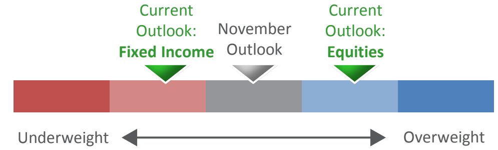
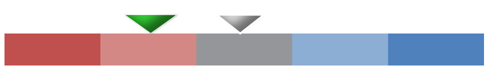
ENVESTNET PMC™

Near-Term Asset Class Outlook

(February 2018)

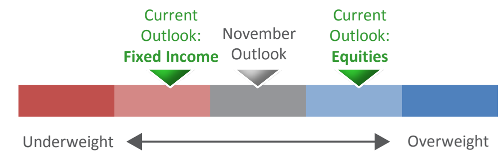


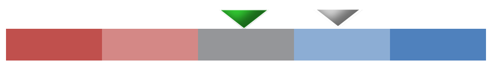
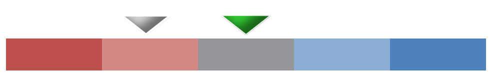
Each quarter Envestnet | PMC's Global Macro Committee evaluates market trends and considers where to best position client's portfolios relative to baseline asset allocation weights. The team considers a variety of economic, valuation, and market signposts and bases their views on a **six-month time horizon**.

Asset Class	Outlook	Overview
U.S. EQUITY		
U.S. Equity – Large Cap		– Move to neutral weight. Large cap US equities continued their strong run, albeit with an equally strong sell-off in early February along with the entire market. While valuations are certainly on the higher-end historically, earnings are on an upswing, and the corporate tax cut will be added ballast. – The Investment Committee remains broadly positive on equities in general, and is recommending an overall tactical overweight to equities relative to fixed income.
U.S. Equity – Small Cap		– Keep at small overweight. While small-cap continues to lag the performance of large-cap, the Investment Committee believes that this also creates considerable opportunities. – With signs of broad-based wage increases and one-time bonus payments, many smaller companies could well benefit; in addition, sectors such as construction and local retail are exhibiting some strength, which should also benefit small companies in select sectors.
INTERNATIONAL EQUITY		
Developed		– Maintain overweight. International equities have surged along with US, and sold off in lockstep during the early February selling fury. International valuations remain below US, with positive earnings and improving macro and company-specific fundamentals in multiple regions and markets. – With the possible exception of UK markets, most developed economies in East Asia and the European Union are seeing steadily improving data, stable growth, modest inflation and better employment numbers.
Emerging Markets		– Maintain overweight. Emerging markets equities are in a period of strong performance after lagging for a number of years. With energy prices stable and commodity prices on a slight upswing combined with surging middle-class populations and growth-friendly governments in most regions and countries, emerging market equities appear to be in a sweet spot.
U.S. FIXED INCOME		
Corporate		– Maintain underweight. Here as elsewhere in the fixed-income universe, investors are somewhat caught between low-yields on current instruments and the rising yields moving forward, putting pressure on the mark of many portfolios and on the question of when to invest new money in a rising yield environment. – While yields themselves seem safe in a very, very low default environment, investors need to be cautious in this period of rate and price-resetting.
Treasuries		– Move to underweight. Yields on the U.S. 10-year have been hitting four-year highs, and seem poised to test the 3% mark. Until rates stabilize, it may be prudent to reduce exposure or not add meaningfully to current positions. Add in uncertainty about inflation, and you have the recipe for unsettled time. – As the Fed turns to a new regime under Jerome Powell, it may or may not revise current guidance for three rate target increases in 2018; in addition, as the Fed unwinds its multi-trillion balance sheet, that too will buffet the fixed-income market, possibly with bouts of volatility.

Near-Term Asset Class Outlook

(February 2018)



Asset Class	Outlook	Overview
U.S. FIXED INCOME (continued)		
Municipals		– Maintain underweight. While the disastrous situation in Puerto Rico post-hurricane has not deeply affected the domestic municipal markets, the prospect of rising rates and uncertainly about how or if new infrastructure financing will be accomplished suggests that investors should tread carefully in the near-term.
High Yield		– Move to neutral weight. On the plus side, default rates in the high-yield space continue to go even lower, approaching 2%. That may make the space safer than ever, but as yields on treasuries and corporates increase, the spread with high-yield remains remarkably narrow, such that investors are not seeing much premium for the added risk (albeit small) of high-yield.
GLOBAL FIXED INCOME		
Global Developed		– Move to underweight. The same trends of less accommodative central banks, somewhat higher-yields and generally high credit quality are in place. Brexit and a weakened German governing coalition may constrain government fiscal policy, with hard-to-predict effects on rates. Compared to attractive equity markets, developed fixed-income offers less compelling risks and rewards in the near-term.
Global Emerging Markets		– Maintain neutral weights. The spread between emerging market debt and developed is not as favorable in terms of risk premium, but the underlying fundamentals of most emerging markets are extremely strong, such that the high-yields appears as stable as at any point in the past decades.
OTHER		
Commodities		– Move to neutral weight. For the first time in years, commodity prices are stable and rising. While oil sold off globally during the equity market volatility of early February, a synchronous global expansion combined with simultaneous infrastructure spending from China to the United States could well see commodities prices in a near-term uptrend
Alternatives		– Maintain underweight. The Investment Committee considered moving alternatives to a strong underweight in light of continued and chronic underperformance in most asset classes, but superior funds that offer some downside or volatility protection can offer some portfolio insurance in challenging times.

