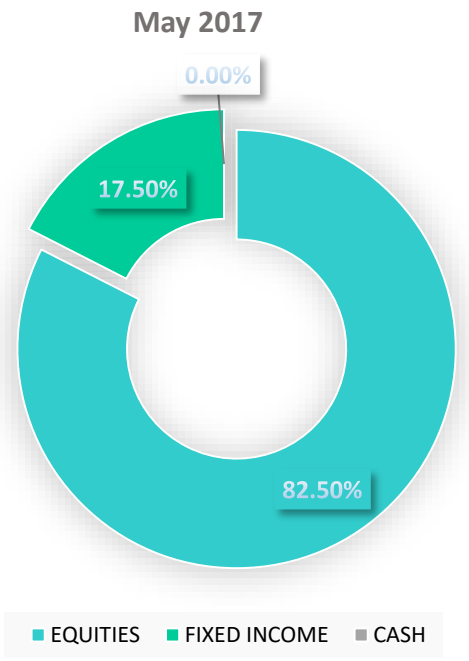
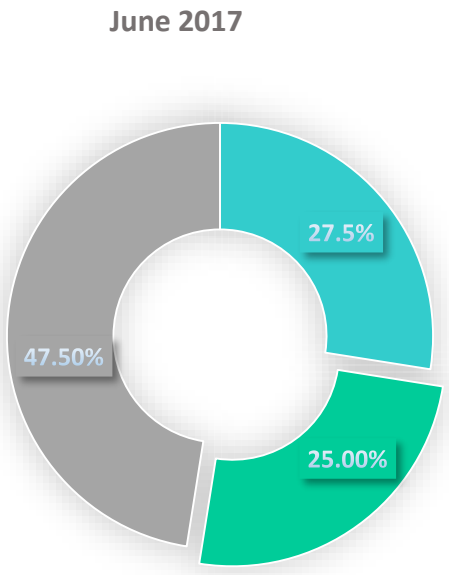
AllocateRite | Cloud-Based AI-Powered Digital Wealth Management™

Monthly Rebalancing Bulletin and Commentary

June 7, 2017

U.S. Domestic





AllocateRite Model's Trending Indicators

EQUITIES	
Consumer discretionary stocks	▼
Consumer staples stocks	▼
Energy stocks	▼
Financial stocks	▲
Healthcare stocks	▼
Industrial stocks	▼
Materials stocks	▼
Technology stocks	▼
Utilities stocks	▼
Real-Estate stocks	▲

