DeMarche ASSOCIATES, INC.

PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, January 2018

This is a summary of our views on the economy and markets as shared with discretionary clients.*

ECONOMIC OUTLOOK

- The pace of GDP growth during 2017 improved each quarter, ending the year above 3%. Our expectation is that growth in 2018 will be steady, continuing between 2.5% and 3%. Tax cuts and tight labor markets will provide a tailwind to consumer confidence.
- The Federal Reserve increased the Fed Funds rate in December to 1.5%. This was the third increase during the year. We expect the Fed to be vigilant and are poised for at least two more rate hikes in 2018.
- Headline inflation has continued to be stubbornly lower than 2.0%, which is the Federal Reserve target for removing monetary stimulus. Severe weather could impact energy prices and unemployment data in the coming months. However, we believe the inflation trend will improve to 2% for 2018 due to improvement in commodity prices and wage growth. A growing economy will continue to put upward pressure on prices.
- The U.S. dollar traded lower versus other currencies during 2017. However, the dollar staged a slight rebound at the end of September in anticipation of another rate increase and stronger 2018 economic data. We expect the dollar to consolidate into a new stable trading range during 2018.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:

Asset Allocation	***Positioning***
Total Equities	*Overweight*
Total Fixed Income	*Underweight*
Total Alternatives	*Equal Weight*
Cash and Cash Alternatives	*Equal Weight*

Fixed Income Class & Style	***Positioning***
Intermediate vs. Short Term	*Short Term*
Domestic vs. International	*Domestic*
High Yield vs. Inv Grade	*High Yield*
Cash vs. Ultra Short	*Ultra Short*

Equity Class & Style	***Positioning***
Domestic vs. International	*International*
US Large vs. Small	*Small Cap*
US Growth vs. Value	*Growth*
Int'l Developed vs. Emerging	*Emerging*
Int'l Europe vs. Asia	*Asia*

Alternatives Allocation	***Positioning***
Real Estate	Overweight
Commodities	*Underweight*
Hedge Funds	*Equal Weight*

*** provided by our affiliate, Discretionary Management Services**