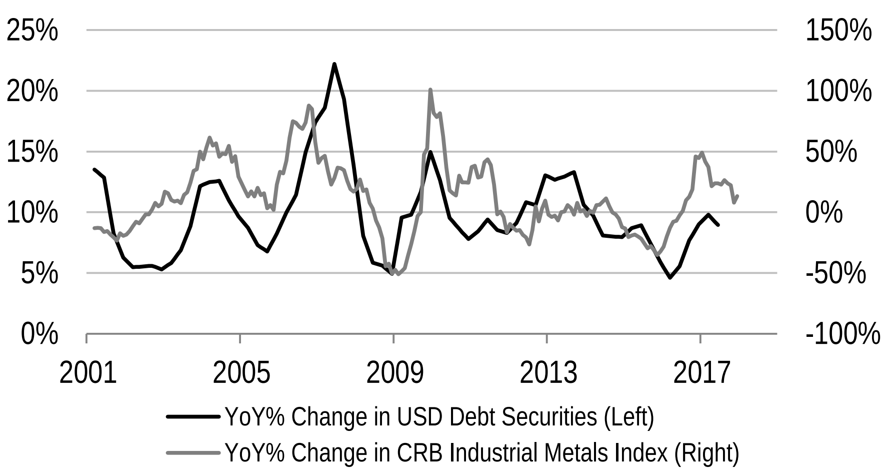
Sources: Bloomberg, Deltec

Cross Currency Basis Swaps



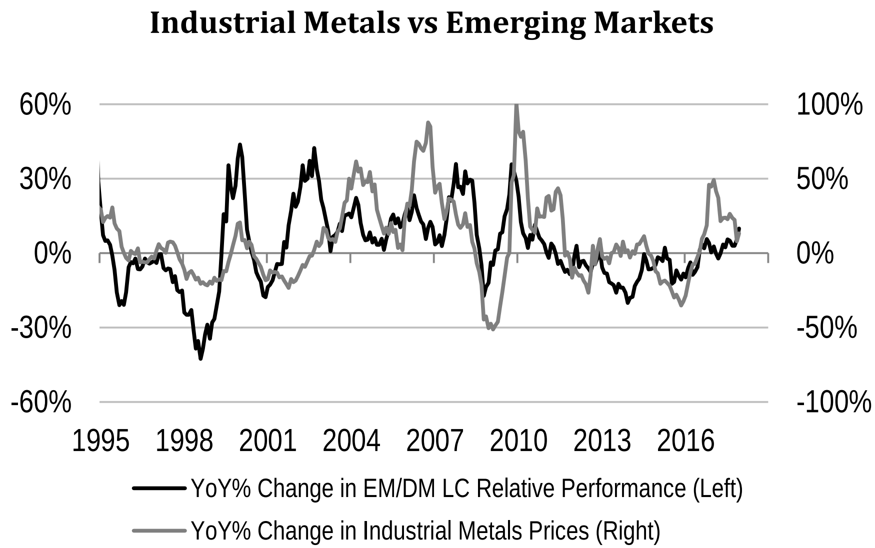
- Cross currency basis swaps are suggesting USD shortages are stabilizing rather than continuing to ease, which would be negative for carry trades into commodities from the current point

USD Cross Border Credit vs Industrial Metals

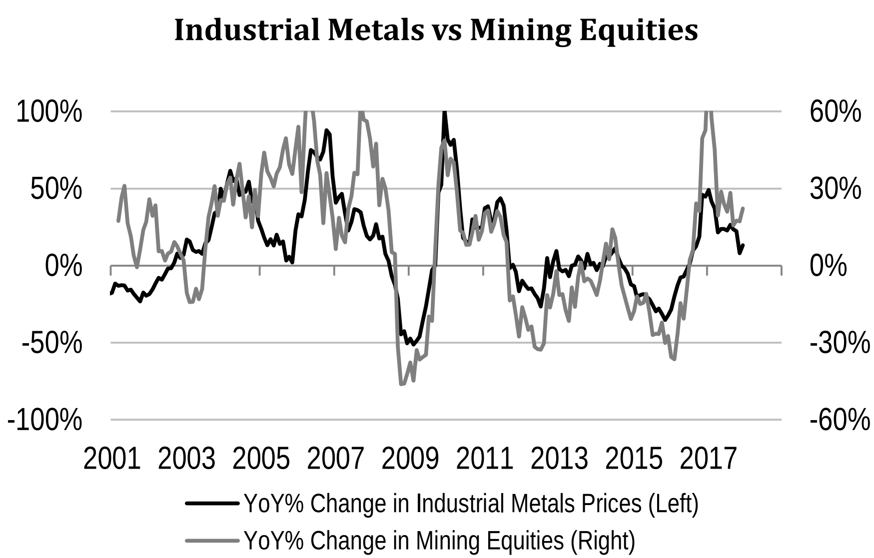


- USD credit growth is consistent with lower Industrial Metals prices
- USD cross border credit has funded the Industrial Metals carry trade, both directly, and via Emerging Markets

Sources: Bloomberg, Deltec



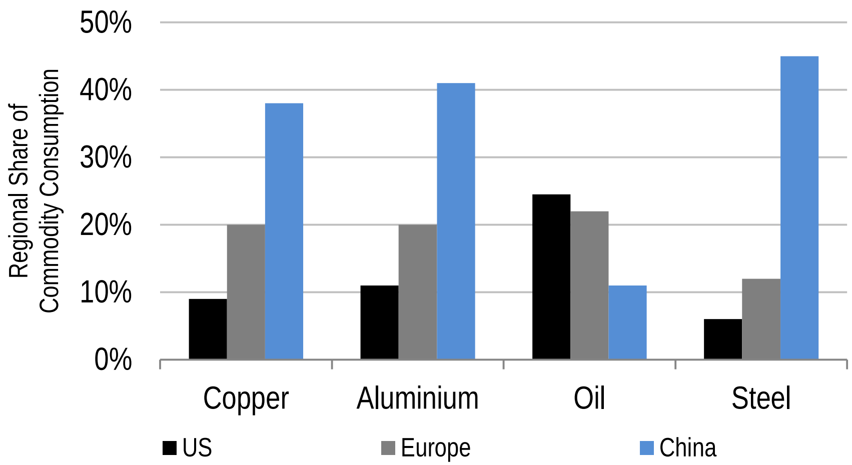
- Whilst Emerging Market growth is expected to remain positive, any weakness in Emerging Market economic growth is likely to weigh further on Industrial Metals, especially so any China weakness



- Mining Equities have comparatively outperformed Industrial Metals
- Industrial Metals are likely to decline, which will lead to a decline in Mining Equities, despite any actual or perceived valuation buffer

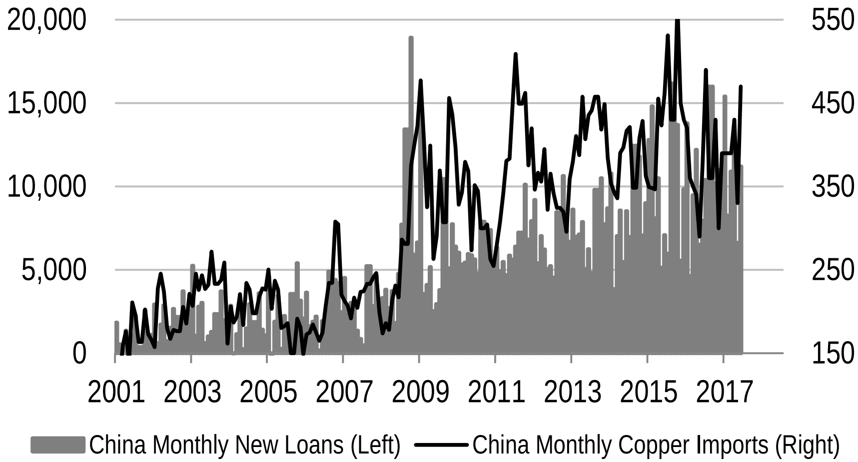
Sources: Bloomberg, Deltec

Regional Share of Commodities Consumption



- China's share of commodities consumption will be even more significant to the extent that commodities have been used for financing.

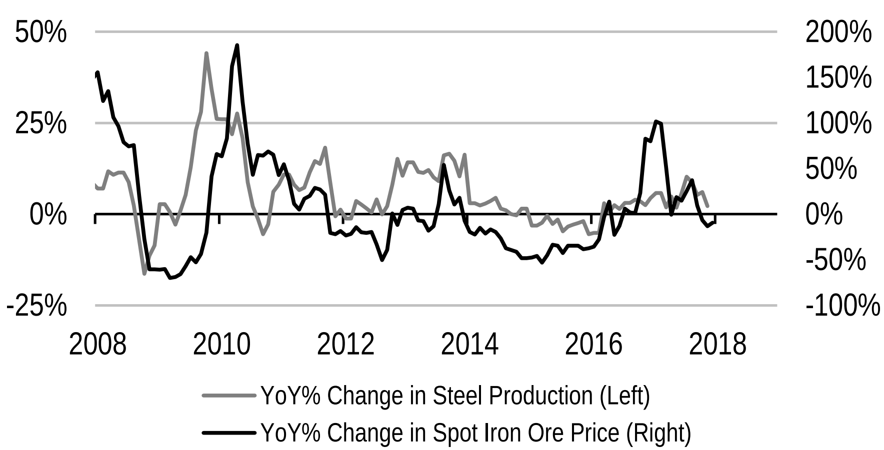
China New Loans vs Copper Imports



- The use of commodities as collateral for financing activities will have a significant influence on commodity markets, exacerbating volatility, and potentially leading to further deleveraging
- Chinese New Loans are consistent with lower China Copper Imports

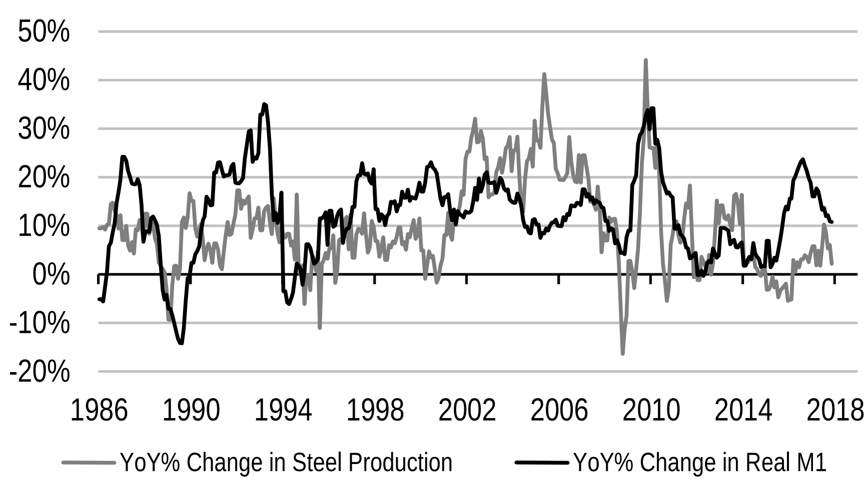
Sources: Bloomberg, Deltec

Steel Production Growth vs Iron Ore Price Change



- Steel production growth is all that matters for iron ore prices
- Iron ore price growth below rates suggested by steel production growth
- Steel production growth had risen in response to Chinese stimulus measures, however is likely to decline further from current levels

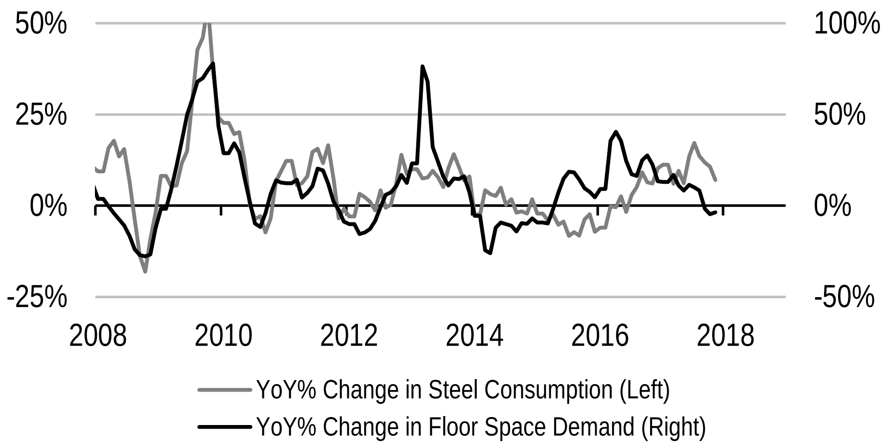
Money Supply vs Steel Production Growth



- Money supply growth is rolling over, and is consistent with higher steel production growth

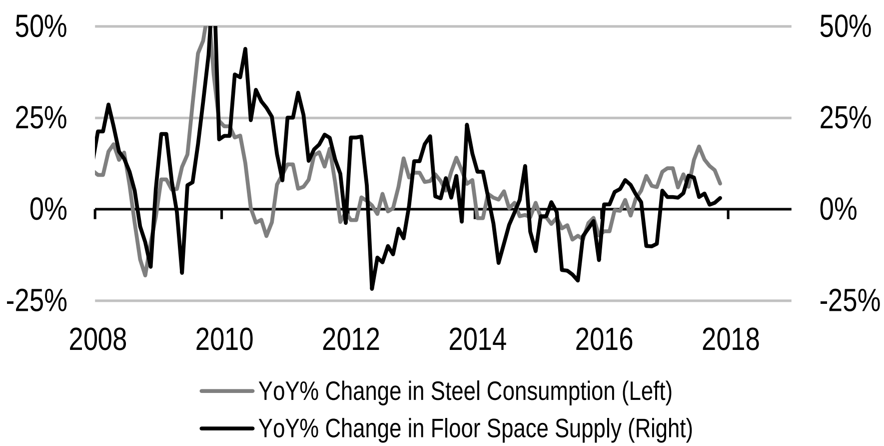
Sources: Bloomberg, Deltec

Property Demand vs Steel Consumption



- Property demand is consistent with lower steel consumption growth
- The impact of further capital controls and property sector curbs are yet to be fully reflected in domestic property demand

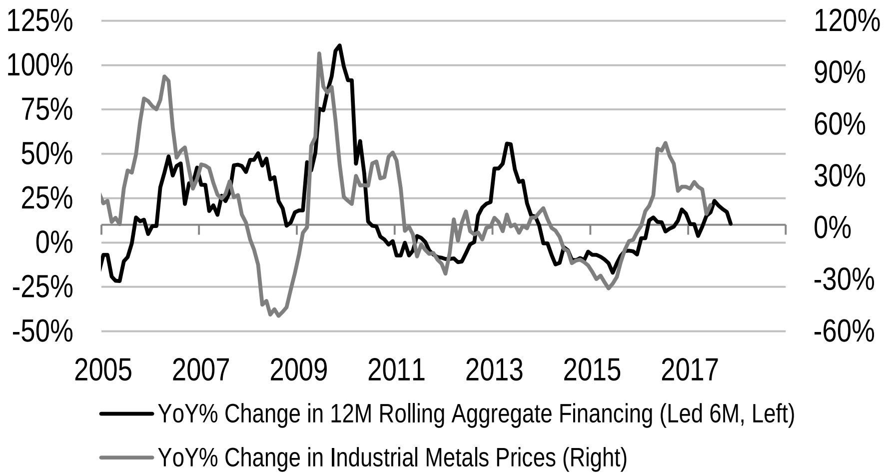
Property Supply vs Steel Consumption



- Property supply growth has risen slightly, yet remains consistent with lower steel consumption growth

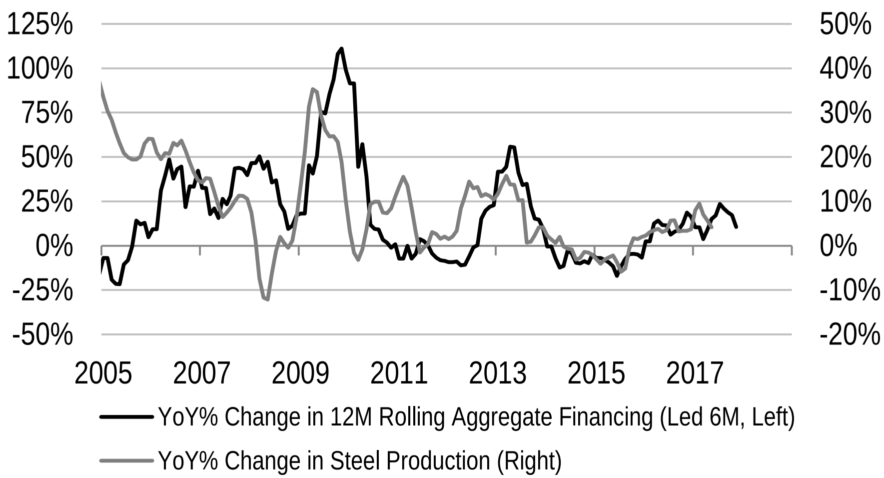
Sources: Bloomberg, Deltec

Aggregate Financing vs Industrial Metals



- Aggregate financing is consistent with lower Industrial Metals prices, with the efficacy of monetary policy determining end demand against carry trades.

Aggregate Financing vs Steel Production

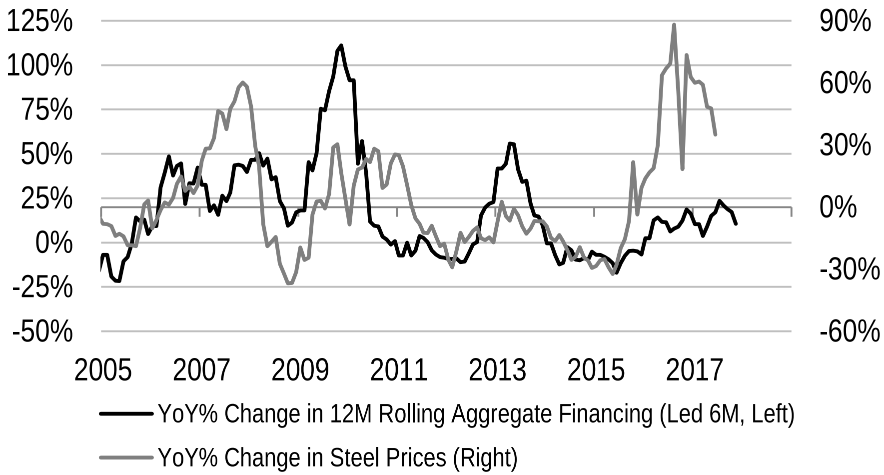


- Steel production is now increasingly dependent, and determined, by the ability to access finance, as steel companies spend credit as it is extended to generate cash flows.

Sources: Bloomberg, Deltec

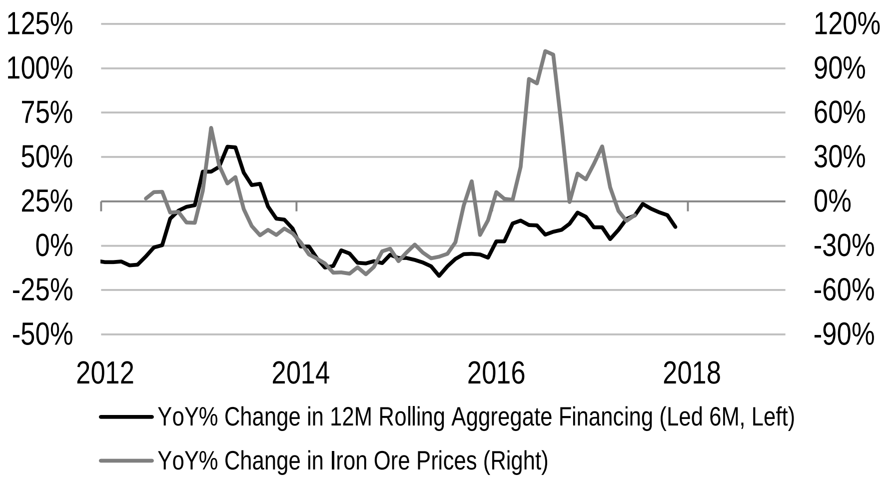
Commodities

Aggregate Financing vs Steel Prices



- Steel prices have risen well above the levels indicated by aggregate financing

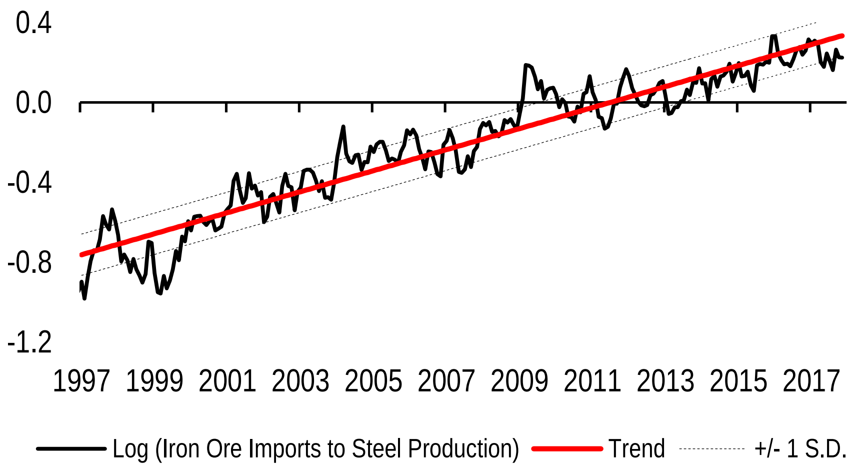
Aggregate Financing vs Iron Ore Prices



- Iron ore prices are following steel production, which is following availability of credit
- Iron ore prices have fallen from their recent peak, and aggregate financing is now consistent with lower iron ore prices

Sources: Bloomberg, Deltec

Steel Production vs Iron Ore Imports



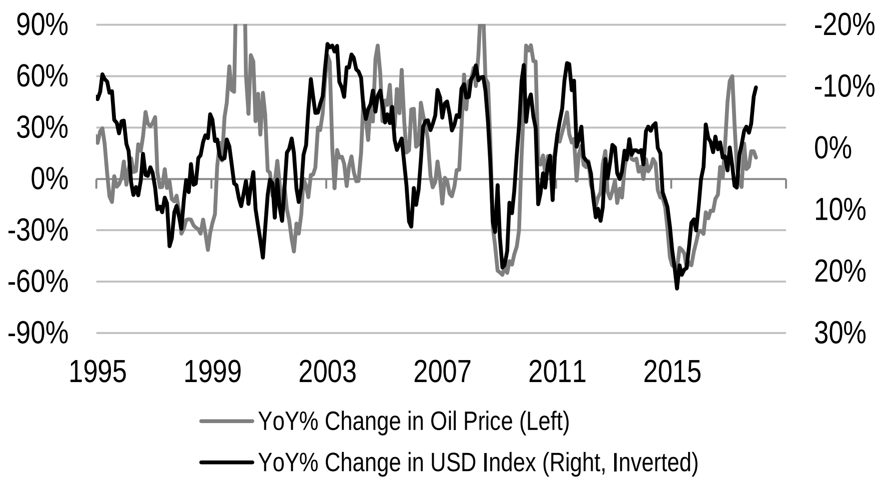
- Iron ore imports declined over the last quarter, as steel production also declined
- Theoretically, there should be a trend towards increased Chinese iron ore imports through time, as domestic iron ore becomes relatively less economic
- Chinese iron ore imports are well below trend

Iron Ore Inventories

- Iron ore inventories are now re-accelerating

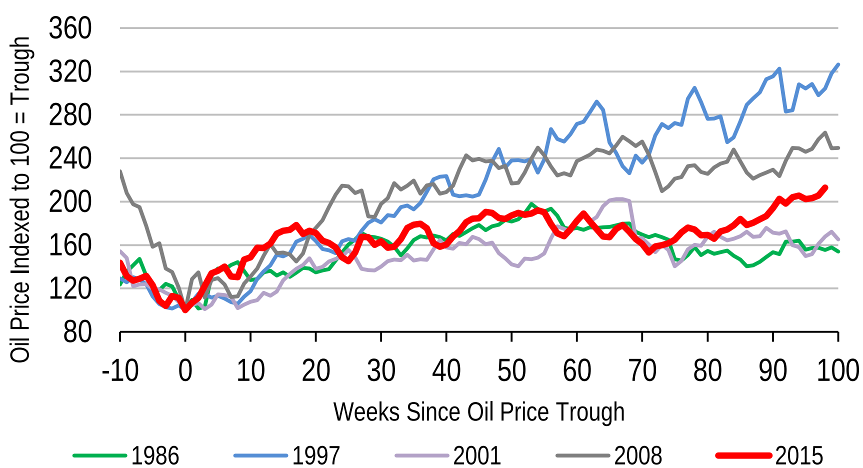
Sources: Bloomberg, Deltec

USD Index vs Oil Prices



- USD liquidity conditions are now consistent with higher oil prices
- Oil prices had outpaced USD liquidity conditions in early 2017
- Positive global growth momentum is positive for demand, however supply continues to rise
- Slowing USD liquidity growth in late 2017, manifesting itself in a stronger USD, may limit the upside in oil prices

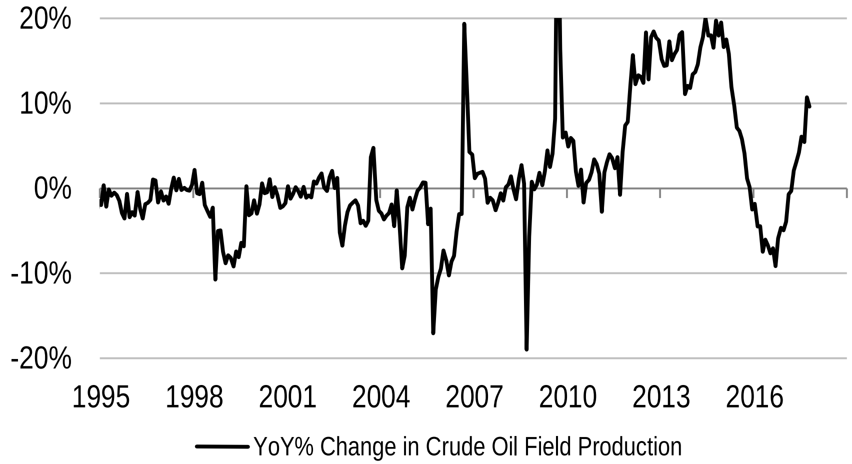
Historic Oil Price Recoveries



- This has been the third best oil price recovery from a trough in the past 30 years
- Oil price troughs can be elongated, however the recoveries are rapid and significant
- The supply response has been rapid in the current cycle, so the recovery will be subject to the speed at which supply is restarted as oil prices recover

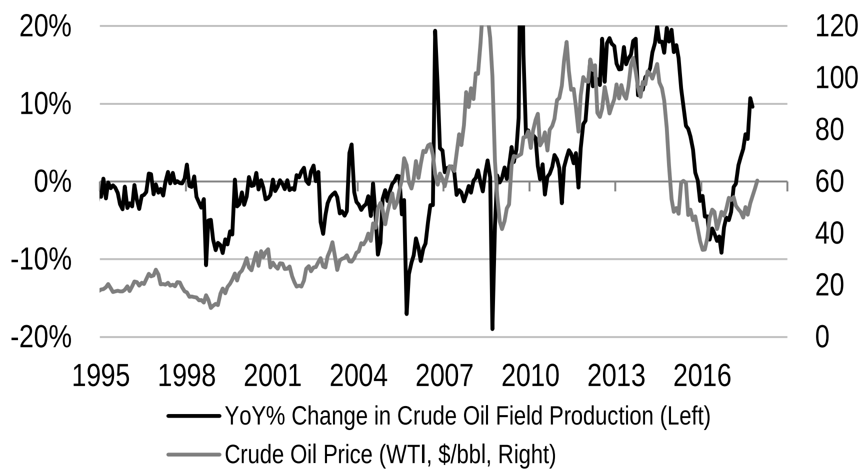
Sources: Bloomberg, U.S. EIA, Strategas, Deltec

US Oil Production



- US domestic crude oil production declined sharply over the past 2 years, however has recently recovered sharply

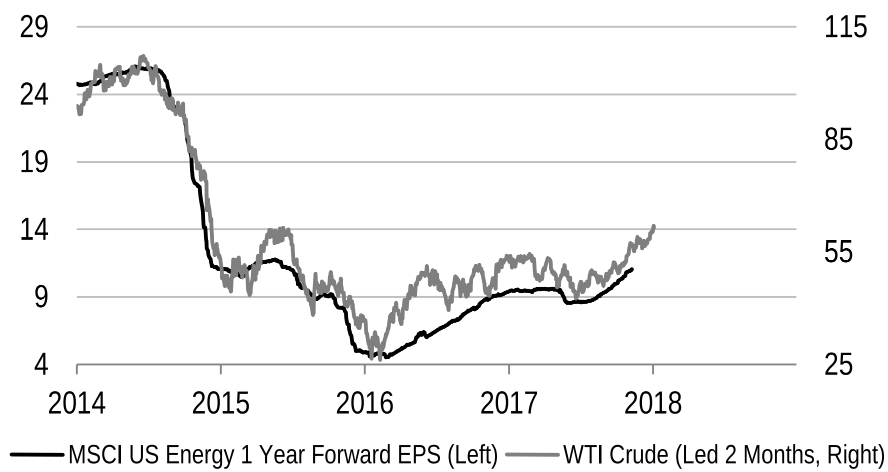
US Oil Production vs Oil Prices



- As oil declined below $60 per barrel, US domestic crude oil production declined sharply
- US oil production is now recovering even with prices below $60 per barrel, as the capital costs for many projects had already been invested prior to the early 2016 decline

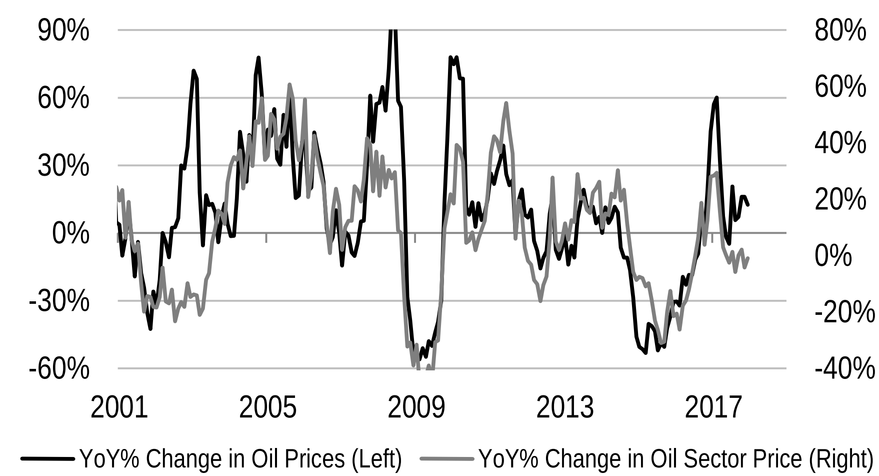
Sources: Bloomberg, Deltec

Energy Sector EPS



- EPS growth is likely to rise significantly, given recent oil price movements

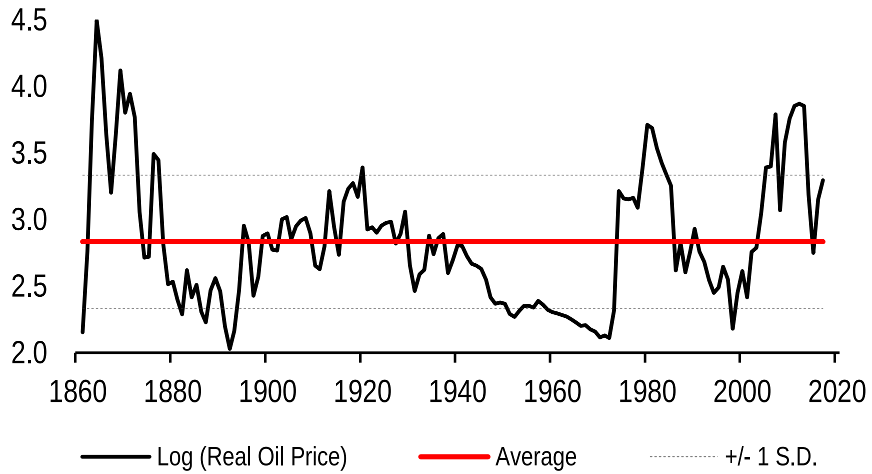
Energy Sector Performance vs Oil Price



- Energy sector performance will track the oil price
- Energy sector has not yet priced in the recovery in oil prices

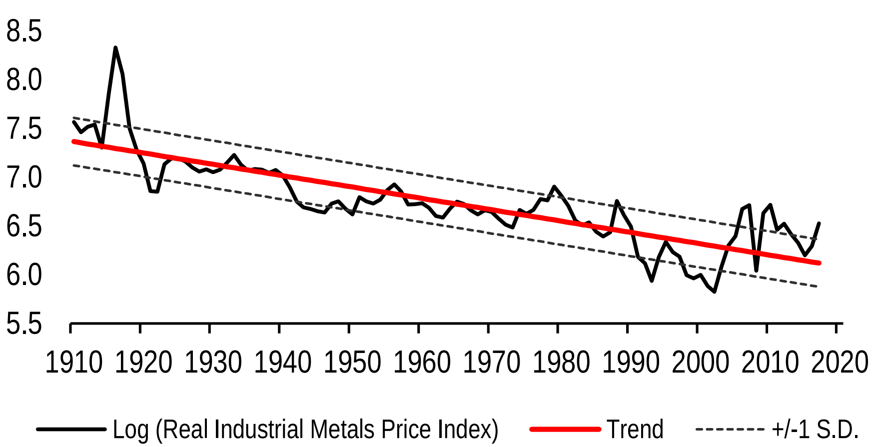
Sources: Bloomberg, Deltec

Real Oil Price



- Oil prices have risen to over 1 standard deviation expensive against the long term average

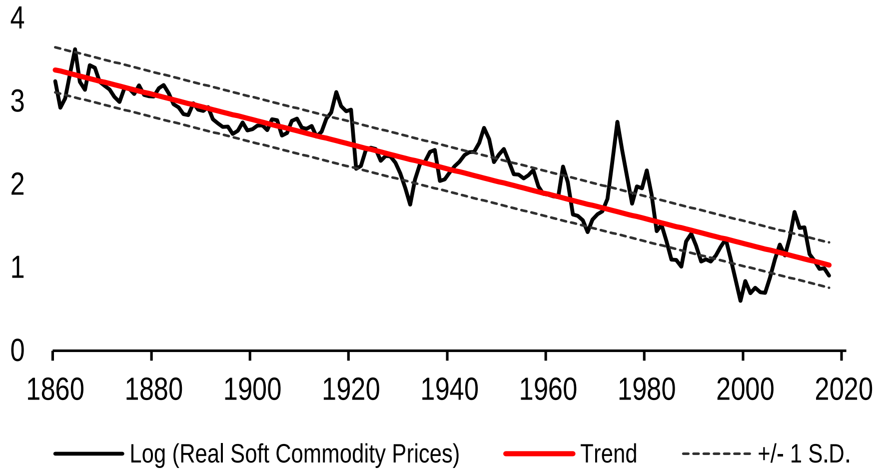
Real Industrial Metals Price



- Industrial metals are now almost 2 standard deviations expensive against the long term trend

