Capital Risk

GLOBAL PORTFOLIO STRATEGY

Stimulating Exuberance


Photo: Alexander Schimmeck on Unsplash

The pump is primed. High valuations in nearly every asset class suggest investors see promise everywhere. Of course, unprecedented monetary and fiscal stimulus may contribute modestly to the euphoria. Renewed outbreaks across Europe, South America, and Canada are concerning but are unlikely to break the economic momentum. Seasonality is also a concern, as market mavens extol 'Sell in May and go away.' While these concerns are all valid, the helicopter money dropped across the world ensures that the economy and investors need not worry about the immediate environment. Easy credit and exciting new technologies compel the investor while sage investors remember past bubbles and speak of prudent valuations. In this environment, the investor's burden is as old as investing: how to exit before the music stops. The tune is tactical investing. The question is whether to dance or sit it out.

"

Monetary and fiscal stimulus exert itself in the markets by pushing prices higher, despite dear valuations in most asset classes.

Neither monetary stimulus nor exciting new technologies will change the narrative in the short run. Keep dancing by rotating equities into less popular tunes where value resides.

\- Jason Prole

"

Highlights

- **High equity valuations** suggest allocation and stock selection is vital.
- **Value** and the **Developed ex-US Markets** offer the best reward-to-risk.
- **Interest rates** provide negative real rates and further losses as rates rise.
- **Credit spreads** are too narrow and do not compensate for the risk.
- **Copper's** run may abate as inventory building loses steam.
- **US Dollar** strength may continue as higher rates draw investors to the US.

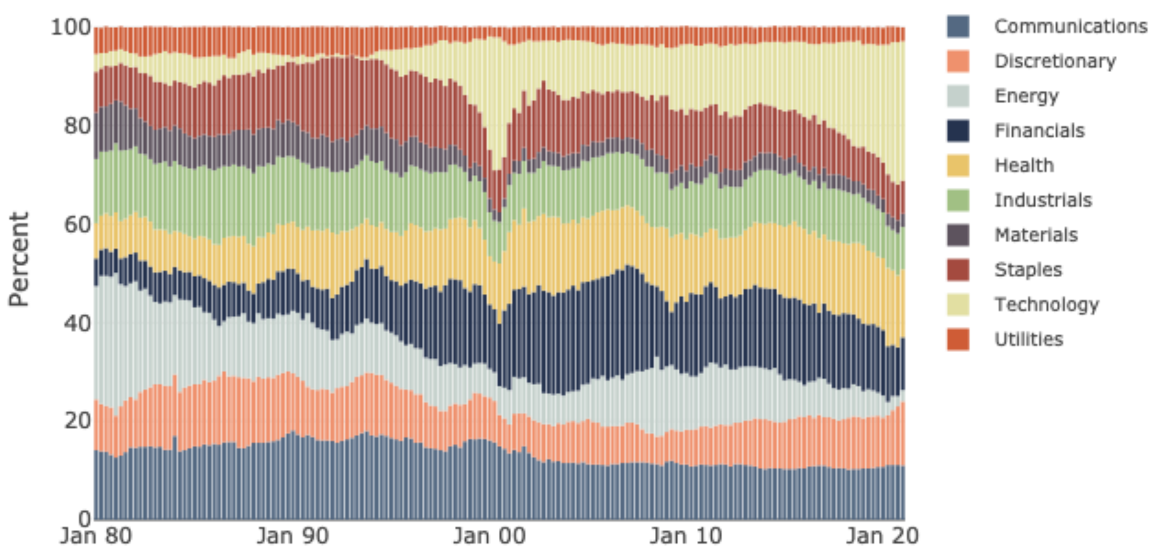
The Macro View

Changing Seasons. A constant of life is that the seasons come and go. The financial markets are not different. The markets change to reflect the new information, and the zeitgeist manifests in the market segment that is the darling of the moment. Depending upon the measure, equity valuations reach rarefied air in the US, which suggests exuberance abounds. Indeed, each sector has its coveted technology that offers the possibility of displacing the staid incumbents. The challenge is that the resplendent future everyone envisions in these technological disrupters appears in the price *already*.

Each decade has a sector the dominates the discourse and leads investors down the path to untold wealth (exhibit 1). Commodities were the theme of the seventies, which gave way to the Consumer Sectors in the 1980s. Technology defined the latter part of the 1990s until the bubble burst, while Financials and then Energy drove the 2010s. Today, the investor hunger for Technology has brought the sector to a weight that accounts for nearly 30 percent of the market. While profits back this technology exuberance compared to the Tech Bubble of 2000, history shows that the prior decade's leader is *not the leader* for the one that will come.

Sectors wax and wane *every* decade.

Exhibit 1. United States Equity Sector Weights (%)



Source: *Siblis Research, CRM Calculations.*

The Macro View

An Energy Renaissance. An urgent challenge is the need to adapt the global energy complex to reduce the impact on the environment. Most investors shunned the sector as a relic of the bygone era when the environmental impact was uncounted in operating costs. On the other hand, the technology sector brims with exuberance as world-changing innovations promise a dramatically different future. The price divergence between the two sectors gives fuel to this argument (exhibit 2). Embodied in one word is the threat to this eventuality: demand.

Information technology requires computers, which require electricity. The continued permeation of technology into our daily lives ensures that energy demand will continue with changes coming to *how* it is generated, distributed, and consumed. Fossil fuels most assuredly face extinction at some point in the not-too-distant future. The Energy sector will undoubtedly require a pivot to avail itself to more climate-friendly means of energy extraction and distribution. The question is not whether the Energy sector is viable but *how* change occurs to achieve sustainability. As the most repulsed sector, an opportunity exists for those willing to identify the future energy leaders.

Revolution requires energy.

Exhibit 2. Price Ratio of US Information Technology/Energy

Source*: IEX Cloud. Total returns from representative ETF. Capital Risk calculations. Higher ratio is Information Technology outperformance.*

The Macro View

A Luxurious Necessity. Amazon's entry into the supermarket segment sent shockwaves through the low-margin business. The incumbents feared further margin compression as the legendary efficiency of Amazon unfurled in their sector. Of course, another stalwart of efficiency, Walmart, entered the fray decades before and compressed their margins. Yet, they survived. Consumer Staples have a similar tailwind to the Energy sector that will lift it: demand and technology, enabling efficiency and augmenting pricing power.

The Consumer Discretionary sector handily beat the Consumer Staples sector over the prior decade as consumer luxuriated in the trivialities of unnecessary goods (exhibit 3). The Millennial generation is entering their prime household formation years, which require the banal supplies for their offspring and their castles' maintenance. The pending demand increase will intersect with technology to enable more precise marketing and customization of these commoditized products. The result may be a return to the heydays of the 1980s when staples ruled the consumer product market.

Secular trends favor staples.

