GLOBAL EXCHANGE TRADED FUND STRATEGY

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First Quarter 2017 Performance Review

Our global balanced strategy, which allocates among bonds, stocks, and commodities around the world, gained 4.9% last quarter, increasing the 12-month return to 6.7%.

Buoyant market sentiment carried over to 2017, and global financial markets marked a strong start for the first quarter. Even though many indexes reached new heights as 2016 ended, equities continued their rallies around the world and bonds also gained modestly.

The MSCI AC World Index soared 7% for the quarter. The robust return underscored a synchronized global recovery as Asian exports improved and commodity prices significantly rebounded from a year ago. Investor surveys signal that after slowing in the past two years, the global economy is expected to show substantial growth in 2017. Growing GDP, traditionally, is followed by increased corporate profits. The expected global economic turnaround prompted emerging market equities to jump by 11.5%. The return of emerging market equities was led by a whopping 13% gain in the Chinese stock markets, where economic growth was on target. In Europe, Germany's strong business confidence supported European stock advances, which were a great contributor to a 7.2% quarterly gain of the MSCI EAFE Index.

US stocks, although lagging foreign markets, rose 6% during the first quarter. Their weaker results may have been due to the lofty valuations and later, doubt that emerged around President Trump's tax reforms. US bond markets reflected these concerns, giving up 20 basis points from the quarter's peak at 2.6% to close at 2.4%. The retreat of US bond yields helped the US bonds to return a small (less than 1%) yet positive return for the quarter, trimming the fourth quarter's heavy losses.

At the same time, US inflation continued to climb; the March US Consumer Price Index increased an annualized 2.4%. The higher inflation lowered US real interest rates to near zero, adding pressure on the dollar. The Dollar index, measuring the dollar's trade-weighted value, retreated 1.9% in the last three months, dropping from a 14-year high. A weaker dollar improved the gains on non-dollar foreign bonds. Global bonds outside the US recorded a 2.4% return for the quarter, and emerging market bonds, which are often sensitive to the dollar and US yield effects, rose 5% for the same period.

Beside foreign bond markets, the dollar's weakness also supported precious metal markets. Gold rallied to $1,250 per ounce at the quarter's end, soaring 8.2% for the quarter. However, the improved precious metal prices provided little help for the rest of the commodity markets. The Thomson Reuters/Jefferies CRB Index fell 3.3% during the first quarter. Oil prices softened as US shale oil production increased.

At the quarter's end, our strategy's equity portion returned 7% for the quarter, increasing the 12-month return to 15.8%, and the bond portion rose 2.2%, lowering the 12-month loss to 0.4% for the same period. The equity and commodities portion accounted for 56% of the strategy's assets, and bonds accounted for the remaining 44%. Specifically, 25% of strategy assets were invested in US equities, 23% in foreign equities, 22% in US bonds, 21% in foreign bonds and 8% in commodities.