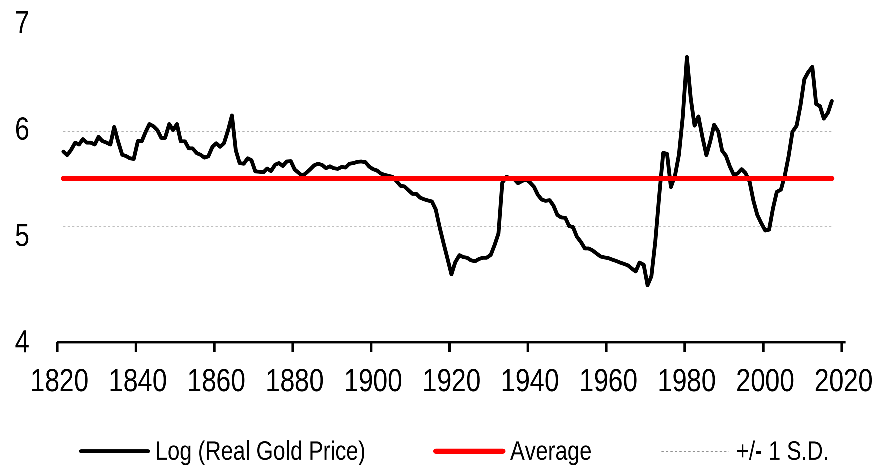
Sources: Bloomberg, Deltec

Real Soft Commodities Price



- Agricultural commodity prices are below fair value against the long term trend
- Every time soft commodity prices have moved to 1 standard deviation above the trend historically, they have fallen sharply

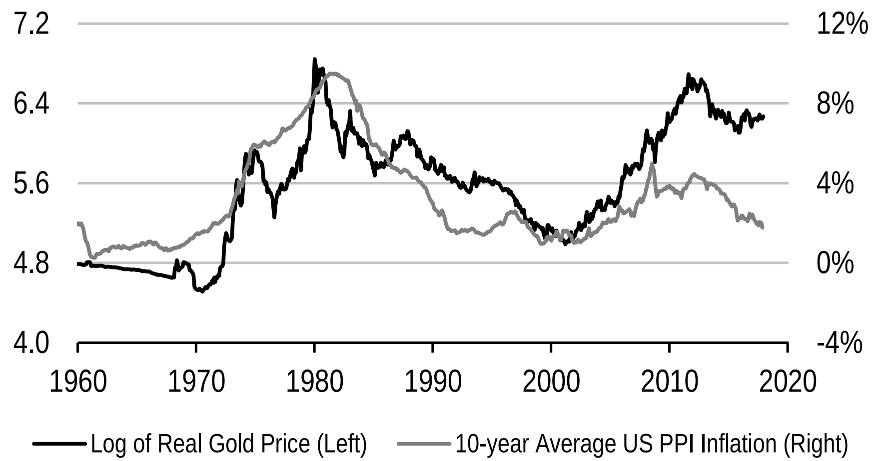
Real Gold Price



- Gold remains very elevated by long term standards
- There are relatively more attractive safe havens assets available
- There are relatively more attractive inflation hedge assets available
- There are relatively more attractive commodity exposures available
- Investment alternatives from a safe haven, inflation hedge and commodities offer greater utility
- Buyers of gold may remain irrational for longer, especially in the current uncertain global environment

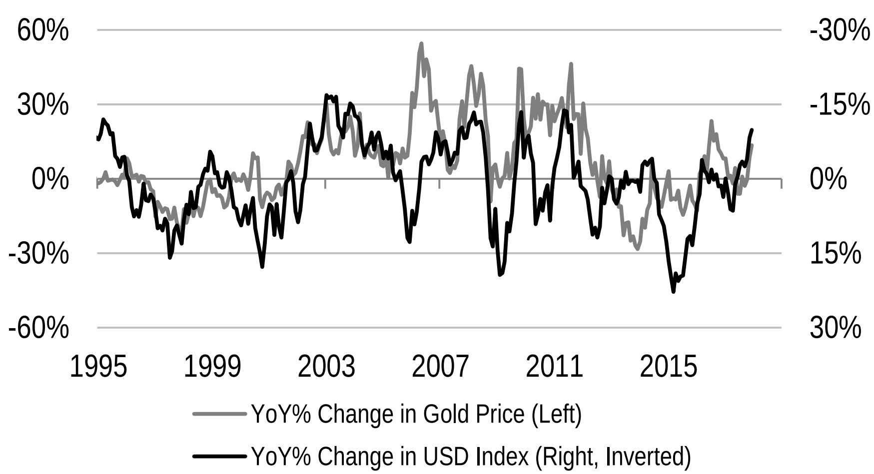
Sources: Bloomberg, Deltec

Gold and Inflation



- Gold is currently factoring in a significant rise in inflation, or deleveraging that will lead to increased money supply and ultimately increased inflation

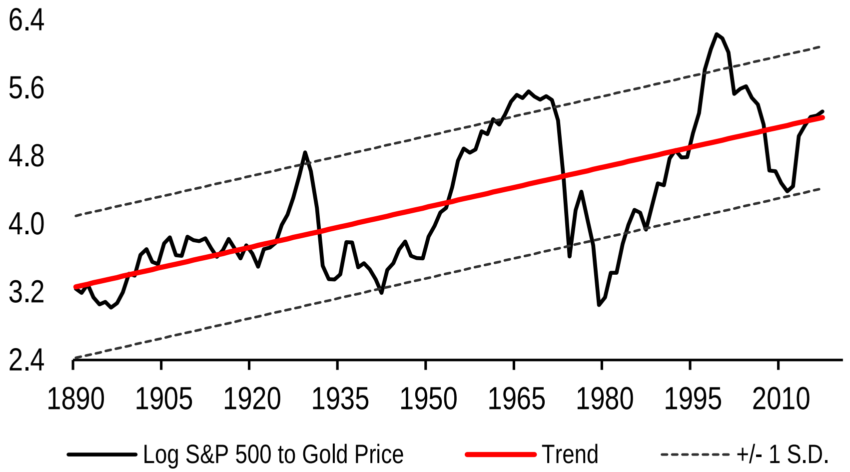
Gold and USD Liquidity



- USD liquidity conditions are consistent with a higher Gold price
- Slowing USD liquidity growth in the coming periods should limit the gold price

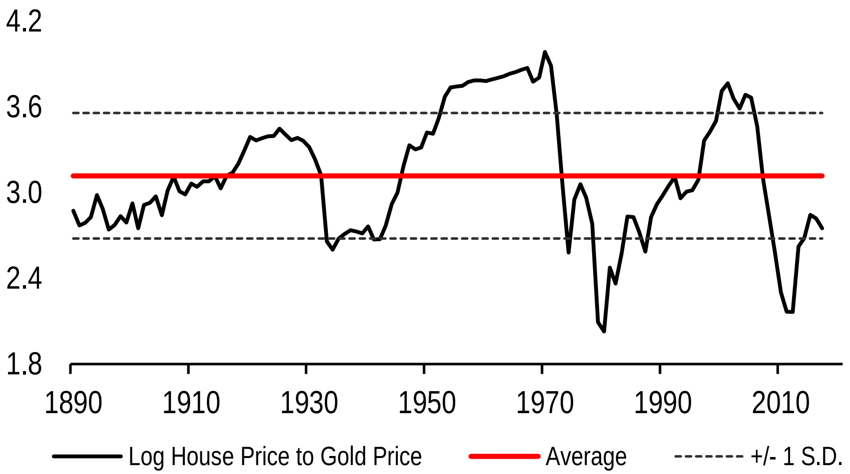
Sources: Bloomberg, Deltec

US Equities relative to Gold



- US Equities are near fair value relative to Gold, however will benefit from productivity growth

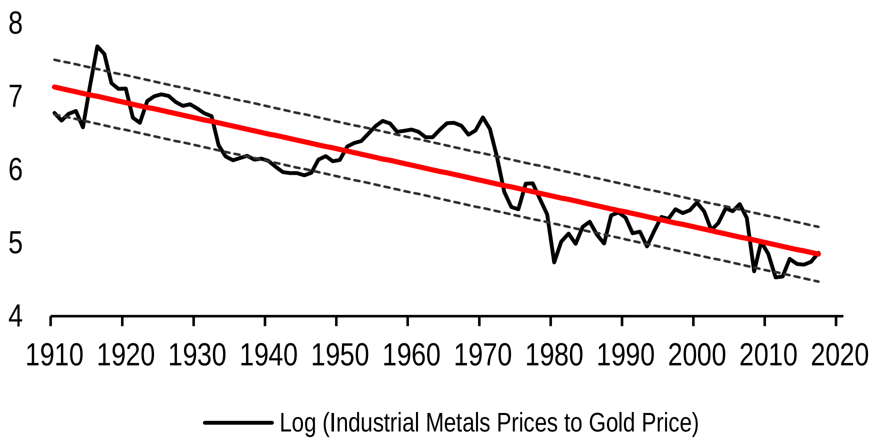
US Housing relative to Gold



- US Housing has risen, yet remains undervalued relative to Gold, and is able to be rented out to generate a yield

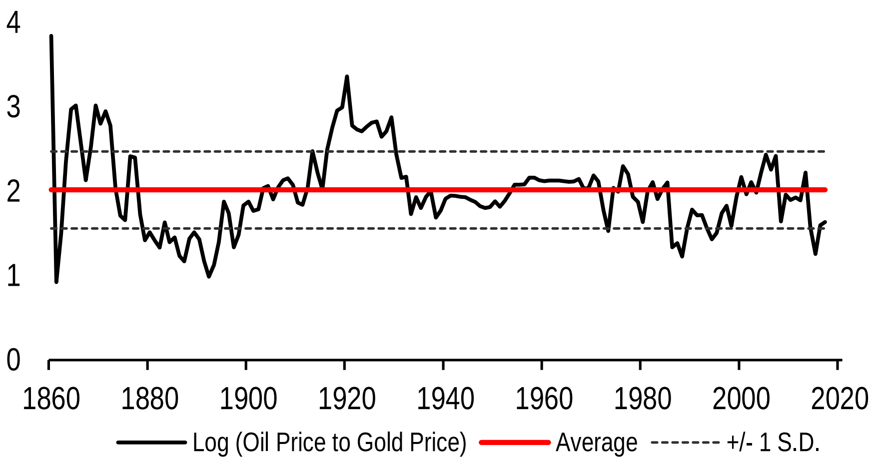
Sources: Bloomberg, Deltec

Industrial Metals vs Gold Price



- Industrial metals are at fair value relative to gold
- Gold is still expensive in absolute terms

Oil Price vs Gold Price



- Oil has risen, yet remains 1 standard deviation undervalued relative to gold, and near the cheapest in relative terms in over 100 years
- Oil has utility

Sources: Bloomberg, Deltec

CURRENCIES

Currencies

In recent periods, growth across regions has become synchronized and policy coordinated, reducing currency volatility. In the coming periods, these dynamics are likely to change, as the global economic expansion is now at the point where policy settings shift. From a tactical perspective, the USD is likely to selectively decline, as relative growth and monetary policy gaps are now narrowing. From a strategic perspective, a narrowing trade deficit and shortages of USD are supportive of the currency, however productivity growth limits the longer term US inflation outlook and caps the neutral Fed Funds rate, at a time when other economies are likely to see liquidity conditions normalize, supporting their currencies. Cryptocurrencies are not an asset that generates a future stream of cash flows, nor are they a currency that efficiently transfers value, rather, they meet many of the definitions of a speculative bubble.

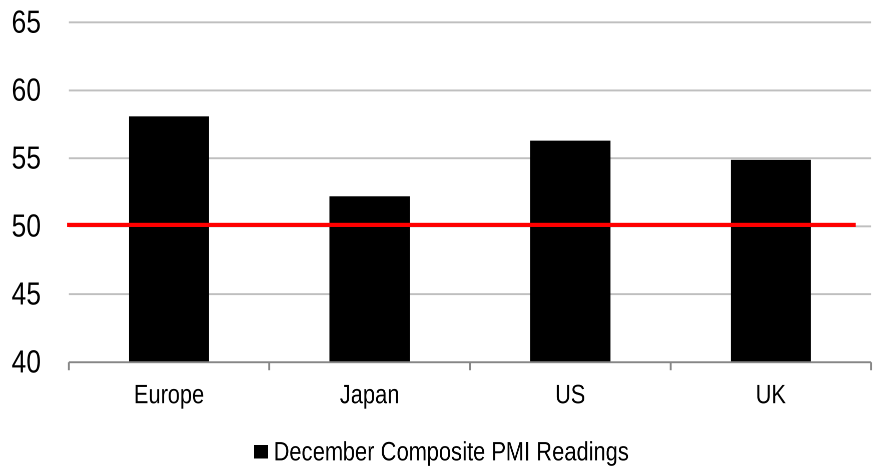
- US growth momentum is currently strong, however now below other economies. Whilst core price pressures are muted at present, continued economic and asset price growth coupled with rising import prices and tightening labor markets should lead to higher inflation and resultant monetary tightening. The secular factors favoring USD, including stronger capital investment growth and a narrowing US petroleum trade deficit, are expected to continue, although against a backdrop of now rising productivity growth that should see longer term inflation contained, suppressing rates and USD upside.

- Improving global growth momentum and outright growth will begin to see a removal of accommodative policy and outright tightening outside of the US, supporting those currencies. European monetary tightening is now within sight and policy uncertainty is declining, benefitting the EUR. Japan's need for loose monetary conditions is reduced given the improved growth outlook, although weak inflation will limit significant action. The GBP carries further downside as the automatic stabilizer to policy uncertainty and a diminished trade position. The negative outlook for commodities and reduced capital outflows from China sees downside risk and deleveraging for commodity economies, the AUD more so than the CAD. Across Emerging Markets, there is selective upside from improved growth and rising interest rate differentials.

Investment Conclusion: Over the coming period, the USD unlikely to appreciate, a greater reflection of the relative strength and liquidity conditions in other economies. Against this, the order of preference is for the CAD, supported by energy prices; the EUR, as growth remains strong and monetary tightening comes onto the agenda; the GBP, as policy uncertainty supersedes inflation concerns; the JPY, which still lags the world for monetary tightening; the AUD, which will continue to decline with commodity prices, asset prices and capital flows and; EMFX, which is only selectively at risk, as idiosyncratic monetary tightening and capital flows dictate the outlook.

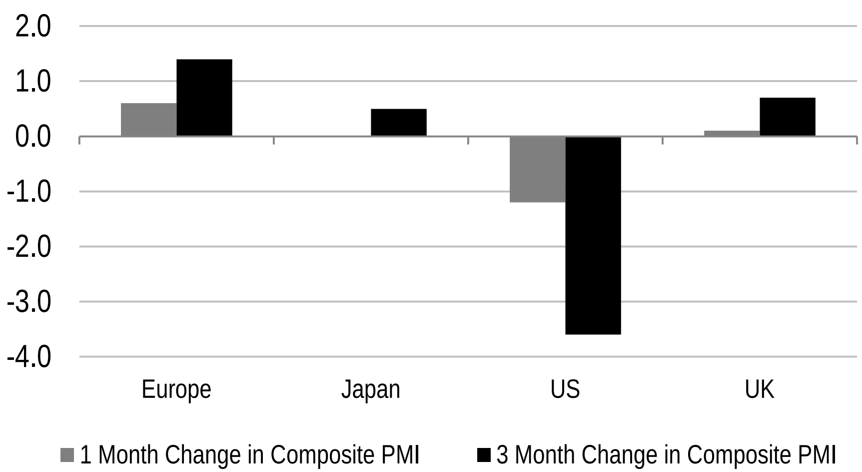
Positives: EUR; CAD
Negatives: AUD; GBP

Global Leading Indicators of Activity



- Cyclically, US economic growth is in line with other regions, however Europe is now leading major Developed Markets, as the US has recently declined
- PMI data over 50 indicates an expanding economy

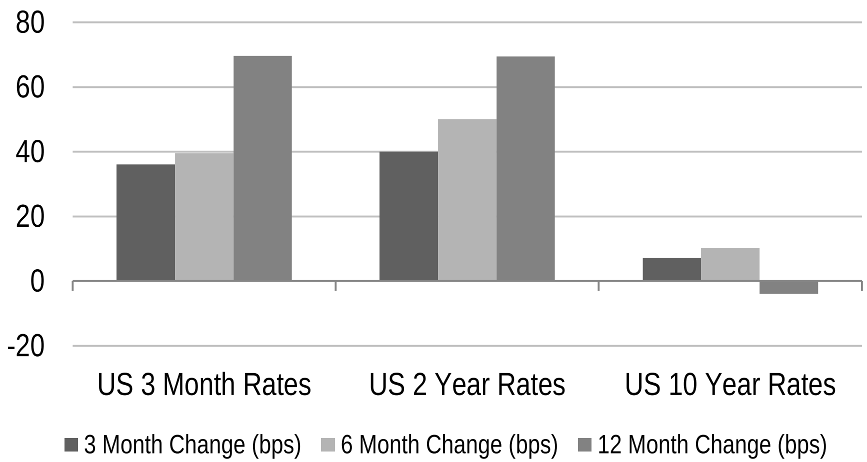
Change in Global Leading Indicators of Activity



- The US has declined, more so than other regions
- Economic growth continues to expanding, with leading indicators, including New Orders, also increasing

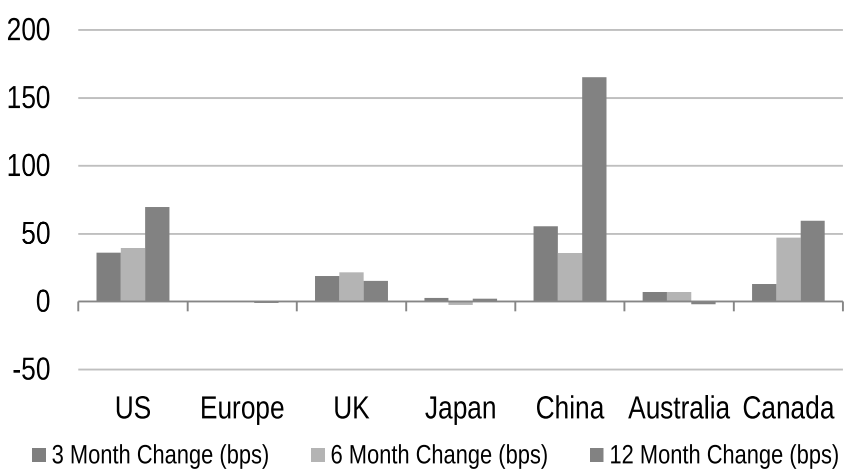
Sources: Bloomberg, Deltec

Change in US Interest Rates



- The US yield curve has flattened over the past 3 months, as short term rates rose slightly more than long term rates
- Increases in short term rates impact FX carry trades, as carry trades are predominantly funded at the short end of the curve

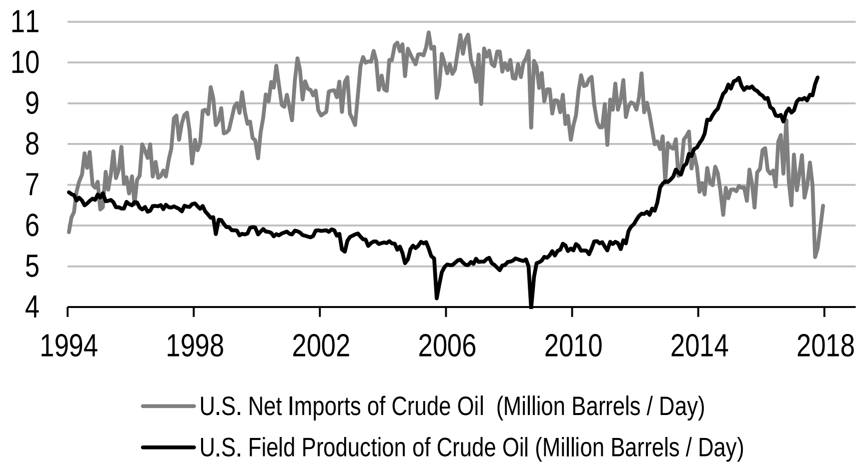
Change in 3 Month Global Interest Rates



- Short Term rates have risen in the US across all time periods, due to improving growth and Fed tightening
- Chinese short term rates have risen further, after rising sharply in response to stronger economic growth and early signs of tightening monetary policy
- European short term rates have been flat over the past 3 months
- The USD funding side of the carry trade is becoming significantly less attractive

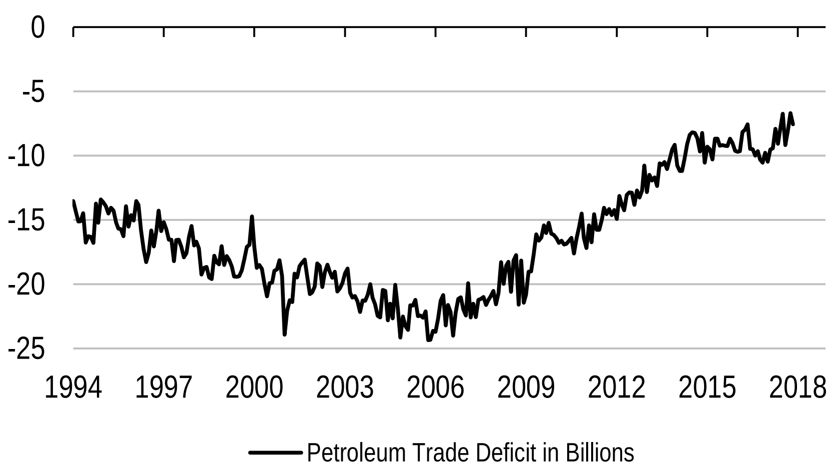
Sources: Bloomberg, Deltec

US Energy Production



- US energy production has risen as oil prices have risen from their 2016 lows
- US imports of oil have declined sharply to multi-decade lows as domestic crude production has risen sharply

US Petroleum Trade Deficit

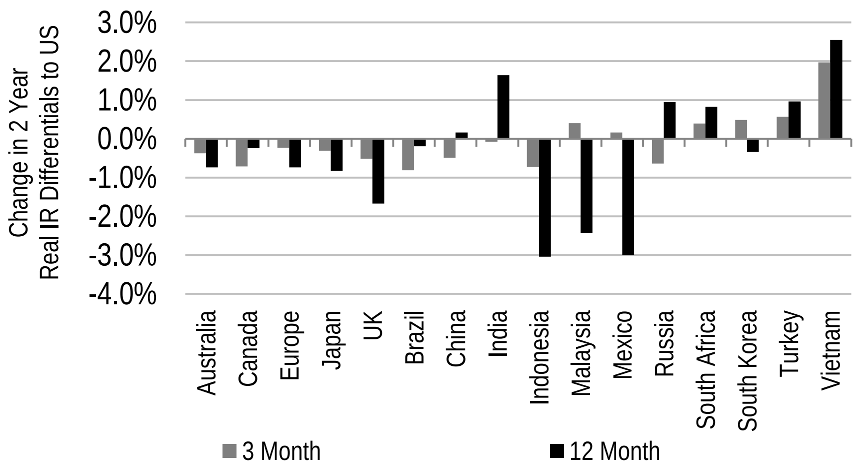


- The petroleum trade deficit has narrowed significantly over the last quarter
- The US is importing less oil, and therefore exporting fewer USD to the rest of world
- The US has recently commenced energy exports for the first time in 40 years
- A lower supply of USD is creating a global shortage of USD
- A lower supply of USD globally will increase the price of USD

Sources: Bloomberg, Deltec

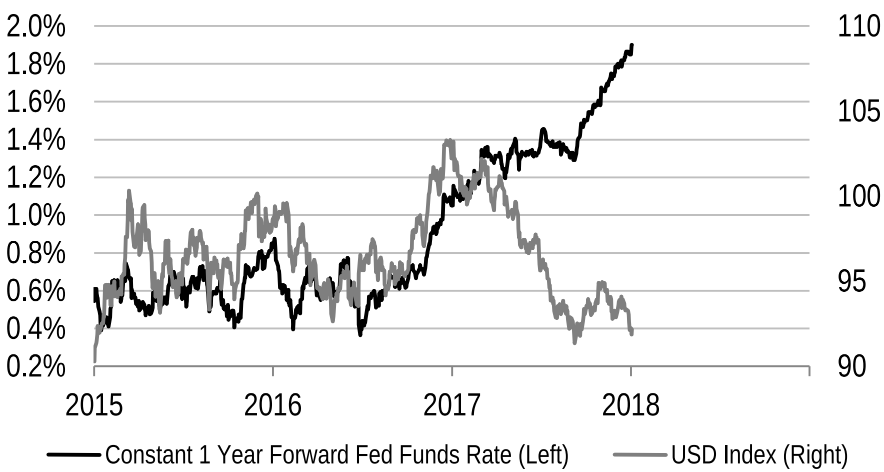
Currencies

Real Interest Rate Differentials



- Real interest rate differentials have generally narrowed to the US

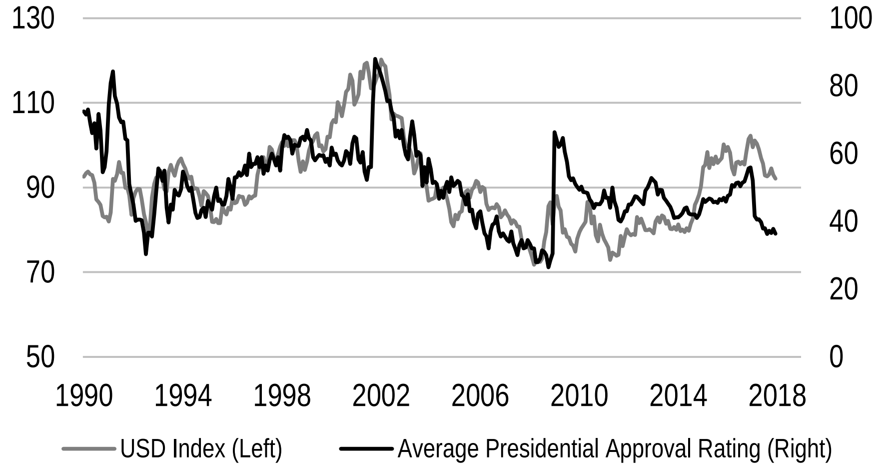
USD Index vs Interest Rate Expectations



- The US Dollar has fallen sharply, even as market expectations for the Fed Funds rate have risen sharply

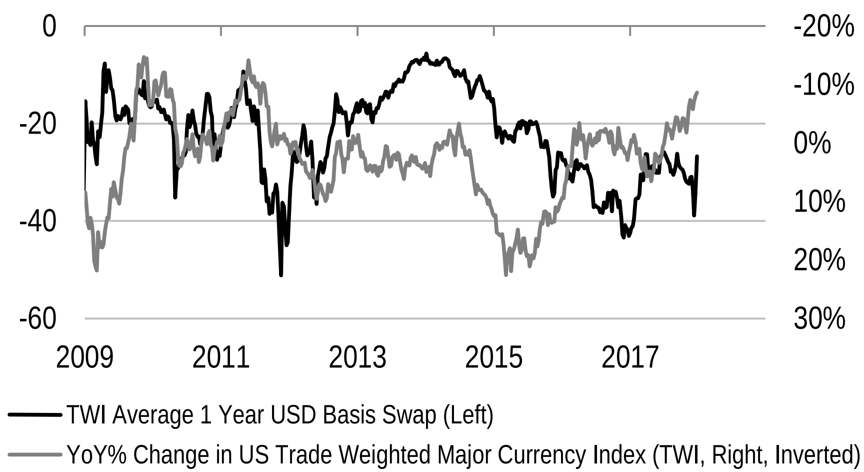
Sources: Bloomberg, Deltec

USD vs Presidential Approval Ratings



- Declining Presidential approval ratings are consistent with a lower USD
- Just as a unified Congress and Administration could undertake structural reform to improve economic growth and narrow the trade deficit, the reverse is also true

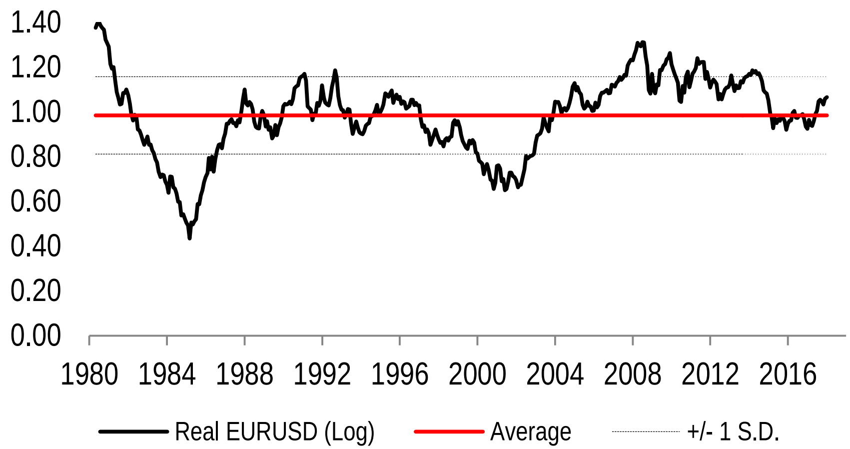
USD vs Cross Currency Basis Swap Rates



- Stabilizing cross currency basis swap rates are consistent with a slightly stronger USD

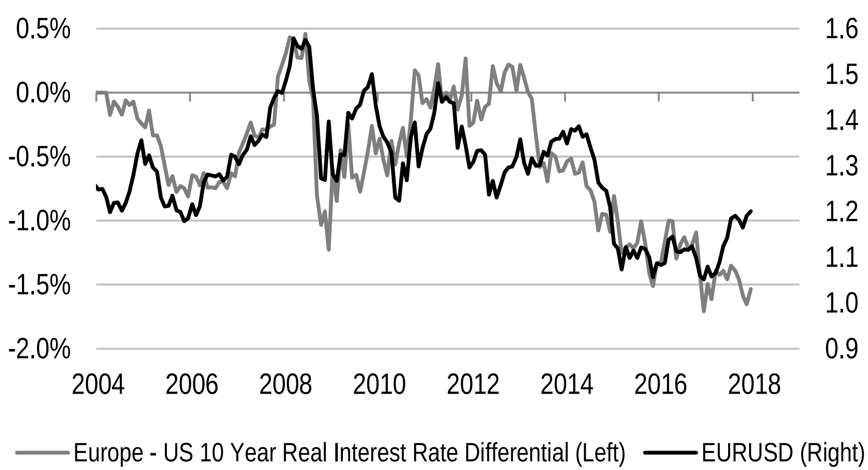
Sources: Bloomberg, Gallop, Strategas, Deltec

Real EURUSD



- EURUSD has risen and is now 0.5 standard deviations above the long run average
- European growth is likely to further improve over the next quarter, and political uncertainty has declined
- European monetary policy is likely to tighten from the current point
- Relatively less attractive demographics are likely to drive the longer term decline in the EUR
- Near term upside to USD; Long term downside to USD

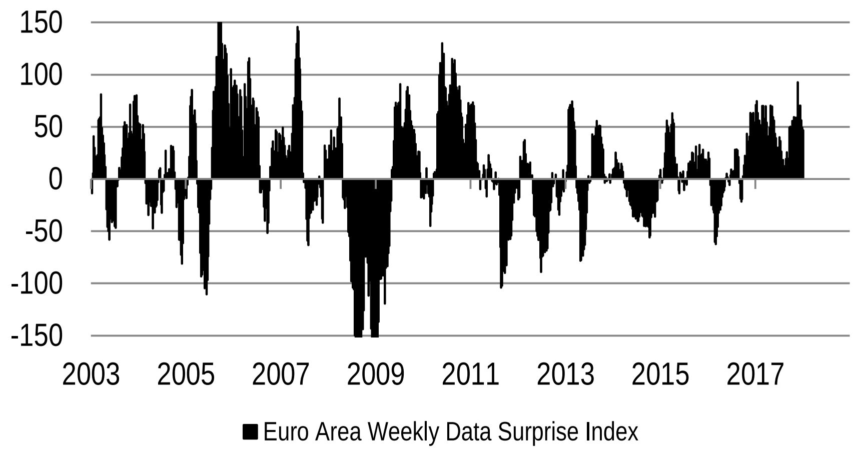
Europe – US 10 Year Real Interest Rate Differential



- European 10 year real interest rate differentials are consistent with a weaker EURUSD
- European rates are likely to rise from the current level

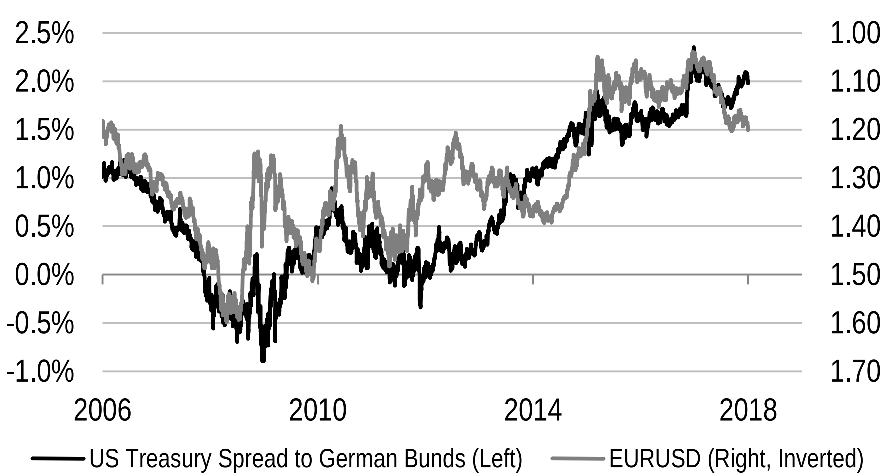
Sources: Bloomberg, Deltec

Europe Data Surprises



- European data surprises have rebounded and are sharply positive

10 Year US Treasury – Bund Spread

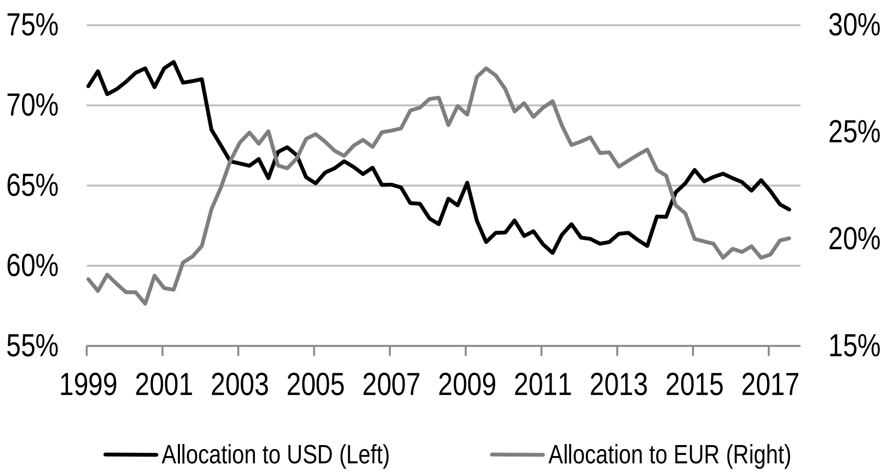


- US Treasury – German Bund 10 Year Spread has risen slightly, and remains near multiyear highs
- Narrowing policy uncertainty is consistent with a significantly lower US Treasury – Bund Spread
- The US has switched from being the funding source of carry trades to the investment for carry trades
- Europe is becoming a funding source for carry trades, driven by ECB QE and lower rates across the curve
- Carry trade relationship may reverse as European rates rise, resulting in outflows from USD and inflows into EUR

