



SKYE  
ADVISORS

# Skye Advisors' Views

2<sup>nd</sup> Quarter 2019

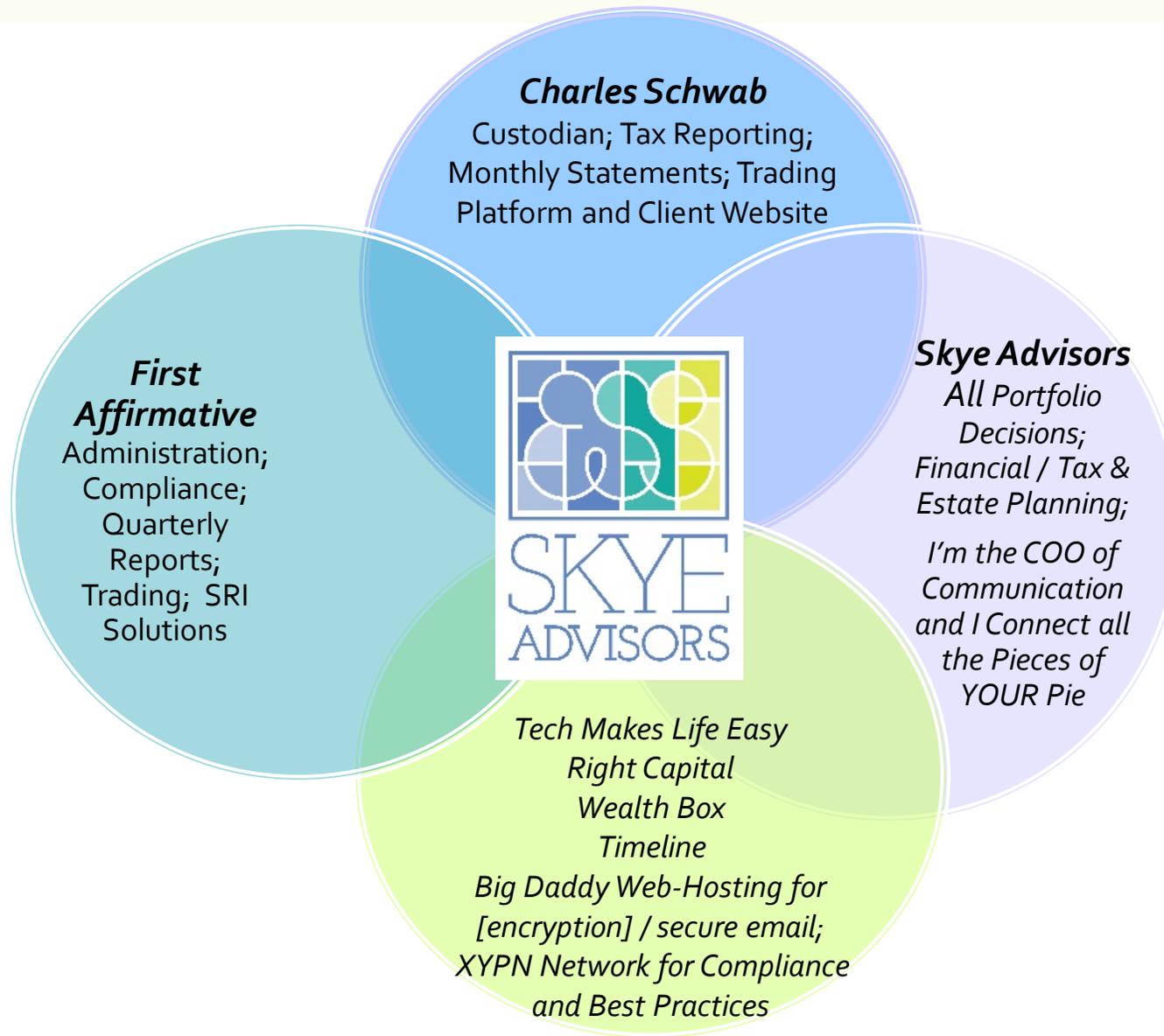
*Watch for our "4 Things You Need To Know"*

