PREMIA
GLOBAL ADVISORS
A Wealth of Advice

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# Keep your eyes on the prize

*Don't let short-term market volatility derail your long-term goals*

*"The more things change, the more they stay the same."*

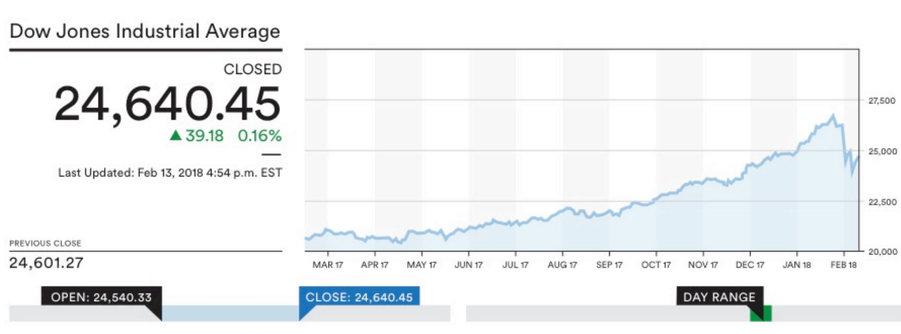
-Jean Baptiste Alphonse Karr, 1849

Over the past few weeks, we have witnessed a textbook example of global stock market volatility. Some whiplash is expected when the S&P 500 Index ("S&P 500") lost all that it had gained in 2018 in a single day – only to recover fully – and then some – several days later! One thing is clear: History provides sound guidance on market corrections, and one of our key takeaways, having already managed assets through many market cycles, is that you need a steady hand amid choppy markets. It's true what they say – the more things change, the more they remain the same.

At Premia Global Advisors, we expected the recent downturn and regard it as an opportunity rather than a setback. The fundamentals underpinning the market and economy remain sound, and we fully anticipated – and in fact welcomed – this healthy correction after a period of heady market gains. As many stock markets touched record-high levels, investors captured gains by selling their stocks. When there are more sellers than buyers, share prices decline. The speed and velocity of the recent dips took many by surprise. Some theorize it was partly due to the recent popularity of trading programs based on complex mathematical algorithms. It's true that this automated approach to investing can increase downward momentum in declining markets. Still, it does not change fundamentals, and even produces some very attractive opportunities for active investors.

**A look at the bigger picture**

Two thousand and seventeen was the epitome of a vigorous bull run – one that seemed to defy gravity after nearly nine years of largely steady gains. The S&P 500 rose 21.8%, the Nasdaq rocketed 29.6%, the Dow Jones Industrial Average ("DJIA") advanced 28.1%, the MSCI All Country World (Ex-U.S.) Index gained 27.2% and the MSCI Emerging Markets Index was up over 37.0% in the 12-month period ending December 31, 2017. Even in January 2018, we saw the market continue to charge ahead, with the S&P 500 and DJIA each experiencing their biggest one-month gains since March 2016. Despite volatile trading in early February, the bellwether DJIA is still up 20% over the 12 months ending February 28, 2018.



Widening our lens even further, we believe market corrections are a healthy part of the economic cycle and help pave the way for sustainable growth. While market declines are inevitable, nobody can accurately predict when these declines will occur. That's why it's more important to control what you can – namely your individual long-term goals.

**What's next? Market signals remain healthy**

Prognosticators will tell you that they have insight into the direction of financial markets. We'd like to set the record straight: no one truly knows what's next. At Premia, we monitor several indicators as bellwethers of market health and, by all counts, fundamentals at both the market and economic levels remain robust.

Although market conditions appear challenging, our view is that the economy continues to show underlying resilience. Real gross domestic product ("GDP") grew 2.3% in 2017, extending the 1.6% increase in 2016. GDP has also grown in 26 out of the last 28 quarters. The Purchasing Managers' Index (measures expansion of manufacturing activity) hit its highest point in over six years in 2017. Finally, the Consumer Confidence Index (measures broad-based optimism about the economy) is the strongest it has been since 2004.

