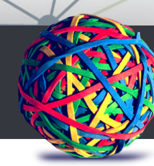
LATE CYCLE ENVIRONMENT AND EMERGING MARKETS

AUGUST 2018
WHITE PAPERS

WT WEALTHMANAGEMENT



Many investors in emerging market (EM) stocks believe they made a bad allocation in the past couple of months, and some investors have sold their stakes in disgust.

EM stocks, measured by the MSCI Emerging Markets Index, posted a strong gain of 37% in 2017, encouraging investors to look at this asset class as we entered 2018.

After a strong January, EM stocks pulled back with the rest of the global stock market and are now down about 15% from their late-January highs.

Despite this, WT Wealth Management believes it may be wrong to count EM stocks out of your portfolio.

Depending on a variety of personal factors, an allocation to EM is still appropriate for many investors. We wouldn't be looking to sell or pare back current holdings. History has shown that the mid - or even late - stage of the economic cycle just may be when emerging markets shine.

KEY POINTS

- EM stocks have shifted from taking the lead to coming up from behind in investors' opinions.
- Investors fear a regression to an economic environment that thwarted EM stocks before.
- The present economic environment may resemble those that had spurred EM stock out-performance.

MID-CYCLE ECONOMIC ENVIRONMENT

Past periods of EM stock struggle included the 1994 Mexican peso crisis, the 1997 Asian financial crisis, and the 2013 Taper Tantrum. In each of these, the Federal Reserve took action to tighten monetary policy, going

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so far as to taper back $70 million in bonds and mortgage-backed securities in the case of the Taper Tantrum, which contributed to the MSCI Emerging Markets Index's 150.5% plunge a year later. Usually these types of Fed action signify the exit from a recovery period or early economic cycle and entry into mid-cycle economic recovery.

Yet these mid-cycle changes in monetary policy did not invert the U.S. Treasury yield curve, nor did a global or U.S. recession follow them. However, they did boost the broad trade-weighted value of the dollar by about 20%, which weighed on EM stocks due to the dependence of EM stocks on dollar-based financing. Therefore, EM stocks suffered during each of these mid-cycle periods, under performing their developed market peers, as this chart shows.

EMERGING MARKET CRISES: INDEX CHANGE ONE YEAR AFTER INITIAL FED ACTION TO TIGHTEN MONETARY POLICY

DATE OF FED ANNOUNCEMENT	MSCI USA	MSCI EAFE	MSCI EMERGING MARKETS
2/4/1994	2.7%	-5.9%	-19.6%
3/25/1997	42.3%	22.0%	-14.9%
5/22/2013	17.0%	12.3%	2.0%
AVERAGE	**30.7%**	**9.5%**	**-10.8%**

The MSCI USA Index is designed to measure the performance of the large and midcap segments of the US market across 631 stocks. The index covers approximately 85% of the market capitalization in the US.

The MSCI EAFE Index, an equity index representing developed-market countries, includes stocks from: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the UK.

The MSCI Emerging Markets Index, comprising 23 emerging economies worldwide, includes stocks from: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

LATE-CYCLE ENVIRONMENT

WT Wealth Management views the current economic environment as late-cycle, which has historically favored EM stocks. The Fed took initial action to end quantitative easing and raise interest rates with its first rate increase in December 2015. This move started the flattening of the yield curve, thus sparking the discussion that this economic cycle is past its midpoint and into its later stages. Typically, the US dollar is relatively stable

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at late cycle, which is good for EM stocks.
This stability in the dollar has, at least in part, led EM stocks to outperform during late-cycle environments in the past as shown in the chart below.

EMERGING MARKETS ON TOP: INDEX CHANGE IN THE ONE-YEAR PERIOD PRECEDING INVERSION OF THE YIELD CURVE

DATE OF US YIELD CURVE INVERSION	MSCI USA	MSCI EAFE	
5/31/1989	22.2%	7.1%	43.6%
7/13/2000	6.0%	14.0%	7.7%
7/31/2006	5.3%	24.6%	28.7%
AVERAGE	**11.2%**	**15.2%**	**26.7%**

SUMMARIZING LATE-CYCLE PERFORMANCE:

• EM stocks outperformed in two of the three periods covered in the chart above.

• EM stocks outperformed in spite of pressure put on them in some perpetually susceptible nations.

At WT Wealth Management, our experience, discipline and long-term investment focus drive us to evaluate asset classes that are temporarily out of favor with investors. While EM stocks may have lost leverage during the past quarter, our view that the markets are in a late-cycle environment gives us reason to see opportunity in EMs after the recent sell-off.

Keep in mind that adding an asset class like emerging market stocks to your portfolio is based on your personal risk tolerance, your investing time horizon, the strategy you are currently invested in, and a variety of other personalized factors. Please contact your investment advisor professional if you have any questions or would like to discuss the opportunities within EM stocks in greater detail.

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