Relevant, Timely, Accessible

*Smart Moments: 10 minutes a Quarter keeps you in the know*

- **Markets and Moguls:** smart minds and moves
- **ESG Headlines:** Sustainable Investing and Impact in the news
- **Planning Matters:** smart moves that pay off with portfolio management, tax- financial - and estate planning

*Live Life Well*



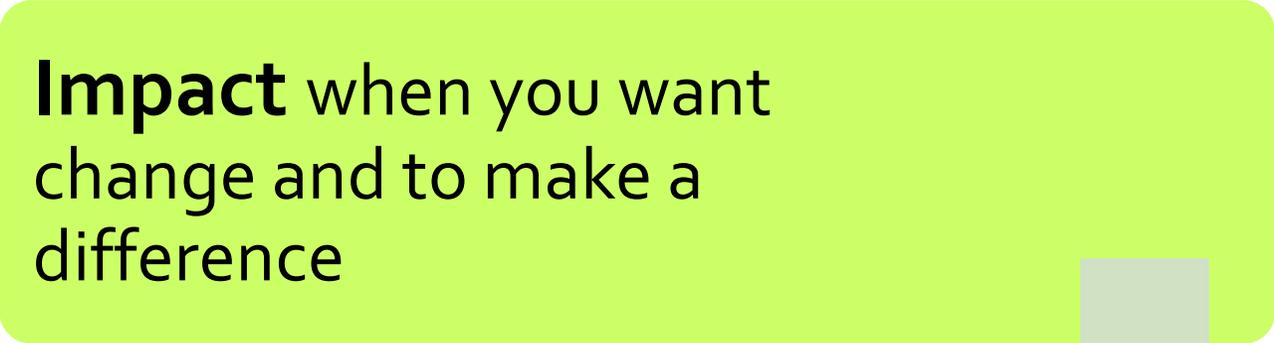
*The Power of Partnership & Teamwork*



Tomorrow won't look like yesterday

What you own matters: now more than ever, performance is a function of owning the right sectors and the right companies

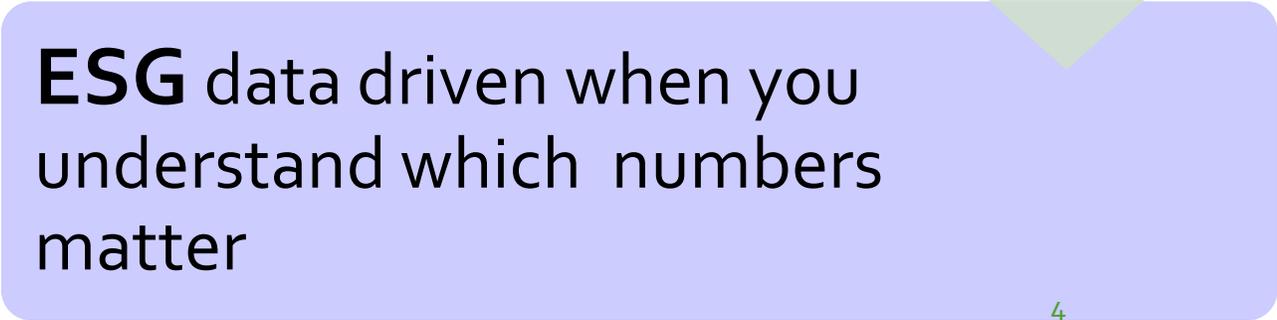
**Impact** when you want change and to make a difference



**SRI** what you own determines what your portfolio return will be



**ESG** data driven when you understand which numbers matter



# What is ESG Investing?

ESG refers to **E**nvironmental, **S**ocial, and **G**overnance and the incorporation of these factors into the investment-making decision with the goal of measuring the sustainability and ethical impact of an investment in a business or company.