Exhibit 3. Price Ratio of US Consumer Discretionary/Consumer Staples

***Source**: IEX Cloud. Total returns from representative ETF. Capital Risk calculations. Higher ratio is Consumer Discretionary outperformance.*

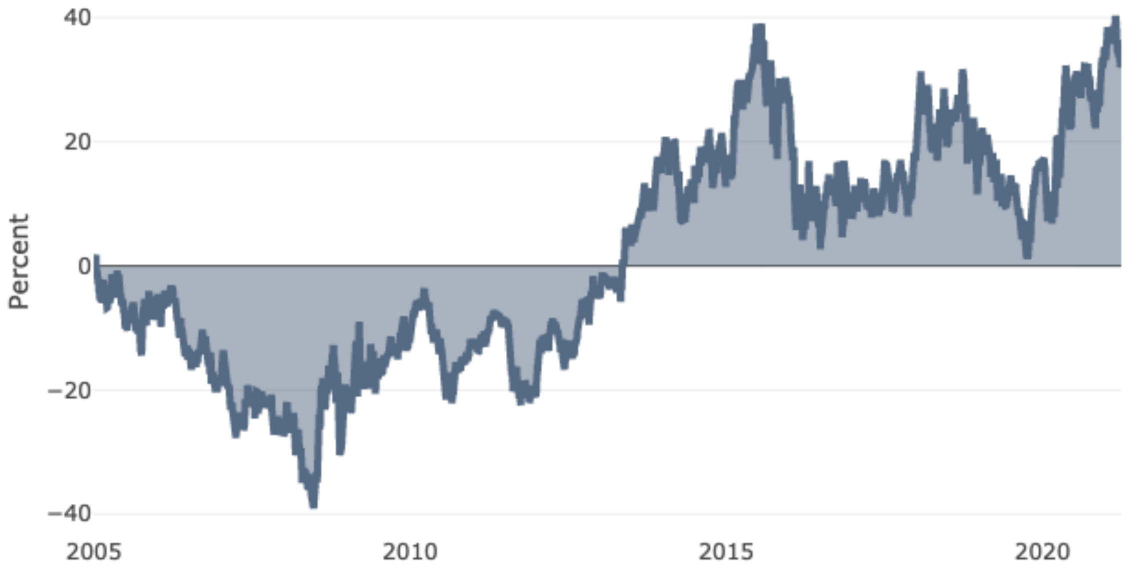
The Macro View

A Distributed Future. An increase in demand for energy or consumer staples will require distribution. While the promise of batteries, wind, and solar is real, getting the energy to the home is not the principal challenge: it is ensuring that an energy network is in place to *enable transportation and consistent supply*. While Utilities are the unexciting sector at the table, they possess the infrastructure for a future that most assuredly will include electricity distribution. *How* to generate electricity will change, but who delivers may not, given the vast distribution infrastructure required.

The utility sector lagged another well-regulated industry, Health Care, over the last decade. While Health Care has long been impervious to pricing pressure, technology may eventually pressure its enviable margins, even with increased demand from the aging Boomer cohort. In contrast, Utilities may enjoy a renaissance as Energy demand accelerates and the need for more charging stations materializes. Intermediaries in the value chain build business empires. With demand and technology aligned, utilities could enable the distributed future that the cognoscenti envision. Only time will tell whether investments that stimulate growth or investor exuberance will reign.

Utilities may return as distribution enablers.

Exhibit 4. Price Ratio of US Health Care/Utilities



Source*: IEX Cloud. Total returns from representative ETF. Capital Risk calculations. Higher ratio is Health Care outperformance.*

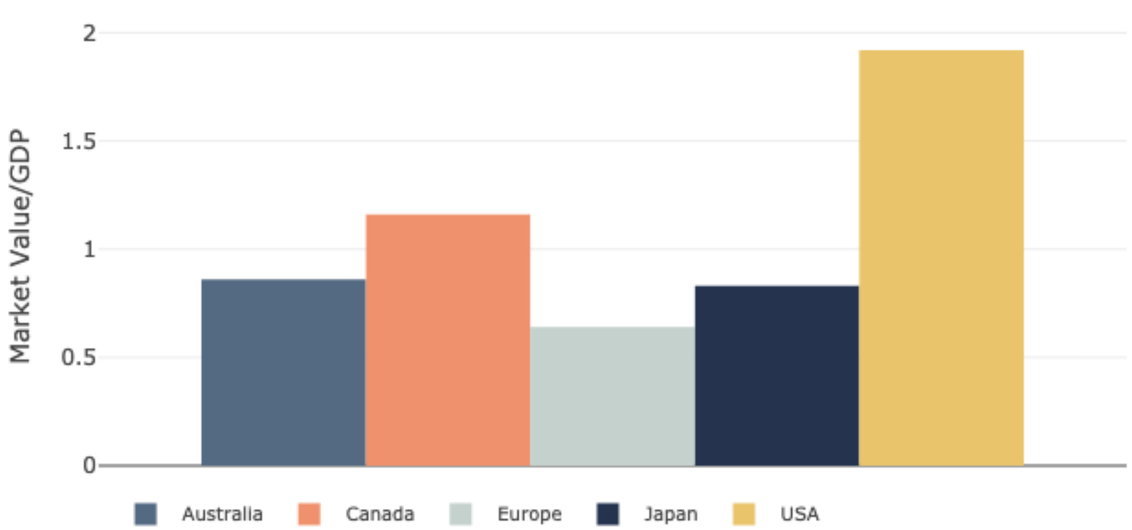
Equity Markets

The equity markets continue pushing to new highs. What is old is new again. Meme stocks are the new *cause celebre*. Gamestop highlighted a battle between Main Street and the coddled denizens of Wall Street with their populous fervor winning the day. Special Purpose Acquisition Vehicles (SPACs) look for acquisitions without a predefined purpose. Even leftovers from the last stock mania in 2000 found new supporters as Blackberry surged. While monetary and fiscal stimulus correctly supports the nascent Pandemic recovery, it is also creating a flood of indiscriminate capital not seen in 20 years. Therein lies the trouble.

A diffusion of capital across the world is a hallmark of investors seeking the best investment ideas. Currently, this is not the case. Capital is crowding primarily into the US market. This crowding is elevating the market capitalization to an extreme relative to comparable developed markets (exhibit 5). While the US enjoys a commendable vaccine rollout and leading technology companies, it's not evident that it should enjoy a market value to GDP ratio of double its peers. Certainly, the US has more favorable demographics, but they are not *that much more favorable* to justify the current valuation gap.

The US stands alone for valuation.