ENVESTNET PMC™

Global Macro Indicators

(February 2018)

The US economy remains quite strong, with its upward trend intact. As various headwinds in the form of political infighting and geopolitical tensions continue to be obstacles, economic data in many segments remains on a solid trajectory. The Bureau of Economic Analysis reported its third estimate of third-quarter 2017 gross domestic product (GDP) of 3.2%, down slightly from the prior estimate, but a notch higher than the second quarter's 3.1% reading. The employment situation also made gains, with an average of approximately 170,000 jobs added each month. At the same time, the unemployment rate remained steady at 4.1%. The Federal Open Market Committee (FOMC) modified its interest rate policy by raising the federal funds rate target by 25 basis points to a range of 1.25% - 1.50%. Economists expect multiple increases in 2018 as the economy encounters wage pressures.

The global economic environment has benefited from increased demand as well as accommodative monetary policies. The Eurozone economy grew at a 2.6% annual rate in the third quarter, continuing a positive trend begun early in the year. One of the key drivers in the Eurozone was solid domestic demand. Japan is among the Asian economies faring well, posting a seventh consecutive quarterly expansion, its longest streak since 2001. China continues to balance instituting economic reforms with maintaining robust growth, with economists expecting the country's growth to decelerate to about 6.5% in 2018 from 6.8% in 2017.

Indicator Trend Line

Indicator	Trend	Comment
U.S. GDP	↑	While consistent, annualized 3% growth remains elusive, overall GDP has nonetheless been picking up and appears to be moving towards that politically and economically desired target. Early estimates suggest that first quarter of 2018 growth could be well in excess of 3%, which augurs well for the remainder of the year.
China GDP	↔	China's official GDP numbers define "steady as she goes." The rate remains in the mid-6%, which is a reflection of the rising middle-class and of the multi-year shift in China's economy toward domestic consumption and investment and away from reliance on exports. There are concerns about China's rising debt, but as yet those seem to have barely altered the overall trajectory of the economy.
E.U. GDP	↑	The European Union has had perhaps the slowest recovery from the traumas of the financial crisis a decade ago, perhaps because that crisis hit Europe last and hard, perhaps because of political unrest from Spain to the UK to Germany. That said, the past year has seen steady declines in unemployment even in the southern countries and a steady uptick of activity even in the face of declining population and a host of unresolved questions about the future shape of the union.
U.S. Interest Rates	↑	US interest rates have been climbing steadily up, with the U.S. 10-year on the cusp of 3%. Whether that will be maintained is an open question, but with rates rising and the Fed tightening, it is getting harder than ever to avoid the conclusion that the multi-decade bond bull market is indeed at an end.
Global Interest Rates	↑	Global central banks in general are following the same path as the Fed in becoming gradually less accommodative in the face of economic activity ticking up and the overall stability of global financial and political systems.
U.S. Employment	↔	With the headline unemployment rate close to 4%, it will be a challenge to see the rate head much lower, especially given the still anemic labor force participation rate of under 63%.
U.S. Inflation	↑	With wages showing an uptick of 2.9% in Bureau of Labor Statistics January report, expectations of stronger inflation have certainly risen. But while a modest increase in inflation given how low it has been might be expected, current levels in the 2% range remain quite low historically.
Housing	↔	Strong regional markets and decent national trends could come under increasing pressure as mortgage rates rise above 4% in light of recent interest rate increases. It is likely that higher mortgage rates will dampen the housing market in the near-term.
Wages and Income	↑	January's wage report showing solid gains, and with more companies and municipalities raising minimum wages, it would appear that the long-anticipated wage growth is upon us. However, the slew of one-time bonuses granted by companies in light of the tax bill do not show up in wage numbers, and it remains to be seen if there will be widespread wage gains outside of the upper end.

↑ = Increasing ↔ = Unchanged ↓ = Decreasing

Disclosures

The information, analysis, and opinions expressed herein are for general and educational purposes only. Nothing contained in this weekly review is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period of time. An investor may experience loss of principal. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment advisor to determine the appropriate investment strategy. Past performance is not indicative of future results.

Information obtained from third party sources are believed to be reliable but not guaranteed. Envestnet | PMC makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets. Income (bond) securities are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates.

Exchange Traded Funds (ETF's) are subject to risks similar to those of stocks, such as market risk. Investing in ETF's may bear indirect fees and expenses charged by ETFs in addition to its direct fees and expenses, as well as indirectly bearing the principal risks of those ETF's. ETF's may trade at a discount to their net asset value and are subject to the market fluctuations of their underlying investments. Investing in commodities can be volatile and can suffer from periods of prolonged decline in value and may not be suitable for all investors.

Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. You should conduct your own due diligence to ensure you understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and non-traditional instruments such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks such as merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Neither Envestnet, Envestnet | PMC nor its representatives render tax, accounting or legal advice. Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor.

Index Disclosures

Index Performance, if any, is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

Global Macro Team

Brandon Thomas, Chief Investment Officer
Zachary Karabell, Head of Global Strategies
Tim Clift, Chief Investment Strategist
Don Frerichs, CFA, SVP, Director Portfolio Management
Frank Wei, CFA, CAIA, VP, Senior Investment Analyst
Janis Zvingelis, PhD, CFA, SVP, Director of Quantitative Research