**E** – measures the impact a company is having on the environment

**S** – analyzes a company's interaction with its employees, vendors, and the communities in which it operates

**G** – focuses on the ownership and management structure of companies

# What issues matter most to you?

While there is no standard definition of what constitutes ESG, the following factors are frequently utilized in ESG screening:

Examples of Factors		
<u>Environmental</u>	<u>Social</u>	<u>Governance</u>
Sustainability	Diversity	Board Independence
Clean Technology	Labor Rights	Board Structure
Climate Change	Human Rights	Executive Compensation
Natural Resource Management	Employee Relations	Shareholder Rights
Low Carbon	Child Labor	
Waste & Pollution	Working Conditions	
Greenhouse Gases		

Markets &  
Moguls  
*Shifting to market  
matters and  
how managing  
a regime change*

A “regime change” means you need to be strategic **and** tactical and can’t just *buy and hope*.

Market volatility from 2001 to 2017 led to bond rallies.

- 60% stocks / 40% bonds worked.

February 2018 signaled a new era: *Fed increases in interest rates changed the cost of doing business for everyone.*

- Stocks struggled from 1960 - 1980 when inflation pushed interest rates to 20%.
- A bull market began when inflation broke.
- A 30-year rally in bonds pushed yields to 0% as investors risked-up for income: up went asset values.

*Gone are the days where a traditional asset allocation was money.  
The question is where do you invest **today**?*

The Market  
is front and  
center: *asset  
allocation  
matters*

Which do  
we  
prepare  
for...  
rising or  
falling  
rates?

Who is  
more of a  
threat?  
China?  
Brexit? N  
Korea?  
Russia?

What  
does  
2019 look  
like? Is  
volatility  
here to  
stay?

Winners  
Rotate:  
what are  
the key  
themes  
for 2019?

Is the  
Economic  
Cycle in  
transition?  
Late-cycle  
or room to  
run?

Which do we prepare for... rising **or** falling rates?

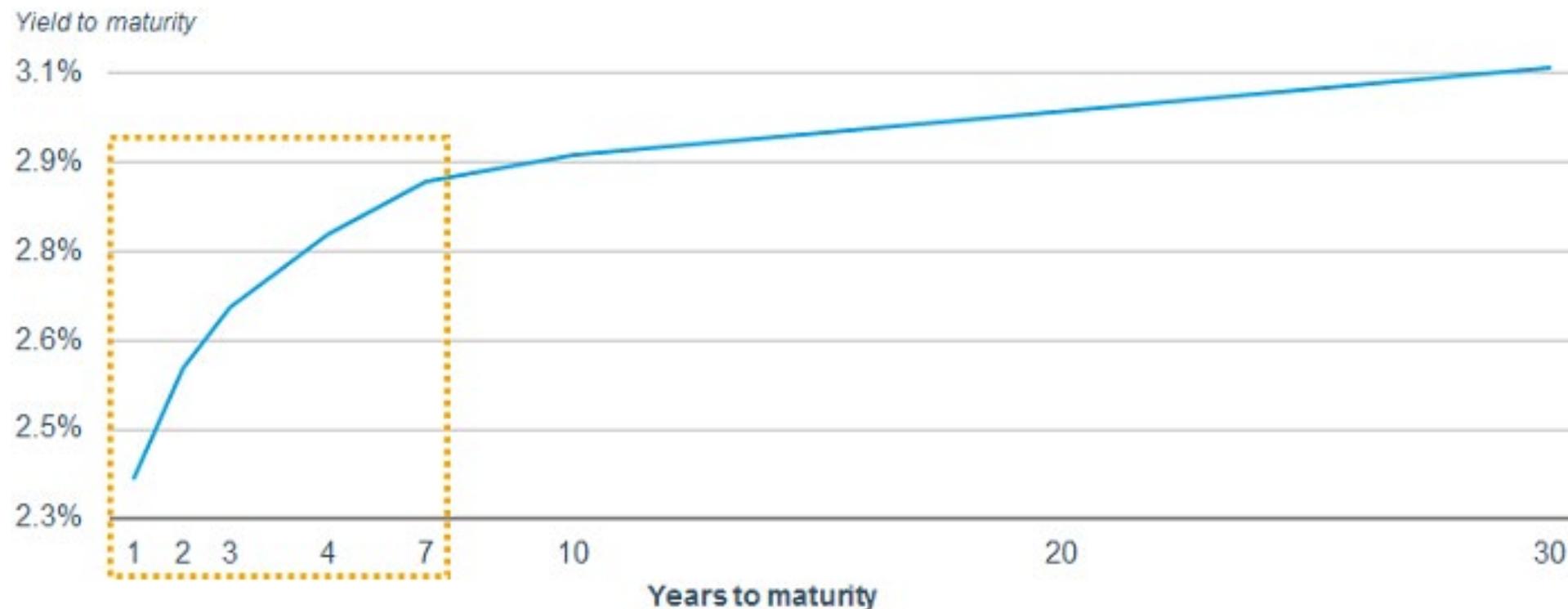
Does the inverse relationship between interest rates and bond prices always hold up? YES, but not all bonds are created equal.