Exhibit 5. Ratio of Equity Market Value to GDP by Country/Region



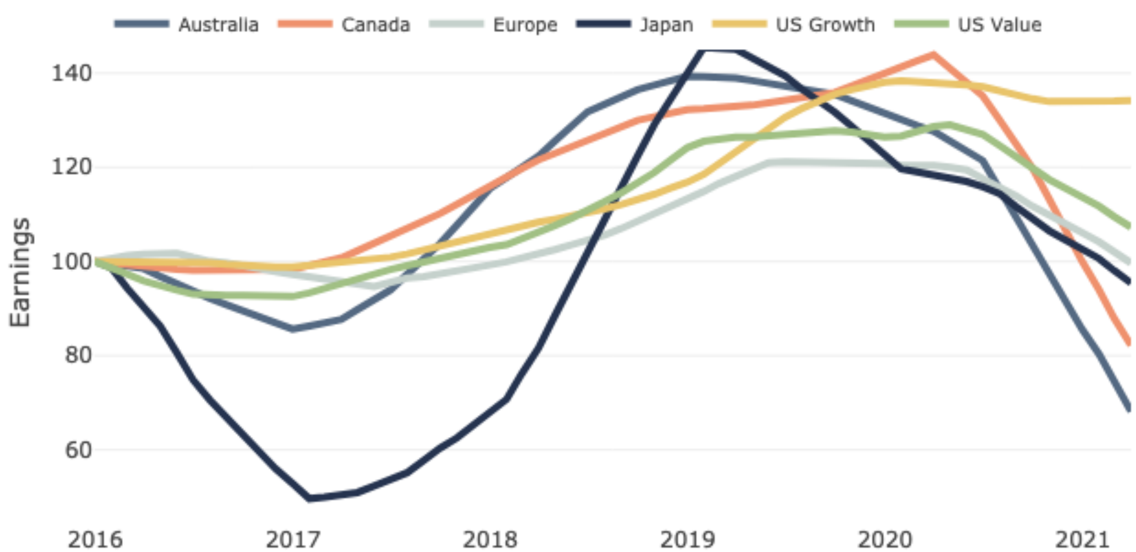
Source: *FRED database, Siblis Research. CRM Calculations.*

Equity Markets

Earnings tell a related story. The dominance of US equities is largely a result of its earnings, which did not recede during the Pandemic (exhibit 6). US growth stocks' resilience largely drove this outcome, specifically technology, which were immune to the consumer-focused withdrawal caused by the Pandemic. On its face, this provides a compelling narrative of why US tocks should reign supreme in the year of the Pandemic.

US Growth is the only region where earnings *didn't fall.*

Exhibit 6. Normalized Equity Earnings (Rolling 12-Month) by Country/Region



***Source**: Siblis Research, CRM Calculations. Earnings are normalized. Data as of March 2021.*

The challenge is going forward. Despite the US technology dominance, aggregate earnings did not grow at a higher level than its developed market peers. It's hard to make a case for the commodity-driven economies of Australia and Canada leapfrogging the US. In contrast, Europe and Japan can make credible claims that their technology and productivity can compete. Add China to the picture, and the endurance of US technology leadership is not foreordained. The pressing issue is whether the US is worth double the valuation compared to its developed market peers. In the short-run, possibly, in the long-run doubtful. The implication is some combination of the equity market or US dollar declines. As always, *timing is a critical success factor*.

Equity Markets

Mean Reversion. The investors enjoyed a decade of outperformance if they were fortunate to overweight US equities, specifically technology (exhibit 7). Brazil told a similar story the decade before, Hong Kong in the 1990s, and Japan in the 1980s. Every decade has its leader. Where it ends up next is difficult to ascertain in advance. Certainly, it will have some very admirable characteristics that compel the imagination. Chief among them is that it is *not the prior decades market leader*.

International markets are joining the US party.

Exhibit 7. Global Equities Relative Performance of US/World ex-US

Source*: MSCI. Total Return. Capital Risk calculations. Ratio increases reflect US outperformance.*

The future with almost certainly include two other factors: a low relative valuation and the prospect of a game-changing paradigm that delivers growth. The current hysteria suggests that it will most likely be a country (or sector) that provides solutions to our time's mission-critical challenge: climate change. The solution's form is uncertain, but most certainly, it will include the mass market (i.e., a consumer good) and leapfrog technology (i.e., create obsolescence for current market leaders). With the US darlings (e.g., Tesla) prices to perfection, it would suggest that investors look outside the US. The most certain investment power, mean reversion, reminds investors the future may rhyme but will not be identical to the past.

Equity Markets

Technology Dispersion. A truism of all technological changes is that mass adoption usually leads to one fate for the technology: commoditization. As the cloud technology behemoths compete, they deliver incredible returns to scale for themselves and their customers. As anyone who has ever worked in a large corporation knows, changing the ship's direction take time. Eventually, they fully embrace the technology and get the returns to scales for themselves. This insight brings hope for the stalwart investors in value equities (i.e., capital-intensive industries) who may finally enjoy the splendor of technology in their operations.

Exhibit 8. Global Equities Relative Performance by Style (Growth/Value)

Growth's reign is ending.

***Source**: MSCI. Total Return. Capital Risk calculations. Ratio increases reflect growth outperformance.*

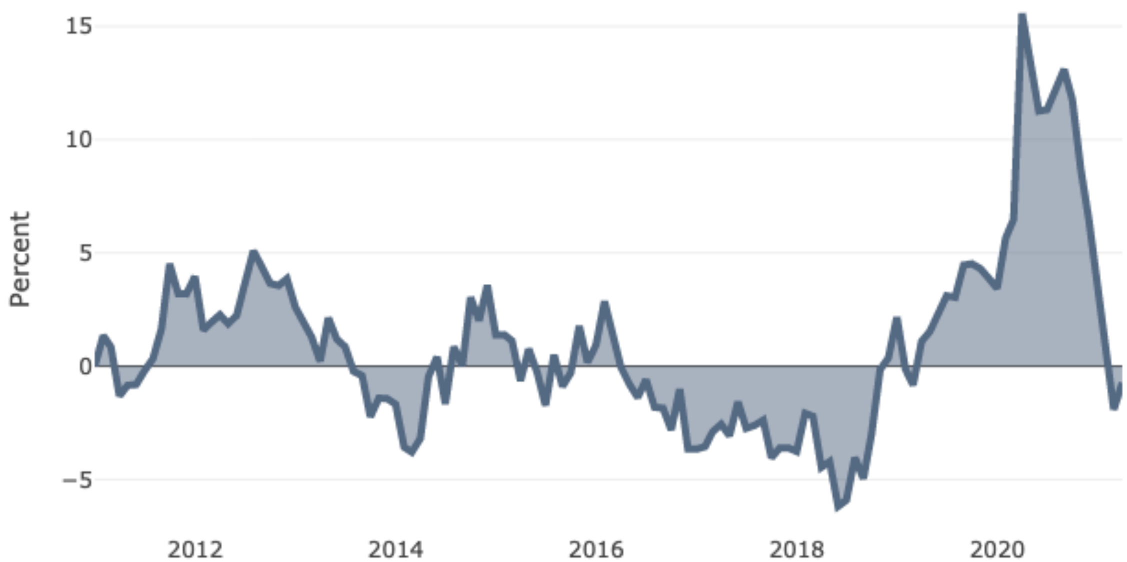
Value is beginning the long climb back versus growth stocks (exhibit 8). There is certainly more room to revert as the growth mania subsides. Of course, there is no certainty when that will occur. As all investors know, a change in leadership takes time as the message permeates the broader investment universe. A crucial determinant is that investors become disenchanted with the current darling of the mania. Given the sky-high valuations in the technology sector, this aversion may arrive sooner than later.

