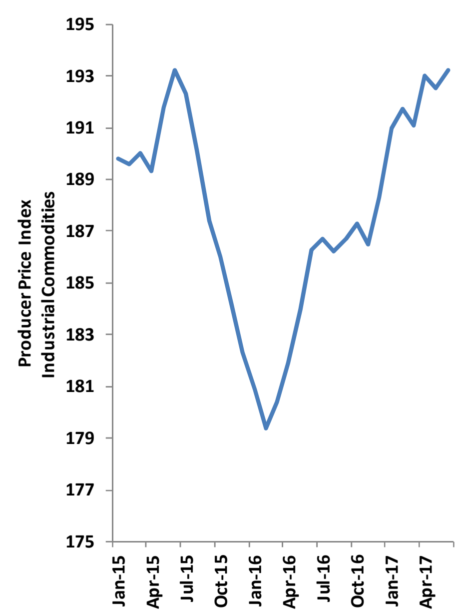
ASHDON
Investment Management

The stock market extended the global rally that began in the Spring of 2016. The broad US market was up +3.7% (S&P 500 Index), while international markets were up +6.9% (MSCI EAFE Index). The S&P 500 Index has advanced +10.0% for the year and +17.9% for the last 12 months. The index ended the quarter just below its all-time highs. International stocks are +16.0% higher for 2017 and +20.4% for the last 12 months. Bonds were also positive with the benchmark Barclay's Aggregate index advancing 2.4% for the quarter and 3.6% for the year. Client portfolios participated in the rally and are strongly positive for the year, while our positioning remains conservative.

The changes in the business world and global economy over the last 12 months have illustrated that, in spite of the consensus view that the US market's move higher since the election is due to "the promise of business-friendly policies to come" (known as the "Trump Bump"), we have instead witnessed a turning point driven by the recovery in foreign, mostly emerging market, economies. The MSCI Emerging Markets Index has performed strongly, even outperforming the S&P 500 from September of 2016 through the end of the 2nd quarter – up 29.4% compared to 27.8% for US markets. Emerging market outperformance has continued to accelerate since. In our view, the rally in foreign stock markets is not caused by expected US policy changes. There must be another driver.

The clue to the fundamental driver of the global rally is found in strong emerging market performance. Emerging market economic performance and company profits are sensitive to commodity prices. A period of global deflation, with commodity price weakness at the center, began in 2010. While the central bankers of the developed market economies were working to inflate assets prices – or at least stabilize them – after the Great Financial Crisis, emerging markets leaders were less able and willing to participate. Commodity producing companies with excess debt were forced to continue production even as global demand slackened; creating a supply glut and pushing prices even lower. However, emerging market policy makers were finally successful in restraining production (through tightening lending standards and rationing credit). The deflationary trend came to an abrupt end in early 2016, as market participants began to force the realization of this trend. Since then, commodity prices broadly have begun to reflate. This has been in lock-step with international GDP growth.



Developed world GDP growth is sluggish, and while there are still imbalances in the global economy, central bankers' policies foster an environment to continue the growth trends. We continue to believe that the US stock market is expensive relative to long-term averages, but reversion to this mean could take time to develop. It's also in our view that the trend in emerging market growth will continue for some time. This strengthening economic environment in emerging markets could put a tailwind behind developed markets as well. The international holdings in our portfolios have performed very strongly and our US holdings continue to do well. Our seasoned portfolios remain conservatively positioned. We continue to be patient with newer portfolios.

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