When **interest rates rise**, **bond prices fall** – and **vice versa: where do you need to be on the curve?** The million dollar question is **when**, and **how much** will interest rates go up...or go back down?



# Be very selective about the credit risks you take and where you are on the curve

Duration doesn't pay – yet



## FIXED INCOME ANNUAL RETURNS (2009–2018)

This chart compares 10 years of annual performance from January through December of each year for 11 different fixed income asset classes. Choose any asset class—Municipal Bonds in the brown box, for example—and follow its performance over the past 10 years. Notice how this asset class has performed near or at the top and bottom compared to other asset classes throughout the 10 years. Or take High Yield Bonds in the olive green box. This asset class shows the

best performance for four out of the past 10 years, but has also been among the worst performers within the same time period. This demonstrates the importance of diversification, since each fixed income category tends to vary in performance from one year to the next. A fixed income category that leads one year could trail the next year. Although diversification does not prevent losses, you may be able to help mitigate losses by diversifying across multiple fixed income categories.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
High Yield Bonds	58.21%	15.12%	10.70%	17.95%	7.44%	9.05%	3.30%	17.13%	10.51%	1.82%
Leveraged Loans	51.62%	12.84%	9.81%	15.81%	5.29%	7.46%	1.51%	10.16%	8.17%	1.60%
Emerging Markets	34.23%	10.13%	8.15%	9.82%	0.64%	6.08%	1.29%	9.88%	7.50%	1.28%
Corporate Bonds	18.68%	9.00%	7.84%	9.66%	0.05%	5.97%	0.84%	6.11%	6.42%	0.99%
Municipal Bonds	12.91%	6.54%	6.97%	6.78%	-1.41%	5.05%	0.65%	2.65%	5.45%	0.86%
International Bonds	7.53%	5.87%	6.23%	4.21%	-1.53%	4.76%	-0.68%	1.67%	4.12%	0.44%
Core Bonds	5.93%	5.37%	4.98%	4.09%	-2.02%	2.45%	0.55%	1.49%	3.54%	0.01%
Mortgage Backed Securities	5.89%	4.95%	4.36%	2.59%	-2.55%	1.60%	0.03%	1.28%	2.47%	-2.08%
Short-Term Gov't/Credit	3.82%	2.80%	1.59%	1.99%	-2.75%	0.77%	-0.69%	1.04%	2.31%	-2.15%
Cash	0.15%	2.38%	1.52%	1.26%	-3.08%	0.02%	-4.47%	0.26%	0.84%	-2.46%
Treasuries	-3.57%	0.13%	0.07%	0.08%	-4.12%	-3.08%	-6.02%	0.25%	0.82%	-2.51%