FIXED INCOME	
20+ Year Treasury Bond	▲

CASH & CASH EQUIVALENTCASH & CASH EQUIVALENT	
1-3 Month T-Bill	

▲ Out-perform

▼ Under-perform

■ Hold signal

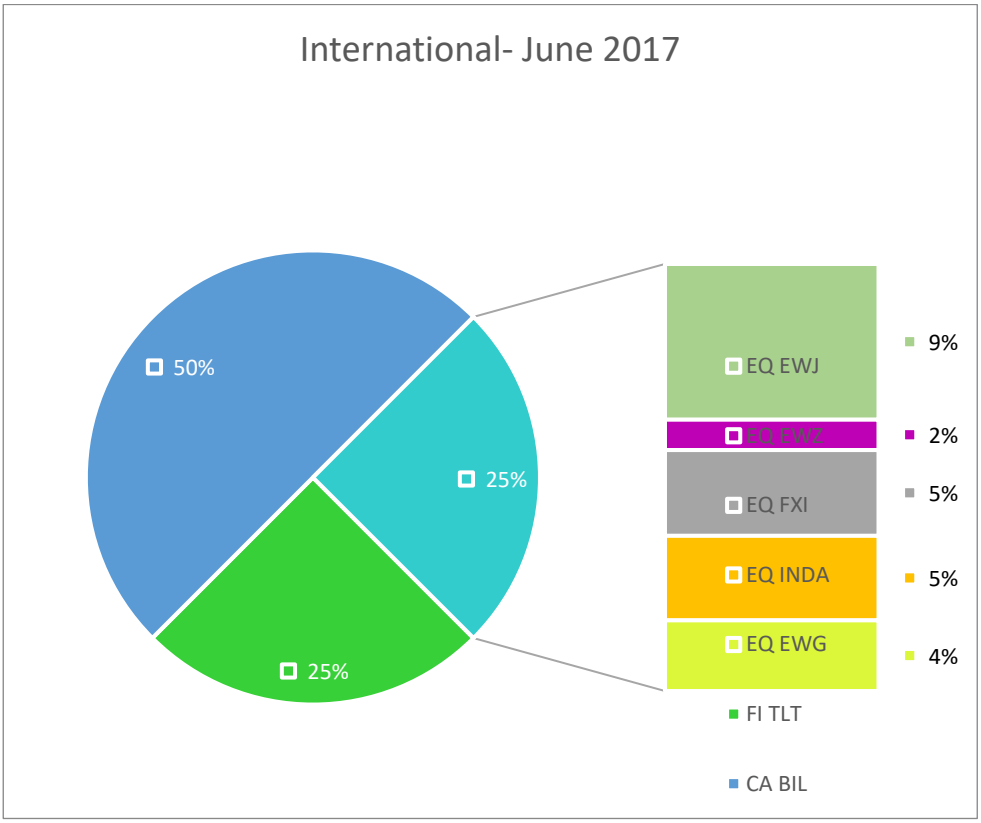
On June 7, 2017, the U.S. Domestic model ("ARUSDOM"- Bloomberg ticker) significantly decreased risk assets (from 82.5% to 27.5) across all equity sector allocations, except for Financials. The portfolio has increased its Cash allocation from zero to 47.5% with the remaining 7.5% going to Fixed Income.

AR model has moved into a risk aversion mode as it continues to see the curve flatten with longer term yields not rising. Technical factors are showing the market being overbought is most sectors. AR's model had underweighted Financials and Healthcare in May, while Financials is the only sector being over-weighted in June.

- Despite strength in consumer confidence, U.S. economic data has continued to come in below expectations. While slow real GDP growth for the first quarter (recently revised to 1.2% annualized) was thought to be a transitory event, it has since been followed by weaker-than-expected economic data early in the second quarter.
- The U.S. interest rate curve flattened with interest rates on U.S. Treasury bonds declining during the month on slackened inflationary pressures and mixed economic news. The release of the minutes from the most recent meeting of the Federal Open Market Committee gave some investors confidence that the Fed might pause their rate hike program following any move higher in June.
- Wage inflation could start accelerating; which may be initially good for consumers, but could crimp profits and likely push the Fed to be more aggressive. Additionally, with the United States above full employment, it may be tough to get the economy to grow noticeably faster. In order to achieve faster growth, the participation rate will have to move higher—unlikely due to demographic forces; or productivity will have to increase—which doesn't appear on the horizon.
- The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.65 percent for the month.
- Earlier in May oil prices rose in anticipation of a month-end meeting between OPEC and Russia, but fell sharply following the meeting on signs of increased U.S. production and concerns that OPEC production may also start rising. The Bloomberg Commodity Index ended the month down 1.05 percent.
- Financials also declined, along with interest rates, falling 1.41% for the month, as some concern emerged over Q2 2017 trading profits; year-to-date, the sector was in the red, off 0.33%, though it remained up 16.13% from the election.
- VIX traded at 10 year lows: there appears to be little fear in the market.

International and Dynamic Blend

Beginning May 2017, AllocateRite introduced two new models AllocateRite Diversified International Composite ("ARINTNL") and AllocateRite Global Dynamic Blend Composite ("ARDYBLD") strategies. ARINTNL strategy is comprised of five country ETFs (Japan, Brazil, China, India and Germany) plus a fixed income and cash component; and the ARGDBC strategy is a dynamic blend of ARUSDOM and ARINTNL strategies currently weighted at 62.48% and 37.52%, respectively.