Sources: Bloomberg, Deltec

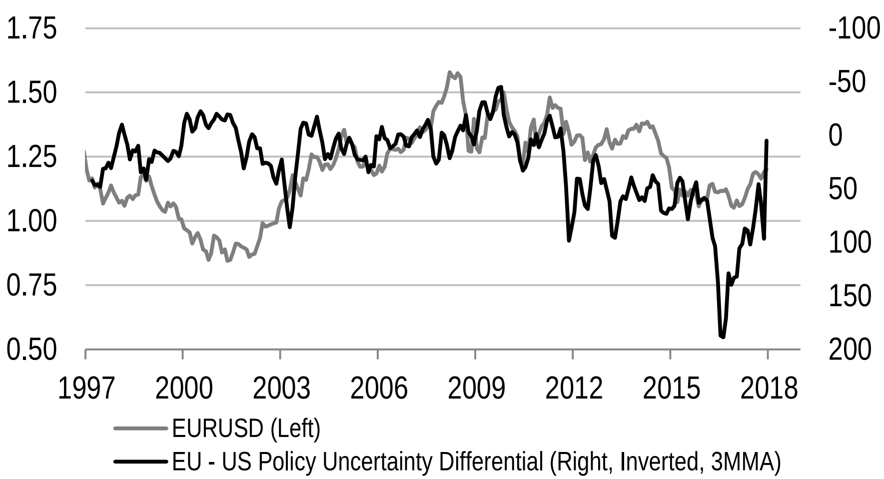
Currencies

Central Bank holdings of EUR and USD through time



- Central banks have generally increased USD holdings since 2014, following 15+ years of declining USD holdings
- Any shortage of USD liquidity will exacerbate this situation
- Given the impact of Brexit on GBP, the USD has become an even more attractive safehaven
- Central banks allocation to EUR has stabilized, whilst allocation to USD has begun to roll over
- A continued reduction of EUR will lead central banks towards the few remaining potential reserve currencies – likely USD

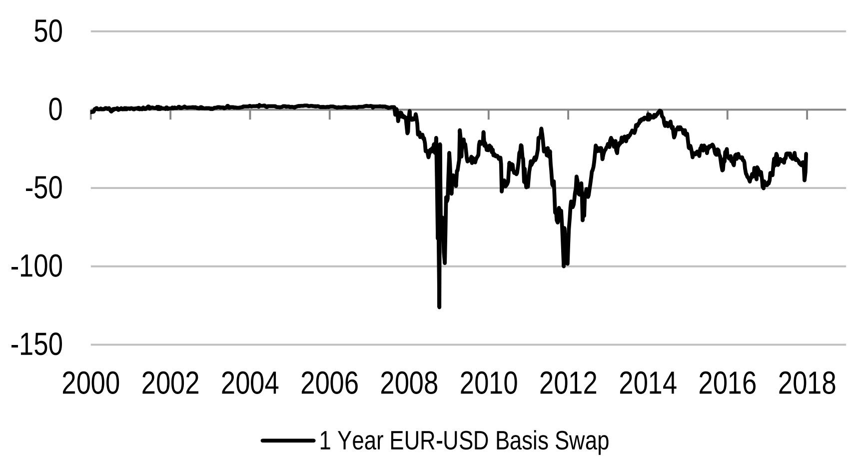
European – US Policy Uncertainty vs EURUSD



- Policy uncertainty in Europe is declining, which would justify a significantly higher level for the EUR

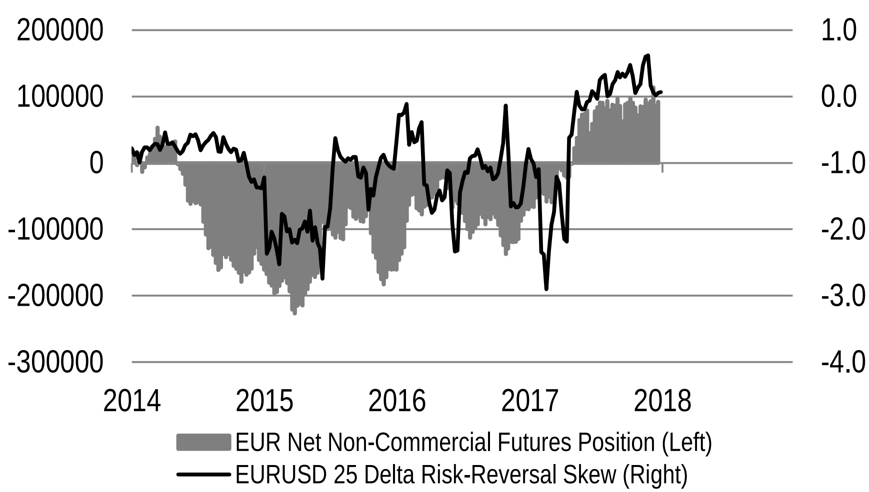
Sources: Bloomberg, Economic Policy Uncertainty, Deltec

1 Year EURUSD Cross Currency Basis Swap Rates



- Cross currency basis swap rates are now stabilizing, following a tightening in 2016 to date, and USD shortages may occur again
- Market participants are suggesting that changing USD cross currency basis swap rates are a result of increased regulation, cross border capital flows or M&A activity

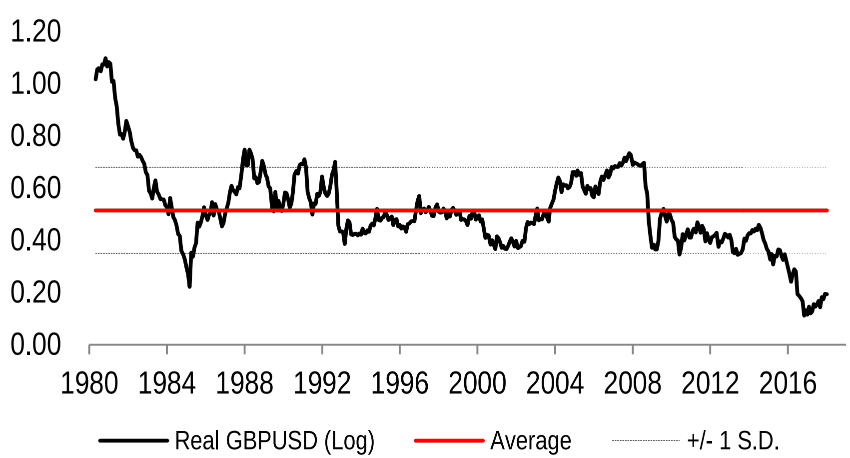
EUR Net Short Positions



- EUR positioning has recovered sharply, and is now net long, following strong economic growth and market friendly elections in the region

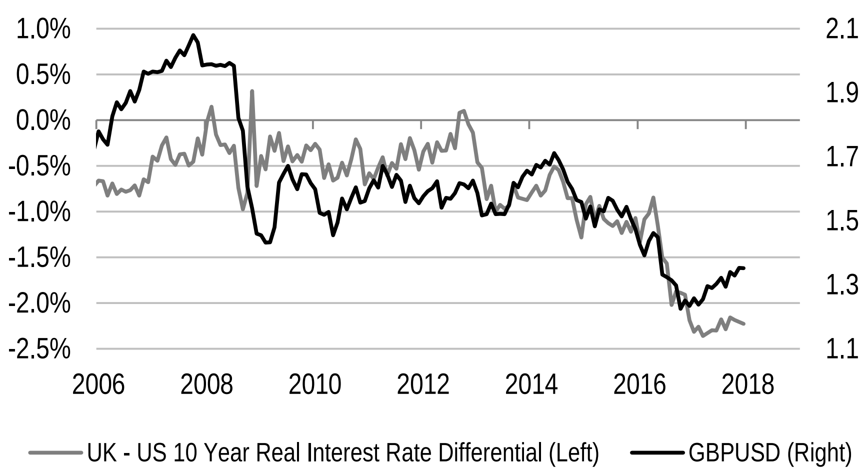
Sources: Bloomberg, Deltec

Real GBPUSD



- GBPUSD remains depressed, below 1 standard deviation relative to the average, due to Brexit, combined with relatively stronger US growth and relative tightening of US rates
- UK asset prices are unlikely to continue to benefit from low interest rates and hot money inflows
- Near term downside to EUR; long term stability to EUR
- Near term downside to USD; Long term downside to USD

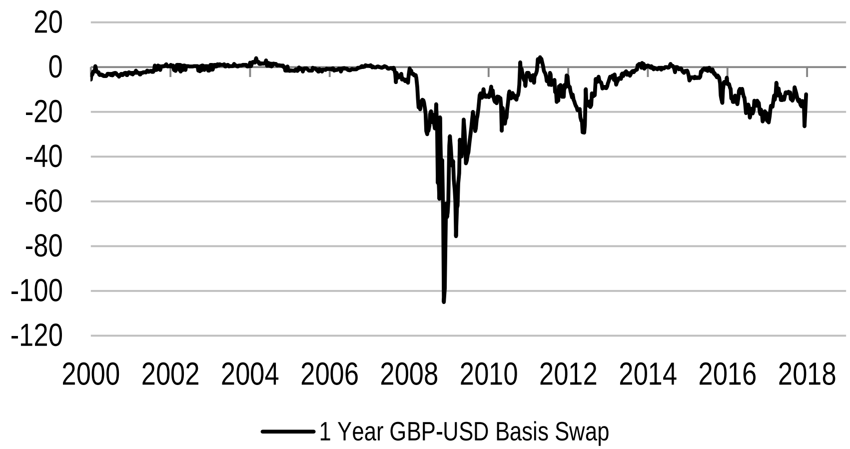
UK – US 10 Year Real Interest Rate Differential



- UK – US 10 year real interest rate differentials are consistent with a significantly weaker GBPUSD
- US rate tightening is likely to continue, whilst UK policy is likely to commence tightening
- Brexit is likely to cause further GBP weakness, as the currency must act as the automatic stabilizer to a less competitive trade position
- The safe haven status of GBP is now in question, given heightened policy uncertainty

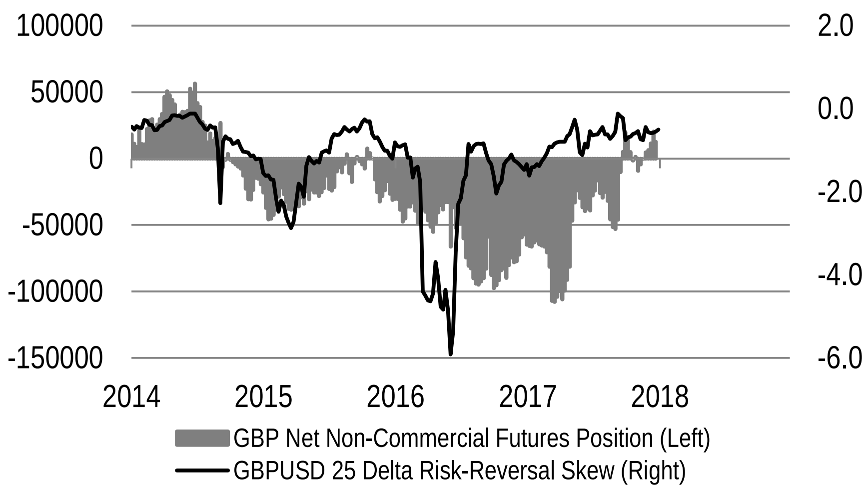
Sources: Bloomberg, Deltec

1 Year GBPUSD Cross Currency Basis Swap Rates



- Cross currency basis swap rates are now stabilizing, following a tightening in 2016 to date, and USD shortages may occur again
- Market participants are suggesting that changing USD cross currency basis swap rates are a result of increased regulation, cross border capital flows or M&A activity

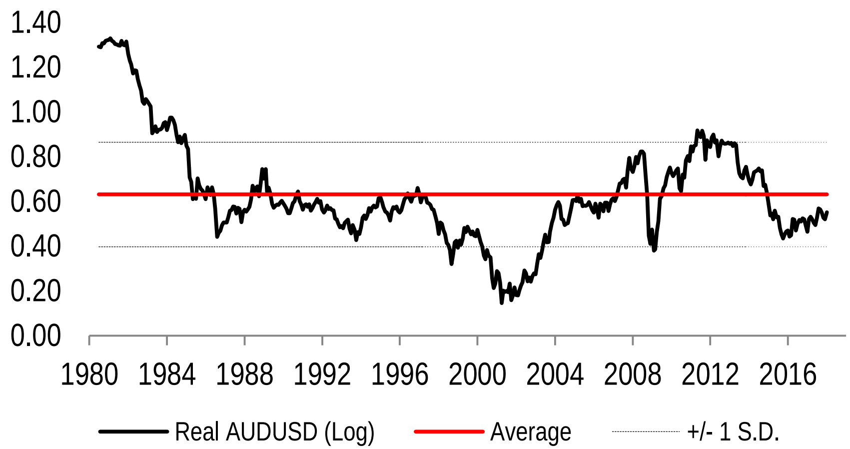
GBP Net Short Positions



- GBP positioning has stabilized, and remains net positive, following continuing Brexit discussions

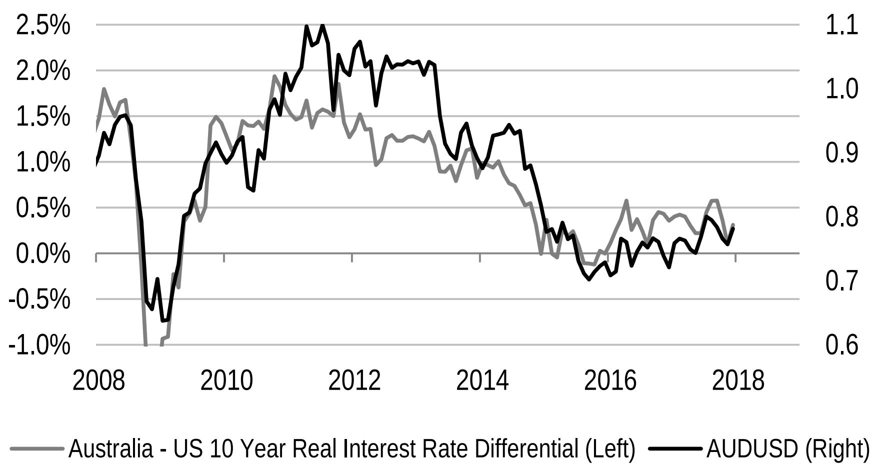
Sources: Bloomberg, Deltec

Real AUDUSD



- AUDUSD has risen to near fair value, however is likely to decline and importantly, is unlikely to rebound materially
- Commodity prices and the outlook for China are likely to determine the direction in the near term, with downside risk to both
- Future commodity price declines will not be offset by capital inflows from China, given tighter capital controls now exist, unlike the last commodity donwturn
- Near term downside to USD; Long term downside to USD

Australia – US 10 Year Real Interest Rate Differential

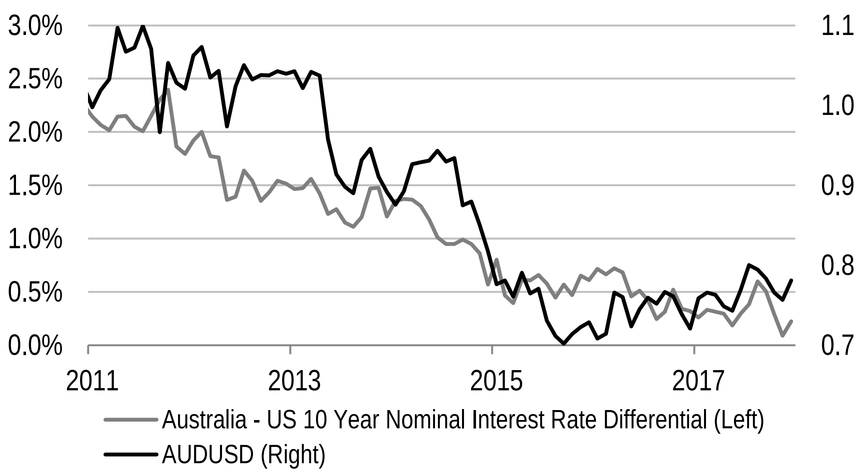


- Australian national income and domestic growth is declining, although slightly cushioned through fiscal stimulus, whilst monetary conditions are unlikely to tighten significantly
- AUDUSD is currently in line with Australia – US 10 year real interest rate differentials
- Nominal interest rate differentials are consistent with a weaker AUDUSD

Sources: Bloomberg, Deltec

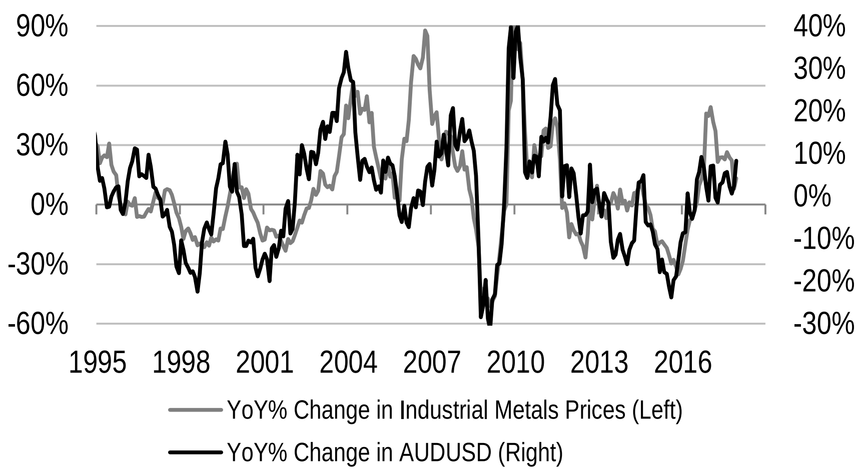
Currencies

Australia – US 10 Year Nominal Interest Rate Differential



- AUDUSD is above the level implied by the Australia – US 10 year nominal interest rate differential
- Short end interest differentials are likely to narrow significantly in 2018
- The US monetary tightening cycle will continue, whilst the Australian tightening cycle will not be material, if it eventuates

Industrial Metals vs AUDUSD

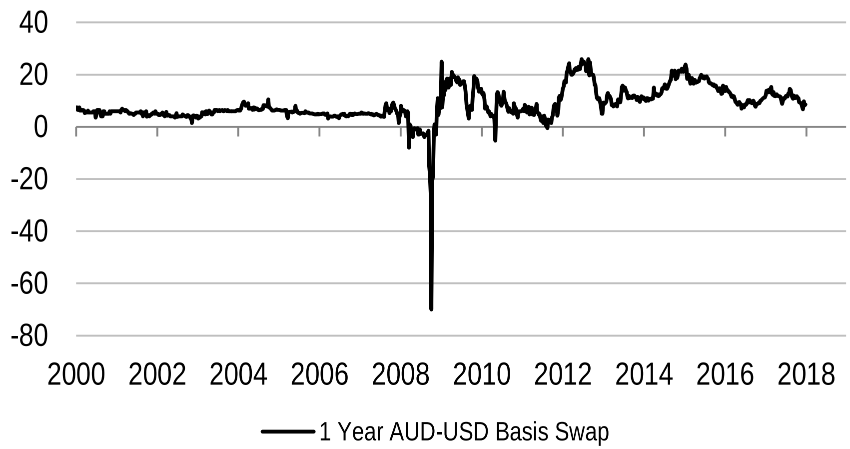


- AUDUSD has outperformed Industrial Metals
- Industrial metals carry downside risk due to slowing Chinese fixed asset investment growth and tightening USD liquidity conditions

Sources: Bloomberg, Deltec

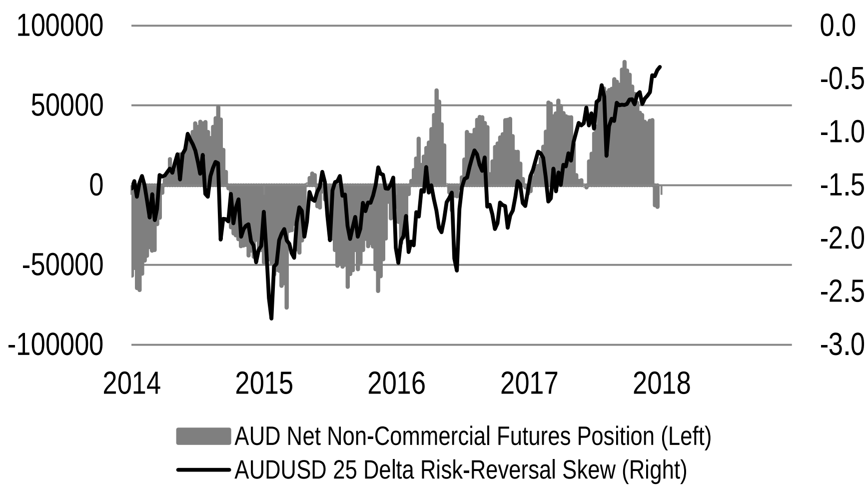
Currencies

1 Year AUDUSD Cross Currency Basis Swap Rates



- Cross currency basis swap rates are stabilizing following tightening in 2016, and USD shortages may occur again
- Market participants are suggesting that changing USD cross currency basis swap rates are a result of increased regulation, cross border capital flows or M&A activity

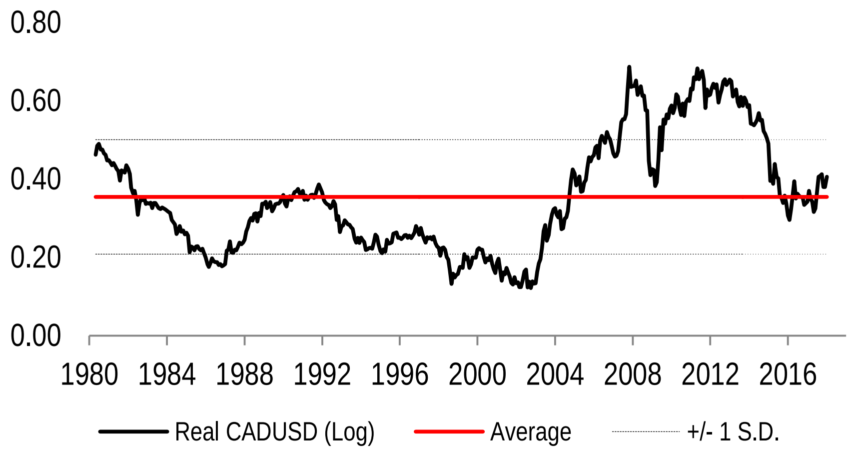
AUD Net Short Positions



- AUD positioning has risen, and remains net long

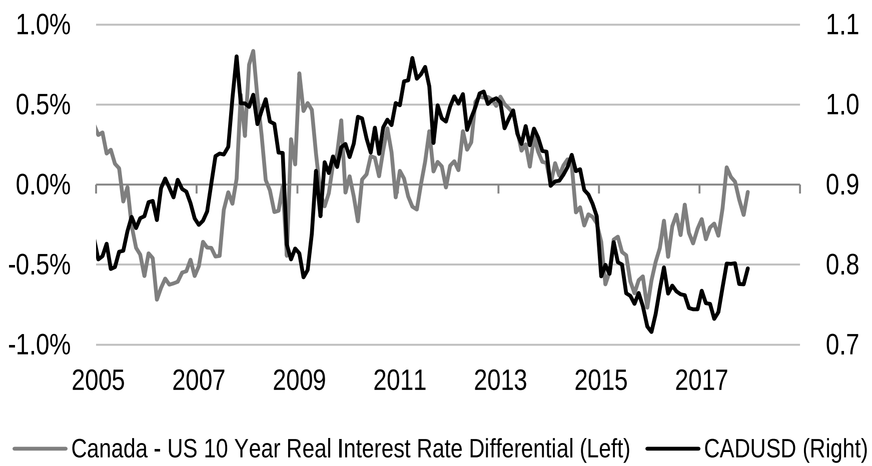
Sources: Bloomberg, Deltec

Real CADUSD



- CADUSD has stabilized at 0.5 standard deviations above fair value
- Canadian growth is likely to be relatively weaker than the US, and asset prices carry downside risk
- Canadian economic growth is likely to underperform the US, and monetary conditions are likely to remain looser in relative terms
- Near term stable to USD; Long term downside to USD

Canada – US 10 Year Real Interest Rate Differential

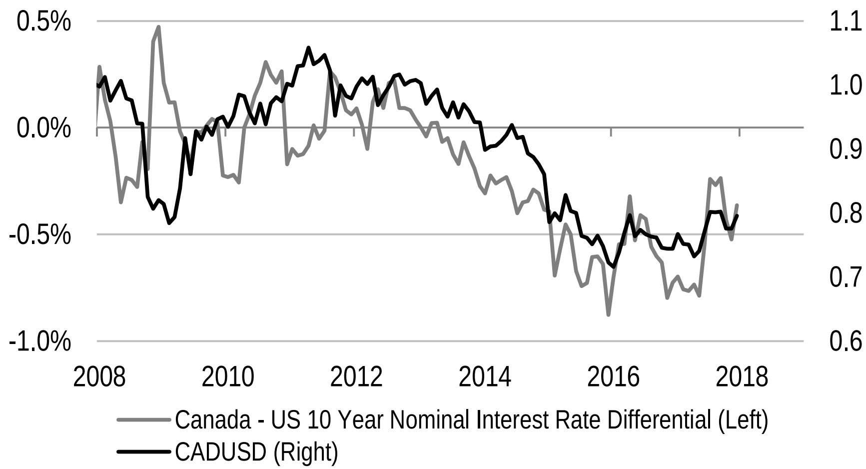


- Real interest rate differentials are consistent with a stronger CADUSD, especially following the BoC rate increase
- CAD interest rates are now in a tightening cycle, albeit likely shallow, and oil prices are rising
- Canadian growth is likely to be relatively weaker than the US in the near term, and rates are likely to remain in a shallow tightening cycle

Sources: Bloomberg, Deltec

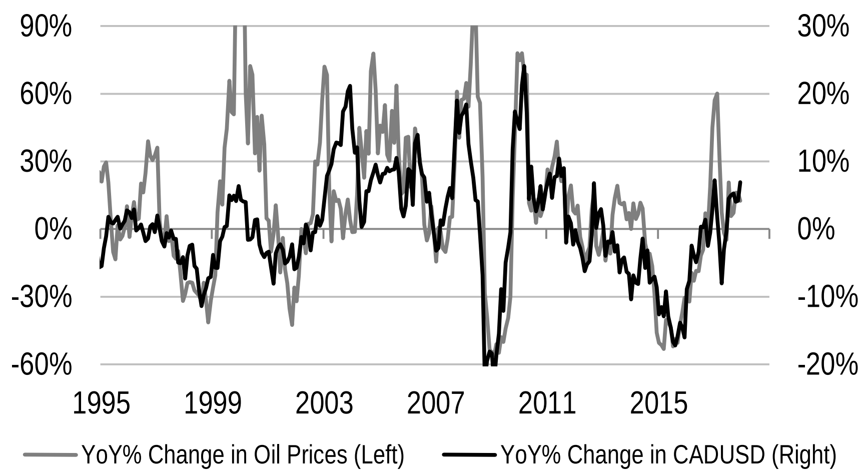
Currencies

Canada – US 10 Year Nominal Interest Rate Differential



- CADUSD is in line with Canadian – US rate differentials
- Short end interest differentials are likely to narrow due to US economic growth improving further and Canadian economic growth stabilizing
- The potential for asset price declines in Canada adds a further layer of risk

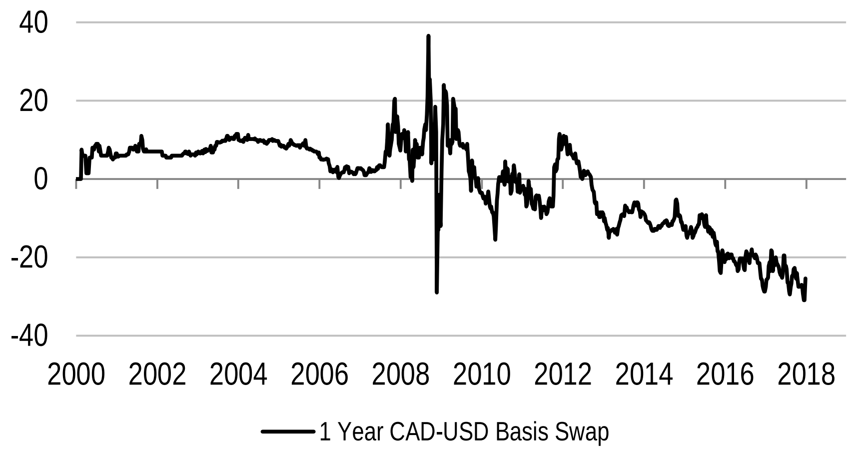
Oil vs CADUSD



- The CAD has moved in line with the oil price in recent months

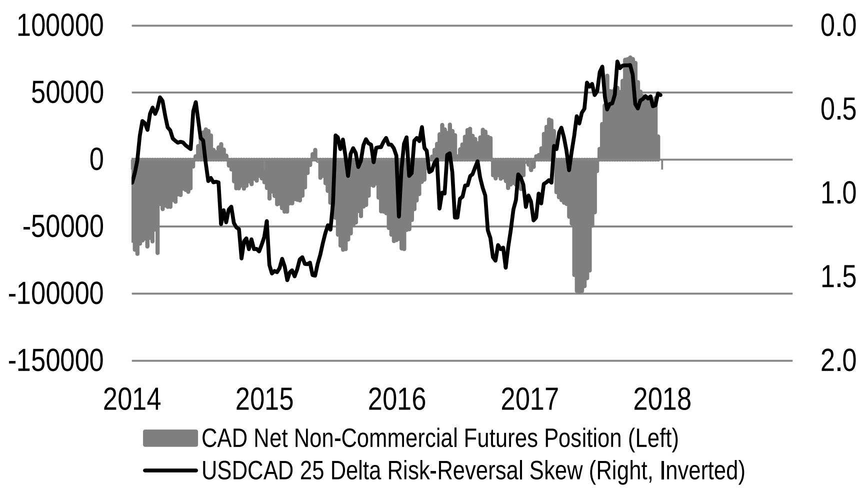
Sources: Bloomberg, Deltec

1 Year CADUSD Cross Currency Basis Swap Rates



- Cross currency basis swap rates are now widening further, suggesting USD shortages may occur again
- Market participants are suggesting that changing USD cross currency basis swap rates are a result of increased regulation, cross border capital flows or M&A activity

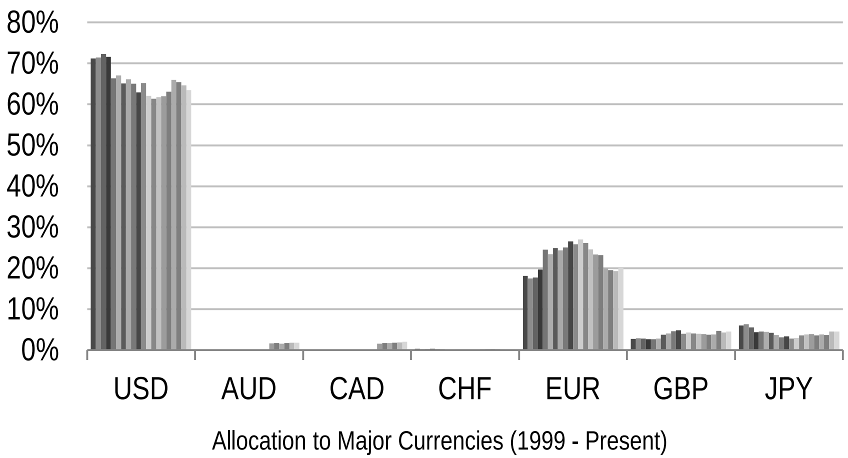
CAD Net Short Positions



- CAD positioning has fallen slightly, but remains net long, following the rise in oil prices

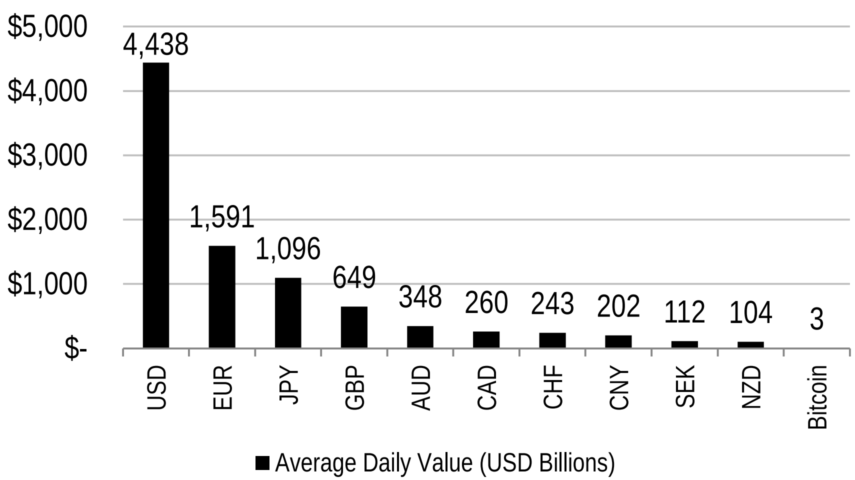
Sources: Bloomberg, Deltec

Central Bank holdings of currencies through time



- Central banks have generally been diversifying away from EUR
- Central banks had been diversifying into commodity currencies and Emerging Market currencies over the past 15 years, however this is now reversing
- AUD and CAD are significant relative to the size of their economies, however represent <50% of the weighting than that of JPY
- In the latest quarter, central banks decreased their USD holdings slightly, to just under 64%

Show Me The Money



- Bitcoin transactions are dwarfed by other currencies

Sources: Bloomberg, International Monetary Fund, Deltec

CREDIT

Credit

Strong global growth momentum is likely to see spreads tighten within a rising reference rate regime, the result of a continuation of the global economic expansion. This environment will also likely see default rates remain low, however will result in slowing global liquidity growth. All told, this will result in credit spreads being contained, although volatile during bouts of liquidity tightening. High Yield credit offers value, followed by selected Investment Grade and Sovereigns. The economic expansion is expected to continue, however productivity growth will limit long term inflation, favoring a barbell strategy for duration.

