ALLOCATERITE | Cloud-Based AI-Powered Digital Asset Management Technology™

Monthly Rebalancing Bulletin and Commentary

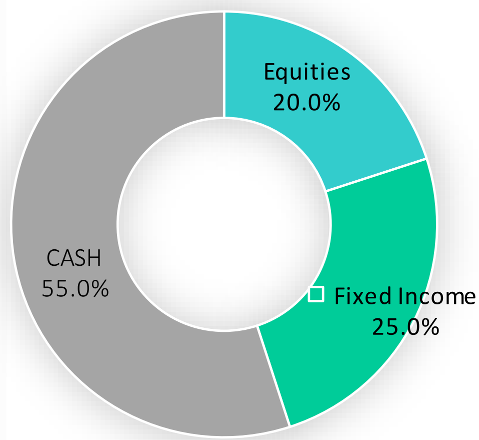
May 1, 2019

U.S. Domestic Composite

On May 1, 2019, the U.S. Domestic Composite's ("ARUSDOM"- Bloomberg ticker) moved to a risk-off mode, significantly reducing its equity allocation. Equities exposure was decreased from 82.5% to 20% with the bulk of it moving into Cash increasing from 0% to 55%, and Fixed Income moving up from 17.5% to 25%.

- The S&P 500 gained 3.93%, up year-to-date 18.25% including dividends.
- Cyclicals outperformed defensives with Financials up 8.84%, followed by Technology +6.36%. The **worst performing sector was Health Care down -2.74%.**
- Fed, as expected, decided to make no change to official short-term interest rates. However, negative reaction to Fed Chairman Jerome Powell's post-meeting hawkish remarks labeling the current low level of inflation as 'transitory', dimming hopes for possible rate cuts later this year.
- Continuing U.S.- China trade tariff negotiations was perceived as a positive sign for markets in April.
- The 10-year U.S. Treasury Bond yields closed the month at 2.50%, up from 2.41% while 2 –year remained flat, helping widen the spread.
- Corporate bonds were the best-performing investment grade spread sector in April, total return of 0.54%, outperformed similar-duration U.S. Treasuries by 87 bps.
- High yield bonds gained again in April, returning 1.40%; year-to-date up 8.90%.
- Although the worst quarter for S&P 500 earnings growth since 2Q of 2016, it was viewed as better than expected.
- S&P 500 market breath showed 359 issues gained (an average 6.66% each) while 145 issues declined (an average loss of 4.29%).
- CBOE Volatility Index (VIX) closed at 13.12, down marginally from 13.71 last month.
- Buybacks jumped in Q1 2019, 28% of issues having 4%, or more lesser shares.
- U.S. economic data remained mixed in April–
    - Imports of goods declined at the most rapid rate since the depths of the Great Recession, while exports continued to rise robustly.
    - Productivity rose 2.4% year-over-year, leaving unit labor costs about flat.
    - The Chicago Business Barometer fell to 52.6 in April, vs. 58.7 in March.
    - April Flash U.S. Composite Output Index at 52.8 (54.6 in March) set a 31-month low.
    - First quarter GDP grew at an annualized rate of 3.2%, well above analysts' forecasts.
    - April jobs report showed that 263,000 new jobs were added.
    - Softer inventories and a weaker housing market.
    - Core PCE inflation rose just 1.6% over the 12 months ending in March.
    - Consumer Confidence Index estimate rose to 129.2 for April, vs. 124.1 in March.
    - Factory Orders rose 1.9% in March (+2.0% y/y), reflecting a 31.0% spike in civilian aircraft orders. Durable goods orders rose 2.6% (+2.1% y/y).
    - Unit Auto Sales fell to an adjusted 16.4 million annual rate in April.
    - Rate of inflows into the labor force has slowed sharply, contributing to the unexpectedly large decline in the unemployment rate to 3.6% in April.

U.S. Domestic Composite
May 2019



AllocateRite Model's Trending Indicators

EQUITIES	
Consumer discretionary	▼
Consumer staples	▼
Energy	▼
Financial	▼
Healthcare	▼
Industrial	▼
Materials	▼
Technology	▼
Utilities	▼
Real-Estate	▼
Communications Services	▼
FIXED INCOME	
20+ Year Treasury Bond	▲
CASH & CASH EQUIVALENT	
1-3 Month T-Bill	▲

LEGEND
▲ Out-perform
▼ Under-perform
■ Hold signal

International & Dynamic Blend Composites

AllocateRite Diversified International Composite ("ARINTNL") and AllocateRite Global Dynamic Blend Composite ("ARDYBLD") strategies were added to include greater global diversification. ARINTNL strategy is comprised of five country ETFs (Japan, Brazil, China, India and Germany) plus a fixed income and cash component; and the ARDYBLD strategy is a dynamic blend of ARUSDOM and ARINTNL strategies.

The Diversified International model ("ARINTNL"- Bloomberg ticker) significantly reduced its overall Equities risk allocation from 64.3% to 25.0% with the differential moving into cash equivalents.

