BT WEALTH MANAGEMENT

Quarterly Review and Outlook – 1st Quarter 2018

"If you see ten troubles coming down the road, you can be sure that nine will run into the ditch before they reach you."

- Calvin Coolidge

The administration's skepticism on existing trade deals bore teeth in the first quarter, sparking volatility as investors seek to balance the back-and-forth headlines with a steady flow of positive economic data. Most analysts expect a negotiated peace, but the president's sizable authority on trade compels us to consider the implications a trade war.

China's size obscures the fact that it remains a poor country heavily reliant on U.S. demand to support its investment-led growth model. If politics rules out some form of détente, the "in case of emergency, break glass" option to avoid a negative growth shock would be currency devaluation. A significantly weaker yuan would have potentially large repercussions, particularly for emerging market assets.

The direct impacts are more straightforward. Large tariffs would prompt a rearrangement of global supply chains, modestly raising import costs. A broader trade reversal would yield some combination of lower growth and higher inflation—American workers don't come cheaply—but the U.S. has a large, diversified economy capable of producing anything it needs.

"The good news is that it's not my problem."

Riverwood 200 3300 Riverwood Parkway Suite 1075 Atlanta, GA 30339 770.635.5000

www.btwealthllc.net

An abnormally normal first quarter

Global equity markets finished the quarter down about 1%. It was a bumpy ride for those of us engaged on a daily basis, but the volatility of the first quarter, whatever the cause, was closer to the historical average than the aberrational calmness of 2017.

The relentless momentum of large technology companies came to a screeching halt. Facebook faces global regulatory scrutiny over how it polices user data, while Amazon found itself in the crosshairs of President Trump's Twitter account. Markets are paying more attention to the former, as privacy concerns extend to Google and other "big data" companies that dominate U.S. equity funds. These companies fueled U.S. outperformance in recent years, so headwinds may herald a reversal of this trend.

Emerging markets were positive and remain near post-crisis highs. We have little confidence in predictions about the outcome of complex trade negotiations, but the modest reaction among EM assets may reflect an overly complacent investor base.

Interest rates moved higher across the board, a natural reaction to a strong U.S. economy. The Fed raised short-term interest rates in March and is likely to do so 1-2 more times in 2018. Investors can now earn a reasonable and rising yield in safe, cash-like securities. With riskier corners of the credit market offering little upside while being exposed to both a downturn and inflation, we see little value in being aggressive in fixed income. We are content with a slightly lower, yet safer yield.

In the past 7 months, the yield on a 2-year U.S. Treasury nearly doubled. Savers are not dancing in the streets, but there is at least a safe, simple counterbalance to equities that keeps up with inflation.

Riverwood 200 3300 Riverwood Parkway Suite 1075 Atlanta, GA 30339 770.635.5000

www.btwealthllc.net

FORE!

Masters weekend offered a timely reminder that the return on an investment is intertwined with the risk taken to achieve it. Recklessly aggressive golfers are fun to watch, and occasionally come out on top, but the greatest champions are consistent. They are aware of the probabilities and know when the reward of a risky shot is worth the potential downside. Sometimes it makes sense to hit a 3-wood from the pine straw and go for eagle, but just because they can make the shot does not mean they should.

Recent market volatility has come in the context of a strong economy and rising corporate earnings. A major policy mistake could turn this environment on its ear, but this risk is offset by a litany of positive developments that have persisted since the last crisis, such as a far safer banking system. We are not in the middle of the fairway with an open shot at the pin, but nor are we buried in the rough.

Most troubles roll off in the ditch, but that does not mean they should be ignored. In the social media era, perhaps more than ever, a disciplined investment process demands the ability and willingness to question even those headlines—***especially*** those headlines—that confirm what you already believe. We embrace the challenge, and we welcome your questions and comments on these topics, or anything else.

Clay McDaniel
Partner, Director of Research