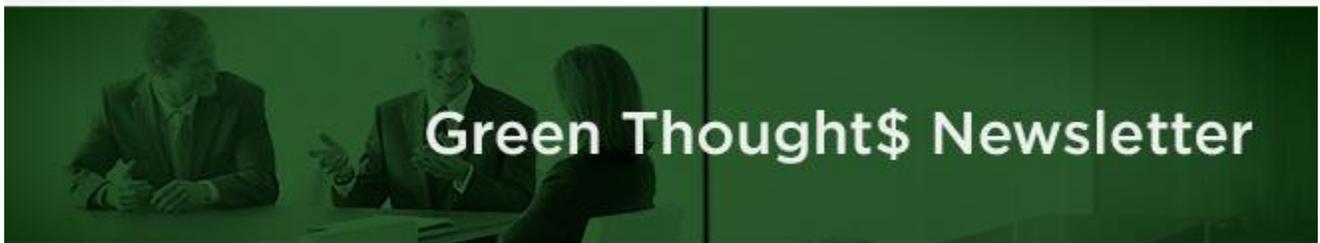




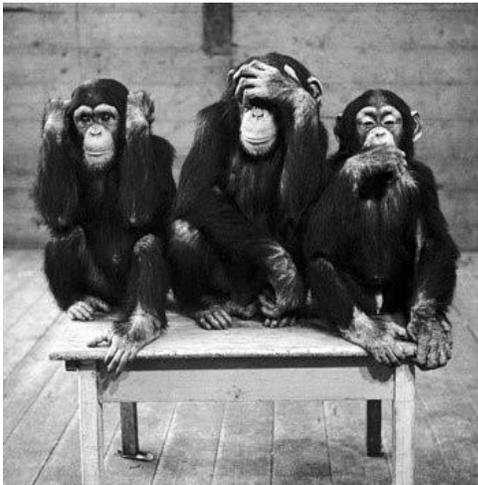
Emerald
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July 5, 2018

Thank you for reading GreenThought\$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.

Second Quarter 2018: Investment Market Summary



What kind of investor are you? Do you have the financial news on the television in the background at all times? Do you receive investor newsletters and peruse several newspapers a day, and then make changes in your investment portfolio in reaction to what's happening? Or are you like our friends shown above, trying not to pay attention to all the headlines and instead stick to a BUY AND HOLD strategy?

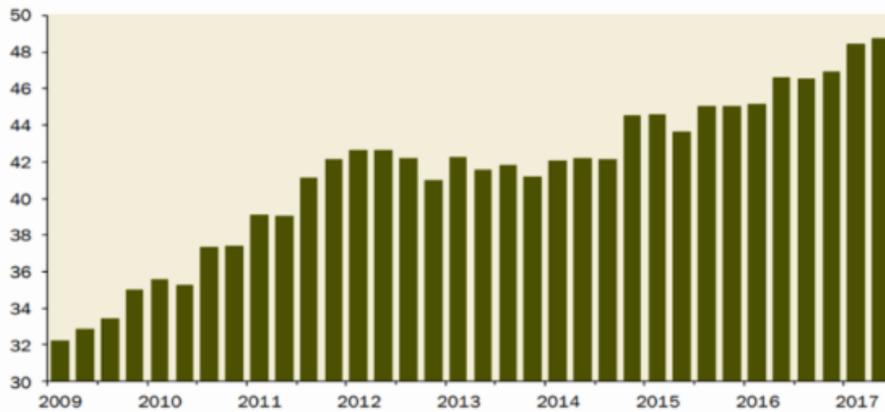
If there is a right answer, we think it is to determine what is consequential and what is just noise. Immigration policy, talks with North Korea, political intrigue in Washington D.C., all tend to dominate the news cycle and are important, to be sure. However, they usually are not market-moving events. On the other hand, trade policy and the implementation of tariffs will influence corporate profits and need to be monitored. Currency moves rarely make headlines but they do move markets.

We are most focused on what is happening quietly in the fixed income markets. A few charts will help.

NEARLY HALF OF INVESTMENT-GRADE COMPANIES ARE RATED BBB

United States: BBB Share of Investment-Grade Bonds

(percent)



Notes:

Source: Bloomberg, Gluskin Sheff

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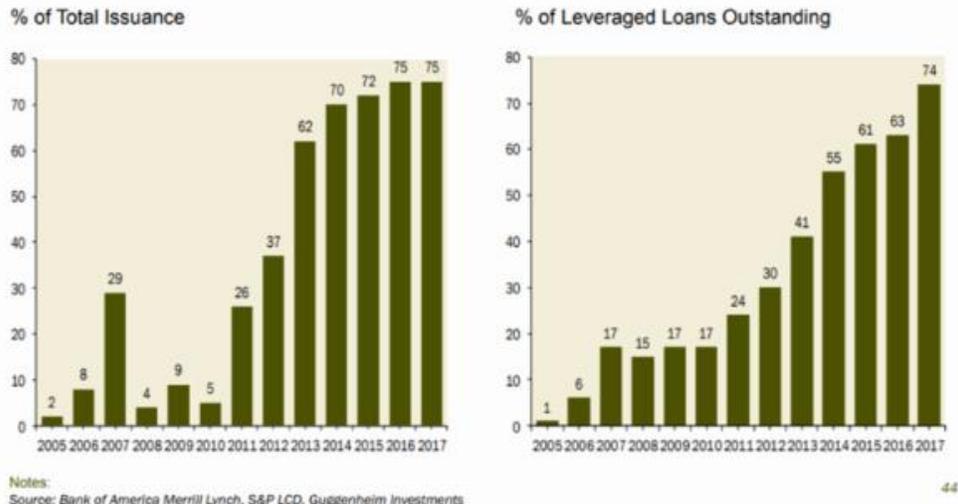
Gluskin Sheff + Associates Inc.