- The MSCI World ex USA Index (developed markets) was up 2.49% net for the month, while the MSCI Emerging Markets Index (MSCI EM) was up 2.11%, both again lagging U.S. markets.

Eurozone:

- The German DAX index rose 5.7% for the month.
- EU Flash PMI signals showed 2Q growth slowed slipping to 51.3 in April from 51.6 in March. German service sector performance helped sustain the expansion, and offsetting a sharp decline in manufacturing.
- Brexit has been delayed possibly until 31st October as Theresa May once more failed to get her Withdrawal Agreement through parliament.
- French President Emmanuel Macron reluctantly agreed to cut taxes in response to the continued Yellow Vest protests.
- Euro-area inflation jumped to 1.24% y-o-y in April from 0.77% in March.
- German growth in 2019 has been slashed to just 0.5% – roughly a quarter of the level the German Government was predicting a year ago.
- Non-annualized Euro-area GDP was 0.4% q-o-q, better than expected.
- 10-year German bunds rose 8 bps to 0.01%, the Bund/US 10 Year Government Bond spread rose slightly to -249.3.

Japan:

- Nikkei rose 5% in April.
- The yen weakened 0.5% against the dollar.
- Flash Japan Manufacturing PMI® was 49.5, third straight month below 50.0, weaker demand persists both in domestic and international markets.
- Japan's consumer confidence index fell 0.1 to an adjusted 40.4 in April.
- Rates in Japan rose as the 10-year moved up 4bps to -0.04%.

China:

- China Hang Seng moved slightly higher +0.3%.
- China's economy expanded at a faster-than-expected rate of 6.4% year-on-year in the first quarter.
- Caixin China Composite PMI at 52.7 showed continued strength in April.
- Industrial production growth for March rose to 8.5% y/y.
- Chinese yuan was 0.3% weaker against the dollar.

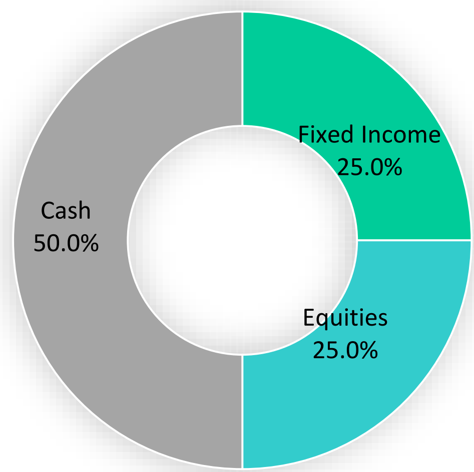
Brazil:

- Brazilian Bovespa increased 1.0% in April.
- Political issues were volatile, economic data disappointed.

India:

- Indian SENSEX was up 1.3% in April trading near all-time highs.
- The central bank cut its benchmark interest rate to 6%, from 6.25.
- Nikkei India Manufacturing PMI declined to 51.8 in April from 52.6 in March.

Diversified International Composite
May 2019



Change in Country Allocations:

Japan	**EWJ**	**-10.4%**
Brazil	**EWZ**	**-5.1%**
China	**FXI**	**-7.2%**
India	**INDA**	**-7.6%**
Germany	**EWG**	**-9.0%**

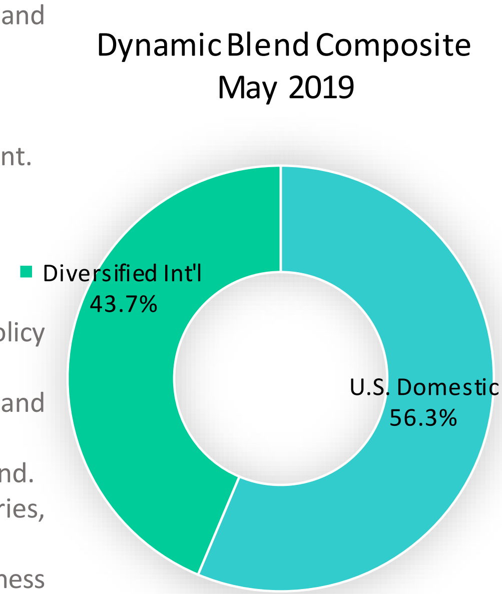
International & Dynamic Blend Composites

As of the May 1, 2019 rebalancing, the optimal ratio for the Global Dynamic Blend Composite (ARDYBLD) moved marginally more in favor of the U.S. Domestic Composite(increasing to 56.3% from 55.1%) and bringing the Diversified International allocation down to 43.7%.

- U.S. Domestic's allocation moved slightly higher as supported by the following-
  - S&P P/E ratio forward estimates relative to interest rate curve.
  - Fed's dovish stance and interest rate outlook.
  - U.S. continued economic expansion, buoyed by tax reform and deficit spending adding further momentum to the US business cycle.
  - Fresh investment in plant and equipment yielding current and potentially much longer-term improvement in exports- imports imbalances.
  - Strong jobs market and low unemployment is driving consumer and business spending.

