GLOBAL EXCHANGE TRADED FUND STRATEGY

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2017 Year End Performance Review

Our global balanced strategy, which allocates among bonds, stocks, and commodities around the world, gained 3.3% last quarter, sending the 2017 return to 15.2%.

The year of 2017 was a remarkable year for global financial markets. Asset prices around the world were bolstered by abundant liquidity, depressed bond yields, and an upswing in the global economy. Most stock markets delivered double digit gains. Optimism finally fired up commodity markets, which erased early losses to close positive for the year. Major bond markets remained under central banks' close watch to keep rates affordable. Low borrowing costs boosted total global debt to over $230 trillion, or over 300% of world GDP as of September 30, 2017.

Global equities returned 24% in 2017, after the 5.7% advance in the final quarter. The recent quarterly rally was synchronized with the global upturn as JP Morgan's Global Purchase Manager Index soared to a 2-year high. A global recovery invited an army of analysts to search for bargains in emerging market equity markets, which traded at 15 times the cyclically-adjusted earnings, half the multiple that measured US large-cap stocks. The MSCI Emerging Market index soared by 38% last year, led by China, the largest economy in the region, which skyrocketed over 50% in the past 12 months.

Other international equities also had spectacular results. The MSCI Europe, Australia and Far Eastern Index, tracking developed market equities, climbed nearly 25% from a year ago. The strong performance was credited to central bank liquidity. European Central Banks kept rates unchanged, while extending their bond purchase program for another nine months. Bank of Japan gave no indication of revising its current quantitative easing policy.

US stock markets, after entering the eighth year in this bull cycle, continued to attract significant money inflows. The Trump tax cut rocketed American key stock indexes to new heights. The S&P 500 Stock Index rallied 6.6% in the final quarter, raising the 2017 return to over 20%. This US bull market is unusually long and profitable. Since June 2009, US stocks have gained nearly 300%, but their market valuations are, by some measures, at extremes. US stocks, measured by the CAPE ratio, stand at 32. The CAPE ratio has been higher only in 1929 and during the dot.com bubble. The Buffet Indicator, measuring total market capitalization to GDP, climbed to 150%, the highest level in history.

Bond yields around the world stayed calm and low. US 10-year bond yields, the world's yield benchmark, showed some liveliness when Congress planned to overhaul the American tax policy. The yield climbed during the final quarter, after falling six months from last March. The yield advance projected a higher US growth rate and an improved commodity outlook, but US 30-year bond yields were less conformed. The longer bond yield fell below 2.7% in mid-December. At the quarter's end, the 10-year bond yield closed at 2.4%, about the level at the start of 2017, and the 30-year treasury yield was down by 200 basis points for the year. Lower long-dated bond yields sweetened US bond portfolios.

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At the quarter’s end, US bonds total return edged up during the quarter by 0.4%, improving the 2017 return to 3.6%.

The Dollar Index, measuring the dollar's trade-weighted value, stumbled by 1.5% during the quarter, and declined 10% during 2017. Global bonds outside the US benefited from a weak dollar, gaining 1.1% for the final quarter, lifting their return to 7.4% for the year.

Raw material markets shrugged years of pessimism; the Thomson Reuters/Jefferies CRB Index jumped 6.2% during the fourth quarter, closing less than 2% higher than a year ago. Crude oil prices climbed over $60 per barrel, increasing over $20 in the past six months, and copper prices advanced strongly by nearly 12% from a quarter ago. Gold, also taking advantage of a weak dollar, swung higher in December, breaking the $1,300/oz barrier to close at $1,302/oz at year’s end, or $150 higher than the 2016 closing price.

At the quarter's end, our strategy's equity portion returned 5.6% for the quarter, increasing the yearly return to 24%, and the bond portion delivered a quarterly gain of 1%, improving the annual return to 7.4%.

The equity and commodities portion accounted for 57% of the strategy's assets, and bonds accounted for the remaining 43%. Specifically, 26% of strategy assets were invested in U.S. Equities, 23% in foreign equities, 22% in US bonds, 21% in foreign bonds and 8% in commodities.