- Reference rates are likely to rise further over the coming periods, as strong growth momentum and outright growth provide the impetus for rising inflation expectations and slowing liquidity growth. Globally, a shift towards a monetary tightening regime is occurring, that is likely to last several periods. This medium term increase in reference rates will ultimately be limited, as rising productivity growth limits inflation, adding to the continued search for yield and shortage of long duration assets, that will see selected areas of Credit supported, despite overall expensive Bond valuations.

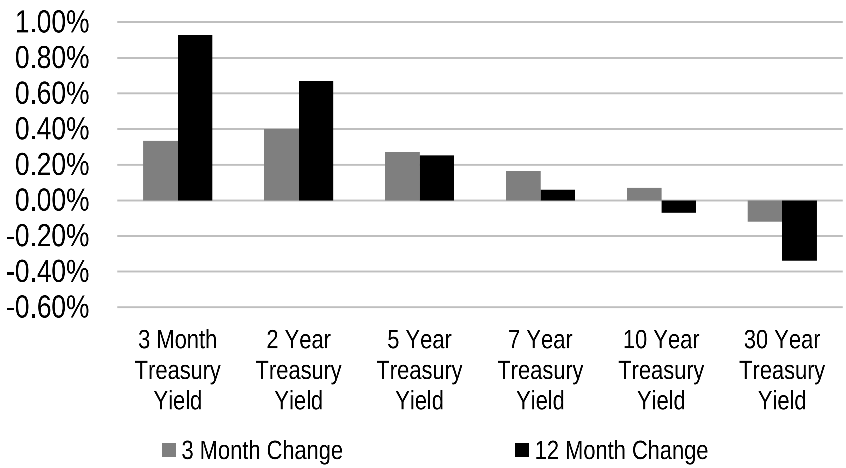
- Strong growth momentum, amidst an economic expansion that is expected to continue for several more periods, is an environment consistent with the maintenance of stable or narrower credit spreads. Default rates are only likely to increase in selected sectors that are cyclically challenged and expensive, as a broad based rise in defaults would only typically occur as the cycle matures further. However, slowing global liquidity growth is likely to result in volatility in the coming periods, resulting in a selective widening of credit spreads that may be exacerbated if the slowing liquidity growth also results in our expectations of declining commodity prices, as in late 2015.

- Rising productivity growth that limits inflation is increasingly likely, which when coupled with the global shortage of long duration assets is likely to continue to suppress the long end of the yield curve. Against this, the short end of the yield curve will rise with US and now global rates, leaving the belly of the curve most at risk.

Investment Conclusion: The broad outlook for Bonds is negative, with valuations unappealing, especially as inflation rises with the extension of the cycle, even if only to a limited point. From a credit perspective, selected High Yield and Investment Grade is preferred due to the benign credit environment and relatively attractive valuations. Sovereigns are generating negative yields in real and in certain cases, nominal terms. From a duration perspective, floating rate notes and short duration issues will outperform, with the belly of the curve most at risk.

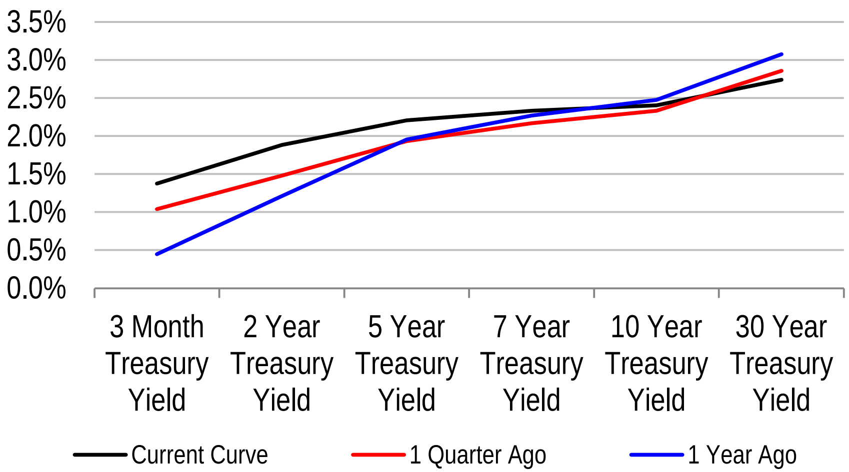
Positives: Selected High Yield; Selected Investment Grade; Floating Rate Notes
Negatives: Sovereigns; Mid Duration

US Rates Across the Curve



- Yield curve has flattened recently, as short rates have increased and long rates have decreased

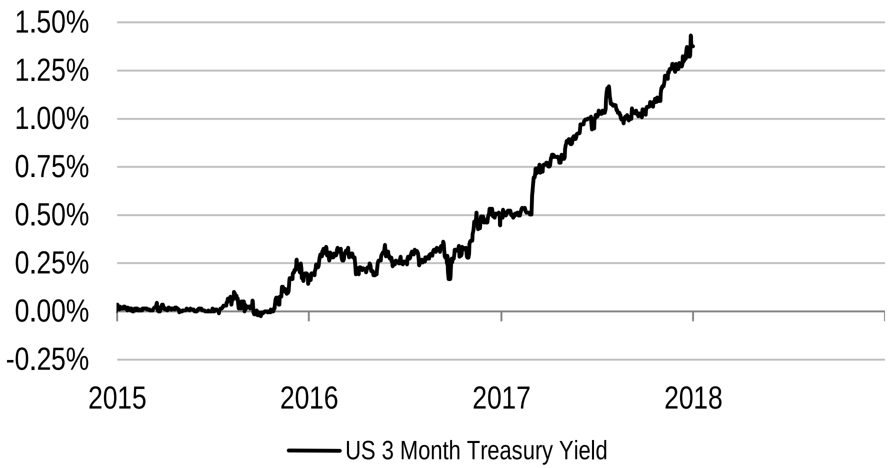
US Changes in Yield Curve



- Yield curve is narrower than the prior quarter and prior year

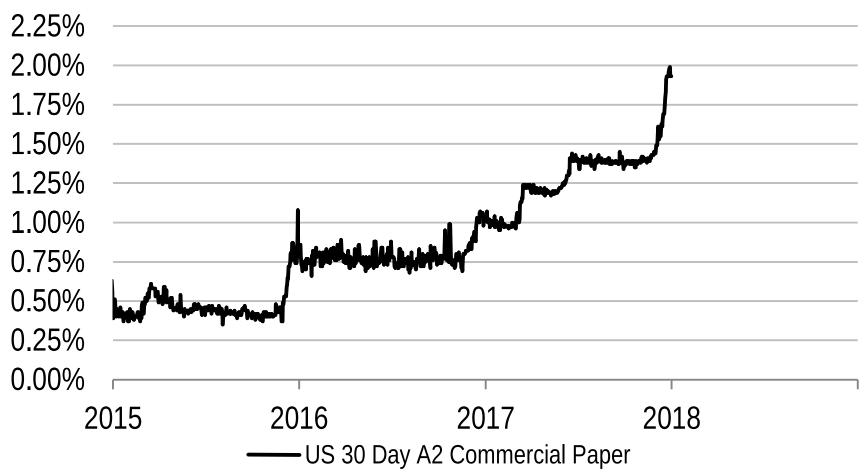
Sources: Bloomberg, Deltec

US Treasury Short Term Rates



- US short term rates have risen following December's rate rise by the Federal Reserve

US Corporate Short Term Rates



- LIBOR has risen further recently
- US short term borrowing rates has risen sharply in the past two months, but remains low in absolute terms
- Liquidity is not an issue for corporates
- Commercial paper remains attractive

Sources: Bloomberg, Deltec

US Treasury 10 Year Rates

- US long term rates rose slightly over the past quarter, after a sharp rise in response to anticipation of stronger US growth and inflation
- US growth is likely to increase further and broaden across sectors, leading to higher rates, predominantly at the short end and belly of curve
- The Federal Reserve is guiding towards a lower normalized Fed Funds Rate and lower long rates

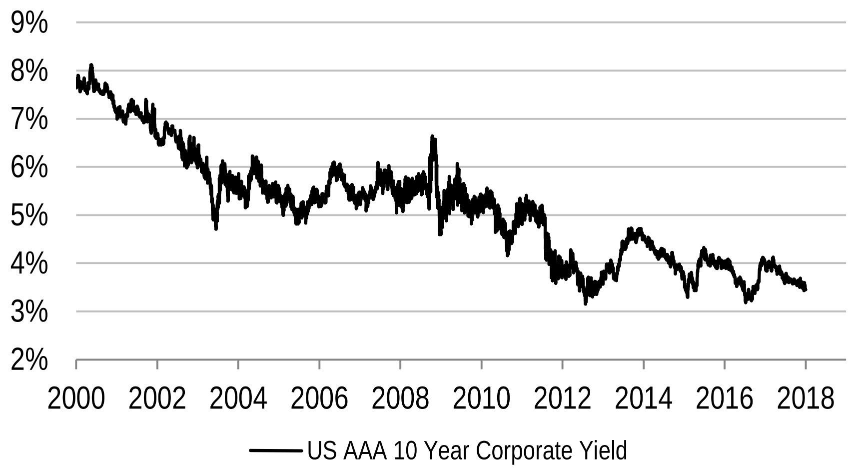
US Treasury 30 Year Rates

- Long term rates are likely to rise, although remain low in absolute terms, despite increases in the short end and belly of the yield curve
- There remains a global shortage for long duration assets, which will likely see longer term rates capped
- The Federal Reserve is guiding towards a lower normalized Fed Funds Rate and lower long rates

Sources: Bloomberg, Deltec

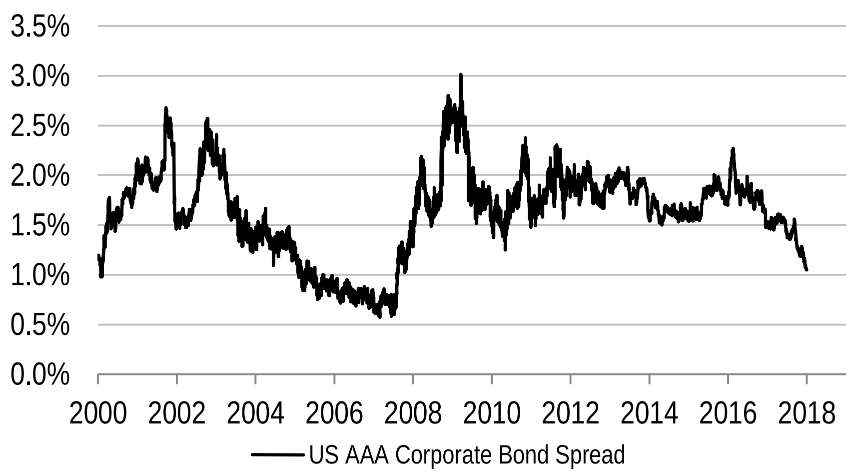
Credit

US AAA Corporate Rates



- AAA Corporate Yields fell over the quarter, as reference rates rose slightly whilst spreads narrowed further

US AAA Corporate Spreads



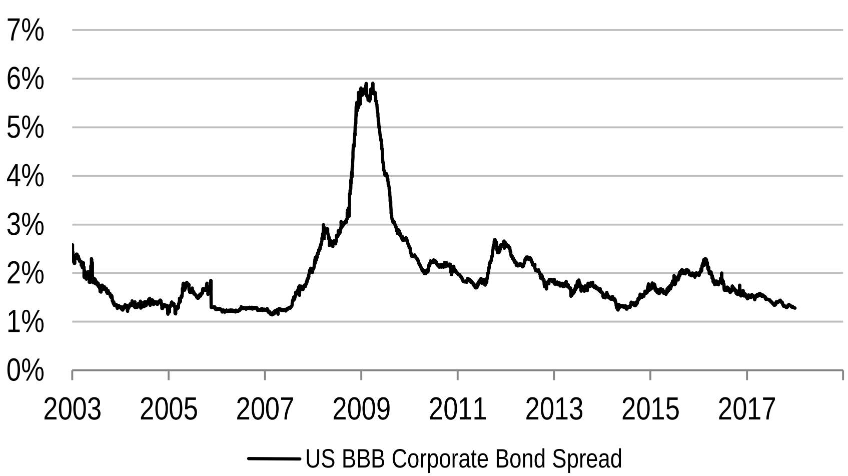
- AAA corporate spreads fell over the quarter and over the year, and are now at post-crisis lows
- The continued search for yield has led to further credit spread compression
- Spreads may narrow from here as economic growth improves further, although the withdrawal of liquidity will cause bouts of spread widening

Sources: Bloomberg, Deltec

US BBB Corporate Rates

- BBB Corporate Yields were flat over the past quarter, as reference rates rose whilst spreads narrowed
- Rates remain close to the lowest ever, reflecting a stronger corporate sector
- Corporate borrowing costs are likely to rise from current levels, with reference rates and spreads widening as USD liquidity growth slows

US Corporate Spreads



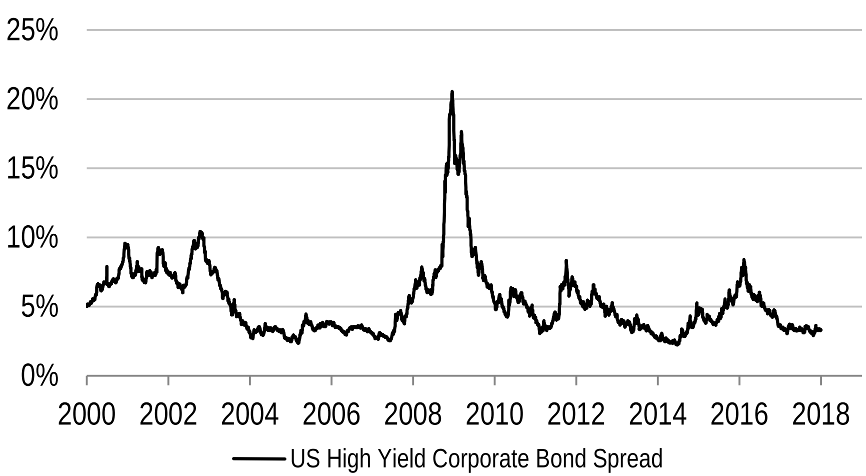
- BBB spreads fell slightly over the quarter, and remain significantly lower over the year
- Spreads have the potential to narrow further from the current level as economic growth improves

Sources: Bloomberg, Deltec

US High Yield Corporate Rates

- High yield rates rose slightly over the quarter, as reference rates rose slightly whilst spreads widened

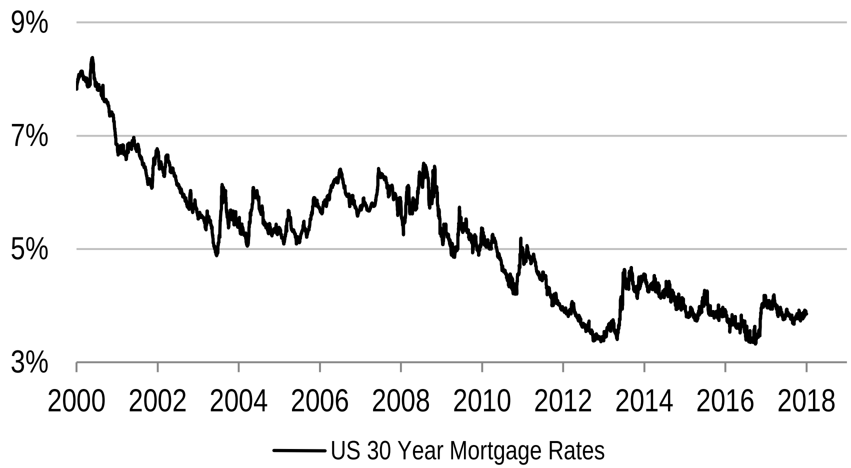
US High Yield Corporate Spreads



- High yield spreads have risen slightly recently, and remain above post-crisis lows, despite an improved economy
- There is room for further credit spread contraction, particularly as the economic expansion continues and lending standards continue to ease

Sources: Bloomberg, Deltec

US Mortgage Rates



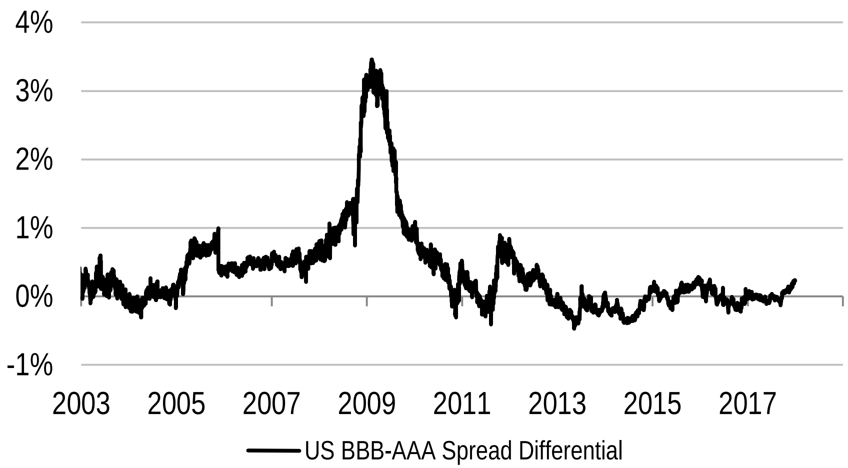
- Outright borrowing costs stabilized over the quarter, and remain low
- Mortgage costs are unlikely to decline significantly from here
- Refinancing activity is largely complete

US Mortgage Spreads

- Mortgage spreads rose over the quarter
- Mortgage spreads remain stable, despite increasing household incomes, which reduces the risks associated with mortgages
- Early indications of increases in floating mortgage rates indicate no homeowner / borrower stress with higher rates
- A lower neutral Fed Funds Rate and contained long rates are likely to continue to support housing markets

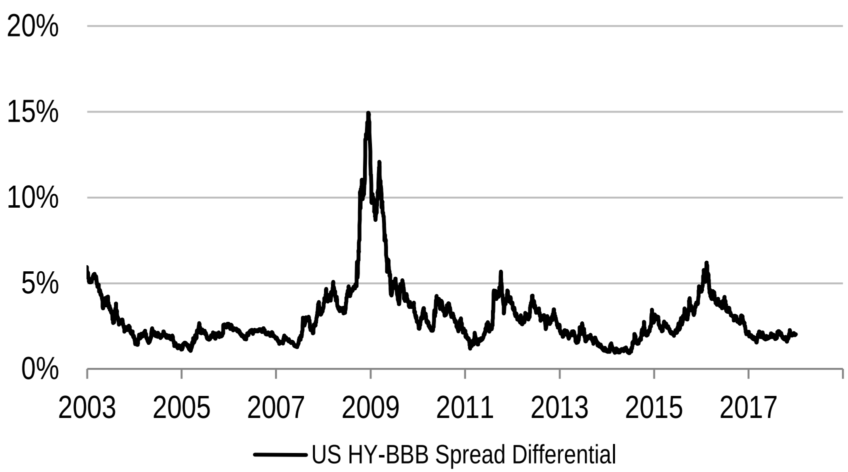
Sources: Bloomberg, Deltec

BBB-AAA Corporate Spreads



- BBB spreads to AAA have risen slightly, yet remain low relative to history
- Investors are mispricing risk between AAA and lower Investment Grade corporates, with BBB offering value, especially given the cycle is expected to extend at least another 1-2 years

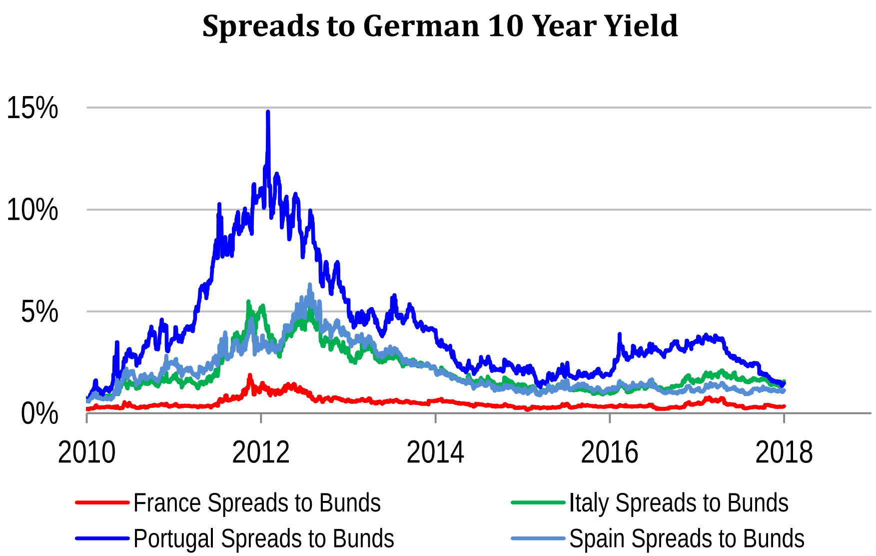
HY-BBB Corporate Spreads



- High yield to BBB spreads rose over the past quarter, and remain above post-crisis lows

Sources: Bloomberg, Deltec

- German Bund yields are rising in response in rising rates in the US, improved European economic growth and the potential for ECB tapering
- Germany remains highly susceptible to a stronger EUR



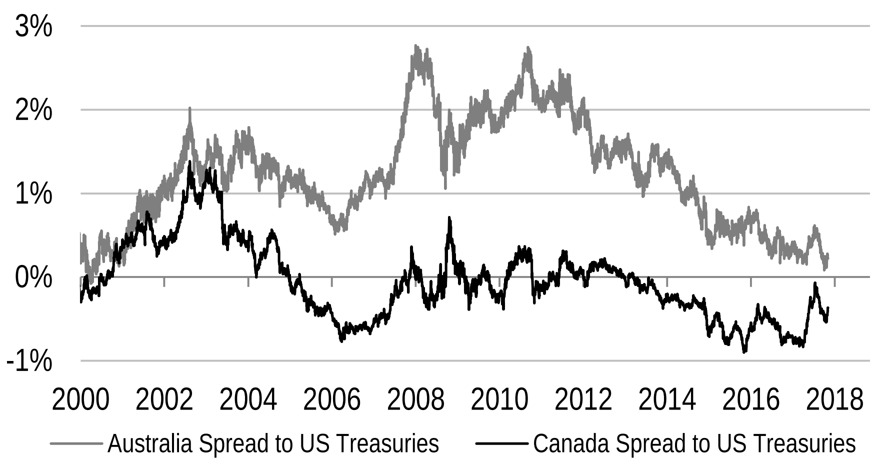
- Peripheral European spreads have narrowed significantly over the past quarter due to continuing ECB stimulus and stronger regional economic growth
- Capital inflows into Europe may slow due to rising political uncertainty in Europe post-Brexit
- Peripheral Europe is still being treated relatively homogeneously, despite significant differences amongst the economic growth and policy outlook

Sources: Bloomberg, Deltec

US Treasury - German Bund Spreads

- US Treasury – German Bund 10 Year Spreads have risen slightly over the past quarter, and remain near multiyear highs
- Policy uncertainty is currently consistent with a significantly narrower US Treasury – Bund spread
- The US has switched from being the funding source of carry trades to the investment for carry trades
- Europe had become a funding source for carry trades, driven by ECB QE and lower rates across the curve
- The carry trade environment is changing, especially as the ECB looks to taper

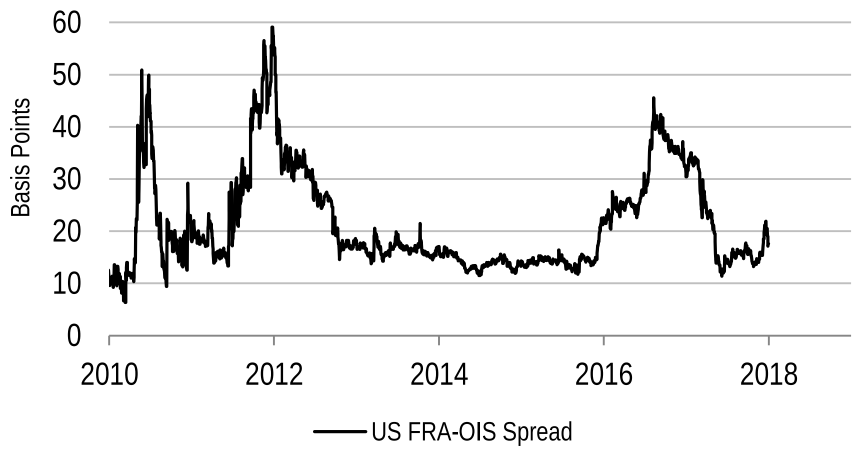
Commodity Economy – US Spreads



- Canadian spreads to Treasuries have declined, and are likely to turn, given the relatively weaker economic outlook and looser monetary outlook for Canada
- Australian spreads to Treasuries have declined, and are likely to narrow further and turn negative, given the deterioration in Australian economic growth, and the looser path of monetary policy

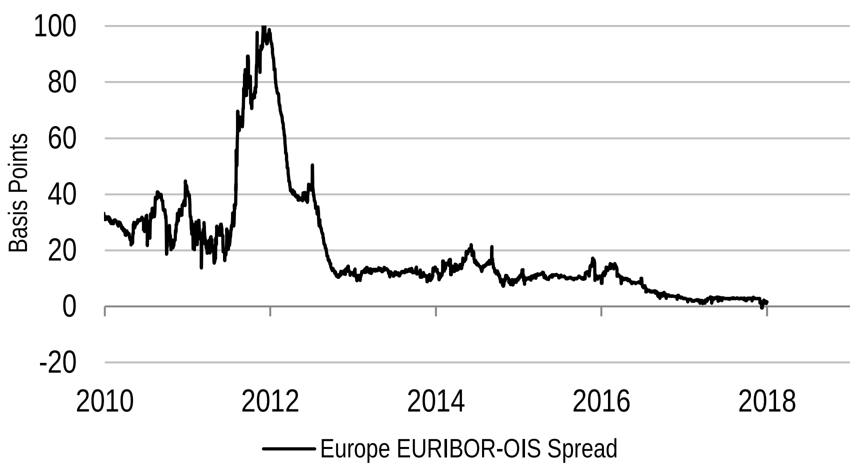
Sources: Bloomberg, Deltec

US FRA-OIS Spread



- US interbank funding spreads have risen recently, however remain contained

Europe EURIBOR-OIS Spread



- European interbank funding spreads remain contained, as the ECB maintains financial stability

Sources: Bloomberg, Deltec

Market Valuation

Market Valuations

Based on conventional metrics, everything is expensive. However, as the data is disaggregated by asset class, investment styles and sectors, absolute and relative value emerges. In the cycle to date, asset prices have been supported by idyllic environment of strong economic growth driving earnings growth and strong liquidity growth suppressing discount rates. As this environment changes, market valuations will be impacted, requiring greater selectivity, particularly so for liquidity sensitive assets.

- Equities are overvalued on conventional and through the cycle metrics, however will be selectively supported given the relative valuation to Bonds, especially so in an environment of earnings upgrades. In Developed Markets, Japan and Europe remain the most attractively valued, with earnings growth likely to rise further. Despite recent outperformance, Emerging Markets are at a discount, and selected opportunities exist given the improved growth environment.

- Bonds are expensive on all conventional metrics, and from the current point will generate very low real returns as the cycle progresses. Sovereigns are extremely expensive on a risk adjusted basis, and Investment Grade and parts of High Yield are becoming expensive in relative risk adjusted terms, especially as liquidity conditions tighten, despite the economic environment containing default rates and being supportive of credit.

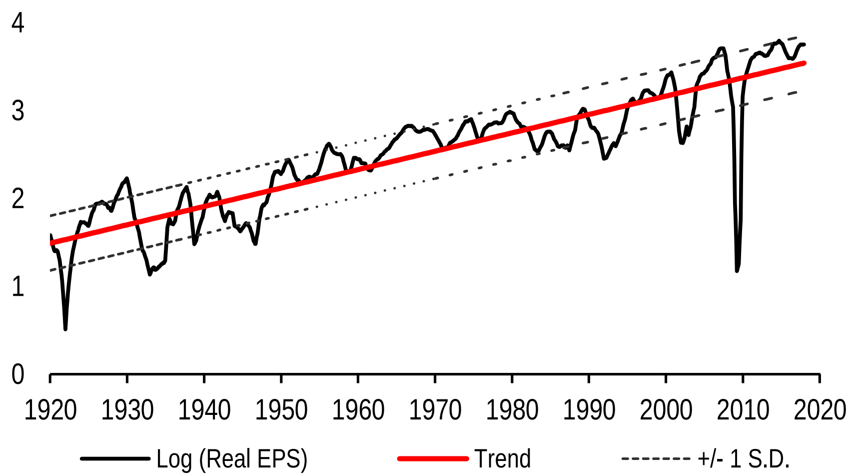
- Real Assets are expensive, supported by loose global liquidity conditions that will soon dissipate further. From a strategic perspective, there are opportunities in selected long duration hard assets, however tactically, improving productivity and economic growth will benefit other assets and result in relative underperformance for real assets.

Investment Conclusion: Equities are expensive, however likely to be supported by rising earnings, hence undervalued growth sensitive Equities present the best opportunities across markets. Bonds are still significantly expensive, and whilst this may be masked in the short term by continued inflows, medium term downside is inevitable. Real Assets are expensive, and at risk of slowing fixed asset investment growth and, for some, an exodus from perceived safe havens. Relative valuations favor Equities, Money Market Securities and High Yield Credit over Bonds and Real Assets. Interest rate sensitive assets are overvalued, and will be most negatively exposed to slowing liquidity growth.

Positives: Selected Developed Market Equities; Selected Emerging Market Equities; Money Market Securities; Credit
Negatives: Sovereign Bonds; Real Assets

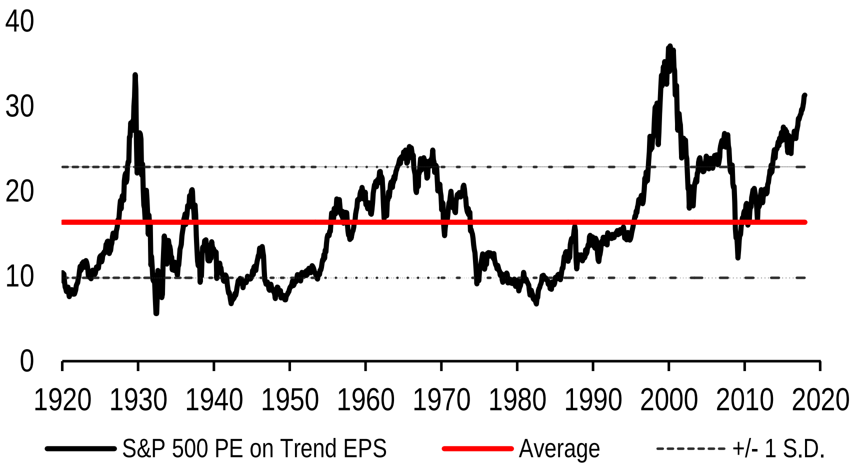
Market Valuations

US Real EPS through time



- US Earnings Per Share have risen, and remain above trend

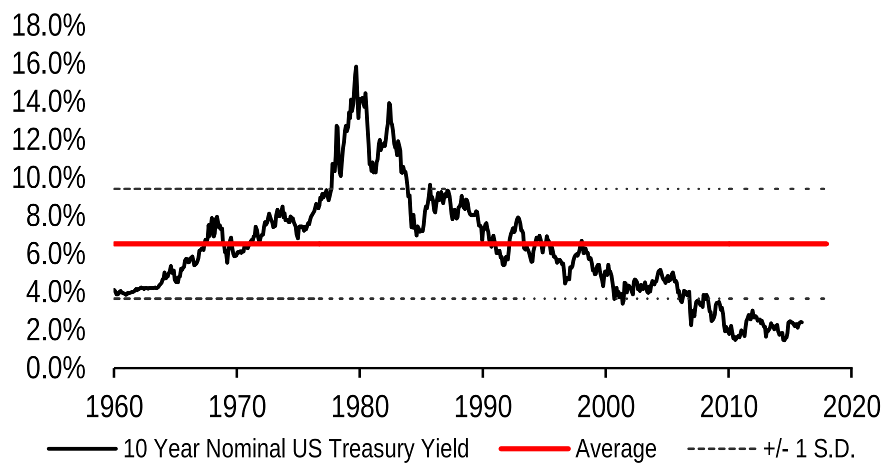
US PE on Trend Earnings



- US Equities have rallied further, and valuations are now well above pre-financial crisis levels
- US Equities remain expensive on trend earnings from a long term perspective

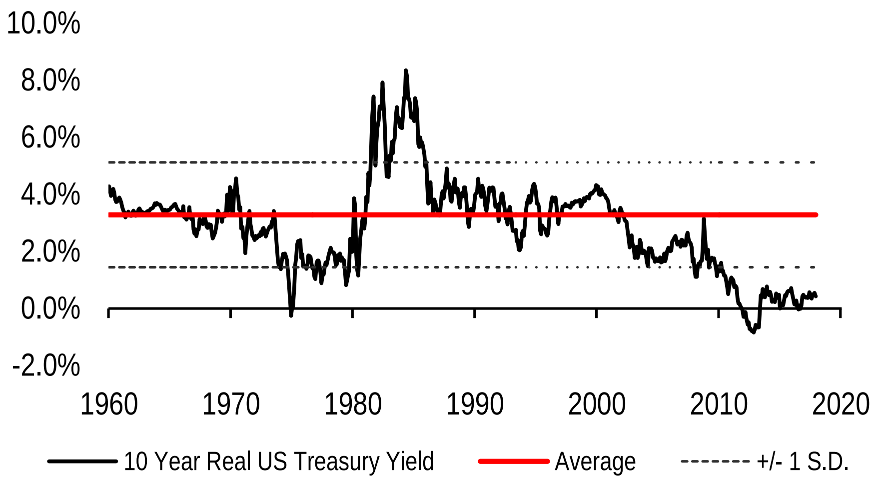
Sources: Bloomberg, Shiller, Deltec

US 10 Year Nominal Treasury Yield



- US Treasuries have fallen slightly over the past quarter, yet remain very expensive from a long term perspective

US 10 Year Real Treasury Yield

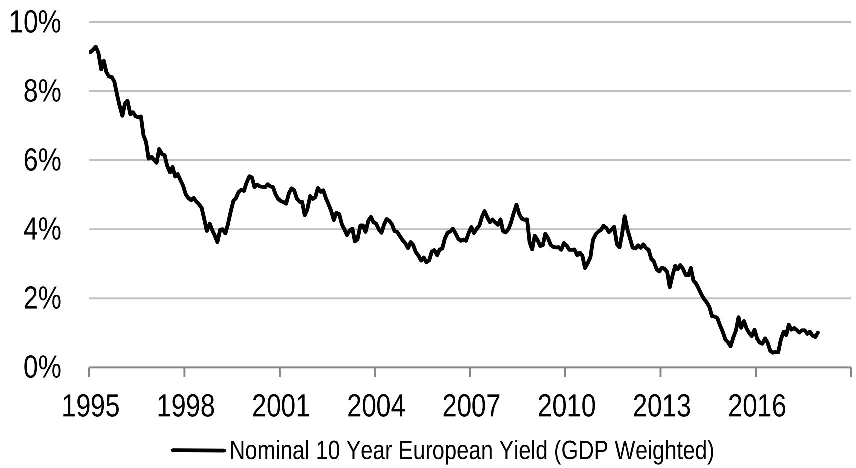


- US Treasuries remain expensive in real terms from a long term perspective, with near-0% real yields
- Real rates of returns on 10 Year Treasuries have decreased, due to a increase in inflation expectations
- Near term inflation is likely to rise due to rising wage pressures, and real yields may fall further
- Productivity growth is likely to limit long term inflation