  Concerns include:
    - The deficit to GDP ratio continues to rise.
    - Longer-term risks of extensive fiscal stimulus with full employment.
    - Moderating economic growth.
    - Potential issues completing China trade deal negotiations.
- Diversified International exposure lower due to:
    - Concerns over global trade protectionism.
    - Conventional monetary policy remains constrained, where policy rates are close to or below zero.
    - Policy uncertainty has increased within the European Union and continuing issues surrounding Brexit.
    - China's economy still faces headwinds from slowing global demand.
    - Impact of China's slowdown to many export dependent countries, Germany in particular.
    - Most countries continue to experience a softening in business activity, with the manufacturing sector particularly depressed.

  Favorable drivers:
    - Strong fundamentals buoyed by very accommodative central banks.
    - EM and World Indexes provide lower P/Es on a relative basis and at the lower range historically.
    - Domestic demand and economic growth in the Eurozone remains resilient.
- Shift to Risk-off posture- focus on longer-term cautionary signs -
  - Global growth trend moderating, continued uncertainty around global trade negotiations and geo-political issues resurfacing.
  - Rising popularity of anti-establishment and populist political parties.
  - Higher U.S. short-term rates creating competition for capital as investors access above-inflation returns in short-term "risk-free" debt with lower risk.
  - Ongoing political and economic fall-out surrounding the Brexit process.
- Underlying positives remain in play-
  - Low inflation, low interest rates combined with extremely accommodative global monetary and fiscal stimulus providing tailwind for risk assets.
  - Chinese current round of monetary and fiscal stimulus potential driver to promote global growth.
  - Strong employment numbers and resilient consumer spending.



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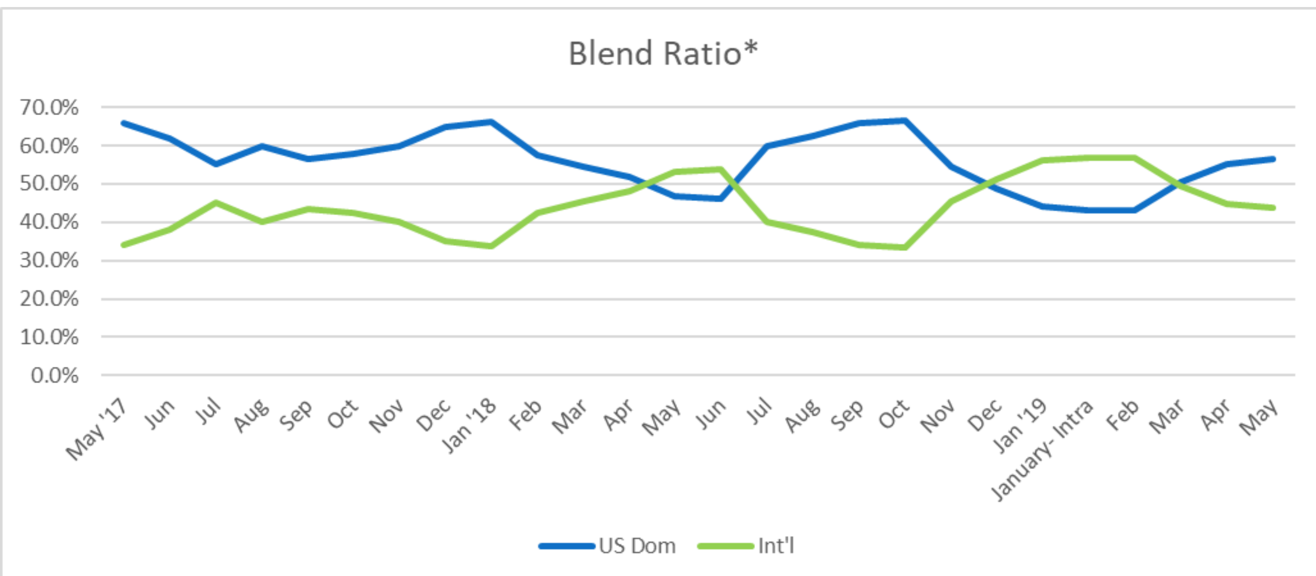
AR allocation blend reversed course adding greater exposure to the U.S. Domestic Composite supported by stronger economic indicators.

International & Dynamic Blend Composites

Risk-off; focus shifted to longer-term cautionary signs (continued):

- Unresolved U.S.-China trade deal negotiations.
- Housing market softness.
- On-going weakness of world trade reflective of continued under-investment and excess saving, putting downward pressure real interest rates.
- Vulnerabilities increasing amid pockets of high valuations and compressed global risk premia.
- Debt sustainability concerns.
- Liquidity strains on investment funds.
- China's economy growing headwinds— from weakening household spending to declining industrial output.
- Yield curves broadly reflecting continued macro uncertainty.
- Low government bond yields and potential resulting economic impact.



**Note: Actual Historic Blend Ratio chart above is generated monthly using AR's dynamic algorithmic allocation model. Actual allocations shown are for the period May 3, 2017 (inception) to present.*