

Integrity. Independence. Insight.

Interim Market Update

May 2019



ATHENA
Capital Advisors

Summary

- Currently, with an uncertain outlook (corporate earnings, wage pressures/inflation, US/China trade rhetoric), equities back near pre-4Q18 levels, and bond yields lower, we maintain our overall neutral view across asset classes, with a slight preference for cash given the relatively flat yield curve. Amidst these volatile times we reiterate the importance of rebalancing—a strategy that is well-suited for volatile markets.
- In light of the recent failures of the trade talks and entrenchment by China and the US, Athena thinks the probabilities have shifted toward the less desirable outcomes. To be clear, we do not—nor do we think anyone—know(s) how this ultimately gets resolved and/or the subsequent market’s reaction. However, we want to position ourselves so that we are not overly exposed to a particular outcome, and instead are in a position to be responsive rather than reactive should opportunities present themselves, in particular with those managers whose approach and underlying businesses we find most attractive, long-term.
- We continue to focus on hedge funds that can deliver an uncorrelated source of return while redeeming from, or at a minimum properly accounting for, managers with higher levels of equity and credit correlations and betas. We are also currently reviewing the overall level of the hedge fund allocation as the returns from cash potentially improve and our preference for liquidity grows as we prepare to add to equities on any material weakness that may develop.

Slowdown in Global Manufacturing PMIs

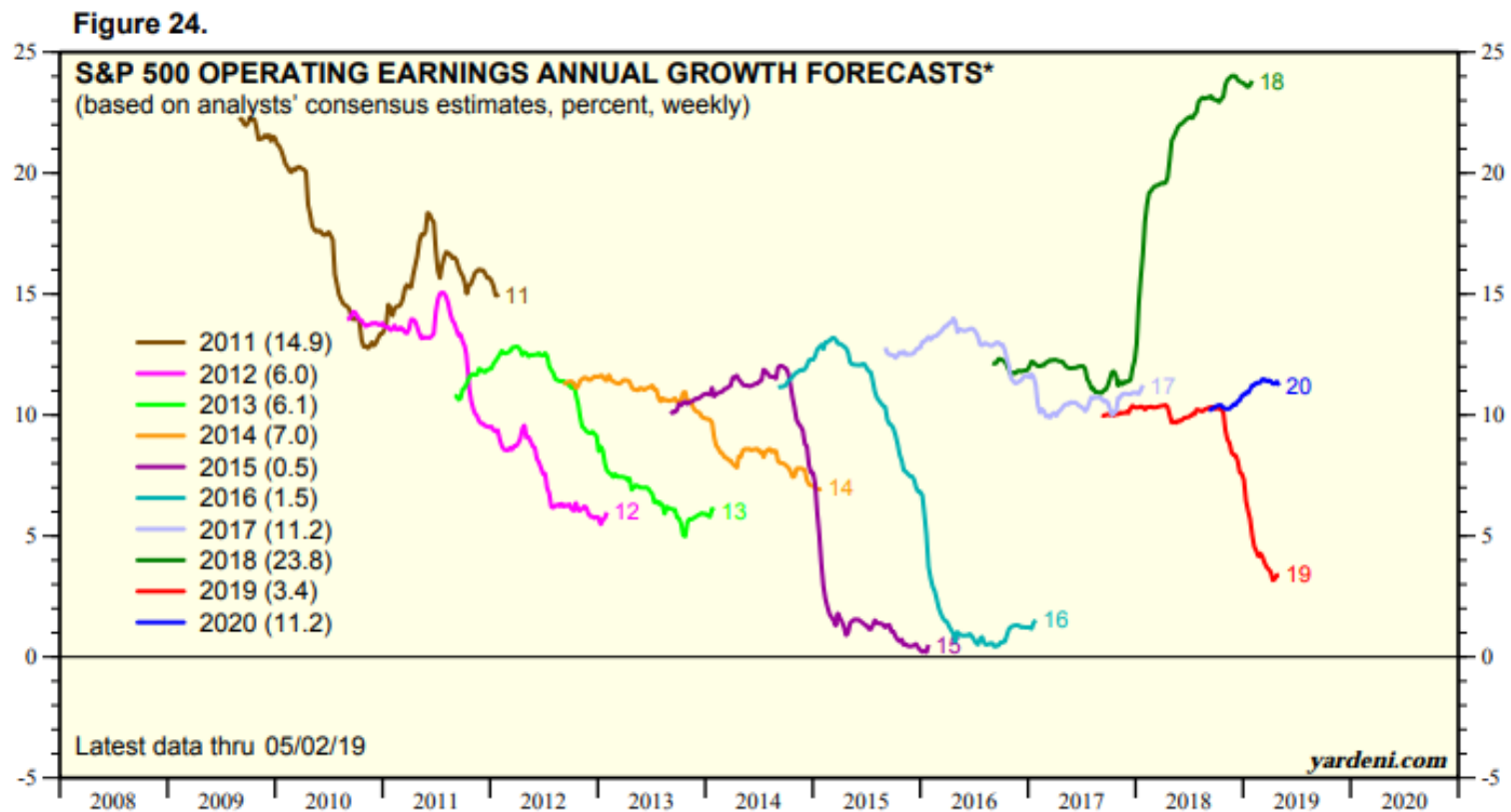
While markets have reacted favorably to a stabilization of growth in China since January 2019, investors' concerns have risen as the rest of the world is growing significantly slower than it was 18 months ago. On a tactical basis, Athena believes China will be the driver of global growth (in either direction), and views a reversal to their currently accommodative monetary and fiscal policy programs as the biggest risk to global growth (and thus risk sentiment) going forward.

