

# GRESHAM

February 2018

Clients and Friends,

2017 might have been a once-in-a-lifetime investment experience for investors, as uncommon synchronized global growth, strong acceleration in corporate earnings and continuing unprecedented monetary support fueled capital market appreciation across the globe. In 2018, however, investors face a looming milestone we have named Peak Central Bank, as depicted on the front of our *2018 Annual Outlook*.

Although the U.S. is well into its monetary normalization phase, aggregate global central bank policy remains expansionary, as major non-U.S. central banks maintain or even expand their bloated balance sheets. Nevertheless, we are fast approaching Peak Central Bank when aggregate global central bank purchases become negative, removing a strong support that investors have enjoyed for nearly a decade.

In addition to this concern, asset prices are elevated across many markets. It is important to note, however, that this metric has historically been a lousy predictor of market corrections. We can find several historical examples of similarly elevated valuations where investors were well rewarded for some time due to underlying fundamental growth. Strong fundamentals may support U.S. and other equity markets in the near-term, but what will likely change is the historic low level of volatility that investors enjoyed in 2017.

Once again, we are pleased to share our observations and conclusions regarding what happened in the global economies and capital markets last year, as well as our expectations regarding future economic and market developments. Fully aware, as John Kenneth Galbraith once reminded us, that "There are two types of forecasters: those who don't know, and those who don't know they don't know.", we also offer our views on investment themes to guide investors. If you are interested in assessing the value of our observations, conclusions, expectations and forecasts, you can review them from the past thirteen years on our website at [www.greshampartners.com/gresham-insights/annual-outlook](http://www.greshampartners.com/gresham-insights/annual-outlook).

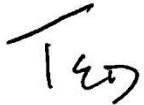
Here are some of the investment themes we address in our *2018 Annual Outlook*:

- Beginning on page 5, we show how widespread low volatility has been recently, and warn that even institutional investors are "loading the boat on risk" with gross and net leverage among hedge funds reaching near record levels.
- Beginning on page 7, after noting that positive economic cycles usually end due to central bank policy mistakes or a sudden unwinding of excesses built up during boom years, we comment on the potential impact of a combination of increased U.S. federal spending, lower corporate taxes, tighter labor markets, rising inflation and Fed rate increases.
- Beginning on page 13, we explain why – despite stronger-than-anticipated growth in the U.S. – we believe developed international, emerging and frontier market equities are more attractive than U.S. equities, and how important it is to use active managers with the right characteristics, as most traditional active managers continue to underperform.
- Beginning on page 15, we describe secular changes that are causing a relative shift in the opportunity set toward private markets and away from public markets in the U.S., how manager selection has impacted private equity returns since 2005, and where we are finding private equity opportunities despite concerns about fundraising levels in the U.S.

- Beginning on page 17, we caution investors to consider several key risks as a backdrop for current investment decisions, including impacts of the removal of the unprecedented post-GFC monetary stimulus and the all-time high levels of debt for listed U.S. companies.
- Beginning on page 18, we offer our recommendations for investing in a full range of investment strategies, paying special attention to emerging and frontier markets, hedge funds and private investments.

Please contact us if you have questions or comments regarding anything in our *2018 Annual Outlook* or otherwise related to Gresham.

Thank you,

A handwritten signature in black ink, appearing to read 'E. Neild'.

Edward F. Neild, IV  
Principal, President and Chief Investment Officer

Encl.: *Gresham 2018 Annual Outlook*