Source: Morningstar

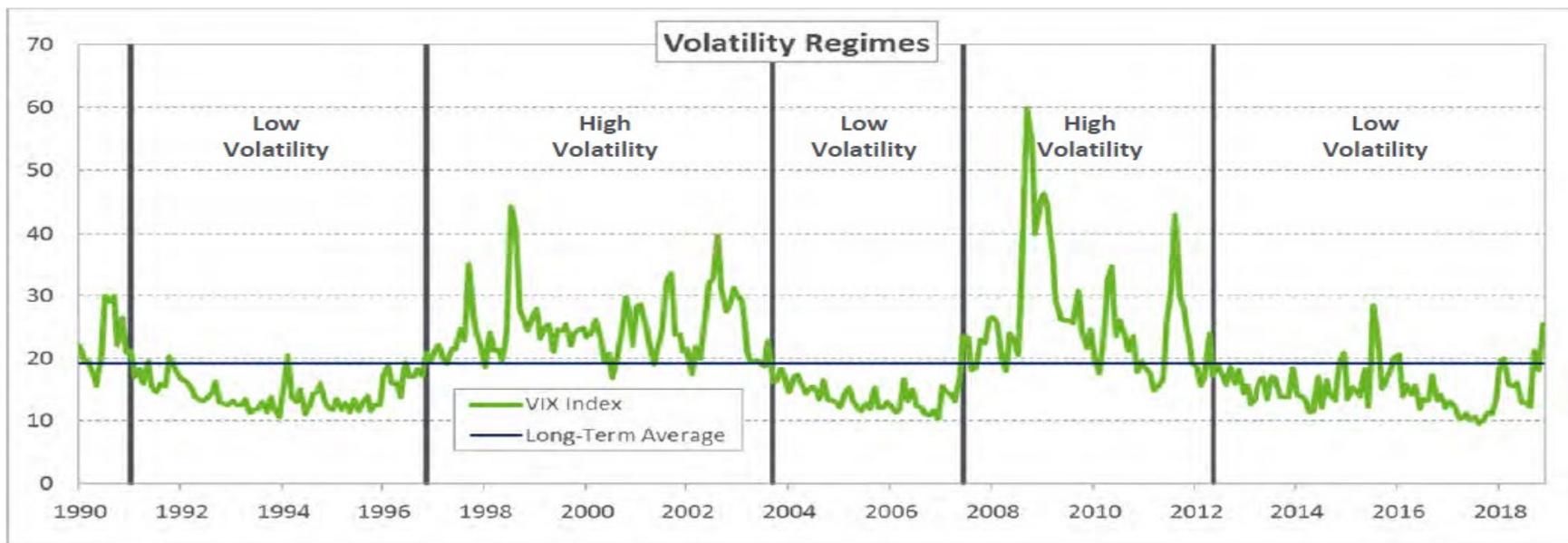
# Who is more of a threat? China? North Korea? Russia? Brexit?

## 2019 SUMMARY OUTLOOK

- **Market dynamics shifted significantly in 2018, with Fed policy and US-China trade tensions disrupting many of our key market themes**
  - As a result we have removed Federal Reserve Gradualism, Extended US Economic Cycle, and Global Synchronized Growth as key themes
- **We believe we have entered a late-cycle market environment and the dynamics of such an environment will be a focal point for investors**
  - However, late-cycle does not mean end of cycle and equities can still offer lucrative returns, though are likely to be accompanied by additional volatility
- **We encourage investors to rebalance developed market equity exposure**
  - We have downgraded our outlook for non-US developed equities and removed the overweight recommendation from our current opportunities list
  - The main driver of the change is negative sentiment surrounding economic and political conditions of Europe, concerns related to the earnings growth outlook, and central banks paring back their support of easy financial conditions
- **The transition to a late-cycle is accompanied with a more risk-averse investment outlook as economic risks become more pronounced**
  - After years of low volatility and outsized equity returns, the market is likely to transition to a higher volatility regime, which offers more risk but also tactical opportunities
  - We recommend reducing lower quality credit exposure as higher default rates are a common aspect of late-cycle market dynamics