Region	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	Change Since Jan 18
Global	53	53	53	53	53	53	54	54	54	54	53	53	53	53	53	53	52	52	52	51	51	51	51	50	-4.0
Developed Markets	54	54	54	54	55	55	56	56	56	56	55	55	55	54	54	54	54	53	53	52	52	50	50	50	-6.0
Emerging Markets	51	51	51	52	51	51	52	52	52	52	52	51	51	51	51	51	50	51	51	50	50	51	51	51	-1.3
US	54	54	55	56	55	55	55	54	53	56	54	55	57	57	56	55	54	55	55	54	54	56	55	53	-0.3
Canada	55	55	56	55	55	54	54	55	56	56	56	56	56	57	57	57	55	54	55	54	53	53	51	50	-6.2
UK	57	54	56	57	56	57	58	56	55	55	55	54	54	54	54	53	54	51	53	54	53	52	55	53	-2.1
Eurozone	57	57	57	57	58	59	60	61	60	59	57	56	56	55	55	55	53	52	52	51	51	49	48	48	-11.7
Germany	60	60	58	59	61	61	63	63	61	61	58	58	57	56	57	56	54	52	52	52	50	48	44	44	-16.7
France	54	55	55	56	56	56	58	59	58	56	54	54	54	53	53	54	53	51	51	50	51	52	50	50	-8.4
Italy	55	55	55	56	56	58	58	57	59	57	55	54	53	53	52	50	50	49	49	49	48	48	47	49	-9.9
Spain	55	55	54	52	54	56	56	56	55	56	55	54	53	53	53	53	51	52	53	51	52	50	51	52	-3.4
Greece	50	51	51	52	53	52	52	53	55	56	55	53	54	54	54	54	54	53	54	54	54	54	55	57	1.4
Ireland	56	56	55	56	55	54	58	59	58	56	54	55	55	57	56	58	56	55	55	55	53	54	54	53	-5.1
Japan	53	52	52	52	53	53	54	54	55	54	53	54	53	53	52	53	53	53	52	53	50	49	49	50	-4.6
China	50	50	51	52	51	51	51	52	52	52	51	51	51	51	51	51	50	50	50	50	48	50	51	50	-1.3
Indonesia	51	50	49	51	50	50	50	49	50	51	51	52	52	50	51	52	51	51	50	51	50	50	51	50	0.5
Korea	49	50	49	50	51	50	51	50	51	50	49	48	49	50	48	50	51	51	49	50	48	47	49	50	-0.5
Taiwan	53	53	54	54	54	54	56	57	57	56	55	55	53	55	53	53	51	49	48	48	48	46	49	48	-8.7
India	52	51	48	51	51	50	53	55	52	52	51	52	51	53	52	52	52	53	54	53	54	54	53	52	-0.6
Brazil	52	51	50	51	51	51	54	52	51	53	53	52	51	50	51	51	51	51	53	53	53	53	53	52	0.3
Mexico	51	52	51	52	53	49	52	52	53	52	52	52	51	52	52	51	52	51	50	50	51	53	50	50	-2.5
Russia	52	50	53	52	52	51	52	52	52	50	51	51	50	50	48	49	50	51	53	52	51	50	53	52	-0.3