Equity Markets

Size matters. The technology titans enjoy trillion-dollar valuations, which provides an abundance of capital for their investors. Those looking to rotate out of these supernatural gains find their dollars go further in other markets, particularly in small-capitalization stocks. An inflow of capital brought small-capitalization stock prices back in line with large capitalization stock prices (exhibit 9). The sheer speed of the movement gives cause for concern, as dramatic moves in small stocks prices are usually down, not up.

A dramatic move for small stocks.

Exhibit 9. Global Equities Relative Performance by Size (Large/Small)



Source: *MSCI. Total Return. Capital Risk calculations. Ratio increases reflect large outperformance.*

Two hallmarks of manias are extreme valuations and exciting new technologies that compel investors. For those that missed the extravagant gains of Tesla, Netflix, and other technology darlings, they need to look further for the next stock that delivers early retirement. With private capital keeping the smaller growth companies private longer, the death of opportunities in the small stock space may cause valuation gaps with reality. While the current environment does not suggest an extreme, the speed of the reversal indicates that capital is flowing indiscriminately. A trillion-dollar gain adds twenty percent to the small stock market value, while accounting for slightly over one percent of the large-capitalization market. *Flows matter*.

Equity Markets

Capital Flows. Risk appetite is not only reserved for small stocks. Investors are returning to the Emerging Markets as well (exhibit 10). Indeed, the prospects are higher in the Developed Markets because of their higher population growth rates and productivity expansion. They also come with risk as these markets, for the most part, are materially smaller than their Developed Market counterparts. Their size makes them susceptible to capital flows like small stocks in the US. Thus, they include the potential for higher returns and the risk of a change in sentiment

Emerging Markets are returning.

Exhibit 10. Global Equities Performance of US/Emerging Markets

Source: *MSCI. Total Return. Capital Risk calculations. Ratio increases reflect US outperformance.*

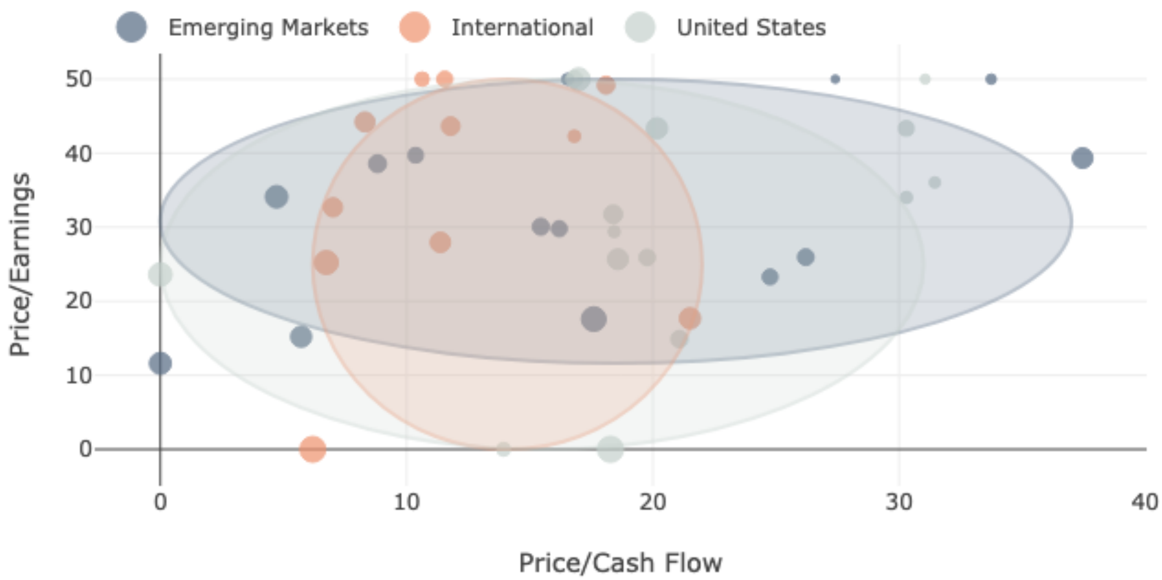
An important determinant for the Emerging Markets versus the US is the path of the US Dollar. For a US domiciled investor, investing outside the US is explicitly a short position in the US Dollar. The challenge is that capital flows to the Emerging Markets are usually *negative* for the US dollar, making the exposure to the risk factors highly correlated. Realization of the foreign market's expected return requires either the US Dollar hold its level or depreciate. Managing the currency exposure is critical to managing overall portfolio risk when increasing exposure to Emerging Markets. Thus, investors should embrace a *total portfolio perspective* to close the gap between expectations and realized performance.

Equity Markets

Crossroads. Policy responses continue to diverge globally and even within a country, suggesting varying outcomes for sectors and regions. These disparate policy responses oblige investors to discern the value gaps between regions, sectors, and companies. Globally, there is a clear dispersion in the regions and sectors (exhibit 11). Crucially, the elevated cash flow multiples in the US versus the rest of the world is evident. The US sits on average *double* the cash flow multiples of the other global regions and sectors.

Wide dispersion provides opportunity.

Exhibit 11. Global Equity Valuations by Region and Sector



***Source**: S&P Indices. Size of the marker reflects the dividend yield (larger is higher). Valuation is limited to zero and fifty for ease of exposition. As of March 2021.*

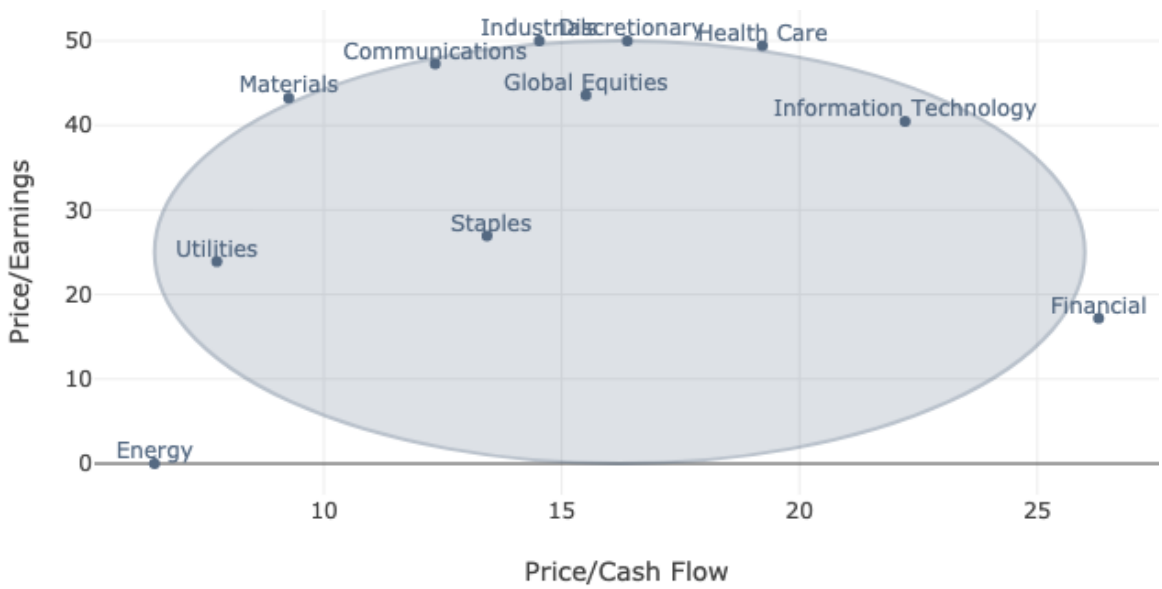
These materially higher multiples suggest either higher US cash flows growth or that repatriated foreign earnings expand dramatically via either higher growth or a falling US dollar. Indeed, US operating cash flows doubled over the last decade while other developed and emerging markets were *mostly unchanged.* This outcome was primarily the result of the growth companies, particularly in the technology sector. While the threat to this continued dominance is multi-faceted, it centers mainly on the anti-trust movement globally. Thus, investors must ascertain whether monopoly profits are sustainable in the face of a populous uprising. *History sides with the people.*