Sources: Bloomberg, Deltec

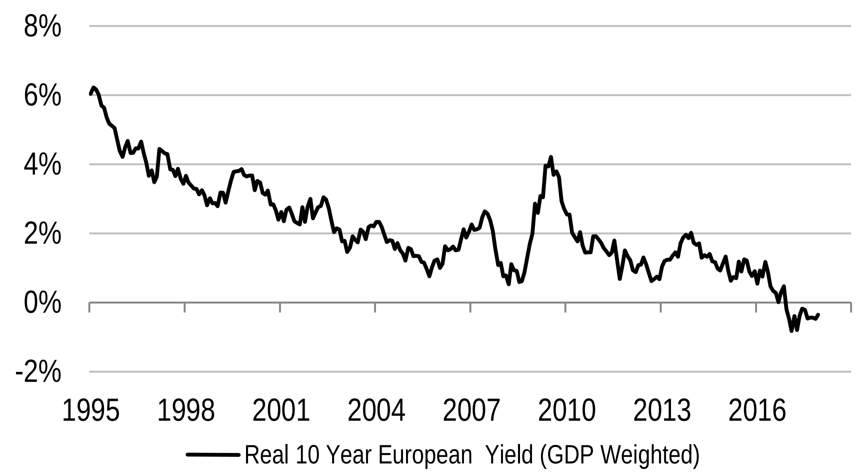
Market Valuations

Europe 10 Year Nominal Sovereign Yield



- European Sovereign Bonds have been stable over the past quarter, however remain very expensive by historic standards

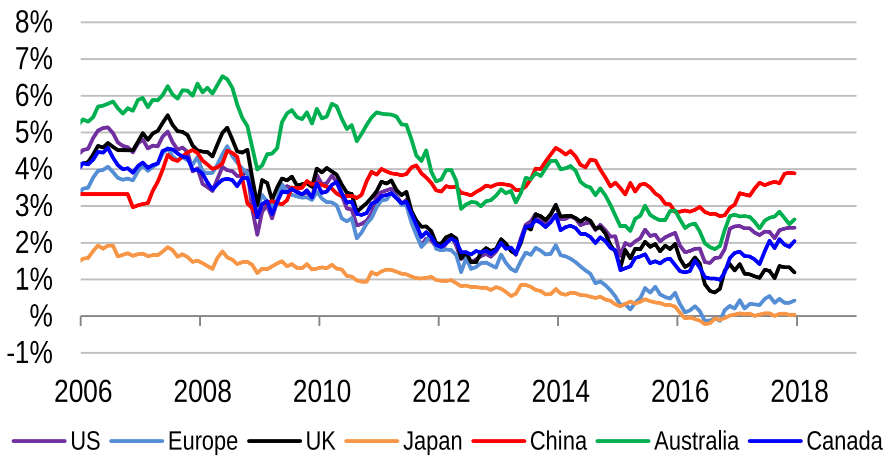
Europe 10 Year Real Sovereign Yield



- Real Yields across Europe have stabilized, however remain negative

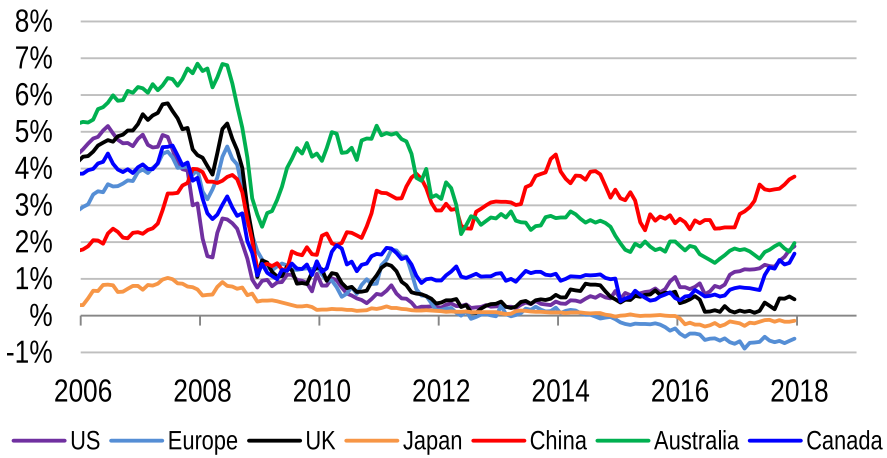
Sources: Bloomberg, Deltec

Global 10 Year Bond Yields



- 10 Year rates have risen and are now positive in nominal terms across all focus regions
- Global long term market interest rates are ultimately likely to rise further, however remain contained at a point due to the global shortage of long duration assets, and a likely lower neutral Fed Funds Rate
- Rising long end rates will continue to impact long duration interest rate sensitive assets, firstly Utilities, and REITs, then ultimately negatively impacting all Equities

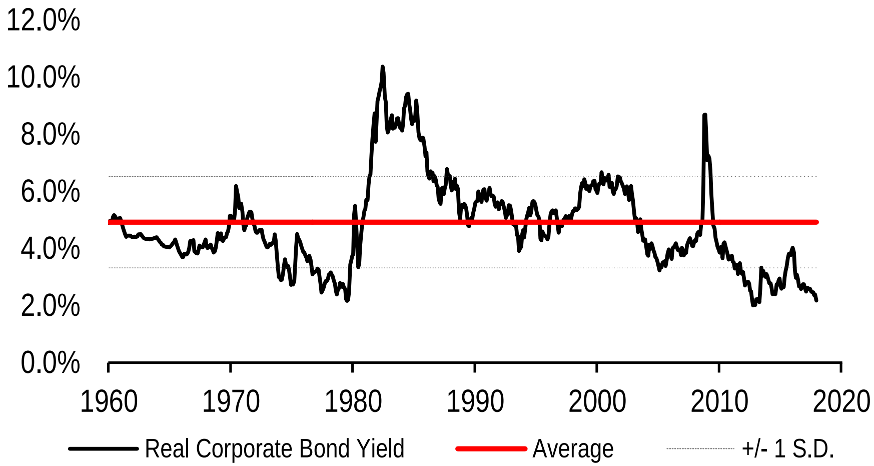
Change in Global 2 Year Bond Yields



- Short rates have risen significantly in recent periods, and are likely to rise further this year
- Short rates are still negative in certain regions, especially in real terms
- The belly of the curve, from 2-7 years, is likely to increase this year, as the Federal Reserve raises short term rates although guides to lower long rates

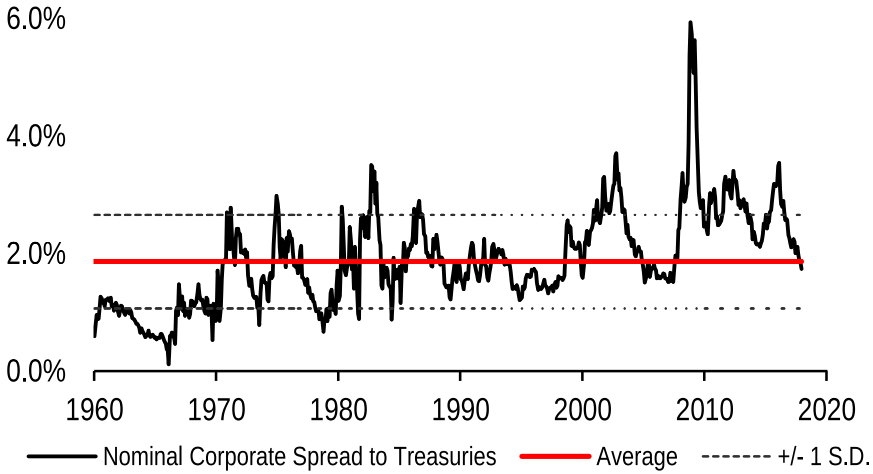
Sources: Bloomberg, Deltec

US Real Corporate Bond Yield



- US Real Corporate Bond yields have declined further, due to higher inflation, and lower spreads
- Real rates of returns on corporate bonds remain close to the lowest ever from a long term perspective

US Nominal Corporate Spread to Treasuries

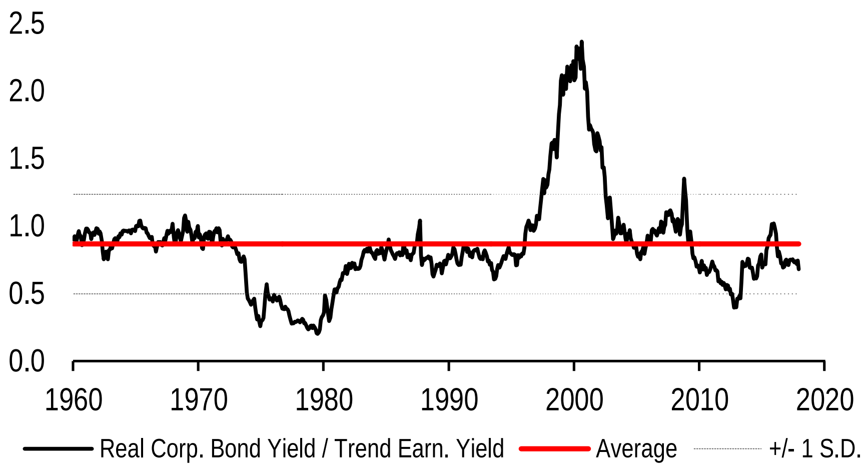


- Corporate bond spreads have fallen further, however are still above pre-crisis levels, despite the stronger economic environment and relatively loose liquidity conditions

Sources: Bloomberg, Shiller, Deltec

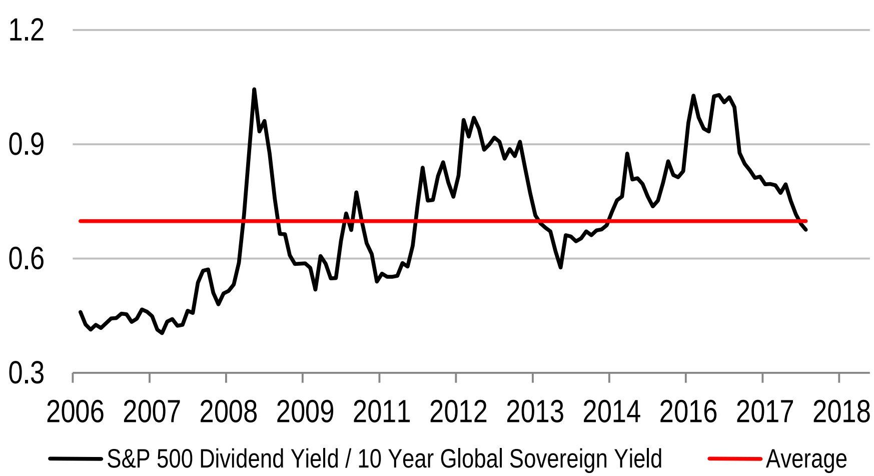
Market Valuations

Bond Yield vs Earnings Yield



- US Equities are 0.5 standard deviations below fair value relative to Bonds from a long term perspective
- Improving economic growth will lead to an increase in earnings, making equities more attractive
- Improving economic growth will lead to an increase in bond yields, making bonds less attractive
- The flight to safe haven assets and search for yield has driven overvaluation in Bonds

US Equities Dividend Yield vs Global 10 Year Bond Yield

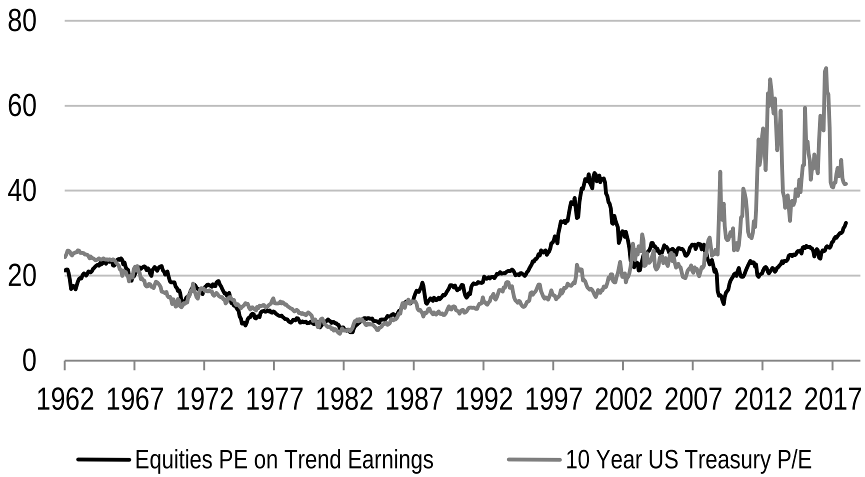


- US Equities are less attractive relative to Global Bonds than they were last quarter from an income generation perspective, and are now in line with the long term average
- With the US economic expansion on track, earnings are likely to continue to rise, hence US Equities offer a growing yield

Sources: Bloomberg, Deltec

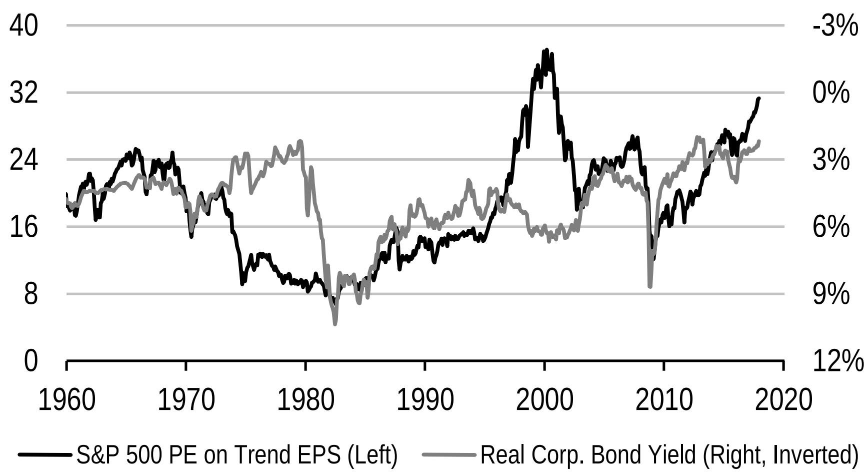
Market Valuations

Equities PE vs Bond PE



- Bonds have fallen slightly, yet remain significantly more expensive than US Equities
- US Equities are still cheap relative to Bonds on a through the cycle basis

US Real Corporate Bond Yield / Trend Earnings Yield

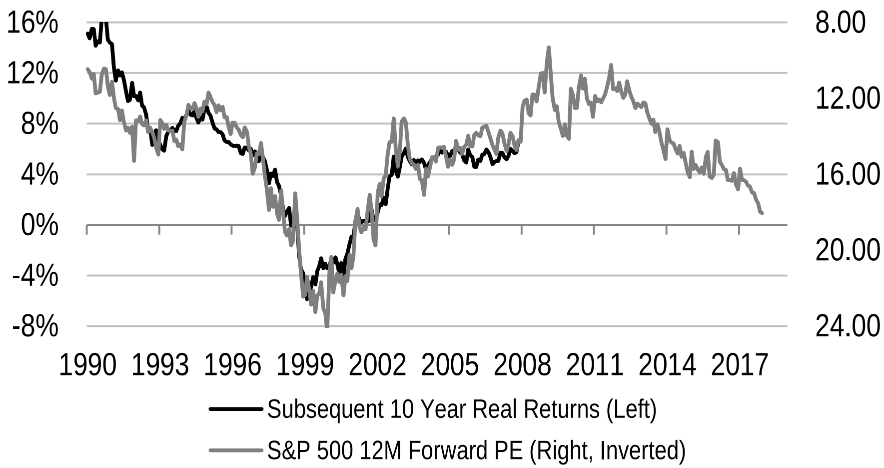


- Rising bond yields present the single biggest risk to Equity markets
- There is a circularity in the relationship between Bonds and Equities
- In the absence of a further compression in credit spreads, an increase in Treasury Yields will result in an increase in the discount rate to value Equities, decreasing justifiable Equities valuations

Sources: Bloomberg, Strategas, Shiller, Deltec

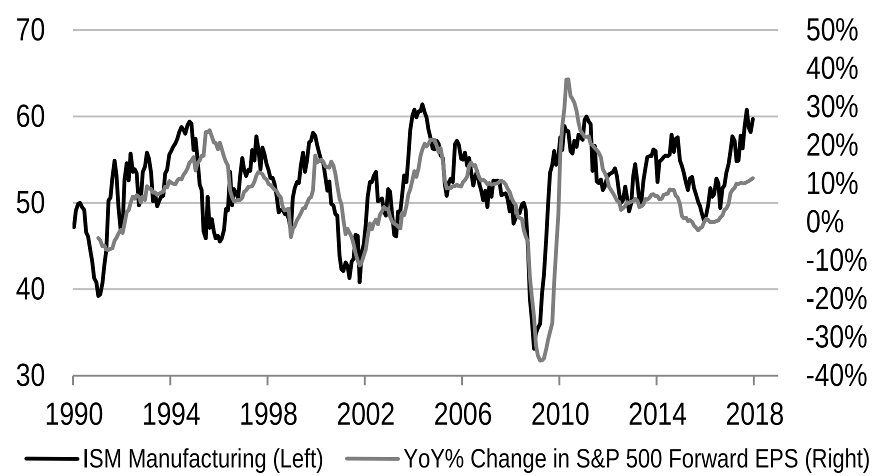
Market Valuations

US Equities Expected Returns



- US Equities PE is currently consistent with near 0% real returns over the next ten years
- Dispersion of returns across sectors is likely to be significant

ISM Manufacturing vs S&P 500 EPS

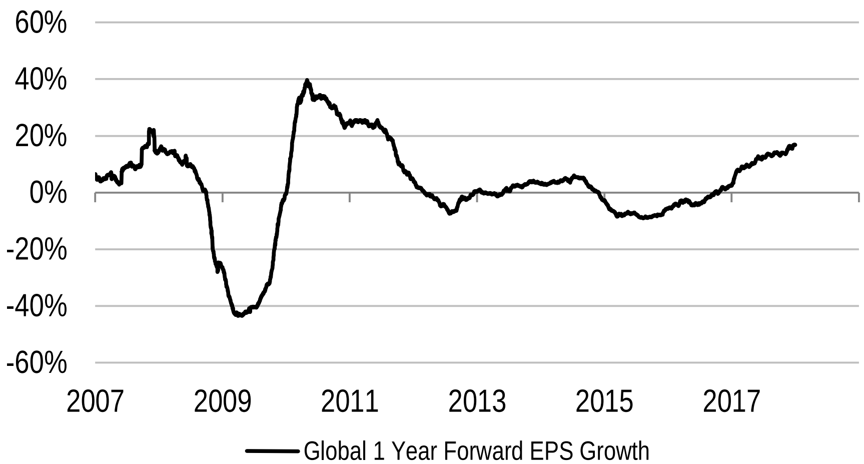


- Leading indicators are consistent with a > 25% increase in earnings over the next year
- Consensus is forecasting an approximate 10% increase in earnings over the next year

Sources: Bloomberg, Deltec

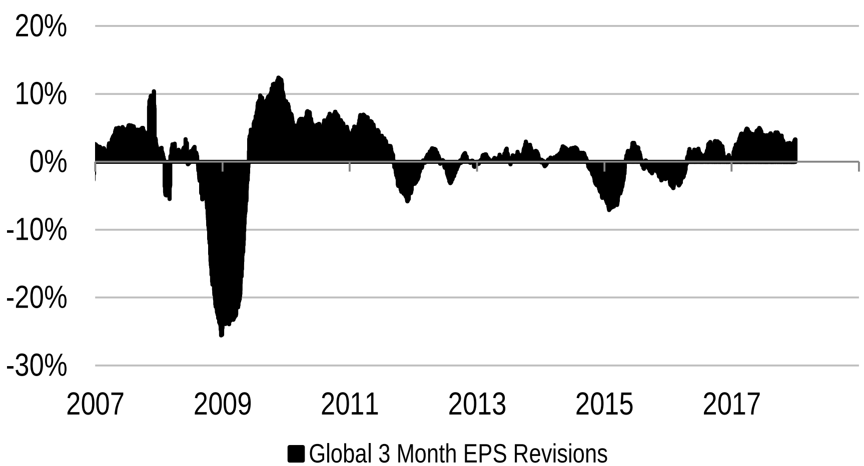
Market Valuations

Global Earnings Growth



- Global earnings growth is currently running at the strongest pace in over 5 years

Global EPS Revisions

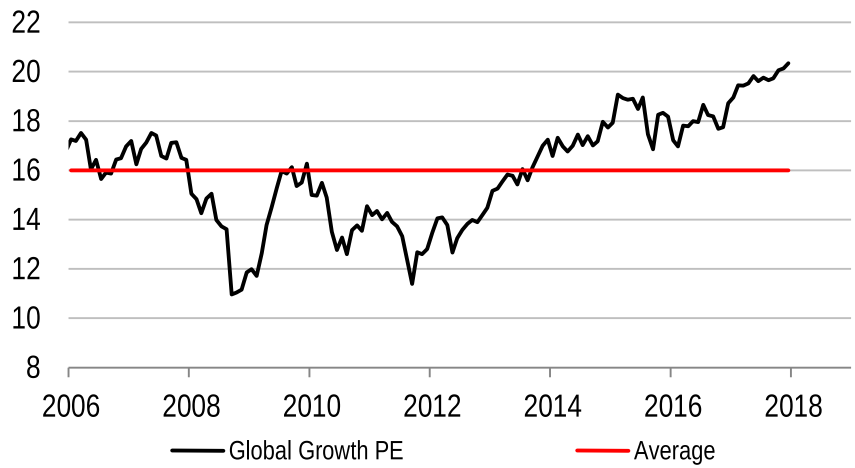


- Global earnings upgrades are currently running at near the strongest pace in over 5 years

Sources: Bloomberg, Deltec

Market Valuations

Global Growth PE



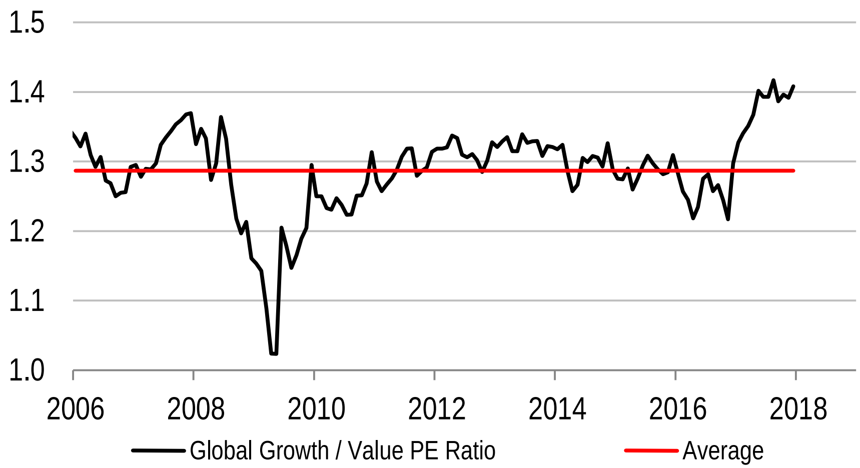
- Valuations for Global Growth stocks are well above average

Global Value PE

- Valuations for Global Value stocks are well above average

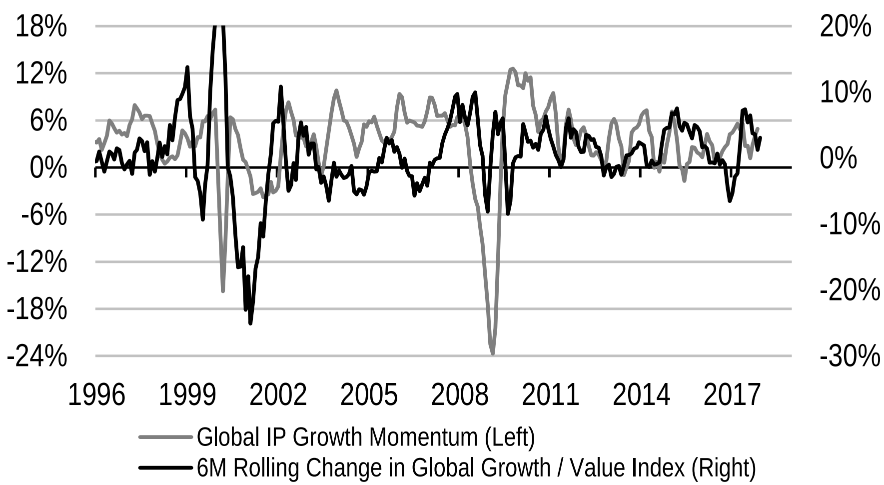
Sources: Bloomberg, Deltec

Global Growth / Value PE Ratio



- Global Growth stocks are well above fair value relative to Value stocks

Global Growth Momentum vs Global Growth / Value

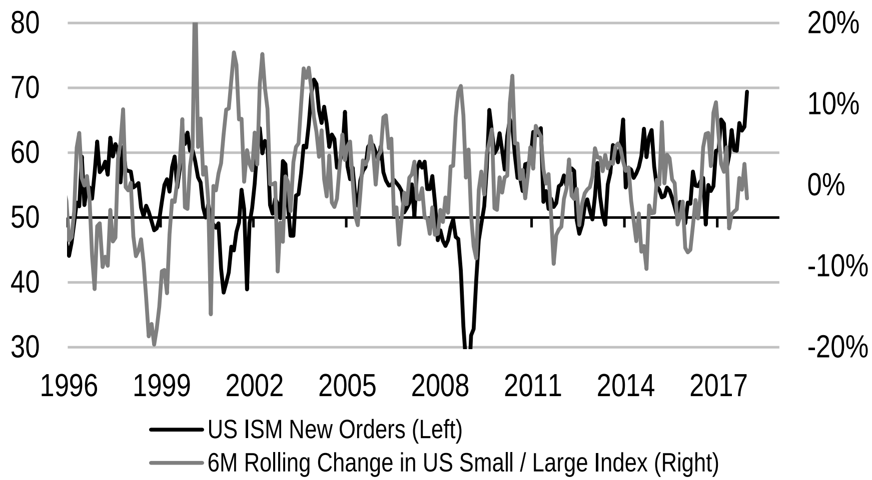


- Growth outperforms Value as Global Growth Momentum rises

Sources: Bloomberg, Deltec

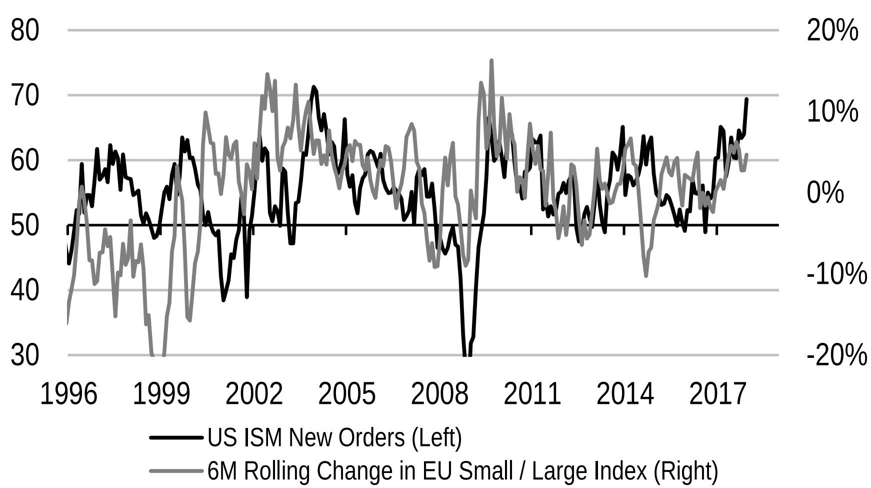
Market Valuations

Global Growth vs US Small / Large Cap Performance



- Global growth momentum is consistent with outperformance of US Small Caps

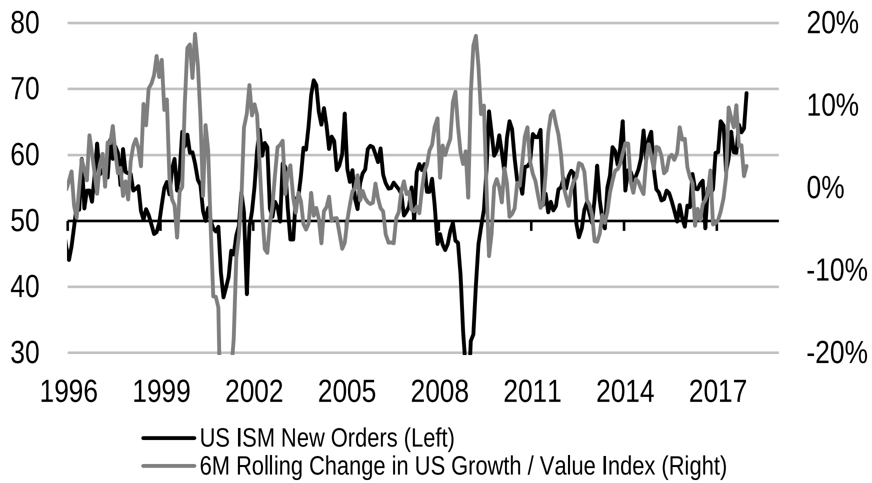
Global Growth vs Europe Small / Large Cap Performance



- Global growth momentum is consistent with outperformance of European Small Caps

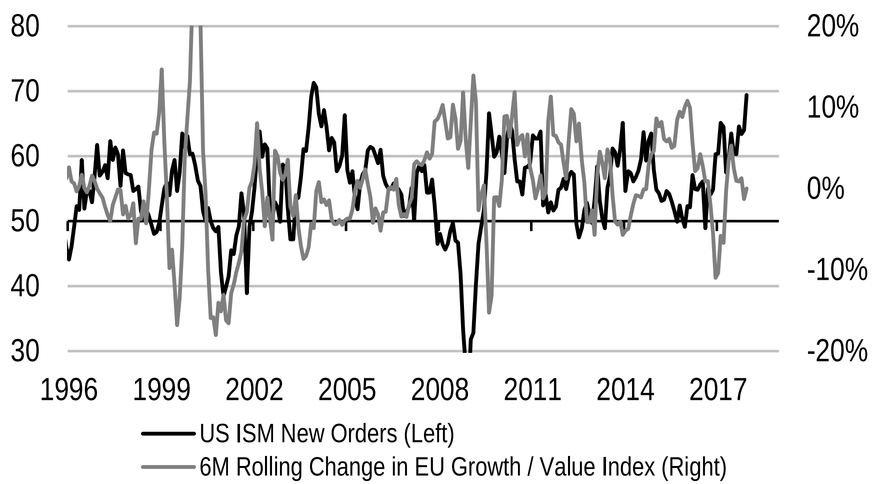
Sources: Bloomberg, Deltec

Global Growth vs US Growth / Value Performance



- Despite valuations, global growth is consistent with the further outperformance of growth vs value

Global Growth vs Europe Growth / Value Performance

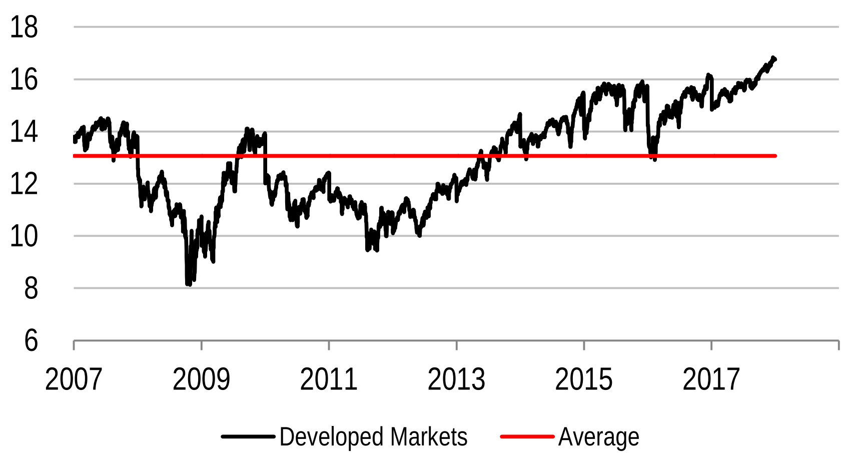


- Despite valuations, global growth is consistent with the further outperformance of growth vs value

Sources: Bloomberg, Deltec

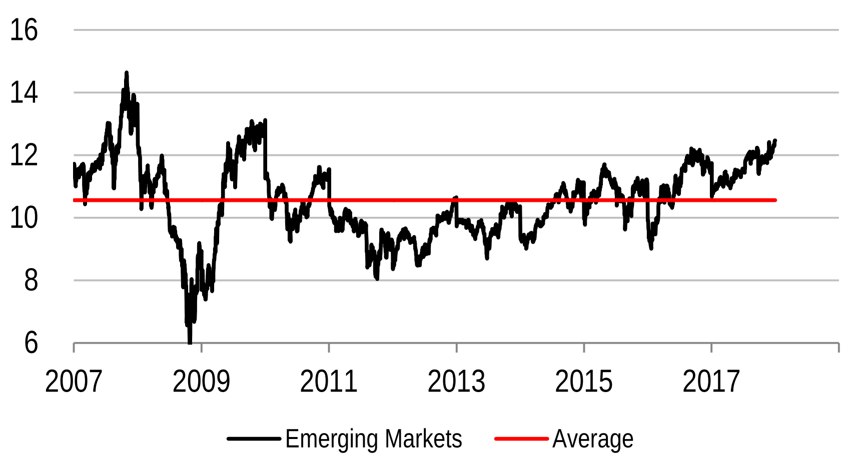
Market Valuations

Developed Market 1 Year Forward PE



- Developed Market equities prices rose further over the quarter
- Equity prices are at all time highs
- Equity valuations are near post-financial crisis highs, however the economy and earnings are still expanding