Source: Bloomberg, ISM

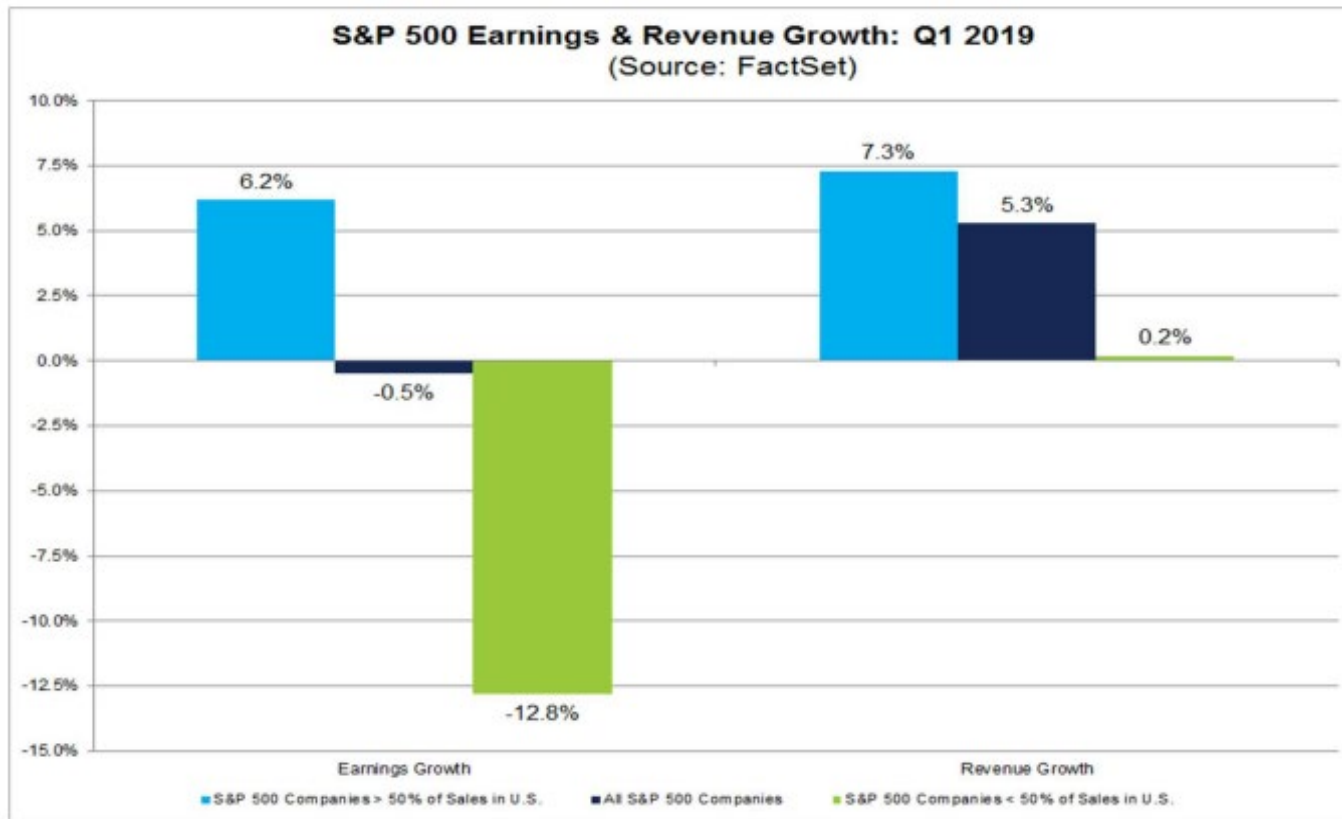
2019 Earnings Projections Drift Lower

For the first quarter, S&P 500 companies are reporting a decline in earnings of -0.5% and growth in revenues of 5.3%. For the remainder of 2019, analysts see a decline in earnings in the second quarter (-1.7%), low single-digit growth in earnings in the third quarter (+0.6%), and high single-digit growth in earnings in the fourth quarter (+7.4%).