Equity Markets

Composition Matters. Global sectors show high valuations in Technology and Health Care, while Utilities and Energy are low (exhibit 12). These high valuations argue for a more nuanced stance than passive investing. The focus should shift to actively managing portfolio risk, including tactical asset allocation across markets or stock selection. The strong influence of the asset allocation decision on portfolio returns and risk suggests the former, while the prospect of industry-altering technology suggests some degree of focused stock selection. A critical component of this decision is ensuring that the *efficient portfolio construction* to achieve the investor's objectives.

Sector dispersion suggests stock selection.

Exhibit 12. Global Equity Valuations by Sector



***Source**: S&P Indices. Valuation limited to zero and fifty for ease of exposition. As of March 2021.*

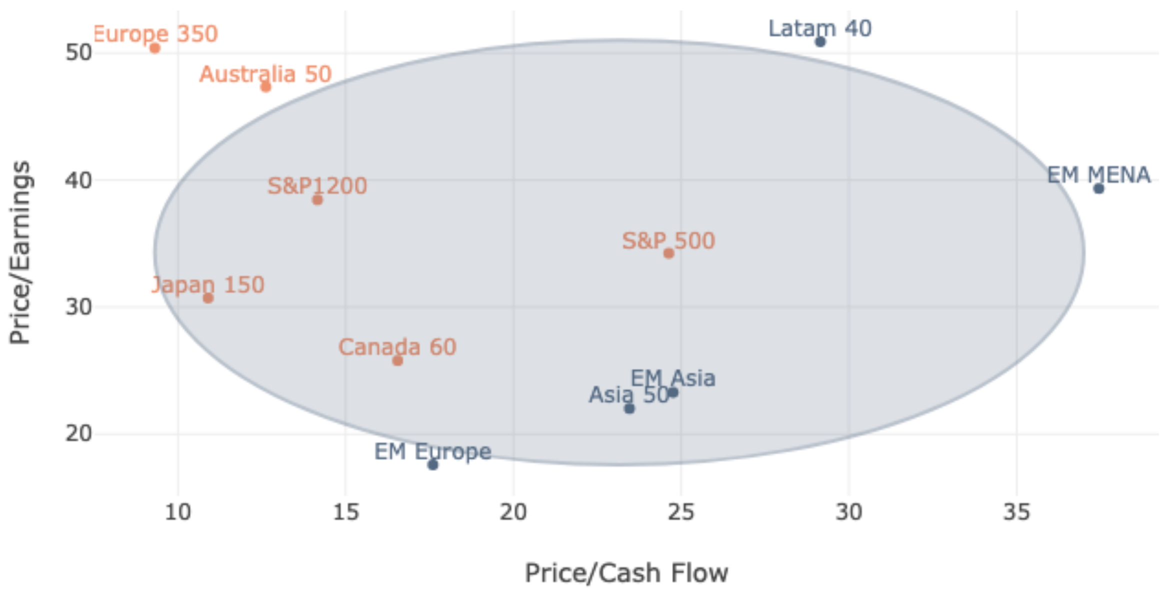
A *fallacy of composition* occurs when something that is true of a component is applied to the whole. For those who believe in fossil fuel companies' inevitable demise, removing them from the portfolio is paramount. While oil companies in the Energy sector certainly face long-term threats to their viability, the sector also offers the prospect of companies that will change the world through their innovations in energy generation and distribution. This distinction is why *stock selection is critical*.

Equity Markets

Old is New. The global response to the Pandemic remains inconsistent between countries and regions, which is a short-run problem. Investing is a long-term endeavor, and dispersion is also occurring in global valuations (exhibit 13). The differences between developed and developing markets are stark when excluding the US. This difference suggests that Europe and Japan are the places to look for value, once excluding the commodity countries of Australia and Canada. Japan's global export engine seems primed to avail itself to a worldwide rebound.

Exhibit 13. Global Equity Valuations by Region

Developed market cash flows are well priced.



Source: *S&P Indices. Valuation limited to zero and sixty for ease of exposition. As of March 2021.*

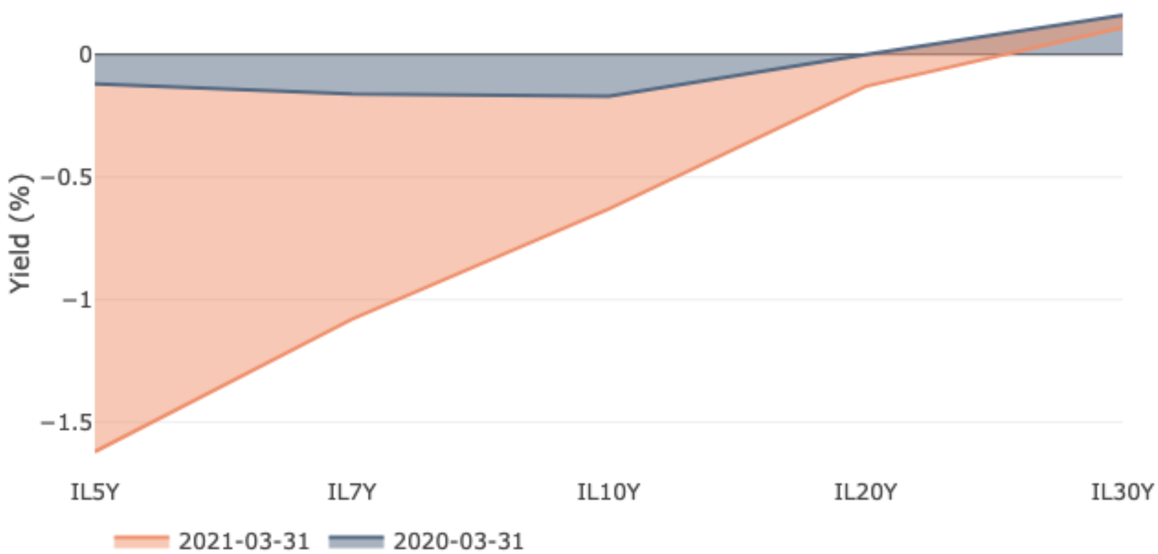
A crucial determinant of investment success is ensuring payment for the investor's risk. The high cash-low valuations in the US, Asia, and other developing markets suggest some degree of prudence. Almost certainly, these developing markets will deliver higher economic growth. The challenge is that this does not necessarily imply their companies are the *future leaders*. Global companies from the Developed markets may capture some or most of this growth. Further, currency changes may mitigate some of the potential gains. Thus, *region selection and portfolio design* are critical components of success in this fragmented investing environment.

