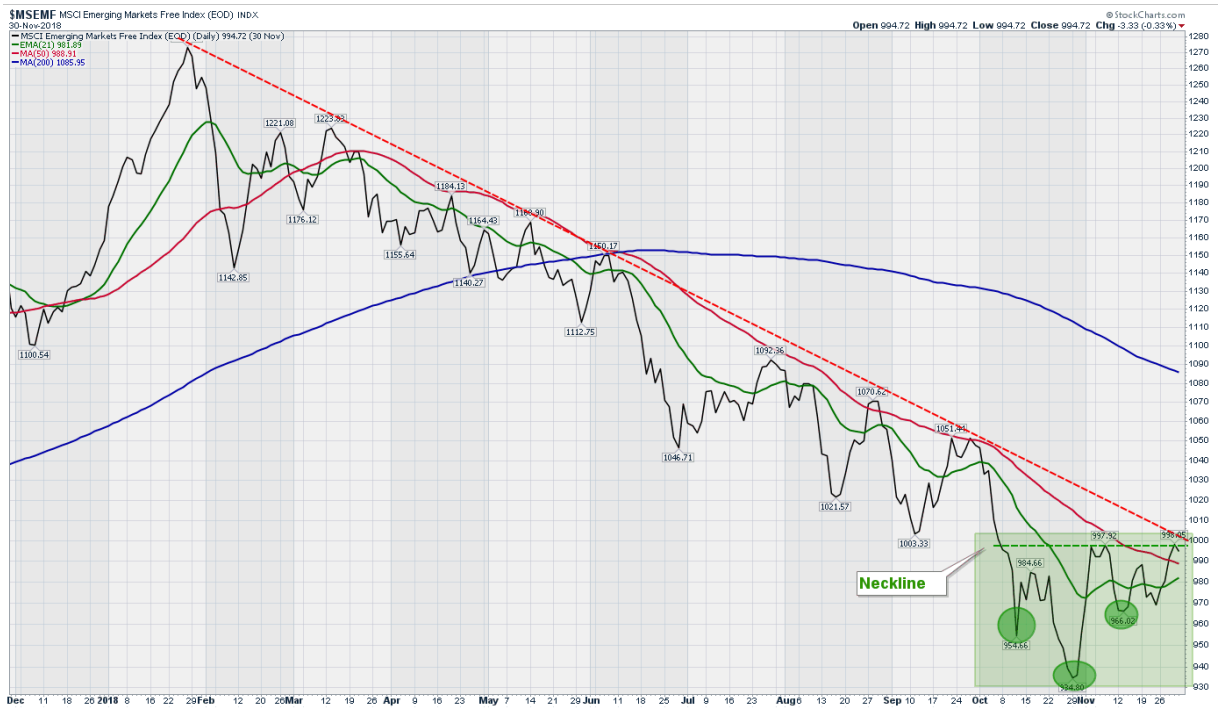
STRATEGIC INVESTMENT PARTNERS

Monthly Newsletter

December 2018

COMMENTARY

Did Emerging Markets bottom out? The emerging markets index chart below shows a possible bottoming pattern forming (inverted head-and-shoulder pattern) on the daily chart and now needs to close above the neckline to break the downward trend line and confirm the head-and-shoulder pattern. This is moving above the 21 day exponential moving average (EMA) and above its 50 day simple moving average (SMA), this is bullish for short-term traders. We also see positive signs in other technicals we watch that suggest that Emerging Markets may have bottomed out. Outside of the chart patterns, there are a few other indicators that suggest Emerging Markets should not be ignored – money has started to come into Emerging Markets over the last few weeks and months, and valuations look attractive from a historical perspective. Emerging Markets has been a huge detractor to our portfolio and any diversified portfolio would feel this in 2018 as the asset class is down -27% from peak to trough this year (refers to chart above). We have been rebalancing accounts throughout the year and have been adding emerging markets on weakness. The risk-to-reward looks very appealing at this time and could help restart the global equities market heading into 2019.



ECONOMIC HIGHLIGHTS

S&P 500	2,760.17
DJIA	25,538.46
NASDAQ	7,330.54
OIL	$50.93/barrel
GOLD	$1,220.20/ounce
10-YEAR TREASURY YIELD	3.01%
UNEMPLOYMENT	3.7%
GDP	3.5% (Q3 2nd estimate)
CONSUMER PRICE INDEX (CPI)	+0.3% (12 month change: +2.5%)
CORE CPI	+0.2% (12 month change: +2.1%)

G-20 meeting - President Trump and China's President Xi agreed to hold off further tariff increases and work toward a trade deal that would benefit both countries. The agreement suspends the 25% increase to the current tariffs on $200 billion of China's goods that would have been implemented on January 1, 2019

FOMC - Jerome Powell, chair of the Federal Reserve, had a much more "dovish" tone in his most recent speech. The equities market rallied off the news, but it does bring concern that the Fed might be seeing issues in the economy that would have them change their current course of action

Housing - New home sales continue their slump. We suspect increases to interest rates have cooled homebuyers excitement recently. We are watching to see if this summer picks back up

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Our long-term view (multiple years) for equity markets is still bullish. We believe we are in the middle part of a secular bull market and with the previous two secular bull markets lasting 17 years. If this secular bull market is similar, we could be in for a nice ride. The economy is still very strong and corporate earnings have been solid for the last few quarters, but forward guidance for 2019 hinges on questions around the Fed tightening monetary policy, and tariffs/trade war with China, leaving companies with too many unknowns. As we look to the second half of 2019, we suspect the tight labor market and Fed tightening to put pressure on economic growth which could lead to a recession and downturn in the stock market. Recessions and market downturns are unavoidable, but the silver lining is that when they happen inside a secular bull market, they historically haven't been as severe as they have been in secular bear markets. The current market pullback has put a damper on our shorter-term outlook and we now see the remainder of 2018 being volatile and finishing short of our target on the S&P 500 (3050) . In Fixed Income, we are maintaining our over-weights in International and Floating Rate bonds and underweight in U.S. Government Bonds and Mortgage-Backed Securities. Our research team is constantly evaluating our products and tactical positions inside both our fixed income portfolio and equity portfolio, looking at both larger trends and short-term opportunities. We've identified two positions we are looking to move out in the near future – real assets with an energy focus and high-yield bonds. The real assets position with an overweight to energy/oil has been a bumpy ride but a good one when looking back. High-yield spreads have been tight for a while and we believe they are still a good investment, but more likely to provide a total return closer to "clipping-a-coupon" and less price appreciation. This provides less reward for the amount of risk we've seen in the past. With daily monitoring to accounts on an individual basis, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	-4.40	6.27	12.16	11.12
MSCI EAFE	-7.28	-7.94	4.12	1.84
BARCAP AGG BOND	-0.84	-1.34	1.33	2.03

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The MSCI Emerging Markets Index Designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.