genesis WEALTH ADVISORS

A Wealth of Possibilities

Monthly Update

November 2017

Key Takeaways

- ***An attorney, not an economist is the new Fed Chair pick***
- ***Why the labor market is now NOT a driver of higher inflation or growth***
- ***Balancing portfolio risks and opportunities where there is a productive use of capital investment***

Overview

- As expected, Jerome Powell, an existing Fed Governor under Chair Janet Yellen, has been highlighted as the White House administration's choice for the new Chair.
- The expected outcome of this change should be minimal relative to Yellen's current approach to dealing with labor markets and inflation. However, we would expect more favorable deregulation proposals in the bank and finance area.
- The Philips Curve looks to be dead (the relationship between full employment and wage inflation) with the U.S. labor market at nearly full employment without a commensurate rise in inflation. As we have stated previously, a shifting labor market from manufacturing to services, coupled with a rapid pace of technological innovation and unfavorable demographics (deflationary), should keep a lid on real wage growth.

Areas of Opportunity & Concern

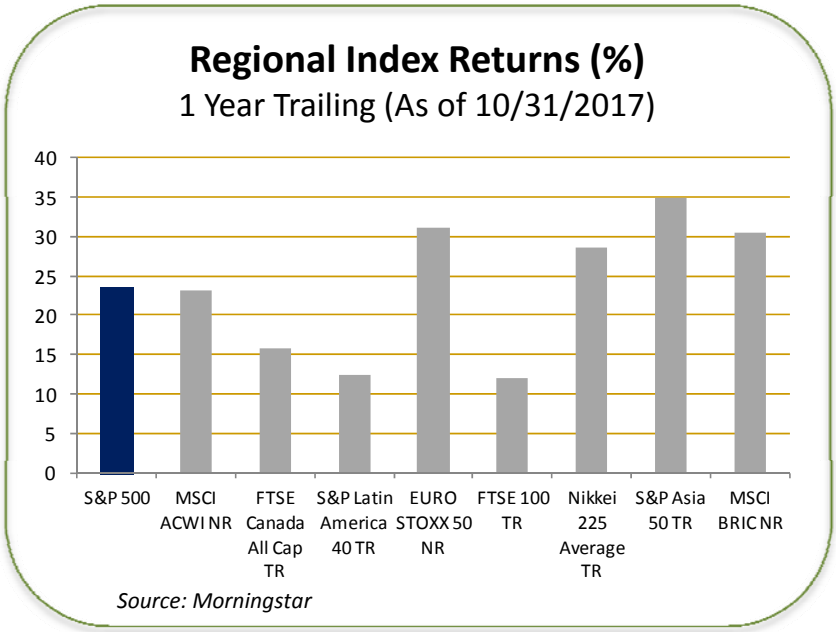
- Our concerns range from elevated financial asset prices to market complacency. The last several years have been marked by a lack of "productive" capital formation. Equity prices have been driven by the search for yield and non-productive use of capital, such as share buybacks and dividend distributions, rather than capital investment.
- Opportunities exist longer term in those areas of the global economy where productive capital investment is being made in transforming old business models and funding new R&D. These areas would include biotech, machine learning ("AI"), cloud computing, e-commerce, and clean tech.
- We continue to expect a reversal in financial market volatility in the coming months. Much of that will predicated on the market's view of future growth, inflation and debt burdens.

Key Market & Economic Indicators

Bullish | Favorable | Neutral | Cautious | Bearish

Equities	Oct 2017	Trailing 3 Months	Trailing 1 Year	Current View
U.S. Large & Mid Cap	2.33%	4.76%	23.63%	Cautious
U.S. Small Cap	0.85%	5.78%	27.85%	Cautious
International	1.52%	4.01%	23.44%	Neutral
Emerging Markets	3.51%	5.39%	26.45%	Neutral
Fixed Income				
U.S. Aggregate	0.06%	0.47%	0.90%	Neutral
U.S. Government	-0.11%	0.10%	-0.62%	Cautious
U.S. Corporate	0.34%	0.95%	3.18%	Favorable
U.S. High Yield	0.42%	1.28%	8.92%	Neutral
Non-U.S. Developed	-0.80%	-0.77%	2.47%	Cautious
Emg Market Debt	-2.75%	-1.45%	4.94%	Bearish
Alternatives				
REITs	-0.96%	-1.24%	5.67%	Neutral
Commodities	2.04%	3.38%	4.95%	Bearish
Managed Futures	1.21%	0.53%	-2.19%	Cautious
Hedge Fund	0.69%	1.59%	6.97%	Favorable

Source: Morningstar *Data as of 10/31/2017*



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Index definitions:

"U.S. Large Cap" represented by the S&P 500 Index.
"U.S. Small Cap" represented by the Russell 2000 Index.
"International" represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
"Emerging" represented by the MSCI Emerging Markets Net Return Index.
"U.S. Aggregate" represented by the Barclays U.S. Aggregate Bond Index.
"U.S. Government" represented by the Barclays U.S. Government Bond Index.
"U.S. Corporate" represented by the Barclays U.S. Credit Bond Index.
"U.S. High Yield" represented by the Barclays U.S. Corporate High Yield Index.
"Non-U.S. Developed" represented by the S&P International Treasury ex U.S. Index.
"Emg Market Debt" represented by the JP Morgan GBI-EM Global Core Index
"REITs" represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
"Commodities" represented by the S&P Goldman Sachs Commodities Index (GSCI).
"Managed Futures" represented by the Credit Suisse Managed Futures Index.
"Global Macro" represented by the Credit Suisse Global Macro Index

Direct investment in an index is not possible.

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