# Is 2019 going to be a repeat of 2018?

## BRACE FOR HIGHER VOLATILITY IN 2019



Source: S&P, CBOE, Bloomberg, NEPC

- **Equity volatility regimes tend to persist over prolonged periods and 2018 was witness to a material shift higher in equity volatility**
  - We encourage investors to raise “safe haven” fixed income exposure as trends associated with each of our key market themes suggest higher volatility is on the horizon
- **2019 may prove to be a difficult year for markets but higher volatility can also offer a greater number of opportunities for dynamic investors**
  - Investors should be prepared to act in a higher volatility regime, as dynamic opportunities may arise to deploy safe-haven assets back into US equity and other risk assets



**FRANKLIN  
TEMPLETON**

# WHY DIVERSIFY? BECAUSE WINNERS ROTATE.

Perhaps nothing better illustrates the need for an asset allocation plan than the chart below, which shows how various asset classes performed on a year-by-year basis from 1999 through 2018. The best-performing asset class for each calendar year is at the top of each column. Please remember, past performance does not guarantee future results.

**ANNUAL TOTAL RETURNS OF KEY ASSET CLASSES 1999–2018<sup>1</sup>**

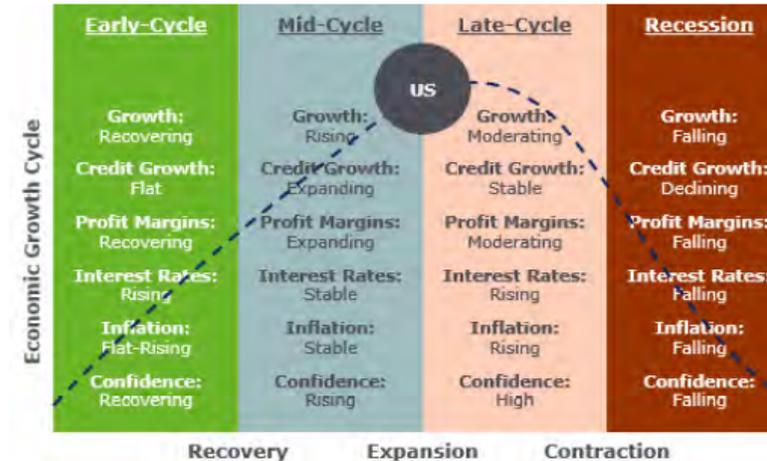
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Best ↑	Emerging Market Stocks 66.41%	Small Value Stocks 22.83%	Small Value Stocks 14.02%	Global Bonds 19.49%	Emerging Market Stocks 56.28%	Emerging Market Stocks 25.95%	Emerging Market Stocks 34.54%	Emerging Market Stocks 32.55%	Emerging Market Stocks 39.82%	Global Bonds 10.89%	Emerging Market Stocks 79.02%	Small Growth Stocks 29.09%	Bonds 7.84%	Emerging Market Stocks 18.63%	Small Growth Stocks 43.30%	Large Growth Stocks 14.89%	Large Growth Stocks 5.52%	Small Value Stocks 31.74%	Emerging Market Stocks 37.75%	Bonds 0.01%	Best ↑
	Small Growth Stocks 43.09%	Bonds 11.63%	Bonds 8.44%	Bonds 10.26%	Small Growth Stocks 48.54%	Small Value Stocks 22.25%	Foreign Stocks 14.02%	Foreign Stocks 26.86%	Foreign Stocks 11.63%	Bonds 5.24%	High Yield Bonds 54.22%	Small Value Stocks 24.50%	Global Bonds 6.35%	Small Value Stocks 18.05%	Small Value Stocks 34.52%	Large Value Stocks 12.36%	Bonds 0.55%	High Yield Bonds 18.25%	Large Growth Stocks 27.44%	Large Growth Stocks -0.01%	
	Hedge Strategy Composite 31.29%	Large Value Stocks 6.08%	High Yield Bonds 5.80%	High Yield Bonds 3.10%	Small Value Stocks 46.03%	Foreign Stocks 20.70%	Hedge Strategy Composite 9.27%	Small Value Stocks 23.48%	Global Bonds 10.95%	Hedge Strategy Composite -19.02%	Small Growth Stocks 34.47%	Emerging Market Stocks 19.20%	High Yield Bonds 5.47%	Foreign Stocks 17.90%	Large Growth Stocks 32.75%	Bonds 5.97%	Foreign Stocks -0.39%	Large Value Stocks 17.40%	Foreign Stocks 25.62%	Global Bonds -0.84%	
	Large Growth Stocks 28.25%	Hedge Strategy Composite 4.98%	Hedge Strategy Composite 4.62%	Hedge Strategy Composite -1.44%	Foreign Stocks 39.17%	Large Value Stocks 15.71%	Large Value Stocks 5.82%	Large Value Stocks 20.80%	Hedge Strategy Composite 9.95%	High Yield Bonds -26.17%	Foreign Stocks 32.46%	Large Value Stocks 15.10%	Large Growth Stocks 4.65%	Large Value Stocks 17.68%	Large Value Stocks 31.99%	Small Growth Stocks 5.60%	Hedge Strategy Composite -1.11%	Emerging Market Stocks 11.60%	Small Growth Stocks 22.17%	High Yield Bonds -2.37%	
