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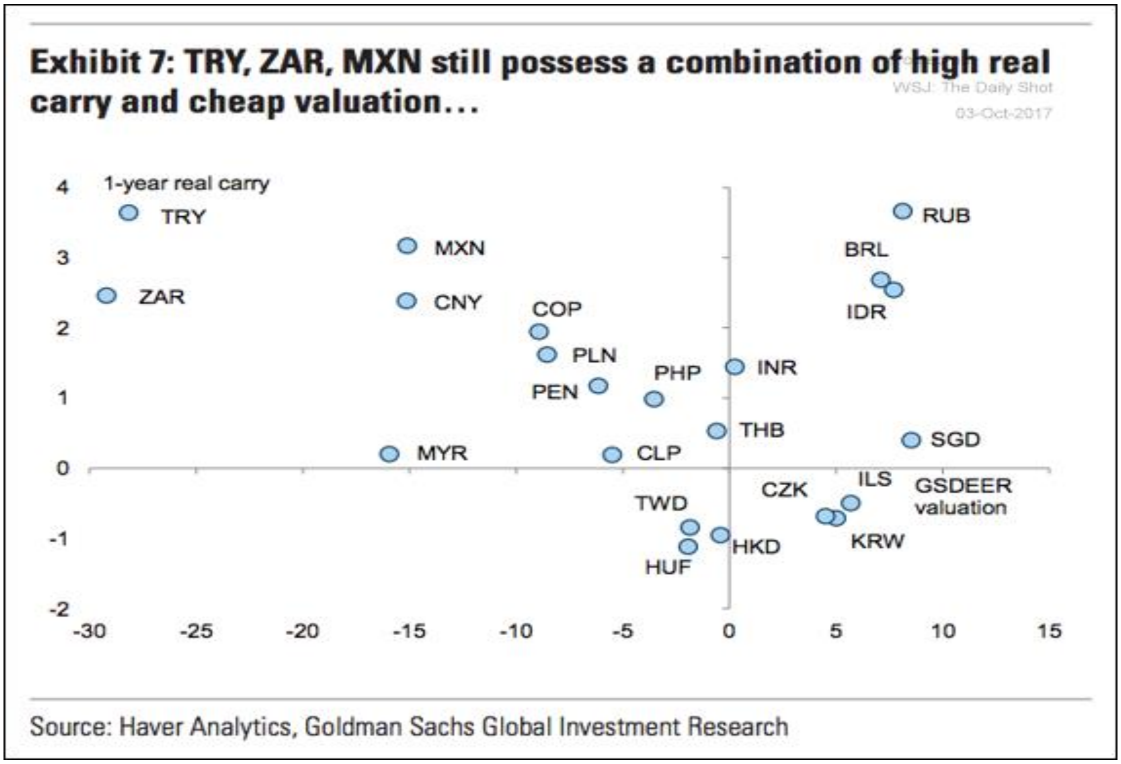
Investment Outlook – November 2017

Our current market environment of exuberant investor optimism, extreme confidence and low volatility all fueled by synchronized global growth (think central bank coordination) is now long in the tooth. It feels easy to be complacent. But one must ask if this is as good as it gets? Can it actually get better or should we focus on the opposite?

As active managers, we feel it is most appropriate at this stage to invest in highly liquid securities and avoid the more illiquid ones across our global investment universe.

The best chance to generate return now is through trades that play off differences in currencies, interest rates, and other idiosyncratic opportunities around the world. Given that we are in the latter stages of the U.S. corporate credit cycle and OAS on investment grade bonds are at 10-year lows, we aim to generate return from the following areas:

- **Global Bonds** – We typically seek idiosyncratic investment grade and/or high yield issuers from higher yielding countries. Unique, low correlation opportunities in Turkey and Mexico, for example, would be a potential area of focus where high real rates exist.