Interest Rates

Monetary Phenomenon. An archaic adage of economics is that the money supply drives inflation. Indeed, there are cases where hyperinflation resulted from monetary policy (e.g., Weimar Republic Germany and Zimbabwe). Unfortunately, the mundane interaction of supply and demand for goods and services is the main culprit in modern economies. This insight makes the financial market's pricing of increased inflation expectations that are now positive *30 years forward* intriguing (exhibit 14). While the embedded option in TIPS ensures it is an inexact projection, the relative change is telling. The market's implication is for inflation to return between 20 and 30 years from now because of the *current* monetary stimulus.

Exhibit 14. US Treasury Inflation-Protected Yields

US inflation expectations are rising *modestly.*



Source: Federal Reserve Economic Database

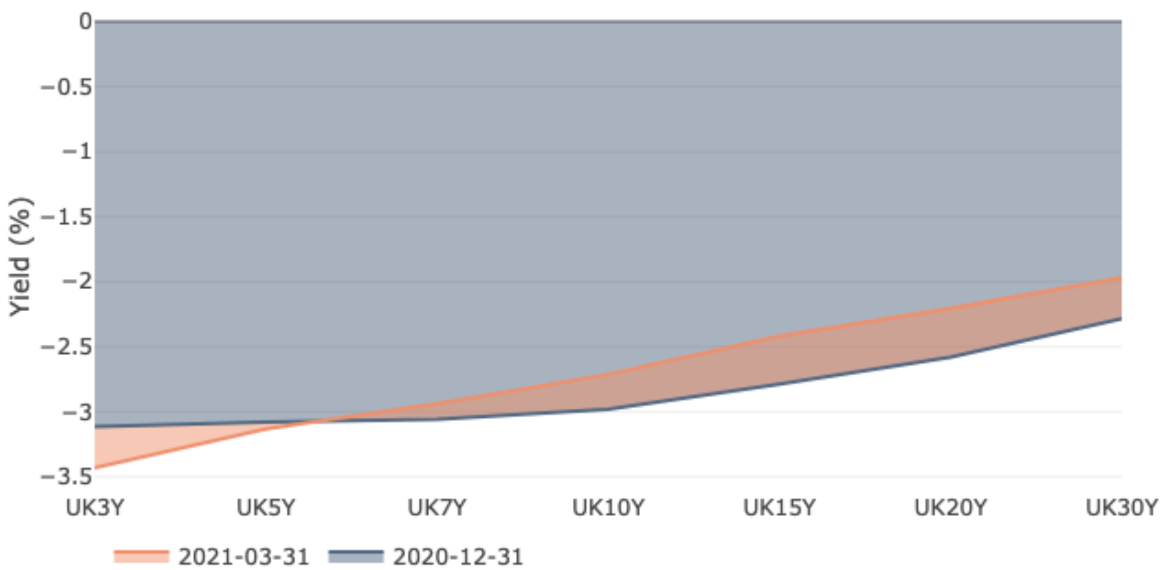
An increase in *nominal yields* of nearly 100 basis points over the quarter implies increased growth expectations because there was little change in the TIPS rates. This outcome suggests monetary policy will not cause inflationary pressure in the near term. This implication turns economics and intuition on its head because the economy is viewed as adaptable in the long-run while less flexible in the short-run. An alternate explanation is the markets are so worried about inflation that they will pay a premium for the protection (e.g., minus 1.5% on the 5-year TIPS). *Hedging, indeed*.

Interest Rates

Deflating Expectations. While Canada, Japan, and Europe share a similar yield curve outcome as the US, Gilts in the United Kingdom tell a different story. Real yields moved modestly higher yet remain below minus two percent for the next thirty years (exhibit 15). This outcome either suggests deflation in the future or hedging of inflation risk by giving up the amount equal to the negative yield. Indeed, the exit from the European Union should suggest some modest increase of inflation as it naturally limits the supply and increases import prices. Alternately, the suggestion is such poor growth that deflation takes hold. In either scenario, it's not evident that holding TIPS provides *any material benefit at the current levels*.

Euro sovereign yields are pricing zero growth.

Exhibit 15. Euro Sovereign Yields



Source: BOE Database

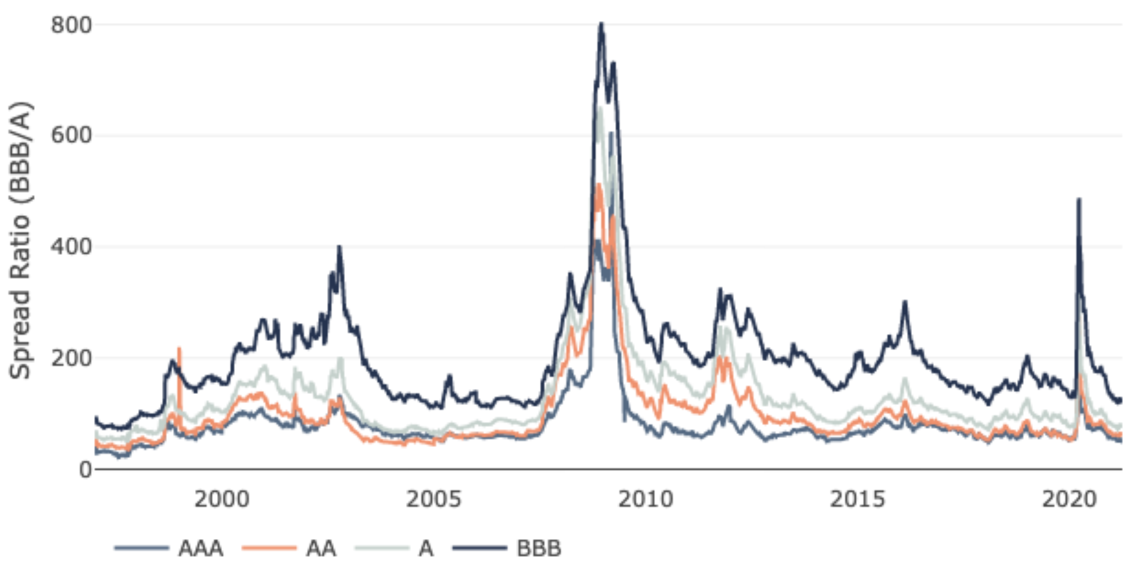
The woebegone investor is left with paltry nominal yields worldwide and the prospect of lower returns if nominal interest rates rise. Real yields are an expensive hedge. As always, the question is where an investor is getting paid sufficiently for their risk. Outside of liability matching mandates, it appears that the sovereign bond markets offer risk without reward. Thus, the refrain remains the same. The markets suggest that long-term investors in sovereign bonds should *mind the gap between expectations and reality*.

