Neg.		N		Pos.

Central Bank (same*) — N

Liquidity & Credit (same*) — moderately positive

Economic (same*) — moderately positive

Valuations (same*) — Neg.

Sentiment (same*) — moderately positive

Technical (increase by 1*) — moderately positive

Overall (same**) — N

Macro and Market Outlook – as of 31 Dec 2017

(12-month outlook, updated quarterly)

- The US, UK and Canadian central banks are raising rates and the Chinese central bank is looking to control credit growth. The ECB (European Central Bank) is slowing down its quantitative easing. While the level of interest rates are very accommodative, the market may not be pricing in a sufficient number of rate increases.

- Financial conditions continue to be supportive for growth and financial stress is at multi-year lows. Many sovereign issues continue to trade at negative yields as there continues to be unfilled demand for high quality fixed income investments.
- There is still plenty of easy credit available and liquidity is abundant.

- Coordinated global growth continues to justify investors move into risk assets; however, the level of growth remains stubbornly low and wage growth is below target.
- Trump has achieved a major victory with the approval of the US tax reform code. Investors perceive this as adding fiscal stimulus which will continue to drive growth and risk assets.
- Substantially higher levels of investment are required to maintain China's current level of economic activity compared to ten years ago, a trend that is not sustainable.

- The US equity market is overvalued, but valuations are not good at determining turning points. Fixed income (both high grade and credit) are also in extreme territory. All three being overvalued at the same time has never occurred previously, creating questions about diversification.
- Full year US earnings are expected to grow by 11.5% and by 12% in 2018.

- Consumer confidence seems euphoric, which characterizes the late stage of a bull market.
- Institutional investors are less enthusiastic given a degree of political uncertainty in Europe, the changing composition of the US Federal Reserve and the direction of Chinese policy.

- US markets continue making successive new highs, on good breadth and volume, in a strong upward sloping channel. However, there has been a shift to Telecoms, which is traditionally seen as defensive. Asian shares have stumbled, but are at support levels.
- The US 10 year is in an upward sloping channel leading to higher rates.

Conclusion:

Our outlook remains neutral. Equities have room to run, supported by technicals and fundamentals. However, at some point the inevitable correction will occur, and discipline will be required to determine if it is a pause or a change in direction. We continue to evaluate how all the components blend in a portfolio structure in different scenarios.

ARGUS Wealth Management

*Change from the previous 12-month outlook.
** The Overall rating is not a simple average. The weights are determined by AFL at its discretion based on market conditions.

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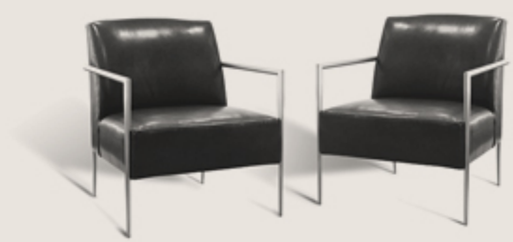

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