Emerging Market 1 Year Forward PE

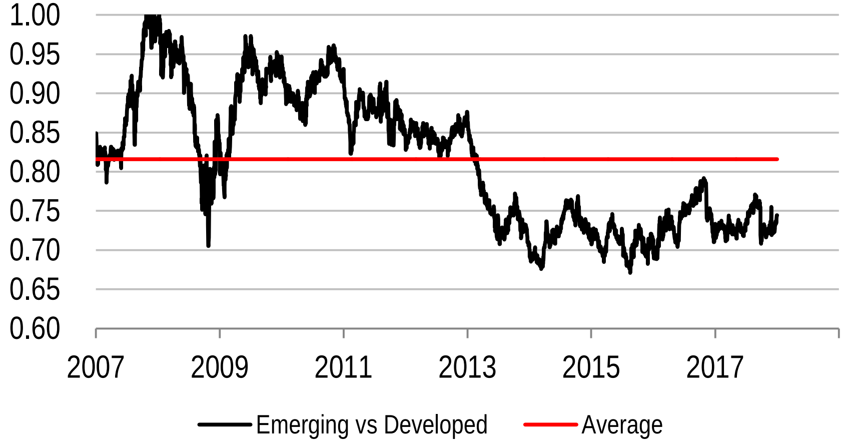


- Emerging Market Equities have risen further, and are now the most expensive in 7 years

Sources: Bloomberg, Deltec

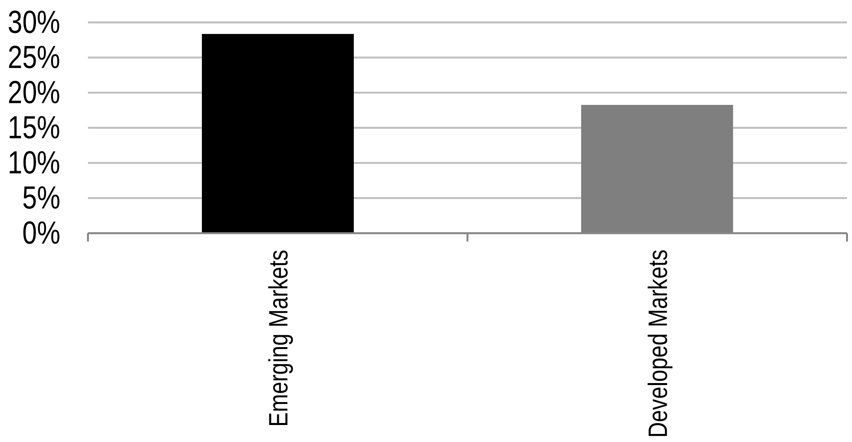
Market Valuations

Emerging Market vs Developed Market Relative PE



- Emerging Markets equities rose over the past quarter, however they remain undervalued relative to Developed Markets on conventional metrics, and with stronger forecast earnings growth

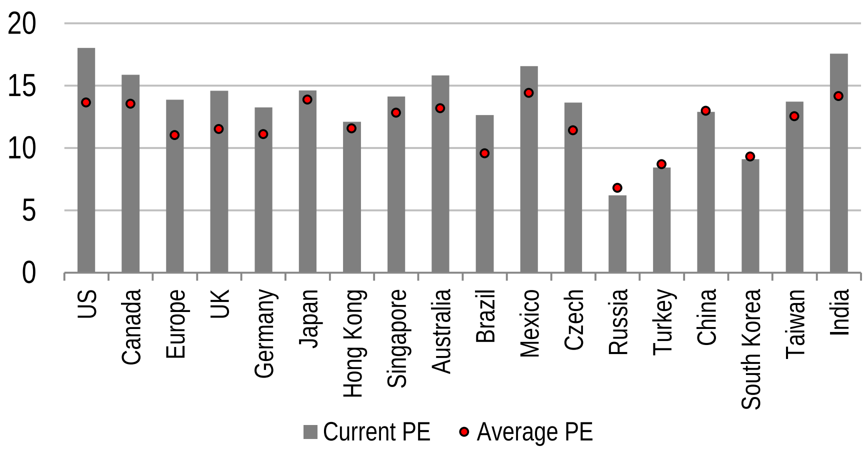
Emerging Market vs Developed Markets EPS Growth



- Both Developed and Emerging Markets have positive EPS growth expectations
- Developed Market EPS growth is likely to turn more positive given the more positive outlook for economic growth

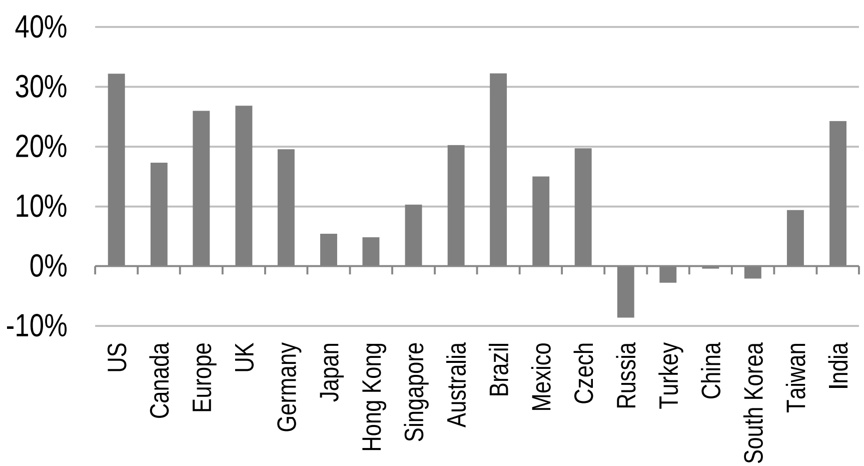
Sources: Bloomberg, Deltec

Global Equities 1 Year Forward PE vs Average



- Developed Markets are generally expensive relative to their long term average, with selected Developed Market equities appearing most expensive.
- Russia and Turkey are the least expensive in the focus universe

Global Equities PE Premium / (Discount) to Average

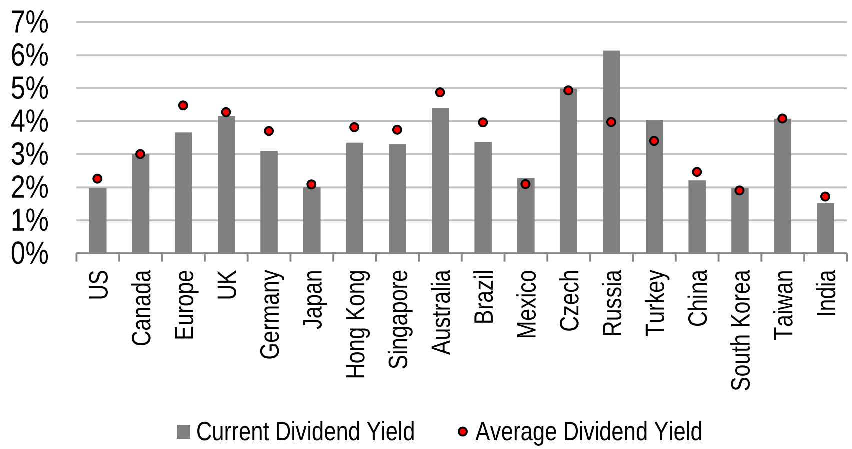


- Japan, Hong Kong and Singapore are the cheapest Developed Markets relative to their long term averages, however all remain heavily exposed to China
- Russia and Turkey are the cheapest Emerging Markets relative to their long term averages, however carry downside risk due to geopolitical risks

Sources: Bloomberg, Deltec

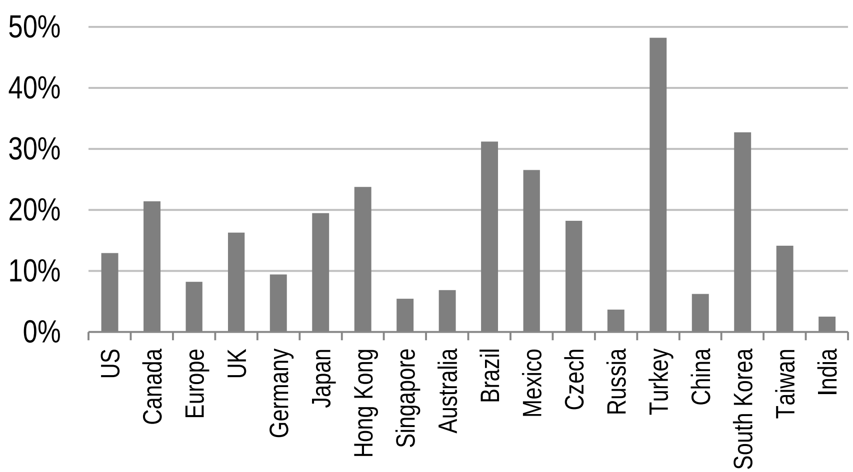
Market Valuations

Global Equities Dividend Yield vs Average



- Russia, Australia and the Czech Republic have the highest dividend yields in our focus universe.
- The sustainability of dividends in some of these markets remains in question

Global Equities 1 Year Forward EPS Growth

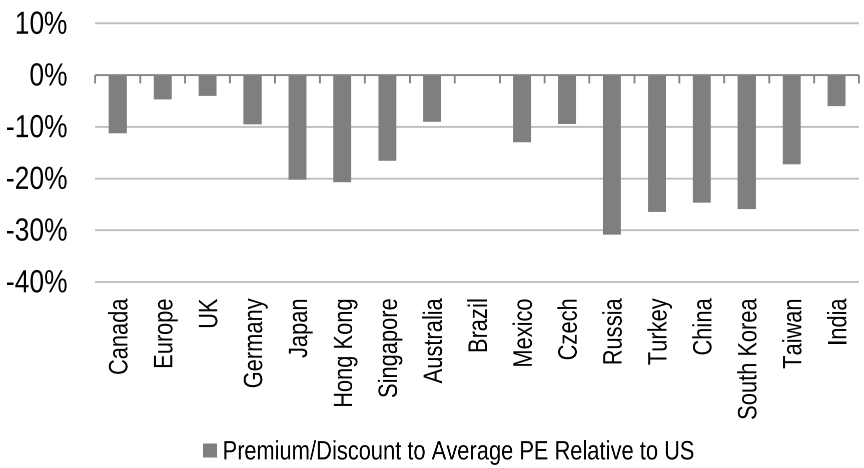


- Brazil, Turkey and South Korea have the highest earnings growth expectations among our focus universe
- India, Russia and Singapore have the lowest earnings growth projections

Sources: Bloomberg, Deltec

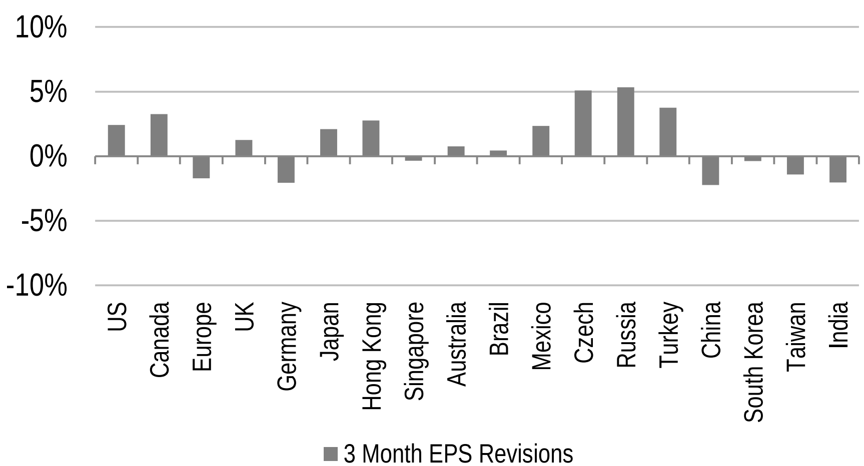
Market Valuations

Global Equities Relative Valuations vs Average to US



- Russia, Turkey and South Korea are the cheapest Emerging Markets relative to the US relative to their history
- Japan is at a 20% discount to its historic relative valuation to the US, despite being highly leveraged to global growth

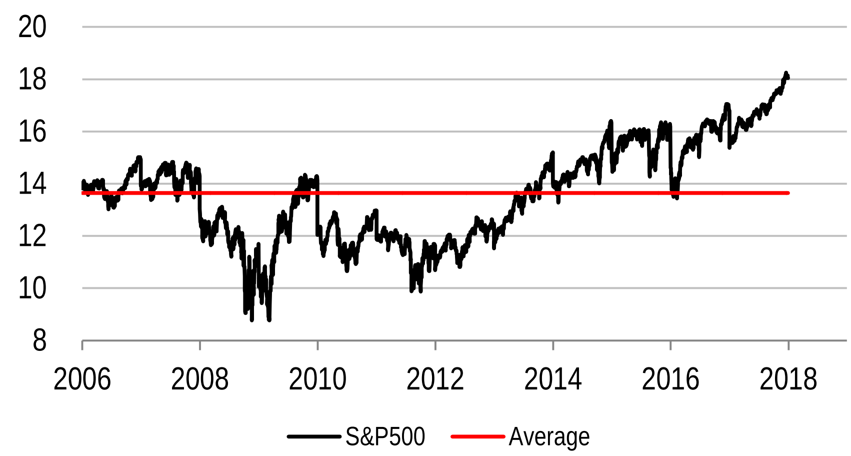
Global Equities 3 Month EPS Revisions



- Earnings revisions were mixed across the world
- Select Emerging Markets also experienced strong upgrades

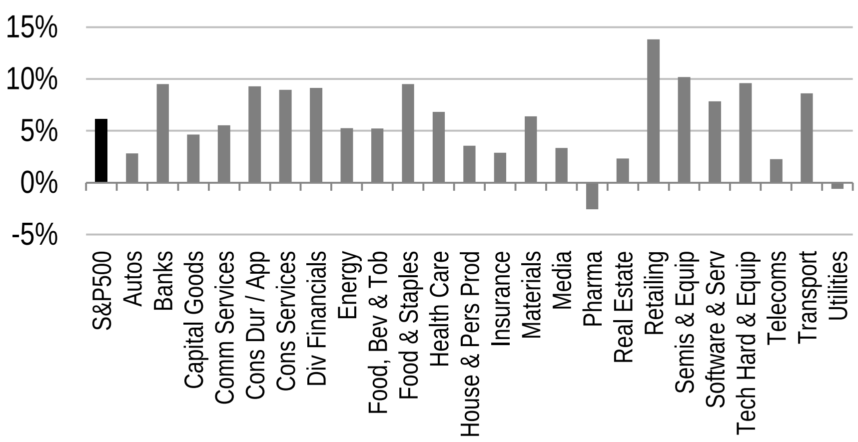
Sources: Bloomberg, Deltec

US Equities 1 Year Forward PE



- US Equities are now near the most expensive they have been in over 10 years, on a 1 Year Forward Earnings basis
- Earnings growth forecasts are low given the economic outlook, and are still being upgraded

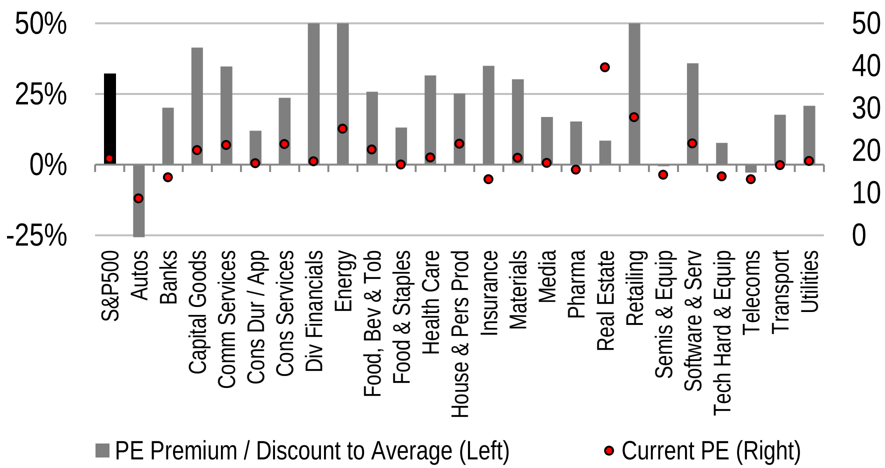
US Equities Quarterly Performance – Sector



- The Retailing and Semiconductor sectors generated the strongest performance over the past quarter

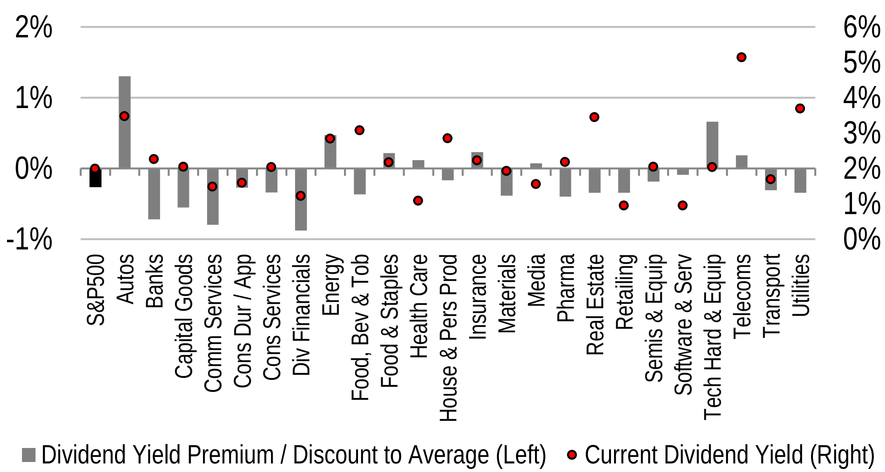
Sources: Bloomberg, Deltec

US Equities 1 Year Forward PE - Sector



- Most sectors are expensive relative to their 10 year averages
- Autos, Semiconductors and Telecoms are cheap

US Equities Dividend Yield - Sector

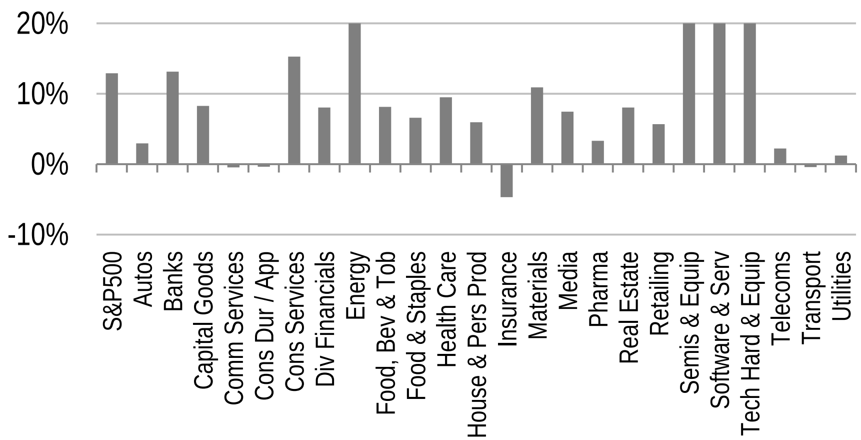


- US Dividend yields remain selectively attractive, however earnings coupled with dividend growth are more certain at this stage
- Yield investors can still be attracted to a number of sectors in US Equities
- Of note, Telecoms, Utilities and Real Estate offer the most attractive yields, however will be highly susceptible to rising interest rates
- Autos carry an attractive outright dividend yield, and relative to their history

Sources: Bloomberg, Deltec

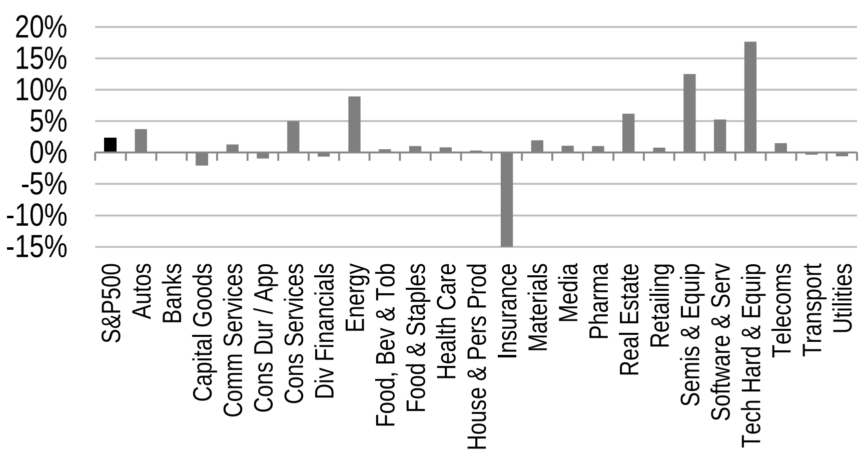
Market Valuations

US Equities 1 Year Forward EPS Growth



- Near term forecasts for Technology and Energy sectors are strongly positive

US Equities 3 Month EPS Revisions

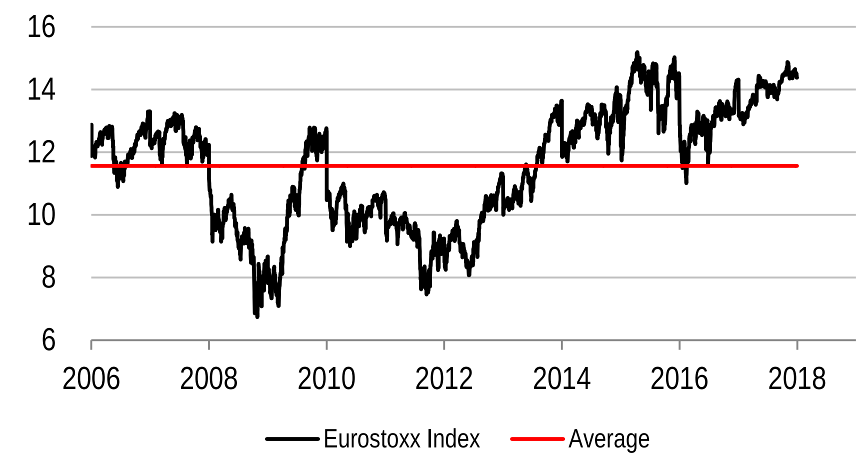


- Over the past quarter, EPS growth forecasts were mixed
- EPS Growth forecasts in the Insurance sector were downgraded
- Technology earnings continue to be upgraded

Sources: Bloomberg, Deltec

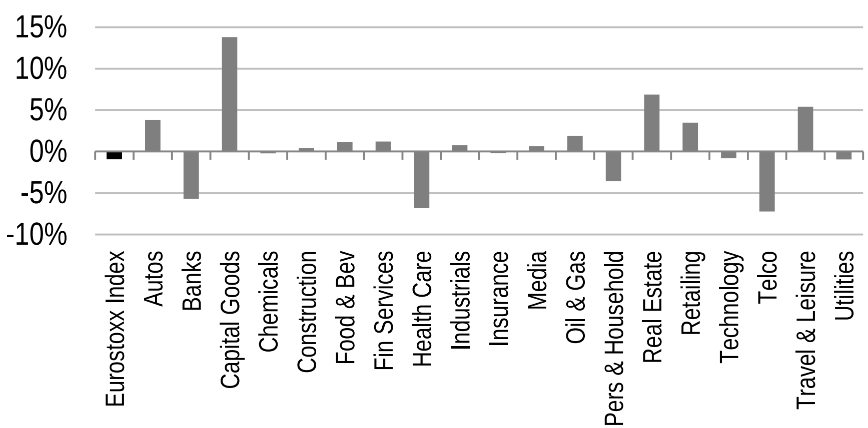
Market Valuations

Europe Equities 1 Year Forward PE



- European Equities fell slightly over the quarter, as earnings forecasts were mixed

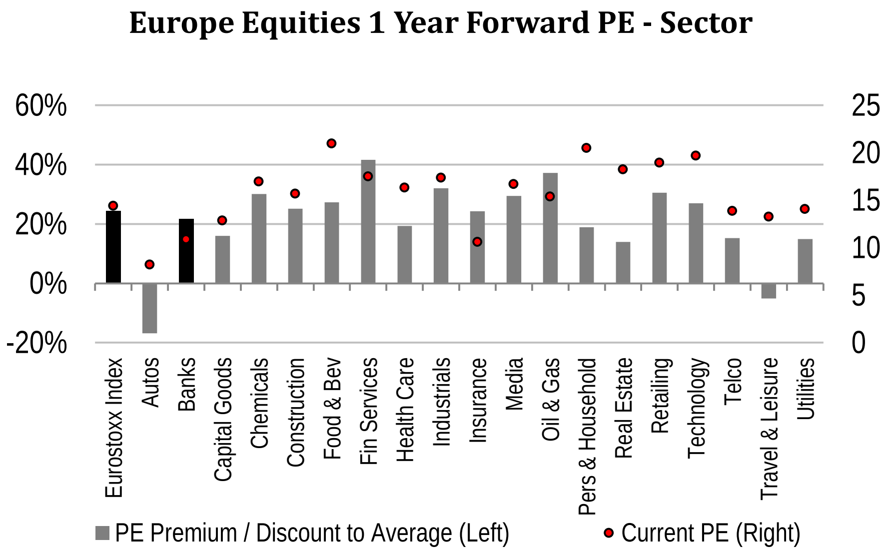
Europe Equities Quarterly Performance - Sector



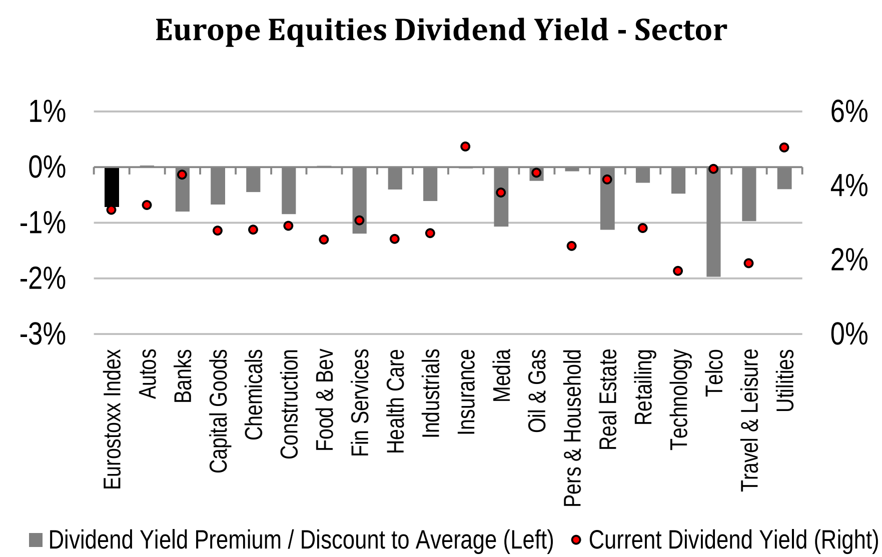
- European Equities were generally lower over the quarter
- Capital Goods and Real Estate were the strongest sectors, with Telecommunications and Healthcare the weakest

Sources: Bloomberg, Deltec

Market Valuations



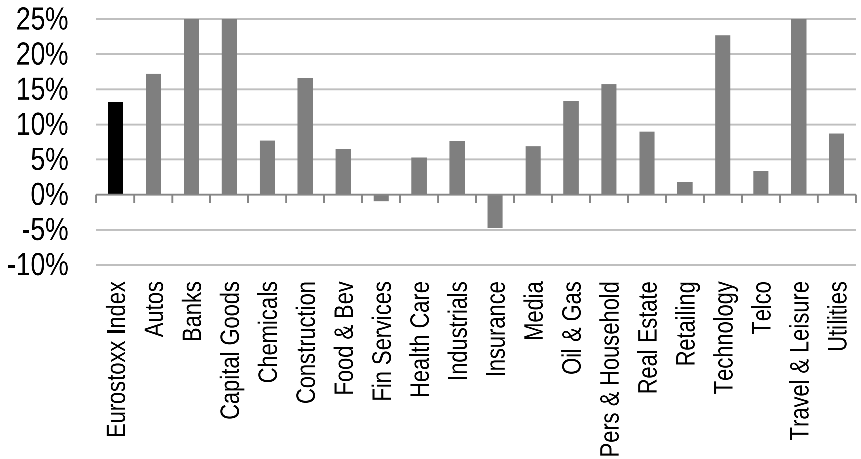
- PE ratios are not stretched in absolute terms across selected sectors
- Auto, Banks, Capital Goods and Insurance sectors are materially cheap on an absolute basis, with Autos also cheap in relative terms



- Yields are attractive in absolute terms across a range of sectors
- Yields are attractive relative to history for Autos and Food & Beverage sectors

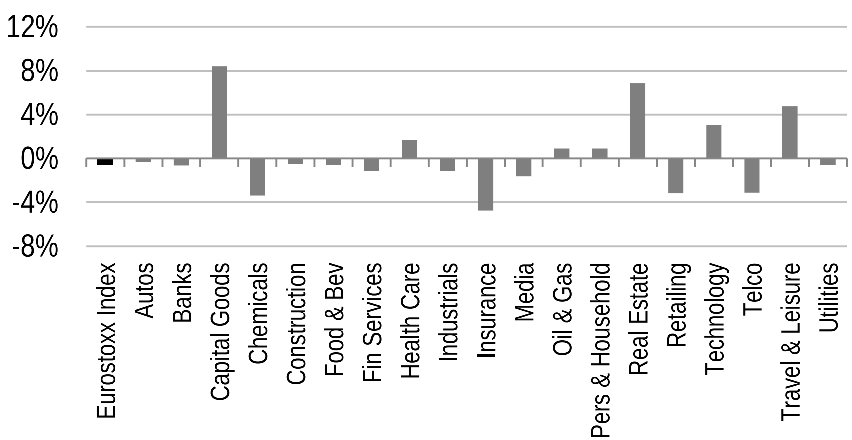
Sources: Bloomberg, Deltec

Europe Equities 1 Year Forward EPS Growth



- EPS growth forecasts are positive
- A strong economic recovery is being forecast for Capital Goods, Travel & Leisure and Banking sectors

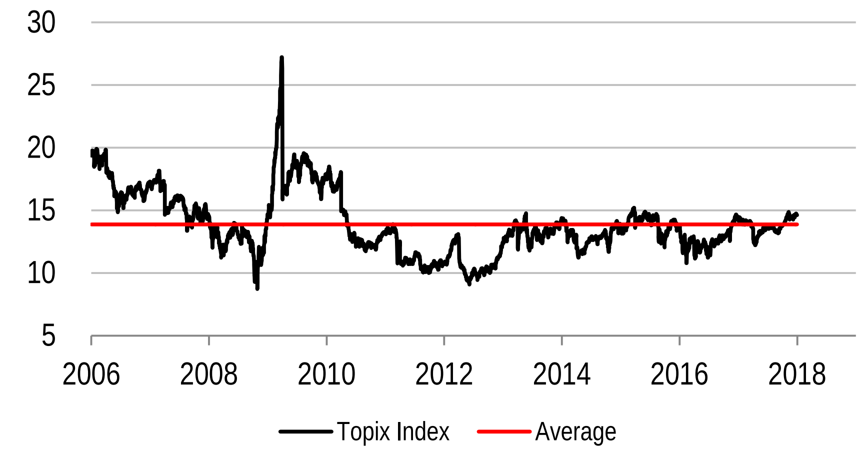
Europe Equities 3 Month EPS Revisions



- Earnings revisions were mixed over the past quarter
- Capital Goods and Real Estate sectors were the strongest and the Insurance sector was the weakest

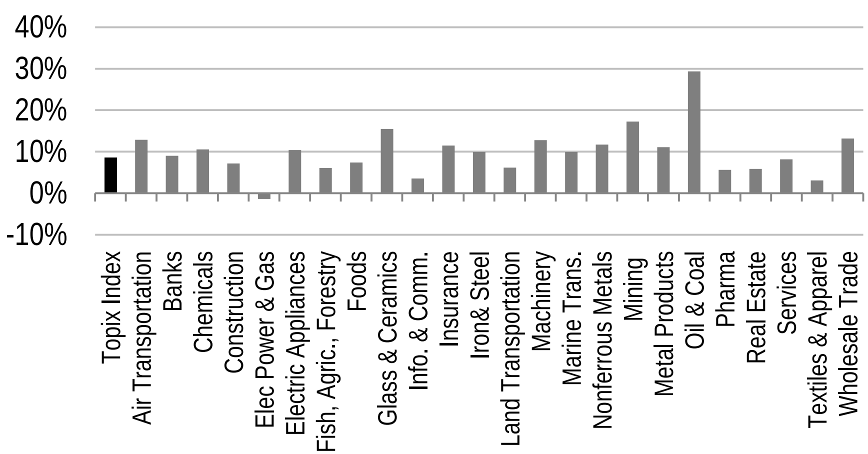
Sources: Bloomberg, Deltec

Japan Equities 1 Year Forward PE



- Japanese Equities rose over the quarter, as earnings rose slightly, resulting in higher valuations

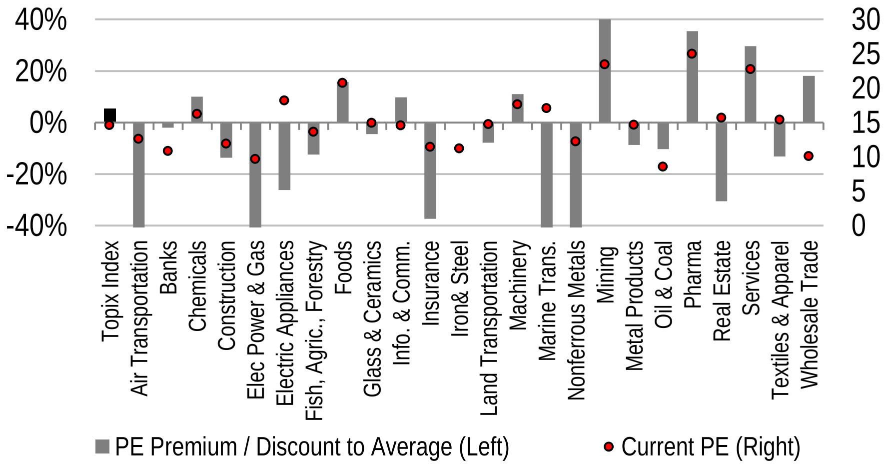
Japan Equities Quarterly Performance - Sector



- Japanese Equities rose over the quarter, with the Oil & Coal sector the strongest, following the rise in the Oil price

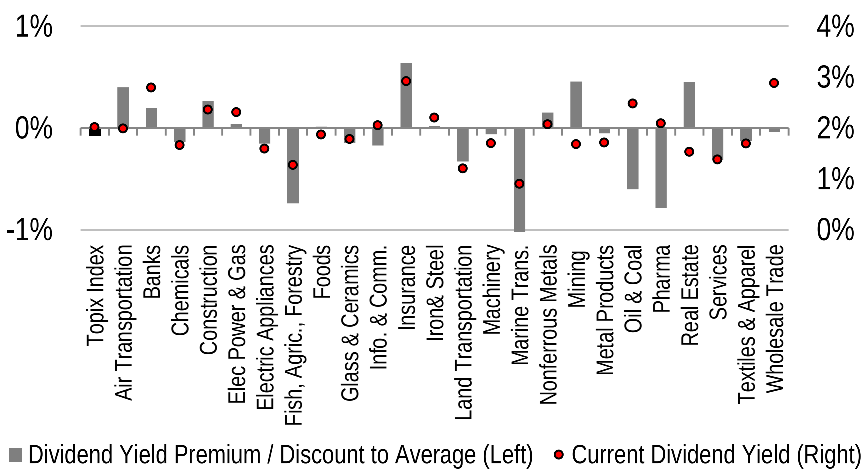
Sources: Bloomberg, Deltec

Japan Equities 1 Year Forward PE – Sector



- PE ratios are stretched to the downside in absolute and relative terms for most sectors