Credit Spreads

Short Options. The relationship between credit markets and equities is well-covered in financial theory. Yet, despite the exuberance showed in the equity markets, investors seem unwilling to make a logical connection. If overvaluation exists for equities, then credit markets should *reflect the same risk*. While equities offer the prospect of growth, bonds only provide the coupon for acceptance of default. Critically, they offer only their credit spread (i.e., yield minus the Treasury Yield). Credit spreads are near lows not seen since *before the LTCM crisis in 1998* (exhibit 16). It appears that markets are suggesting the current economic situation is comparable to a time of budget surpluses, modest debt levels, and robust growth. This suggestion seems improbably while the global economy is still recovering from the *most significant economic contraction in a century*.

Credit spreads are *too low* for the risk.

Exhibit 16. US Corporate Investment Grade Spreads



Source: Federal Reserve Economic Database

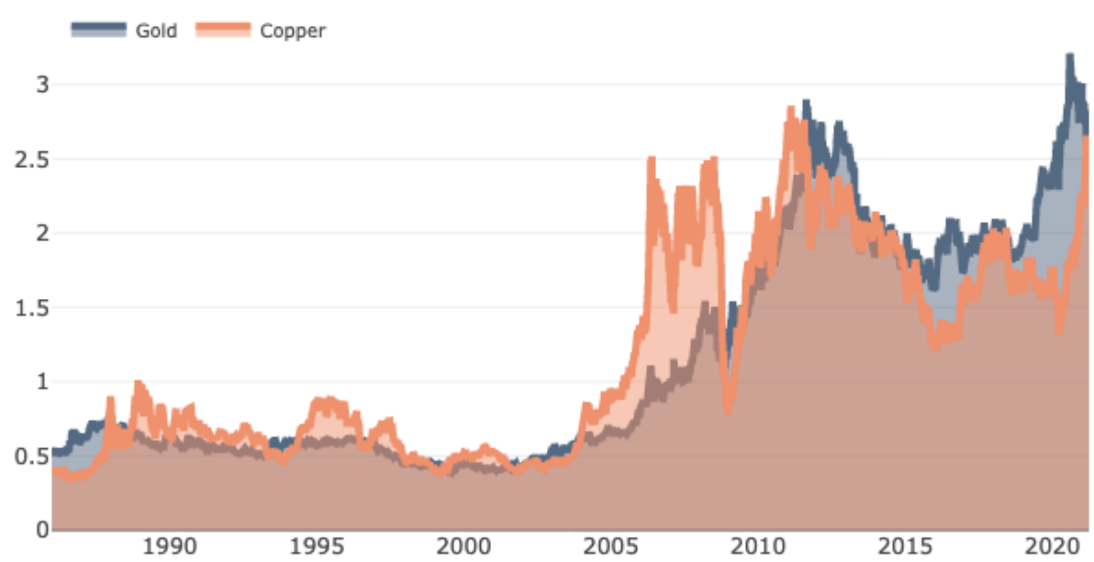
Some yield is preferred to no yield for cash flow investors. These levels suggest focusing on the *return of capital*, not the return on capital. With dividend yields higher than the high-quality bond's yield for the next five years, it appears that an investor is paid to take the equity risk, not the credit risk. The extreme valuation gap between equities and credit markets suggests the relative trade is for equities. A risk should have a reward.

Commodities

Conducting Copper. One market matched the speed of the economic recovery: copper. Indeed, the expectations are for this outcome when demand increases for industrial and consumer goods, particularly electrical. The current peak of copper relative to its average price was reached only during the commodity frenzy of the later 2010s during the last four decades (exhibit 17). Unfortunately, the past is old news. The future direction is more relevant. Herein lies the quagmire.

Copper is richly valued.

Exhibit 17. Price Ratio of Gold and Copper to their Average Values



Source: Quandl.

China leads the post-pandemic economy, which pushed the price of copper higher as their industrial engine primed the global economy for the nascent recovery. The uncertainty is when and where global demand will return. Indeed, the United States seems prepared to lead the recovery. The challenge is when the rest of the world returns. The longer the period between their respective recoveries, the more adaptable the supply chains are to meet demand. The result is less probability that demand exceeds supply. With the price approaching an extreme, followers may not enjoy such a robust copper price expansion in the future. Investors should conduct their portfolios accordingly.

Currencies

It's All Relative. Capital indeed is flowing to the US. As the polemic in Washington digressed to currency debasement with the new administration's seating, the markets focused on what was to come. Monetary stimulus and deficits are the mantras of the inflation hawks. Unfortunately for them, the currency is a relative game. Large deficits and economic stimulus are a global phenomenon to which the US is not immune. Fiscal largesse is another matter. The markets have not forgotten the halcyon days of prior US fiscal expansion (~1940-1970), which enabled robust growth. With political certainty clearer, fiscal policy en vogue, and higher yields pulling capital, a US currency appreciation is a logical outcome as the markets showed in the first quarter (exhibit 18). Going forward, its direction remains a *relative game*.

Higher interest rates drive the US dollar.