	Foreign Stocks 27.30%	Global Bonds 1.59%	Global Bonds -0.99%	Emerging Market Stocks -6.00%	Large Value Stocks 31.79%	Small Growth Stocks 14.31%	Small Value Stocks 4.71%	Small Growth Stocks 13.35%	Large Growth Stocks 9.13%	Small Value Stocks -28.92%	Large Growth Stocks 31.57%	Large Growth Stocks 15.05%	Large Value Stocks -0.48%	High Yield Bonds 14.71%	Foreign Stocks 23.29%	Small Value Stocks 4.22%	Small Growth Stocks -1.38%	Small Growth Stocks 11.32%	Large Value Stocks 15.36%	Hedge Strategy Composite -3.52%	
	Large Value Stocks 12.72%	High Yield Bonds -5.21%	Emerging Market Stocks -2.37%	Small Value Stocks -11.43%	High Yield Bonds 27.94%	High Yield Bonds 11.95%	Small Growth Stocks 4.15%	Hedge Strategy Composite 12.89%	Small Growth Stocks 7.05%	Large Growth Stocks -34.92%	Large Value Stocks 21.18%	High Yield Bonds 14.42%	Small Growth Stocks -2.91%	Large Growth Stocks 14.61%	Hedge Strategy Composite 9.14%	Hedge Strategy Composite 2.98%	Large Value Stocks -3.13%	Large Growth Stocks 6.89%	Hedge Strategy Composite 8.52%	Large Value Stocks -8.95%	
	High Yield Bonds 3.28%	Foreign Stocks -13.96%	Small Growth Stocks -9.23%	Foreign Stocks -15.66%	Large Growth Stocks 25.66%	Global Bonds 10.35%	Large Growth Stocks 4.00%	High Yield Bonds 11.92%	Bonds 6.97%	Small Growth Stocks -38.54%	Small Value Stocks 20.58%	Hedge Strategy Composite 10.25%	Hedge Strategy Composite -5.25%	Small Growth Stocks 14.59%	High Yield Bonds 7.53%	High Yield Bonds 1.86%	Global Bonds -3.57%	Hedge Strategy Composite 5.45%	Small Value Stocks 7.84%	Small Growth Stocks -9.31%	
	Bonds -0.82%	Large Growth Stocks -22.08%	Large Value Stocks -11.71%	Large Value Stocks -20.85%	Hedge Strategy Composite 19.55%	Hedge Strategy Composite 9.05%	Bonds 2.43%	Large Growth Stocks 11.01%	High Yield Bonds 2.65%	Large Value Stocks -39.22%	Hedge Strategy Composite 20.00%	Foreign Stocks 8.21%	Small Value Stocks -5.50%	Hedge Strategy Composite 6.37%	Bonds -2.02%	Global Bonds -0.48%	High Yield Bonds -4.93%	Bonds 2.65%	Global Bonds 7.49%	Small Value Stocks -12.86%	
	Small Value Stocks -1.49%	Small Growth Stocks -22.43%	Large Growth Stocks -12.73%	Large Growth Stocks -23.59%	Global Bonds 14.91%	Large Growth Stocks 6.13%	High Yield Bonds 2.26%	Global Bonds 6.12%	Large Value Stocks 1.99%	Foreign Stocks -43.06%	Bonds 5.93%	Bonds 6.54%	Foreign Stocks -11.73%	Bonds 4.21%	Emerging Market Stocks -2.27%	Emerging Market Stocks -1.82%	Small Value Stocks -7.47%	Global Bonds 1.60%	High Yield Bonds 7.03%	Foreign Stocks -13.36%	
Worst ↓	Global Bonds -4.27%	Emerging Market Stocks -30.61%	Foreign Stocks -21.21%	Small Growth Stocks -30.26%	Bonds 4.10%	Bonds 4.34%	Global Bonds -6.88%	Bonds 4.33%	Small Value Stocks -9.78%	Emerging Market Stocks -53.18%	Global Bonds 2.55%	Global Bonds 5.17%	Emerging Market Stocks -18.17%	Global Bonds 1.65%	Global Bonds -4.00%	Foreign Stocks -4.48%	Emerging Market Stocks -14.60%	Foreign Stocks 1.51%	Bonds 3.54%	Emerging Market Stocks -14.25%	Worst ↓