Here are some encouraging trends we are seeing today:

1) **Economic growth and corporate profits continue to improve on a global basis**. At home, U.S. growth is steady and improving. European growth has surprised on the upside and there are signs that there is still room to grow. Japan's domestic market is experiencing a revival, which could propel its equity market even further. And while not cheap, emerging markets are relatively well priced compared to developed markets.
2) **Monetary policy and the direction of interest rates is measured –** U.S. interest rates are showing a steady and measured path toward their natural levels as inflation remains subdued, which has naturally kept interest rate increases by the Federal Reserve ("the Fed") at bay. In the period ahead, we will be monitoring policy moves by the Fed closely as they will certainly have an impact on capital markets.
3) **Tax reform should benefit most corporations –** The recently passed tax reform bill is a piece of legislation that we believe will be a net positive for U.S. corporations. We also anticipate foreign companies could be indirect beneficiaries as U.S. companies find themselves with more money to spend.
4) **Employment rates remain healthy –** Fiscal spending has increased and we anticipate this will result in stronger employment figures. In January, non-farm payrolls were up 200,000, which was better than anticipated. Earnings also increased 2.9% (annualized), marking the best wage gains since the recovery in 2009. (Source)

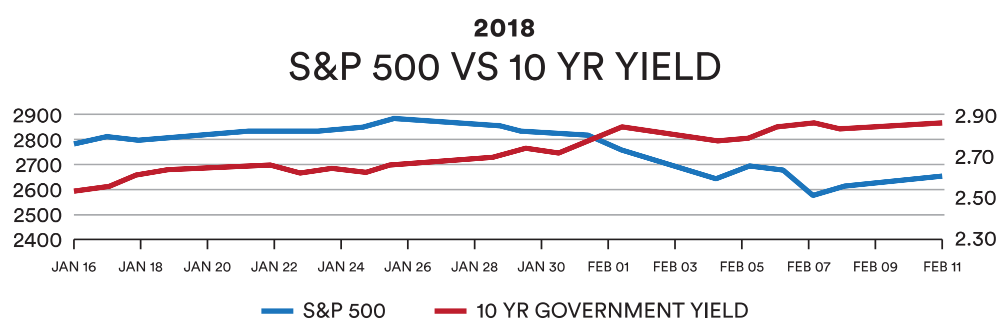
**How are we positioning your portfolio?**

This is the type of environment in which a firm like Premia adds value. We know that stocks of fundamentally sound, industry-leading companies have been "oversold" and are now bargains for astute investors. So, while down markets may appear catastrophic to short-sighted investors, we welcome this opportunity to buy strong stocks at attractive prices.

We've been proactively positioning our portfolios to benefit from market gains and to protect our clients on the downside across a wide range of scenarios. We started the year moderating return expectations for the U.S. market. We expect international and emerging markets to fare slightly better in the period ahead, but not by a wide margin.

In this climate, we continue to favor equities over fixed income. However, as interest rates continue to rise, as they inevitably will, there will likely be more attractive fixed income opportunities. In equities and fixed income, we continue to add diversification by seeking opportunities outside the U.S. in both developed and emerging markets. Remember, an effectively diversified portfolio that invests in a range of sectors, market capitalizations and asset classes helps mitigate the impact of market volatility.

The following chart shows how stocks (represented by the S&P 500 Index) have declined recently as interest rates (represented by the 10-year government bond yield) have risen.




Source: [https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2018](https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2018)

Given expected increases in volatility and continued high equity prices, we favor increased exposure to non-correlated assets such as commodities, alternative credit, hedge funds and private equity. Of course, these types of investments aren't for everyone as they carry liquidity and other risks, but for those who are accredited sophisticated investors and have an appetite for enhanced diversification, an allocation to these asset classes make sense as part of a well-diversified portfolio.

**What really counts: Your goals**

At the end of the day, an equity index represents a decent barometer of the economy and market sentiment, but your life does not revolve around an index. This takes us to the most important point of all. **Success means achieving your financial goals.** Whether your investment portfolio can adequately fund all your life goals and milestones is all that matters. Maybe you need to build your assets to a particular level so you can retire comfortably by a certain age. Or, maybe you have legacy goals, like passing on wealth to your family or a favorite charity. Your goals are uniquely yours, and remain independent of wider market events.

When market volatility strikes, it's vital to stay focused. In the year ahead, we can expect more volatility to take hold, but want to emphasize that this hasn't affected the disciplined way in which we approach investing. We are sticking to our highly disciplined investment strategy and asset allocation models, regardless of market conditions.

In the past year, we proactively rebalanced our client accounts to their strategic levels in anticipation of volatile markets. Our focus remains steadfastly on each individual client at Premia as we provide you with a personalized financial roadmap, rather than try to match the benchmark. We're committed to helping you attain your long-term financial goals – and the many other life goals that you've told us matter most to you.

**Next steps. Talk to us.**

Speak with us if you're concerned about financial markets. It's also an excellent opportunity to ensure that your investments are aligned with your longer-term goals. We can show you how your investment portfolio is tracking your goals, and ensure the risk you're taking is consistent with your current personal circumstances and risk tolerance. You can email me directly at msosa@premiaglobaladvisors.com.

We look forward to the privilege of serving you in 2018, and beyond.

Sincerely,

Miguel Sosa

Founding Partner, Premia Global Advisors, LLC

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