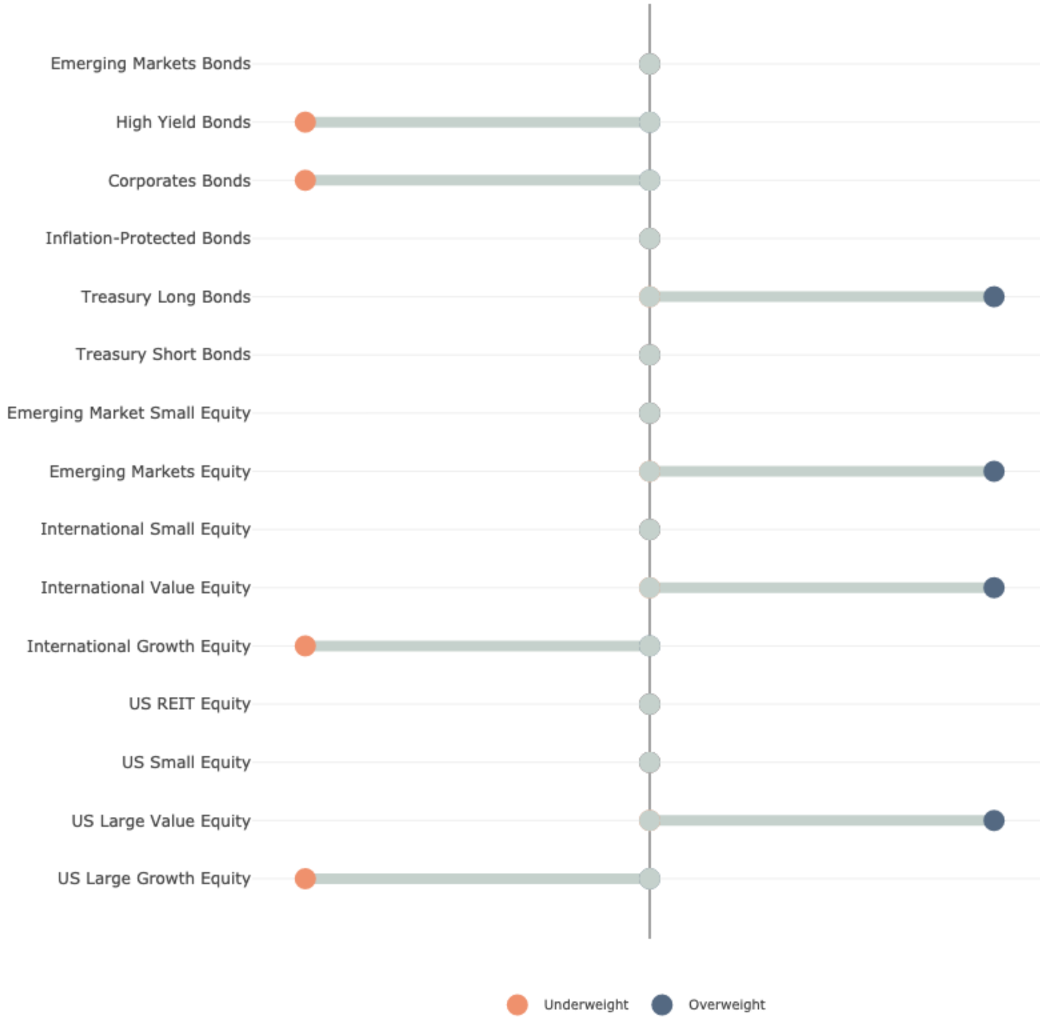
Exhibit 18. Normalized Currency Rates

Source: Alphavantage. A higher level indicates a stronger US dollar.

The case for a lower US dollar requires either higher growth prospects outside of the US or a robust commodity demand driving prices higher. US leadership should endure with the prospect of a synchronized global expansion as the Pandemic recedes across the world. Of course, this hinges on the political stability of the US. A partisan Congress surely provides entertainment and uncertainty. If the latter trumps the former, all bets are off.

Exhibit A1. Tactical Asset Allocation Positioning

Six-to 18-month asset allocation perspective



Note: Positioning is indicative of the themes discussed in this report and valid as of the report date. Views are subject to change. These statements are forward-looking, and there are no assurances that such events will transpire. The positioning does not reflect actual positions and does not consider an investor's objectives, risk preferences, or their current asset allocation. Seek professional advice when undertaking any investment program.

Capital Risk

Exhibit A2. Asset Class Performance

Sector	Class	ETF	MTD	YTD	One-Year	Three-Year	Five-Year
Global Equity	Equity	ACWI	2.9	4.9	33.8	11.6	15.1
Global Equity xUS	Equity	ACWX	1.7	4.0	27.3	6.1	11.5
US Total Market	Equity	ITOT	3.6	6.6	40.1	16.3	18.2
US Large Cap	Equity	IVV	4.6	6.3	37.5	15.8	17.7
US Small	Equity	IJR	3.5	18.4	51.8	14.5	17.5
US REIT	Equity	USRT	4.6	8.9	7.5	10.8	7.3
US Small Growth	Equity	IJS	5.6	24.3	51.6	12.4	16.0
US Small Value	Equity	IJT	1.3	12.5	49.7	15.8	18.3
US Mid	Equity	IJH	4.7	13.6	46.3	13.7	16.2
US Mid Growth	Equity	IJJ	7.0	18.6	43.1	12.2	14.7
US Mid Value	Equity	IJK	2.4	8.6	46.9	14.4	16.7
US Large Growth	Equity	IVW	2.8	2.2	42.8	19.2	20.7
US Large Value	Equity	IVE	6.4	10.9	27.4	10.9	13.6
Communications	Equity	VOX	1.4	8.3	47.3	16.1	10.4
Discretionary	Equity	VCR	4.2	7.4	70.3	23.9	22.3
Staples	Equity	VDC	8.2	3.0	25.0	12.2	9.5
Energy	Equity	VDE	3.1	32.4	18.3	-5.5	0.8
Financial	Equity	VFH	5.9	16.5	31.8	8.1	16.9
Health	Equity	VHT	2.1	2.5	32.7	15.1	15.6
Industrials	Equity	VIS	7.7	11.6	39.0	11.9	16.1
Technology	Equity	VGT	0.7	1.5	54.0	28.0	30.4
Materials	Equity	VAW	8.4	10.5	55.2	11.1	16.1
Real Estate	Equity	VNQ	5.2	8.8	10.3	12.5	8.3
Utilities	Equity	VPU	10.3	3.1	7.2	12.8	10.6
International Aggregate	Equity	EFA	2.5	4.0	24.8	5.6	10.3
International Growth	Equity	EFG	1.0	-0.4	28.0	9.3	12.1
International Value	Equity	EFV	3.5	8.0	19.1	1.1	7.9
International Small	Equity	SCZ	2.3	5.1	34.0	6.0	12.2
Emerging Markets	Equity	EEM	-0.7	3.2	33.8	5.9	14.3
Emerging Markets Small	Equity	EEMS	2.2	8.9	44.5	5.5	11.7
US Aggregate	Bonds	AGG	-1.1	-3.4	0.2	4.9	3.3
US Corporate	Bonds	USIG	-1.3	-4.3	1.4	6.2	5.2
US Treasury	Bonds	GOVT	-1.4	-3.6	-1.6	4.3	2.1
US Inflation-Protected	Bonds	TIP	-0.3	-1.7	5.7	5.9	4.1
US Mortgage-Backed	Bonds	MBB	-0.5	-1.2	1.2	3.9	2.3
US Municipal	Bonds	MUB	0.6	-0.7	1.7	4.7	3.2
US High Yield	Bonds	HYG	1.2	0.6	7.0	5.8	7.2
International Government	Bonds	IGOV	-2.5	-6.7	2.5	0.9	2.4
Emerging Markets	Bonds	EMB	-0.7	-5.5	-0.3	3.8	5.2
Oil	Alternatives	USO	-1.9	22.8	-46.4	-25.7	-10.9
Gold	Alternatives	GLD	-1.1	-10.3	7.8	8.6	6.2
Commodities	Alternatives	GSG	-1.9	13.3	4.6	-5.0	1.1

Capital Risk

Artful Questions. Scientific Solutions. ™

For more insight, please contact:

Dr **Jason Prole** CFA CAIA FRM
Managing Principal

Capital Risk Management LLC
213-459-3332 | 415-373-7152
contact@capitalriskmanagement.com

www.capitalriskmanagement.com
Los Angeles | San Francisco

Disclosures

This document was produced by and the opinions expressed are those of Capital Risk Management LLC (CRM) as of the date of writing and are subject to change. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable, but CRM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. The information in this document may contain projections or other forward-looking statements regarding future events, targets, management discipline or other expectations, and is only as current as of the date indicated. There is no assurance that such events will occur, and they may be significantly different than that shown here. The information in this document including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. This material was prepared solely for informational purposes and does not constitute an offer or an invitation by or on behalf of CRM to any person to buy or sell any security. This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any investment products or to adopt any investment strategy. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you.