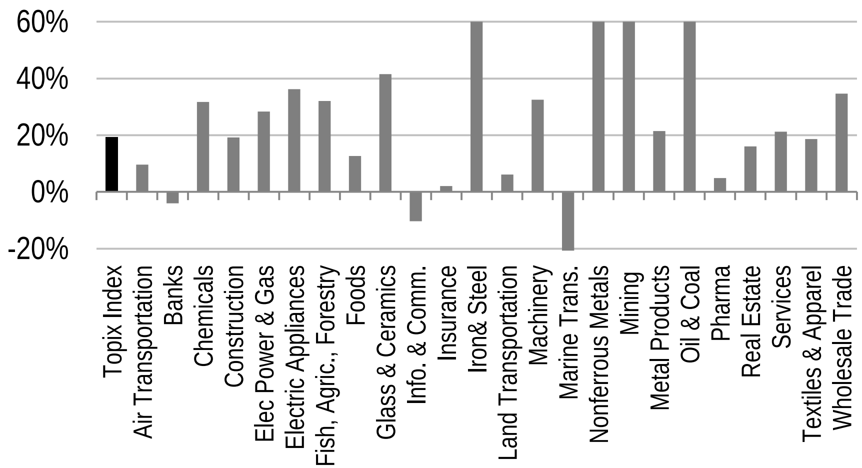
Japan Equities Dividend Yield - Sector



- Current dividend yields are broadly in line with their long term averages
- Yield investors can be attracted to a number of sectors across Japan, relative to negative yielding government bonds

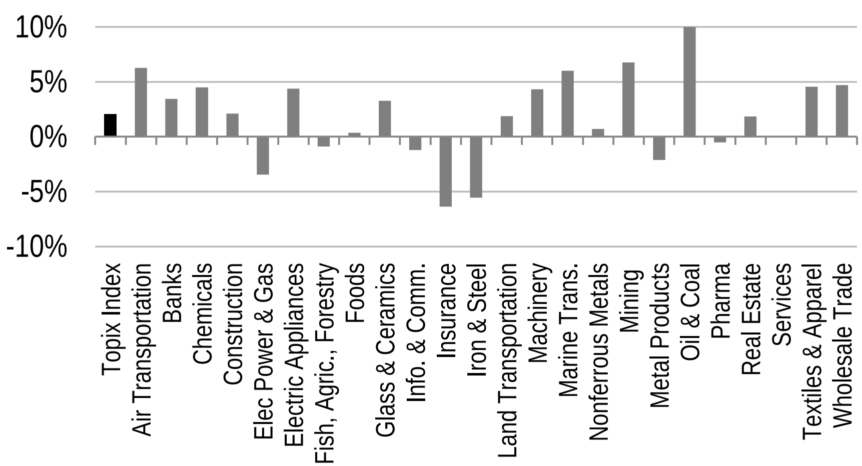
Sources: Bloomberg, Deltec

Japan Equities 1 Year Forward EPS Growth



- EPS growth forecasts are strong, with Metals and Mining sectors the strongest

Japan Equities 3 Month EPS Revisions



- EPS forecasts have been significantly upgraded for the Oil & Coal sector

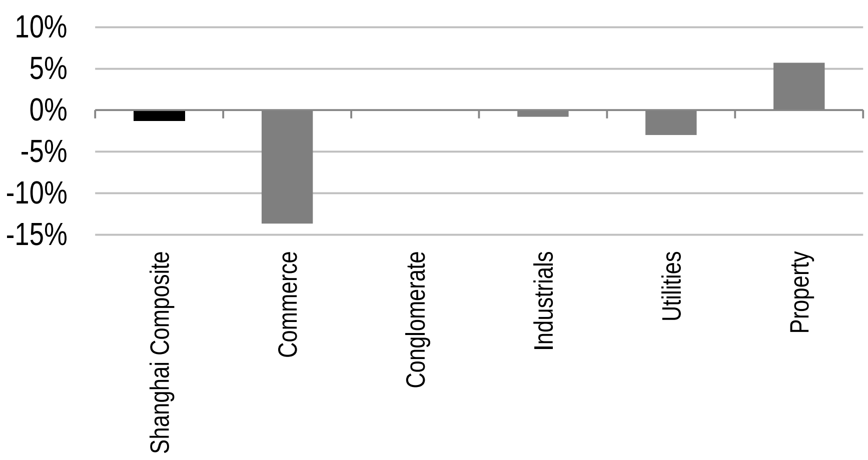
Sources: Bloomberg, Deltec

Market Valuations

China Equities 1 Year Forward PE

- Chinese Equities valuations have stabilized over the past quarter, and remain in line with fair value

China Equities Quarterly Performance - Sector

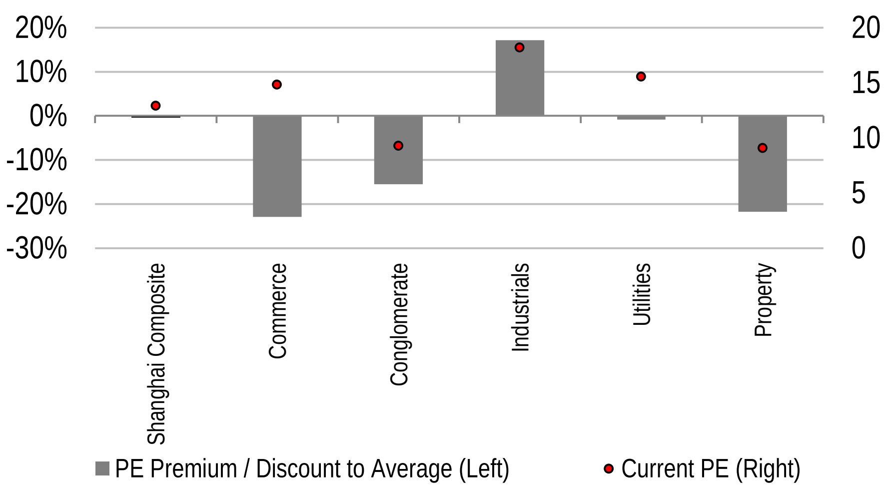


- Market performance has been positive, driven by the Conglomerate & Industrials sectors

Sources: Bloomberg, Deltec

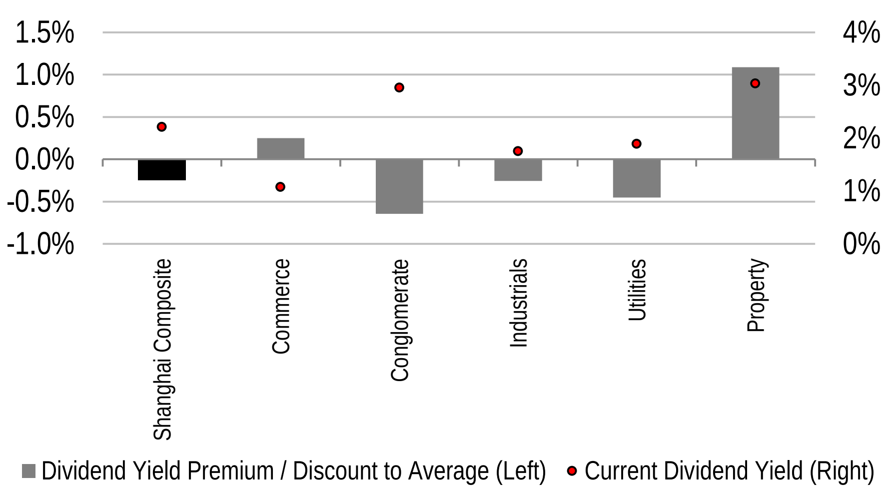
Market Valuations

China Equities 1 Year Forward PE - Sector



- PE ratios are largely below their long term averages, with the exception of the Industrial sector

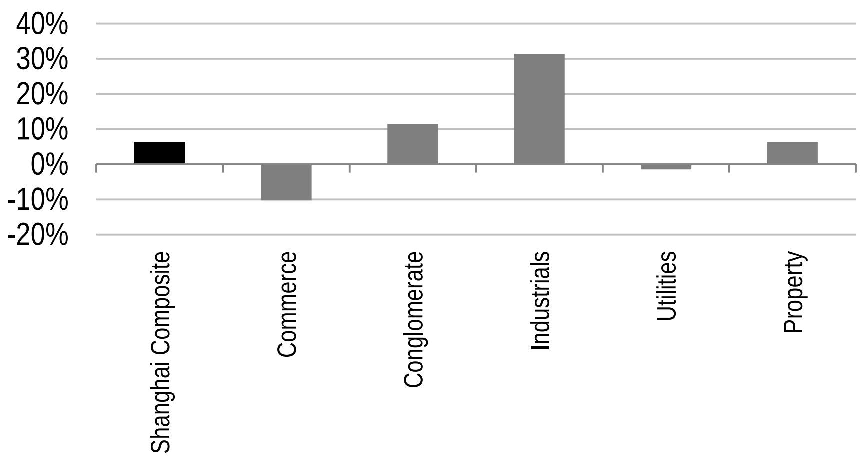
China Equities Dividend Yield - Sector



- Current dividend yields are slightly below their long term averages
- Yields across the market are not attractive

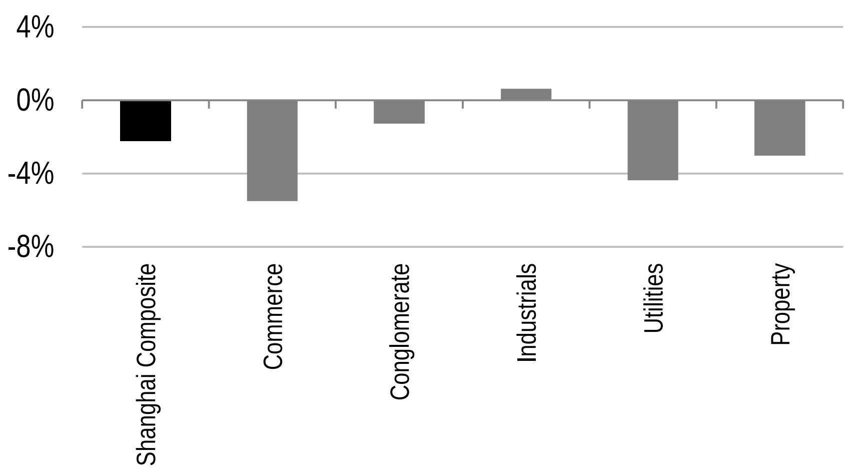
Sources: Bloomberg, Deltec

China Equities 1 Year Forward EPS Growth



- EPS growth forecasts are broadly positive, with the most positive forecasts coming from the Industrial sectors

China Equities 3 Month EPS Revisions



- EPS forecasts have been generally downgraded in recent months, led by the Commercial sector

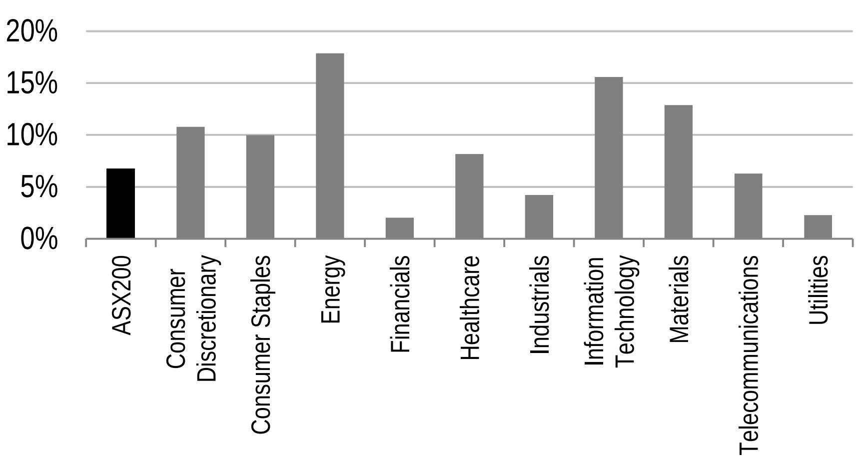
Sources: Bloomberg, Deltec

Market Valuations

Australia Equities 1 Year Forward PE

- Australian equities valuations rose over the past quarter, and are close to their most expensive post-financial crisis

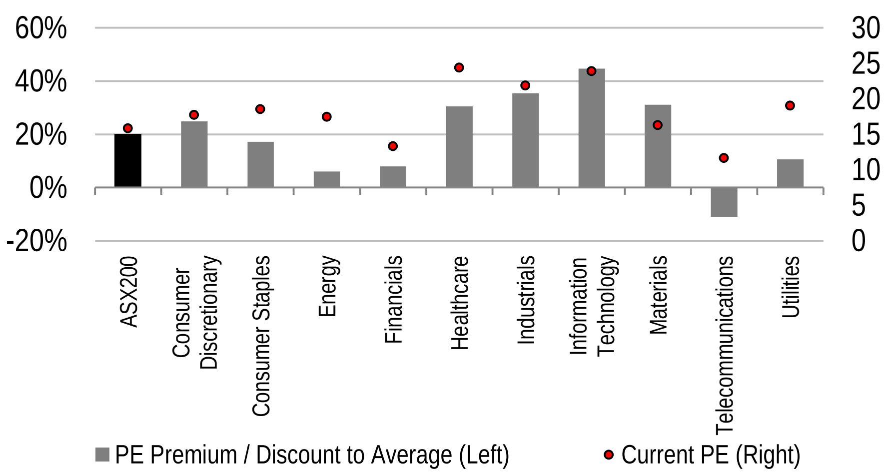
Australia Equities Quarterly Performance - Sector



- Australian equity performance was broadly positive over the past quarter
- Energy was the strongest sector, with Financials the weakest

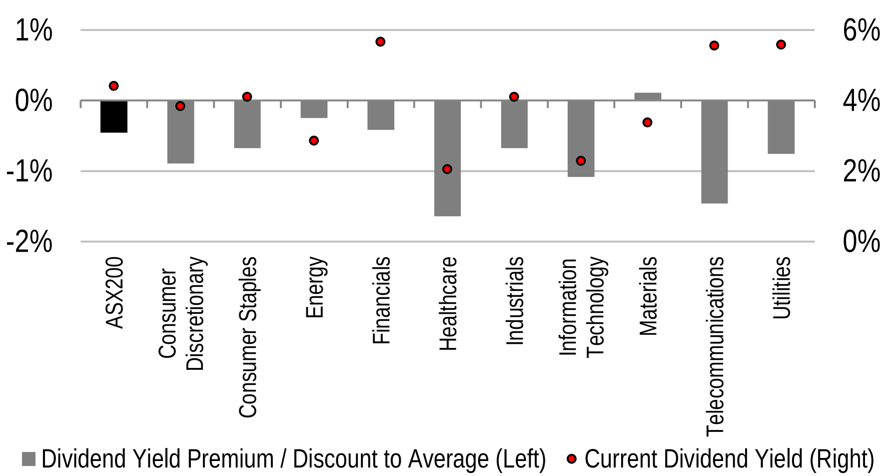
Sources: Bloomberg, Deltec

Australia Equities 1 Year Forward PE - Sector



- PE ratios are stretched in absolute and relative terms for most sectors

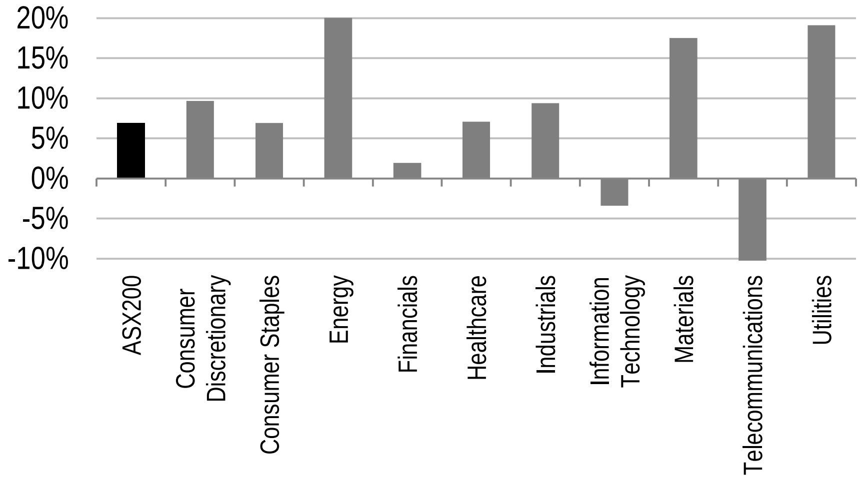
Australia Equities Dividend Yield - Sector



- Current dividend yields are below their long term averages across most sectors
- Yield investors can still be attracted to a number of sectors across Australia, with outright yields strong

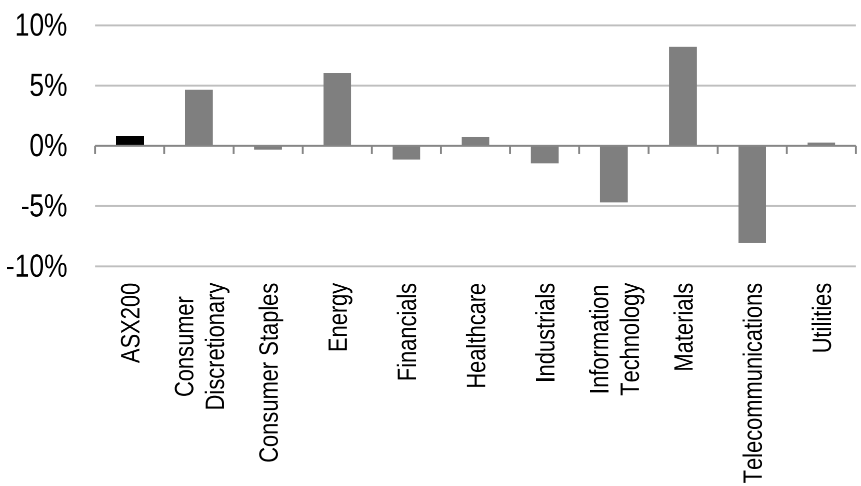
Sources: Bloomberg, Deltec

Australia Equities 1 Year Forward EPS Growth



- EPS growth forecasts are positive, with Commodity sectors the strongest
- The telecommunication sectors has the most negative forecasts

Australia Equities 3 Month EPS Revisions



- EPS revisions have been mixed recently, with upgrades from Consumer Discretionary and Commodity sectors alongside downgrades in Information Technology and Telecom Sectors

Sources: Bloomberg, Deltec

Market Momentum

Market Momentum

The primary drivers of market momentum – growth momentum and liquidity growth – are currently strong, however will likely change over the coming period. Growth momentum is currently strong, although will likely peak into 2018, whilst liquidity growth will slow in the coming period, led by USD liquidity. Markets are only partially positioned for these outcomes. Whilst there is the potential for a broad based decline in asset prices as liquidity growth slows, it will primarily impact carry trade and interest rate sensitive assets, given economic growth remains strong and will support growth sensitive assets. This momentum environment sees selective long and short opportunities across asset classes, particularly given the disparity at a regional and sector level.

- Risk assets have rallied with a synchronized increase in global growth momentum and supportive liquidity conditions. Technical indicators are becoming selectively stretched, although growth momentum is supportive of a continued rally in risk assets. Market volatility remains low, although this will change with liquidity conditions over the coming year.

- Risk assets have priced in the strongly positive growth momentum environment, however have not yet priced in the impending decline in liquidity growth over the coming year. Markets will typically move with second derivatives, hence risk assets will likely to be challenged as liquidity conditions change.

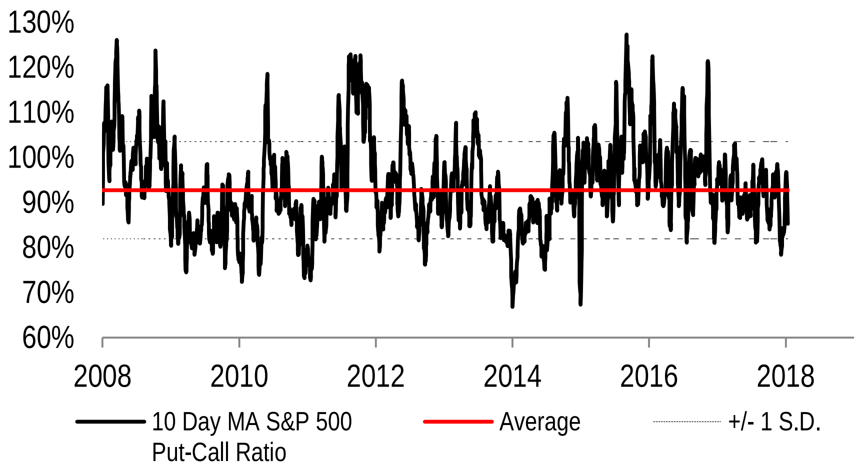
- Fund flows have declined from their prior year peaks, however are still strongly positive across both Equities and Bonds and across both Developed and Emerging Markets. The synchronized increase in global growth momentum, a clear shift in fiscal policy and significant changes in consumer, business and investor confidence have lifted markets, and investing appetite alike. The great rotation has begun beneath the surface of these fund flows, however a change in liquidity conditions, likely over the coming year, is needed to see it continue.

Investment Conclusion: Market momentum is currently strong, however can be sustained over the coming periods by strong global growth momentum and robust outright rates of growth supporting earnings. Rising inflation and slowing liquidity growth are likely over the coming year, which has the potential to lead to selective declines in risk assets. As such, the current momentum environment favors accumulating long positions in selected Equities, Volatility and Money Market Securities, and short opportunities in selected liquidity sensitive Equities, Bonds and Real Assets.

Positives: Selected Equities; Selected Credit; Volatility
Negatives: Commodities; Real Assets

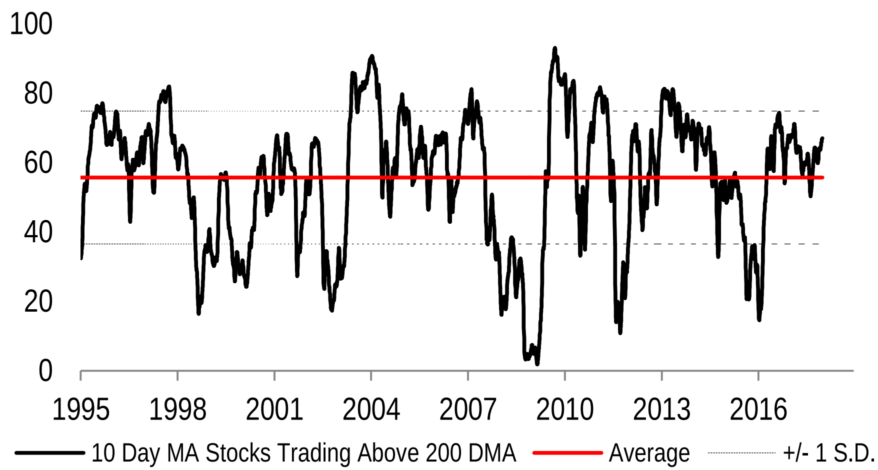
Market Momentum

S&P500 Put-Call Ratio



- The Put-Call ratio is 1 standard deviation below average levels, with investor positioning bullish

% Stocks Trading Above 200 Day Moving Average

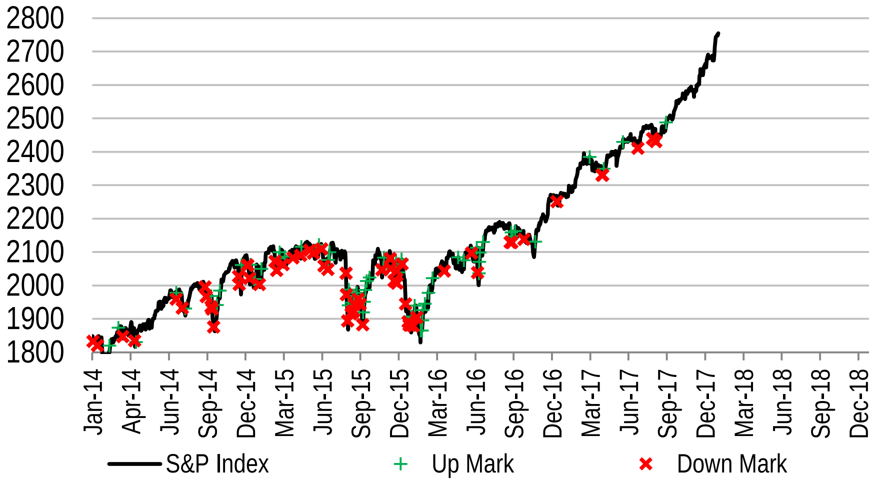


- Equities have risen further, and are now well above their 200 day moving averages

Sources: Bloomberg, Deltec

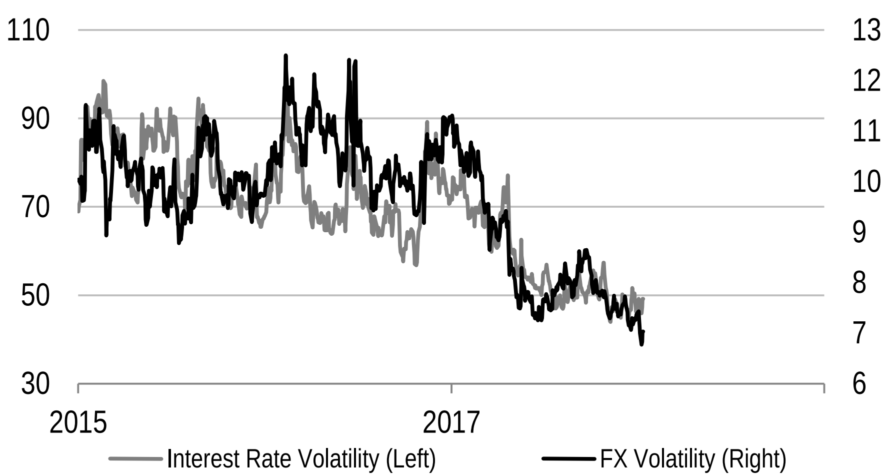
Market Momentum

Market Breadth



- Equities have recently been very strong, however market breadth has not been confirming

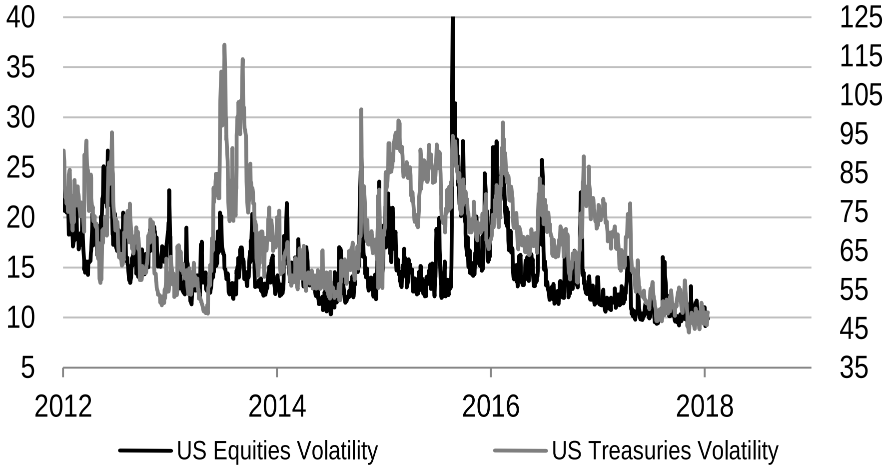
FX and Bond Volatility



- FX and Interest Rate volatility have both decreased recently, and remain low by historical standards
- FX volatility is likely to rise further as liquidity conditions change across markets into 2018

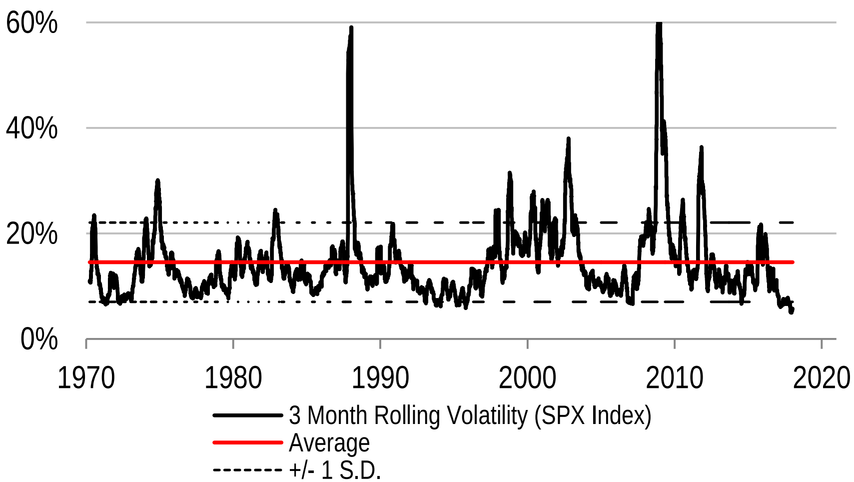
Sources: Bloomberg, Deltec

Equities and Bond Volatility



- Equities volatility remains very low by post-financial crisis and historic standards
- Bond market volatility has fallen slightly
- Bond market volatility is likely to rise further as global liquidity conditions tighten into 2017, and this may spill into Equities volatility

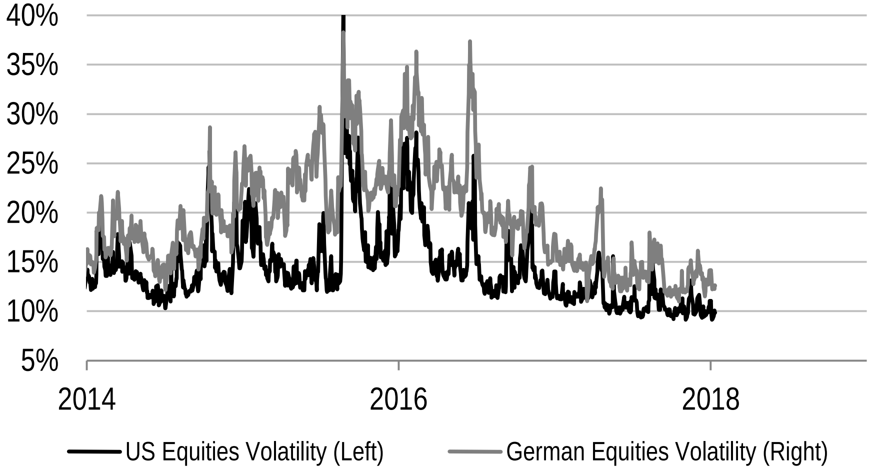
3 Month Rolling Equities Volatility



- 3 month rolling Equities volatility remains more than 1 standard deviation below the long term average, following numerous spikes above the average since mid-2015
- The frequency of equity market volatility spikes is increasing, and will continue to as global liquidity conditions change
- The level of volatility is characteristic of a period of synchronized global growth, policy and asset prices

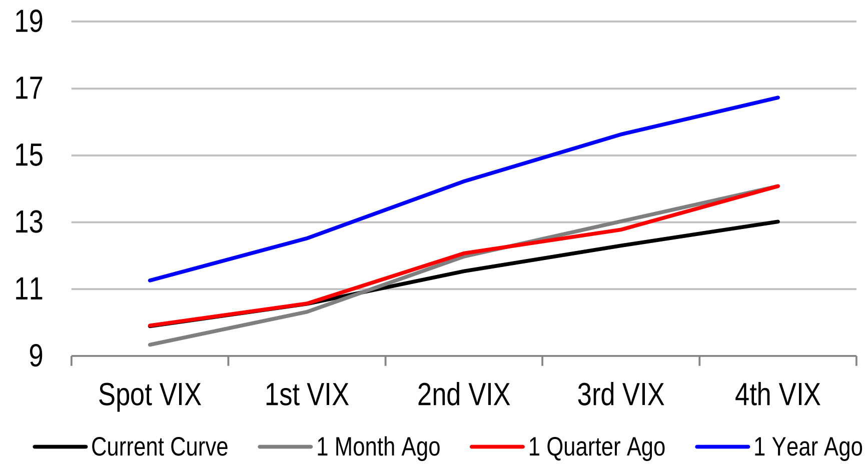
Sources: Bloomberg, Deltec

US vs Europe Equities Volatility



- US and European Equities volatility have declined in unison

VIX Curve

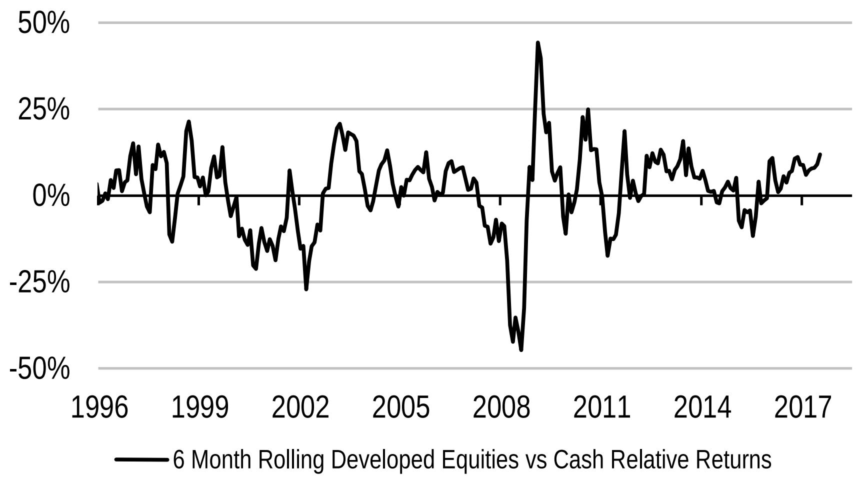


- VIX Curve has flattened over the quarter
- All parts of the curve remain below the level of one year ago, with 2nd – 4th month VIX futures also below one month and one quarter ago

Sources: Bloomberg, Deltec

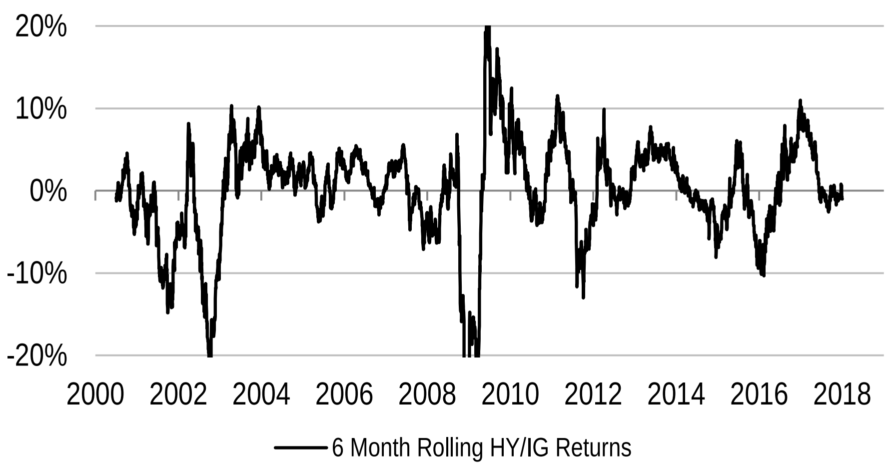
Market Momentum

Developed Equities vs Cash 6 Month Rolling Returns



- Developed Equities vs Cash shows risk appetite has recently risen further, and remains positive