# Late-cycle or room to run?

## KEY MARKET THEMES

### Late Cycle Dynamics

- **The US economy has transitioned from a mid- to late-cycle environment**
  - Late cycle does not mean end of cycle; equity markets can offer strong returns and abandoning risk assets early may detract from long-term results
  - Positive economic data can support continued US economic expansion and further equity gains
  - However, moving into a late cycle negatively skews the range of outcomes and our investment outlook reflects a more risk-averse posture with a bias toward selling low quality credit and increasing safe-haven fixed income exposure
- **Trends among key indicators suggest a transition to late-cycle has occurred**
  - These indicators provide a useful guide to recognize changes in the economic cycle
  - Despite the recent trend, there is minimal evidence in economic/financial indicators to suggest that a US recession is imminent



US Indicators	Late-Cycle Trend	Current Trend
Equities	Peaking	Uncertain
Interest Rates	Rising	Yes
Yield Curve	Flattening	Yes
Inflation	Rising	Yes
GDP Growth	Moderating	Uncertain
Credit Spreads	Stable/Rising	Yes
Output Gap	Near/Above Potential	Yes
Unemployment	Falling/Bottoming	Uncertain

Source: (Top) NEPC  
Source: (Bottom) NEPC

# How do we make the most of a tough time?

## 2019 THEMES AND OPPORTUNITIES

### Key Market Themes

- Late Cycle Dynamics
- Tightening Global Liquidity
- China Transitions
- Globalization Backlash

### Current Opportunities

- Rebalance Developed Market Equities
- Raise Safe-Haven Fixed Income Exposure
- Reduce Lower Quality Credit Exposure
- Maintain Overweight to Emerging Market Equities
- Add Long Volatility Exposure
- Fund Emerging Local Debt

WITH 10 MINUTES  
A QUARTER...  
YOU WILL FEEL  
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