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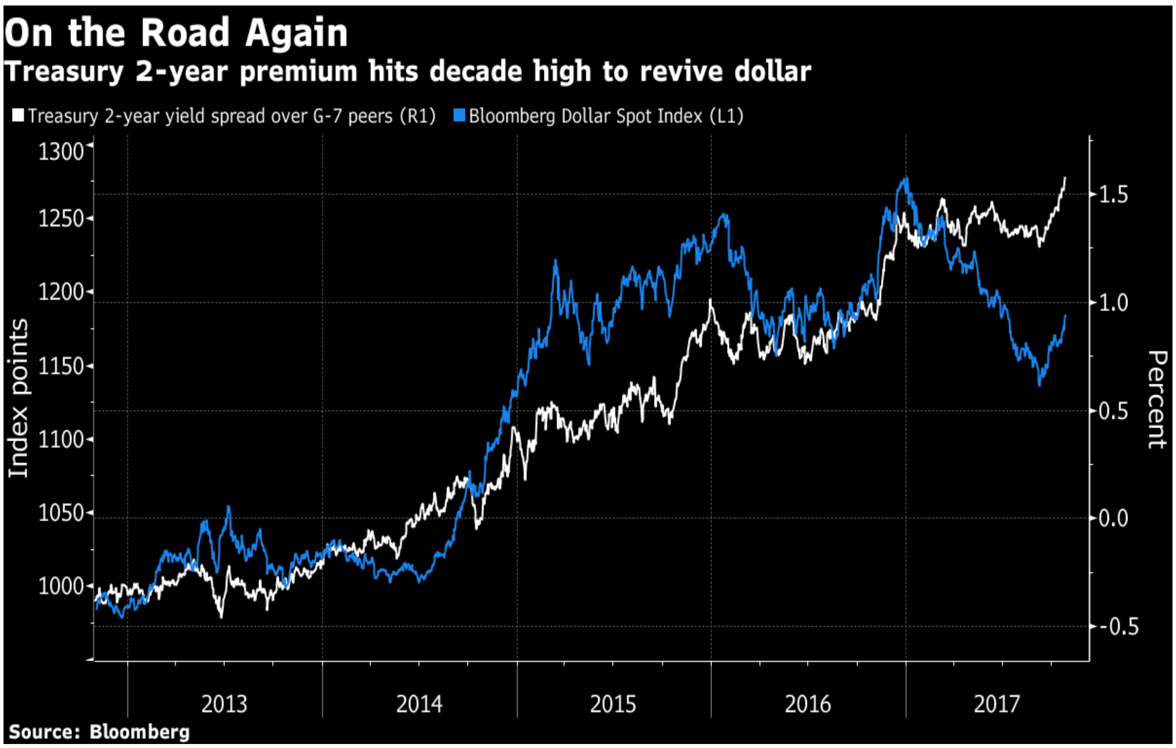
- **Currency** - We are bullish on the U.S. dollar (relative to G7 currencies) for two reasons. First, the 2-year yield spread over G-7 peers is hitting a decade high as the Fed continues to posture a tightening stance causing a fundamental demand for dollars globally. Second, cyclically the dollar averages a 45-month (~ 4-year) cycle from major low to major low. The last major low was May 2014 and this September the dollar appears to have bottomed in month 40 which statistically suggests a major low may have occurred. Putting the fundamental and technical case together gives us a high degree of confidence in our outlook.



- **Strategic ETFs** – We may invest long/short in stock, bond, commodity and currency ETFs to gain liquid exposure that may often go beyond traditional investors' reach. The ability to short these securities may allow us to hedge against down markets.

- **Global Equities** - In this current cycle we are looking for idiosyncratic risk and trying to avoid heavy exposure to momentum stocks. In that vein, QCOM offers a very interesting 1-year return profile. The stock has been punished 20% this year due to concerns over a patent dispute with Apple. Trials are set to begin in a year, but we think a settlement occurs before then and the removal of the uncertainty will cause a 30-50% price appreciation regardless of its favorability to QCOM. The stock also has a 4.2% dividend yield which makes it attractive as a bond substitute. Due to year-end tax loss selling and an appetite for momentum by other investors we believe this is an excellent opportunity.

OceanSquare Asset Management

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Conclusion: By utilizing a flexible approach to investing long and short in foreign markets and providing global exposure, we may help counterbalance performance swings in traditional strategies. With our collaborative focus on numerous asset classes and a value-oriented, contrarian investment process, this benchmark-agnostic strategy may help investors enhance their long-term return potential.

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