High Yield Credit vs Investment Grade Credit

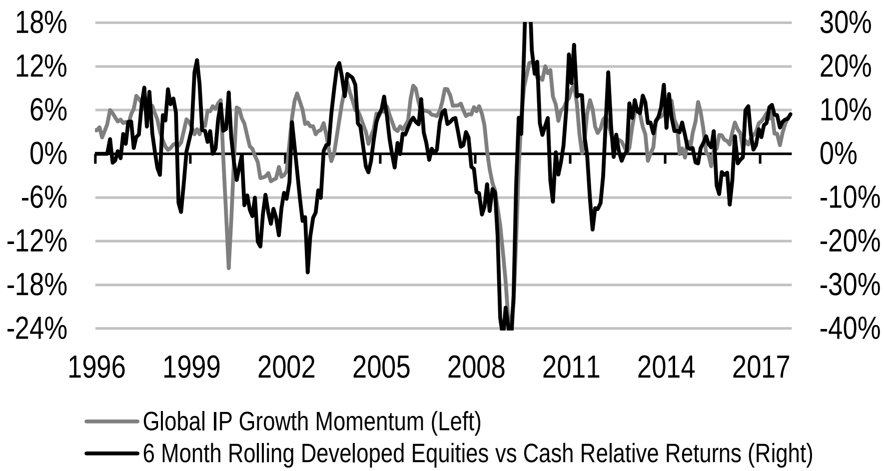


- High Yield has performed in line with investment grade

Sources: Bloomberg, Deltec

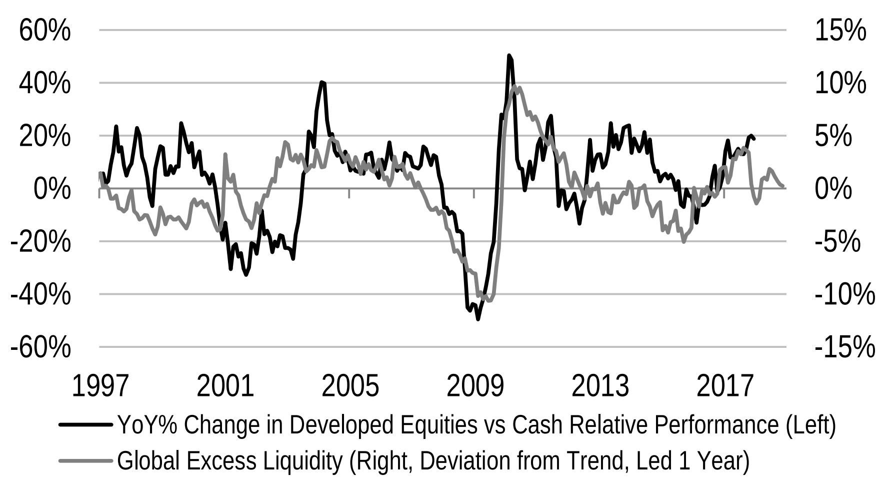
Market Momentum

Growth Momentum and Risk Asset Prices



- Global growth momentum will remain strong, based on leading indicators including the ISM New Orders
- When global growth momentum rolls over, risk assets tend to decline relative to safe assets
- On every occasion in the past 20 years when growth momentum has declined, risk assets have followed
- Risk appetite is currently slightly above leading indicators of global growth momentum, however growth momentum is expected to remain strong

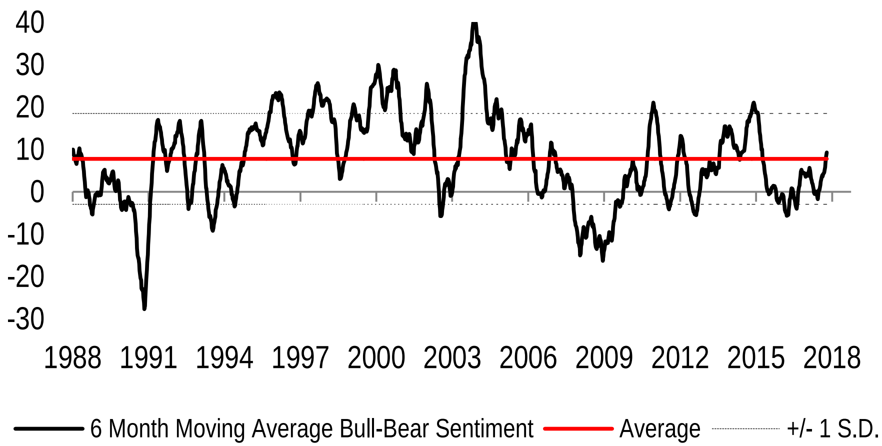
Liquidity Conditions and Risk Asset Prices



- When global excess liquidity growth deviates from trend, asset prices respond
- The reduction already seen in global excess liquidity growth will weigh on risk assets over the coming year
- Risk appetite is currently above liquidity conditions, and may roll over in 2018

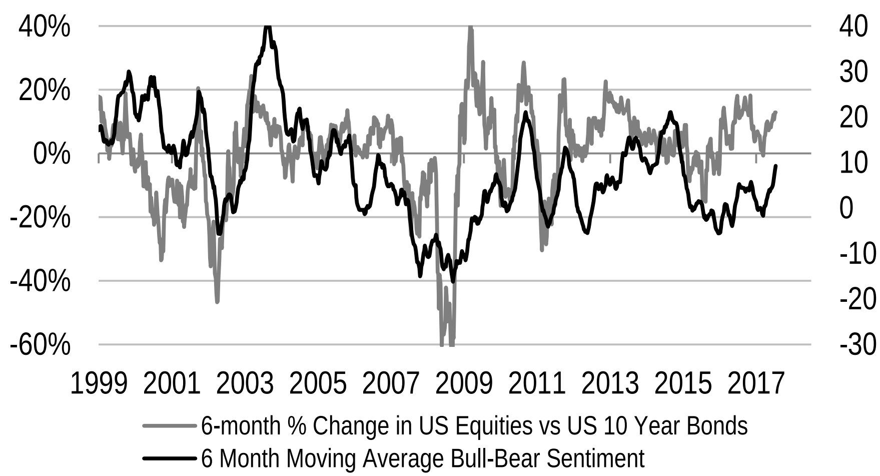
Sources: Bloomberg, Shiller, Deltec

Bull-Bear Sentiment



- Sentiment indicators are at their long term average, and continue to rise

Bull-Bear Sentiment vs Equities Relative Returns

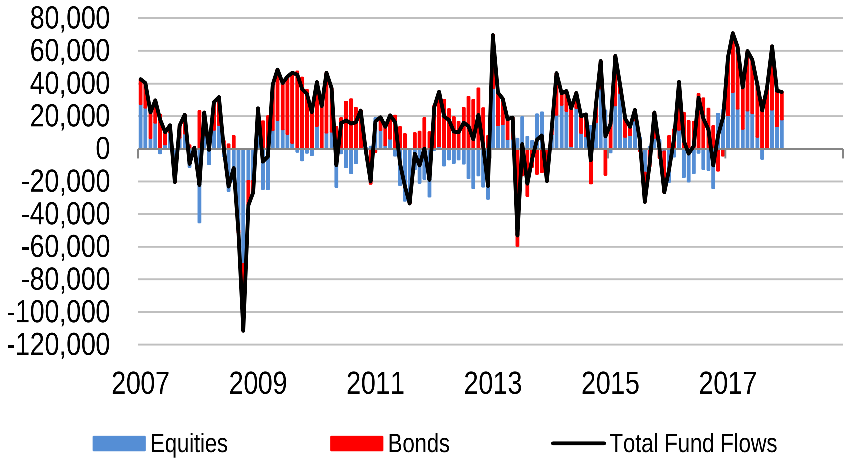


- Markets are well above the level implied by current investor sentiment

Sources: Bloomberg, Deltec

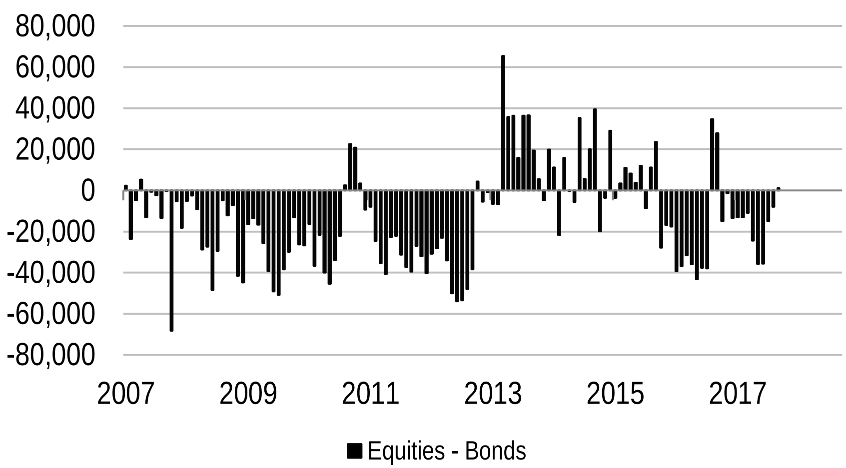
Market Momentum

Equities and Bond Fund Flows



- Fund flows have fallen recently from their late 2016 peak, however remain positive
- Equities fund flows have been positive in recent months
- Bond fund flows have been positive in recent months
- Bond fund flows are likely to slow as interest rates rise and growth remains positive

Equities-Bond Fund Flows

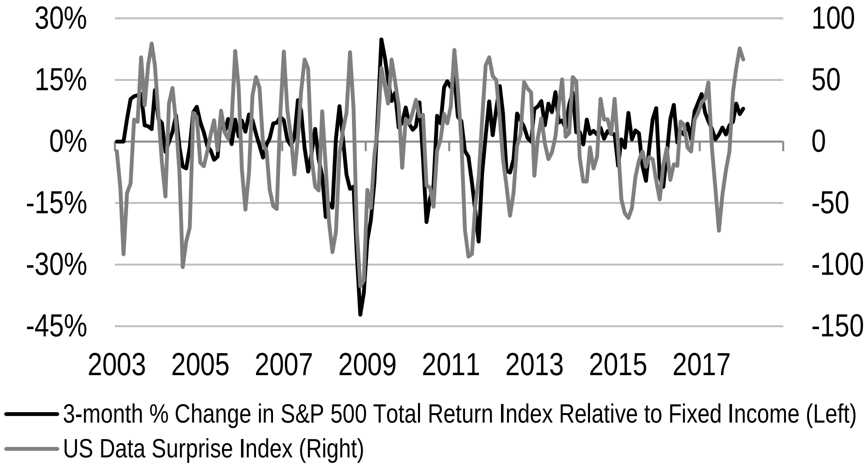


- Investors shifted away from Equities to Bonds in 2017
- As interest rates rise and bond market volatility rises, we continue to expect a rotation away from Bonds
- The rotation into Equities should resume as Equities remain attractive to Bonds from a yield perspective, and as global growth continues to improve

Sources: ICI, Deltec

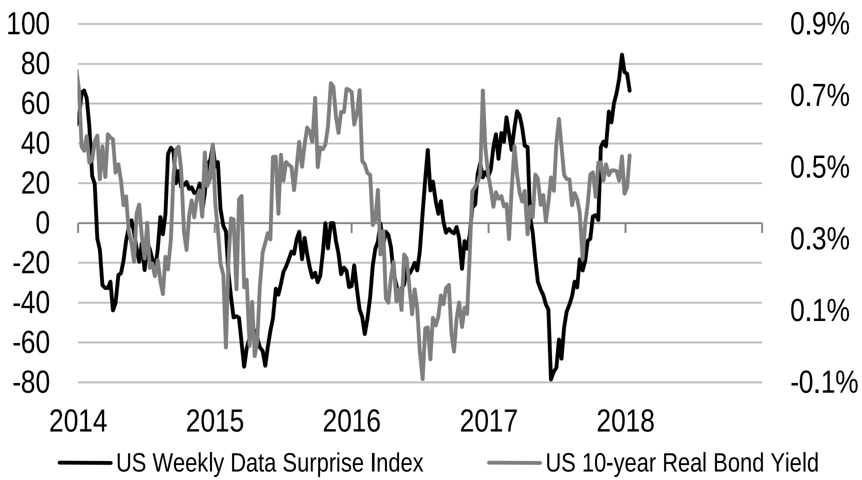
Market Momentum

US Data Surprises vs Asset Class Returns



- US Data Surprises have now turned positive and are improving
- Equities have outperformed Bonds
- Data surprise indices are consistent with Equities continuing to outperform Bonds

US Data Surprises vs Real Bond Yields

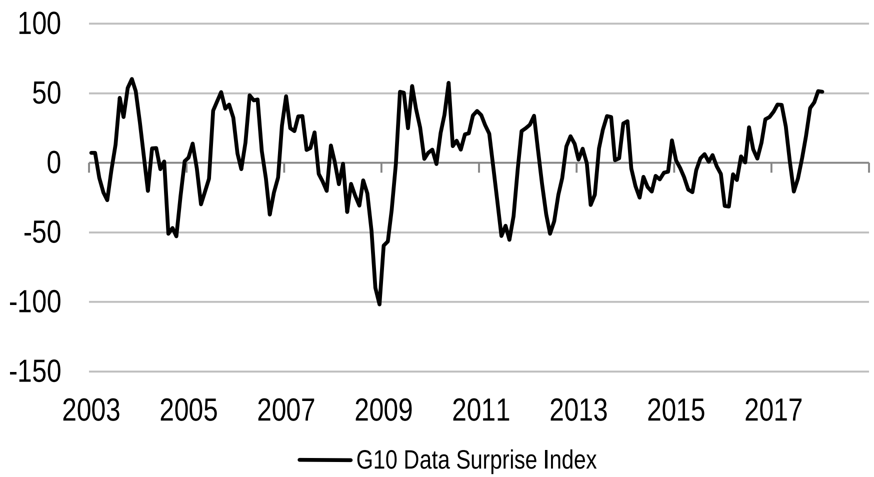


- Data surprises are consistent with higher real bond yields

Sources: Bloomberg, Deltec

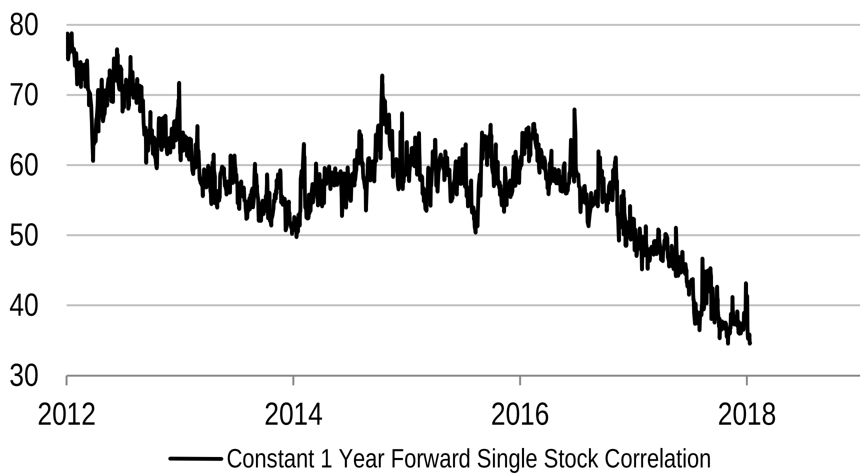
Market Momentum

G10 Data Surprise Index



- Global data surprises have risen sharply, led by the US and Europe
- Data surprises are at cycle highs

Single Stock Correlation



- Single stock correlation has declined further, and is at multi-year lows, as the broader economic expansion is expected to continue for several periods
- Low single stock correlation is typically consistent with low macroeconomic uncertainty
- Single stock correlation is not expected to remain low as USD liquidity growth slows and macro uncertainty rises

Sources: Bloomberg, Deltec

PREVIOUS MESSAGES

Previous Messages

Q4 2017: Mechanical Intelligence

- *"Our contrarian expectations of stronger global growth and an extension of the economic and market cycle have been validated by both the consensus and the data. These expectations were borne from our analysis of economic growth, liquidity conditions and asset prices, and the interrelationships between each of these. This same mechanical analysis leads to our latest conclusion that the current economic cycle will continue for several periods, to become the longest that the world has experienced in post-war history. The end of the era of policy driven liquidity growth is successfully shepherding in a new era of capital investment driven productivity growth. This is generating immense technological changes that are challenging the conventional notions of industrial production, inflation and asset prices, leading to significant investment opportunities, but also substantial risks. Whether created by industrial production or artificial intelligence, economic growth continues to drive earnings. Whether measured by fiat or cryptocurrencies, liquidity conditions continue to drive money supply. Whether real or financial, asset prices continue to drive wealth. Hence, to decipher between the opportunities and risks of this new era, we continue to rely on Mechanical Intelligence."*
- In the coming period, stronger economic growth will support growth sensitive assets, however changing liquidity conditions will impact interest rate sensitive assets. From a relative perspective, undervalued growth sensitive assets will outperform liquidity sensitive assets, with selected Equities providing the best risk adjusted returns, followed by Money Market Securities, Credit, and Real Assets.

Q3 2017: Boom or Bubble

- *"… following the increase in global growth momentum and asset prices in recent periods, a natural cyclical pause is expected, although should not be a cause for concern, as it comes within a broader economic and market expansion that is likely to continue for several periods. Selectivity is key across the investment landscape, with the importance of asset allocation and sector allocation increasing following the recent synchronized appreciation. This need for increased selectivity provokes misunderstanding and prompts significant risks, which manifests in investment markets as mispriced assets and tremendous investment opportunities, as investors must distinguish… Boom or Bubble?"*
- Growth momentum is peaking and liquidity growth is slowing, the combination of which is likely to lead to bouts of volatility in the coming period. This will come within a broader expansion in outright global economic growth and still ample liquidity environment that is likely to see higher asset prices as the cycle progresses. In this environment, investors must decipher whether the coming boom in certain sectors can justify the growing bubble in selected asset prices. From a relative perspective, undervalued growth sensitive assets will outperform liquidity sensitive assets, with selected Equities providing the best risk adjusted returns, followed by Credit, Money Market Securities and Real Assets.

Q2 2017: Protecting Capital vs Pursuing Growth

- *"From a strategic perspective, the global economy has entered a new regime, underscored by seismic changes that are occurring at a political, demographic and capital level. Economic and investing outcomes are rarely linear and often staccato, as is the case with the current tactical and strategic outlook. This need for increased selectivity provokes misunderstanding and prompts significant risks, which manifests in investment markets as mispriced assets and tremendous investment opportunities, both long and short, and can only be negotiated through balancing the need for Protecting Capital vs Pursuing Growth."*
- Asset prices are expensive and at risk as discount rates rise, however the outlook for growth is particularly strong, and selectively providing opportunities across and within asset classes, even as volatility is likely to rise. From a relative perspective, growth sensitive assets will outperform liquidity sensitive assets, with selected Developed Market Equities likely to provide the most attractive risk adjusted returns, followed by Cash & Money Market Securities, Bonds and Real Assets.

Continued over…

Previous Messages

Q1 2017: The New World

- *"Whilst many are concerned about the significant changes in governments around the world, this has, and will continue to be, a private sector driven expansion. The past fifteen years have been characterized by rampant liquidity growth; competitive currency devaluation and; expanding globalization, however over the next fifteen years, productivity growth will replace liquidity growth; structural reform will substitute competitive devaluation and; trade reform will displace globalization. This shift from a reliance on liquidity primarily from the public sector towards a reliance on capital investment and intelligent ideas from corporations and individuals will see an environment of both capital and labor shortages, where the deployment of capital becomes paramount to the attraction of capital, presenting substantial opportunities for active managers. Save for the parallels to the mid-1990s, the coming period will be like almost no other time in investing history, which truly makes this environment – The New World."*
- Asset prices are expensive and at risk as discount rates rise, however the outlook for growth is particularly strong, and selectively providing opportunities across and within asset classes, even as volatility is likely to rise. From a relative perspective, growth sensitive assets will outperform liquidity sensitive assets, with selected Developed Market Equities likely to provide the most attractive risk adjusted returns, followed by Cash & Money Market Securities, Bonds and Real Assets.

Q4 2016: Traversing the Midpoint

- *"Over the coming periods, the Developed Market led economic expansion will continue, with the magnitude and duration of this expansion beyond the current midpoint dependent on the extent to which productivity growth can replace liquidity growth, and fiscal stimulus and private sector participation can replace monetary stimulus. From a tactical perspective, growth will continue to improve, however this is juxtaposed with the strategic perspective, where liquidity shortages, deleveraging and the whims of the populace and policymakers can only be countered by intelligent ideas and capital investment from individuals and corporations. More than ever, the world is desynchronized, and presents more isolated opportunities and more idiosyncratic risks, for both policymakers and investors alike – indeed, this is symptomatic of a world that is Traversing the Midpoint."*
- Everything is expensive, however everything is also relative, especially at the current midpoint, where opportunities across and within asset classes are increasingly selective. From a relative perspective, more broadly, growth sensitive assets are likely to outperform liquidity sensitive assets, with selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, followed by Cash & Money Market Securities, Bonds and Real Assets.

Q3 2016: Island Time

- *"Global growth momentum is improving, although to a near term peak, whilst global liquidity conditions are robust, although imminently changing, with USD liquidity growth likely to slow ahead of market expectations. Valuations are expensive, and risk assets may move into bubble territory given historically low discount rates, especially where growth is still intact. However, risks to the outlook are rising, chiefly from policy uncertainty, engendering only a selective increase in asset prices that will be driven by the realization of growth rather than the promise of liquidity. More than ever, the world is desynchronized, and presents more isolated opportunities and more idiosyncratic risks, for both policymakers and markets alike – indeed, this is Island Time."*
- The Developed Market led economic expansion continues, however is now more disparate by countries within regions, by sub-asset class with asset class, and by sector within market. Asset prices are becoming expensive and risks to the outlook are rising, requiring increased selectivity. Selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, whilst Emerging Markets will remain selectively challenged across all asset classes. FX markets remain the automatic stabilizer, pre-empting the next phase of deleveraging.

Continued over...

Q2 2016: Bigger Data

- *"Leading indicator data is consistent with a significant improvement in global growth momentum, still supportive liquidity conditions, and rising asset prices. Outright global economic expansion remains intact, led by Developed Markets, where growth is broadening across sectors. This data is likely to engender an improvement in investment markets, which will remain volatile, and greater idiosyncrasy within asset classes, which will become uncorrelated. In the coming periods, both markets and policymaker credibility will be challenged by the participants, the populace and above all, the data. This disparity between reality of data and the perception of markets advocates misunderstanding and engenders significant risks, which manifest as mispriced assets and tremendous investment opportunities. The instability of capital is juxtaposed with the capriciousness of market sentiment, however ultimately, there is only one factor that will drive markets through the cycle – Bigger Data."*
- Data is consistent with an improvement in growth momentum and a continued Developed Market led economic expansion. However, this will not be without further turbulence, especially as policymaker credibility is tested and liquidity conditions change again, by late 2016. Many risky assets will benefit initially, however through the cycle Selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, whilst Emerging Markets will remain selectively challenged across all asset classes. FX markets remain the automatic stabilizer, pre-empting the next phase of deleveraging.

Q1 2016: Exit Strategies

- *Global growth momentum is weak and global liquidity conditions are changing, the permutation of the two resulting in disparate growth outcomes across the world. In the coming periods, the world will experience the greatest monetary regime shift in a decade, the greatest capital investment paradigm shift in two decades and the greatest asset allocation shift in three decades. Exiting the current regime, paradigm and allocation will confer substantial risks, however also present significant opportunities – both long and short. More than ever, stakeholders, policymakers and market participants will have the need for Exit Strategies."*
- In the short term, investment markets are likely to remain volatile, as is expected when exiting regimes. Beyond this, accumulation opportunities exist. Selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, with the unwind of the decade plus carry trade ensuring lower risk adjusted returns from Emerging Markets, Commodities and High Yield Credit. FX markets remain the automatic stabilizer, pre-empting the next phase of deleveraging.

Q4 2015: Still On Track?

- *"… Whilst the next period of weaker global growth will be transient, it will advocate misunderstanding and engender significant risks, that when answered will reveal mispriced assets and tremendous investment opportunities. The cyclical milieu of expanding global growth remains intact, however it is adjacent to the secular venue of ongoing global deleveraging that continues to navigate across the globe, and an emerging shortage of liquidity that can ultimately only be countered with productivity growth, driven by capital investment and intelligent ideas. These conditions will manifest in markets with bouts of intense risk aversion followed by turns of extreme ebullience, both leading market participants to periodically ask the question regarding the cyclical and secular global outlook… Still On Track?"*
- Investment markets are placed at the intersection of declining global growth momentum within an economic expansion that remains on track, and changing global liquidity conditions within an era of slowing USD liquidity growth. In the near term, fewer investment opportunities and weaker investment returns are expected. Selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, with the unwind of the decade plus carry trade ensuring lower risk adjusted returns from Emerging Markets, Commodities and High Yield Credit, with FX markets remaining the automatic stabilizer, although less eventful and more idiosyncratic.

Continued over…

Previous Messages

Q3 2015: Growth vs Liquidity

- *"… The current environment is incredibly complex, and characterized by significant risks, the manifestation of continued deleveraging juxtaposed with inadequate, and often inappropriate, policy responses. Outright global economic growth remains firmly intact, supported by selected developed economies, where outcomes range from a tentative stabilization to a broadening of the expansion. Borne from this dynamic, growth sensitive assets will outperform liquidity sensitive assets, with expected turbulence in the latter presenting the greatest risk to markets. More than ever, the outlook for markets from both a cyclical and a secular perspective will be determined by the interplay of Growth vs Liquidity."*
- Tactical opportunities abound, as growth momentum rebounds, whilst risks are also rising, as liquidity growth is falling. Placed at the intersection of these issues, FX markets will provide the most significant opportunities. More broadly, growth sensitive assets, primarily Selected Developed Market Equities, are likely to provide the most attractive risk adjusted returns, whilst liquidity sensitive assets, including Fixed Income, High Yield Credit, Emerging Markets and Commodities will be exposed to the continued unwind of the decade plus long carry trade, ensuring lower risk adjusted returns amidst elevated volatility.

Q2 2015: The End of the Beginning

- *"… Regime shifts are difficult to identify, and their nonlinearity generates manifold changes, each of which is challenging to capitalize on. Troughing global growth momentum and a selectively resurgent liquidity growth should create a more positive dynamic for markets. Markets move on second derivatives, and over the coming quarter, risky assets will likely appreciate. The global economic expansion is intact, and whilst risks are ubiquitous, they are becoming increasingly idiosyncratic and endogenous within economies. As such, the greatest risk to markets is not economic, but rather the contagion of interest rate volatility and liquidity sensitive asset instability into the financial system. In the midst of major market expansions or contractions, the central tendency of participants increasingly gravitates towards the notion that the latest phase is a denouement. Our contrarian view is that from an economic perspective and a market perspective, we are only at The End of the Beginning."*
- Selected Developed Market Equities are likely to provide the most attractive risk adjusted returns, and whilst Emerging Markets are likely to experience bouts of liquidity driven strength, the decade plus long carry trade continues to unwind, ensuring less attractive risk adjusted returns from liquidity sensitive assets, especially Fixed Income and Commodities.

Q1 2015: A World Apart

- *"… Disparate Developed Markets growth outcomes. A nascent Emerging Market crisis. Increasing questions of policymaker credibility. A growing threat of deflation. Selectively tightening liquidity conditions. Continued deleveraging within asset classes. Idiosyncratically, these present threats, and collectively these raise the risk of a renewed cyclical decline for economies and markets, especially against the current backdrop of peaking global growth momentum and selectively declining liquidity growth. However, this environment decline will be temporary, as it comes within a broader economic recovery that is increasingly disparate across and within regions, yet still largely intact. Over the coming quarter, these conditions will indiscriminately weigh on economies and markets, however over the year, will deliver highly disparate outcomes and present significant investment opportunities. From an economic perspective and an investment market perspective, this is A World Apart."*
- Fixed Income may provide a perceived safe haven in periods of volatility, however selected Developed Market Equities and Cash & Liquids continue to offer the most attractive risk adjusted returns. Against this, High Yield Credit, Commodities and Emerging Markets remain most at risk

Continued over…

Previous Messages

Q4 2014: Turning Points

- *"… liquidity growth is slowing, and the seemingly innocuous turning point in market interest rates will see the liquidity landscape experience the most dramatic changes that have been seen since the financial crisis. Turning points abound across all major economies and markets, which will also leave our investment positioning at a turning point. These conditions do not make for stable markets. Markets move on second derivatives and liquidity is likely to dominate growth. Historic correlations will be fractured, liquidity driven markets will become unstable, markets where valuations are stretched will come under pressure, and safe haven and risky assets alike will experience volatility. What one would expect at Turning Points."*
- As USD liquidity growth slows, the beneficiaries of decade-plus long carry trades, chiefly High Yield Credit, Commodities, Emerging Markets and Interest Rate Sensitive Equities, will be the first and the most negative to be impacted, however they will certainly not be the last, and risky assets, including Equities, are expected to remain volatile. Initially, Cash & Liquids will offer the most attractive returns, and ultimately, Equities will present more attractive risk adjusted returns than Fixed Income.

Q3 2014: Risky is the New Safe

- *"… the world will soon enter a period of more positive growth. However, this environment will be characterized by disparate growth, and even more disparate monetary policy. The greatest risks to investment markets are no longer related to geopolitics or even the growth cycle, rather it is the reaction of now expensive safe assets to changes in monetary policy, and any contagion of this interest rate volatility into other markets. If the recovery proceeds as our analysis suggests, the coming periods will not only see more attractive risk adjusted returns from Equities, however will also see the most challenging period for Fixed Income that has been seen for 20 years – to the point where, perhaps, Risky is the New Safe."*
- Over the coming quarters, asset prices will likely follow the path of growth, yet be impacted by the path of liquidity – relatively undervalued risk assets such as Equities are likely to benefit from the improving global growth environment and outperform, whilst relatively expensive safe assets such as Fixed Income are now at risk, especially as the monetary policy landscape changes. The specter of geopolitical risks remains, however the greatest risk to investment markets is the reaction of now expensive safe assets to changes in monetary policy, and any contagion of this interest rate volatility into other markets

Q2 2014: Late Spring

- *"…our analysis suggests that the global economy is neither entering in an elongated period of low growth, nor at the start of another cyclical downturn – in fact it is potentially entering a period that is quite the opposite of both, as the underlying drivers of a more sustainable recovery continue to build. On balance, we believe we will ultimately experience a cyclical rebound in both economic growth and investment markets – a Late Spring."*
- Risk assets will remain under pressure and volatility elevated in the short term as declining growth momentum and slowing excess liquidity growth continue, however an opportunity to buy for the reacceleration of growth and excess liquidity will emerge over the coming quarter.

Continued over…

Q1 2014: The Gap between Two Trapeze

- *"… the current phase of global growth, driven by liquidity and global policy action, is coming to an end. The next phase of global growth must be driven by productivity gains, if it is to be sustainable. This next growth opportunity may require invention, will likely require innovation, and will most definitely require investment, particularly from the US. Transitioning to this new phase will challenge policymakers, corporations and market participants. The global economy is currently in between these two phases – The Gap between Two Trapeze."*
- Global liquidity conditions are currently loose, however becoming increasingly divergent across regions, and on balance, leading to slower excess liquidity growth over the coming quarter. Global growth is currently disparate across regions yet improving to trend, however will likely become more synchronized between Developed and Emerging Markets. Positive for risk assets in the very short term, although volatility is likely to increase as liquidity and growth undergo these transitions.

About Deltec

About Deltec

Deltec is a diversified financial group, founded in 1946 in Brazil and now based in The Bahamas, with a global network of clients and contacts, The Group has a 65 year legacy of being creative, innovative and contrarian - traits that are as embraced today as they were when founded.

Today, Deltec is a private company, independently owned and managed by a group of dedicated clients and employees and faithful to our initial approach and vision of providing superior returns in a safe and stable environment.

Deltec International Group now comprises Deltec Bank & Trust; Deltec Investment Advisers; Deltec Fund Services and Deltec Securities Ltd; with total Assets Under Management, Advice and Administration of > $5bn.

Investment Research & Advisory

Deltec's world class economics & strategy based Investment Markets research and Alternative Investment Fund research provides actionable investment ideas that are clearly articulated to Institutional and Private Clients on a bespoke basis, and via our Deltec Investment Research service. Leveraging from this expertise, Deltec also provides Holistic Investment Advisory and Outsourced CIO services to Clients.

Investment Management

Deltec's sophisticated investment offering, covering Fund Strategies and Market Strategies approached to investing, leverages off our Investment Research & Advisory services to provide bespoke portfolios using direct securities, mutual funds, alternative investment funds and direct investments.

Brokerage

Deltec's trading platform provides execution only services to clients across all non-sanctioned markets, geographies, asset classes and currencies. Utilizing a suite of external counterparties with different specializations, Deltec focuses on providing high quality execution services, whilst being able to provide advice throughout the trading process.

Structured Solutions

Using our experienced team of investment strategists, portfolio managers and analysts, Deltec can create of guide Clients towards an implementation solution for investment ideas, across both public and private markets.

Investment Funds

Deltec's proprietary investment funds are always designed to be differentiated, fill a niche for Clients, and capitalize on our competitive advantages. Deltec carefully constructs and manages investment funds designed to generate both strong absolute returns, and consistent returns relative to the benchmark over time.

Merchant Banking

Servicing only select clients, Deltec's Merchant Banking team specializes in capital raising, management consulting, monetization and exit strategies for small-mid cap companies. Deltec has the resources to advise clients on the most appropriate solution – mergers, sales, acquisitions, spin-offs and capital raisings via the Deltec Direct Investment Platform.

Direct Investments

Continuing its heritage, Deltec has built an innovative proprietary platform of exclusive direct investment opportunities. In a world where yields are low and risks are correlated, Deltec is sourcing investments to complement investor portfolios, aiming to providing above market and uncorrelated returns without increasing market risk.

Performance Analytics

Deltec has developed proprietary systems to provide consolidated investment reporting and performance analytics over all of a Client's investment assets, whether managed at Deltec or by third parties, to ensure portfolios are generating the appropriate risk adjusted returns.

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