Gluskin
Sheff

Almost one half of investment grade companies are rated just one step above junk. Although the economy is doing well now, when the eventual slowdown occurs some of these companies will experience difficulties and could have their debt downgraded. Institutions and funds that by mandate cannot hold high yield (junk) will be forced to sell.

CORPORATE BOND INVESTORS HAVE LITTLE PROTECTION

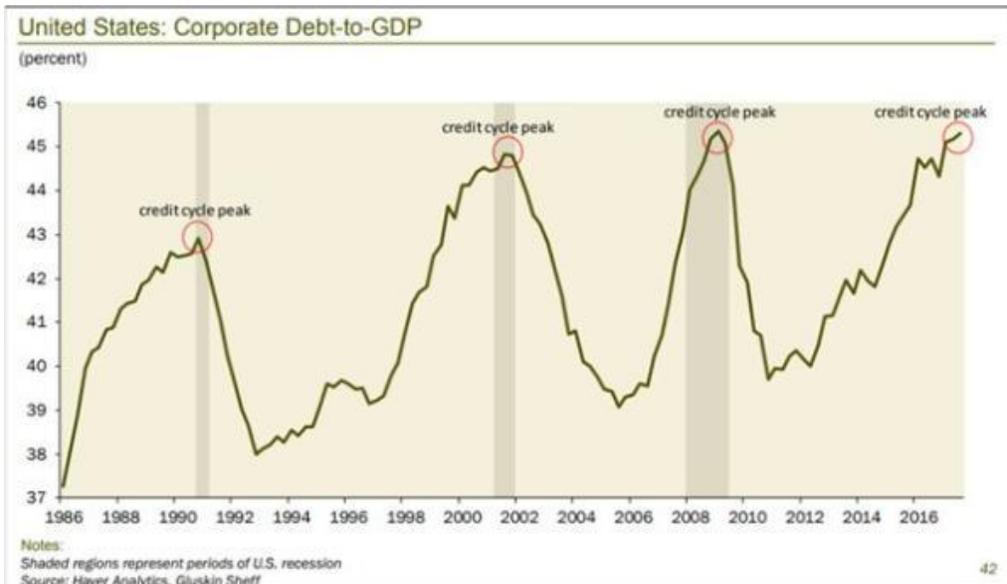
United States: Covenant-Lite Loans



Gluskin Sheff + Associates Inc.



Covenant-lite loans means that debt being issued doesn't offer borrowers as much protection as in the past. There are fewer restrictions on collateral, payment terms and level of income. The left chart above shows the proliferation of these kinds of loans, which now make up 75% of the total. Similarly, the amount of leveraged loans (right chart) is at a multi-year high.



One more chart from Gluskin Sheff, showing corporate debt as a percentage of GDP. The shaded areas represent recessions. There are fewer players in the bond market providing

liquidity compared to years past. Who are going to be the buyers when the current cycle ends? All these charts reflect pressures in the fixed income world, but don't offer any clues as to how immediate the problems may be.



This chart shows the yield curve, the difference in yields between the 10-year treasury and the 2-year treasury. The “ spread” now sits at 32 basis points, or .32 percent. The yield curve has inverted, or dropped below the horizontal black line, prior to every one of the last 5 recessions (shaded). There is typically an 18-month lag between the curve inverting and the onset of a recession, but the current trend is unmistakable and needs to be watched. When the next recession occurs, the data reflected in the earlier charts will become more relevant. Since markets tend to anticipate future events, they will start to react ahead of time. We want to be patient, but vigilant, in this environment.

Looking back on the quarter just ended, the S&P 500 gained 3.4% giving it a year to date gain of 2.6%. The U.S. small caps, tracked via the Russell 2000, was the strongest stock index gaining 7.8% for the quarter. The dollar index, DXY, reversed its first quarter loss of 1.87% with a gain for the second quarter of 4.79%. That's a big move for a currency. Accordingly, asset classes that move inversely to the dollar did poorly for the quarter. GLD, the largest exchange traded fund holding gold bullion, lost 5.7%. The developed markets overseas lost 1.3%, emerging market equities lost 8.1% and emerging market debt lost 5.5%. Predicting the future direction of the dollar is difficult, but it is unlikely that we'll see the current strength continue unabated in the 3rd quarter of the year.

Please contact your Emerald team for more information. We're always happy to share our thoughts and to get your feedback.

Regards from the Emerald Team



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Disclosure
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Currency trading may involve significant risks, including market risk, interest rate risk and country risk. Funds or strategies that use leverage or shorting may experience substantial losses. The investment strategy presented is not appropriate for every investor and individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services. As with all investments, past performance does not guarantee future results.

Clients are urged to compare the custodian's account statements to the advisor's supplemental statements. Please contact us if you do not receive statements from your custodian.

As of August 2016, Schwab no longer sends month-end statements for those accounts where there has been no activity for the preceding month; these accounts will be receiving quarterly statements.

About Emerald

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