Market Bulletin 9 February 2018

Dear Client,

We are writing this bulletin in case you might be feeling some concern about your portfolio given the considerable volatility in global markets over the past week.

We recently sent you our year end Manager's report, in which we indicated our intention to scale back risk in the portfolios this year, taking some profits in stock investments after last year's strong performance and moving to an underweight allocation to equities, from a slight overweight.

We started this process on 26 January and completed it before the end of the month and the recent rout. Markets had started the year on a positive footing. The factors that slightly concerned us and caused us to rebalance the portfolios earlier rather than later in the (usually strong) first quarter were:

- First signs of ´exuberance´ from retail investors - this factor had been largely absent during the bull market which had given us comfort.
- Clear signs that market expectations for Fed rate increases this year were "behind the curve" and would need to be reset sooner rather than later, as we could see some inflationary pressures building.
- The abnormally long period of very low "volatility" in the market as measured by the VIX index.
- Relatively high valuation level of especially the US stock market.

Profits taken in the equity section of the portfolios are currently in cash (held in the base currency of the portfolio). This cash will be reinvested in primarily the "alternatives" section of the account, which is less correlated with the direction of stock and bond markets, and partly in the fixed income section, once interest rate expectations have been "reset" to higher levels and more interesting yield opportunities become available. For the moment we are monitoring all developments carefully and waiting for the dust to settle.

We consider, after analyzing the many different indicators we follow, that what we are experiencing is a sharp correction rather than the start of a bear market, and that there will be a recovery from current levels once over-leveraged players have finished selling:

- Leading indicators still point to a continuation of the (now synchronized) global economic recovery.
- Valuations of stocks are starting to look attractive again, including in the US where the recent tax cuts have caused a sharp upwards revision to expected corporate earnings
- We have so far not seen a widening of corporate credit spreads. There has never been a bear market that was not preceded by a clear widening of corporate credit spreads, the "canary in the coalmine" for an expected deterioration of company balance sheets and cash flows.

In spite of the above, we currently do not expect to increase equity allocations again as especially the US economy is quite late on in the recovery cycle, at which point a gradual scaling back of risk is usually prudent.

As ever, please contact us should you have any questions with regards to your portfolio.

Sincerely,
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