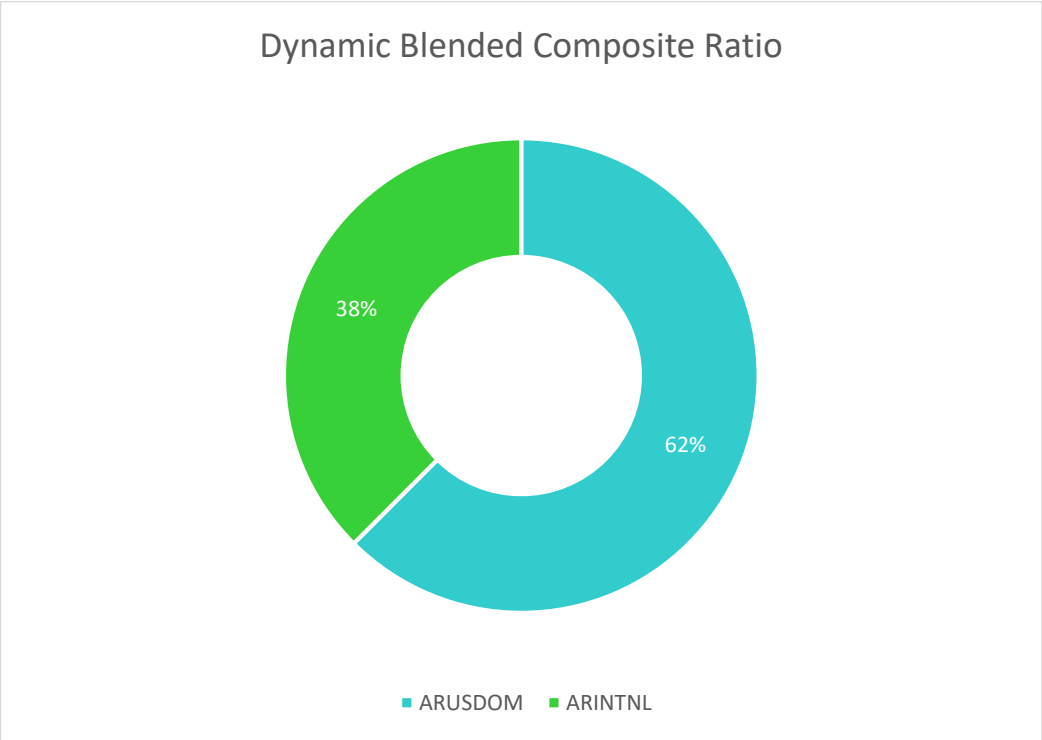


The Dynamic International model ("ARINTNL"- Bloomberg ticker) has significantly decreased risk assets (from 67% to 25%) across all country groups for the June rebalancing.

- European economic data has been outperforming, both relative to expectations and relative to the U.S. Stronger European data, coupled with more attractive equity valuations and optimistic earnings expectations.
- Global equity markets put in another strong month in May, prompted by the outcome of the French elections with centrist/reformist Emmanuel Macron prevailing over populist candidate Jean-Marie LePen. Although, geopolitical anxiety continued to play a role in market performance, too, causing investors to flee to safe havens which contributed to bond market strength.
- The U.K. election had unexpectedly become more interesting as Theresa May's lead in the opinion polls began falling. UK growth is expected to slow in 2017 to 1.6%. Inflation is set to rise sharply due

to the fall in the pound, which will reduce disposable income of households and encourage cuts in spending.

- The ECB are expected to keep interest rates on hold, but will quicken tapering of QE in 2018.
- Japanese growth forecast at 1.6% in 2017 and inflation at 0.7% supported by looser fiscal policy and a weaker yen. No further rate cuts from the BoJ, but more QQE is expected as the central bank targets zero yield for the 10 year government bond.
- China's stocks overcame renewed concerns about the future pace of economic growth in China later on in the year, increased regulatory oversight into shadow banking activities and Moody's downgrade of the country's sovereign debt.



The current optimal ratio for AllocateRite's U.S. Domestic vs. Diversified International model in June continued to move towards more International exposure for the same reasons mentioned last month:

- Better technicals and fundamentals
- Relatively cheaper valuations

- Better macroeconomic underpinning (as implied by relative economic growth between Asia, Europe and U.S.)

As a result, AR's view continues to forecast an increase in its proportion of assets in the Diversified International Composite within the Global Dynamic Blend Composite.