Internationally Exposed Companies Hit the Hardest

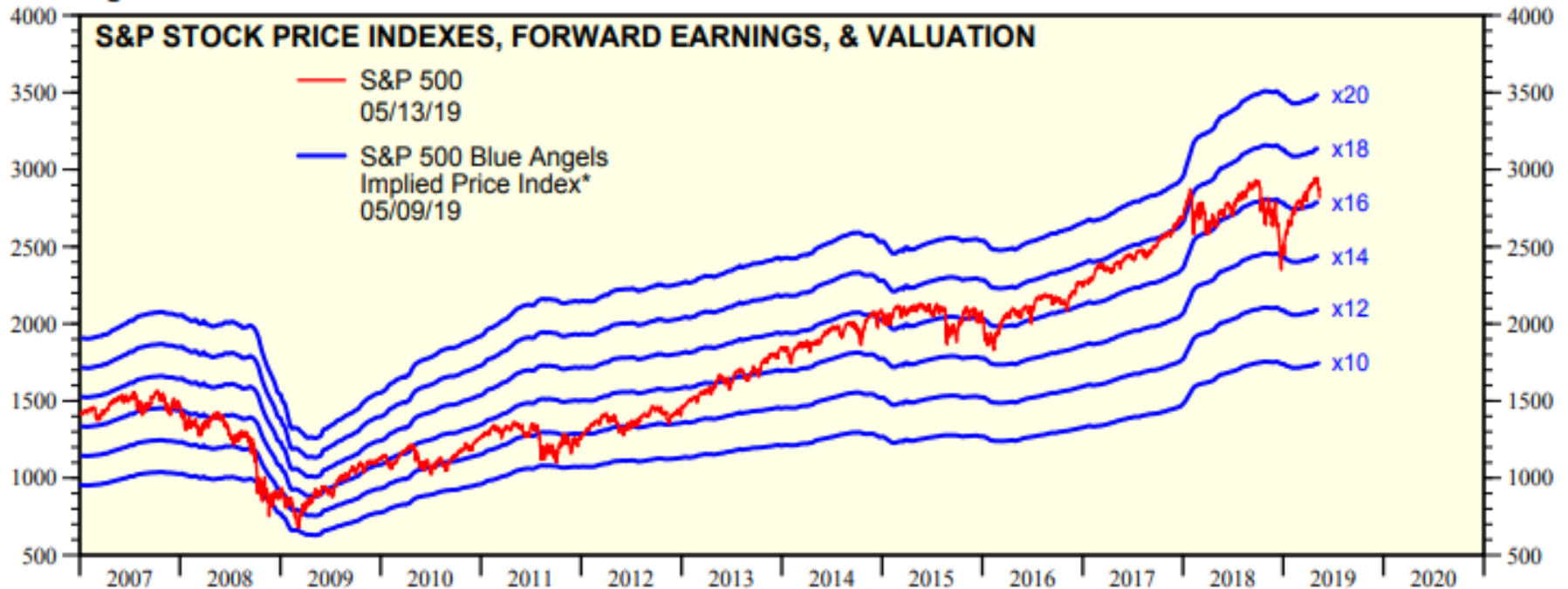
In 1Q19, US companies with a higher proportion of international sales reported more earnings and revenue pressure relative to their domestically exposed peers, from a combination of slower economic growth, ongoing trade tensions, and a stronger dollar.



US Multiples Expand Above Long-Term Averages

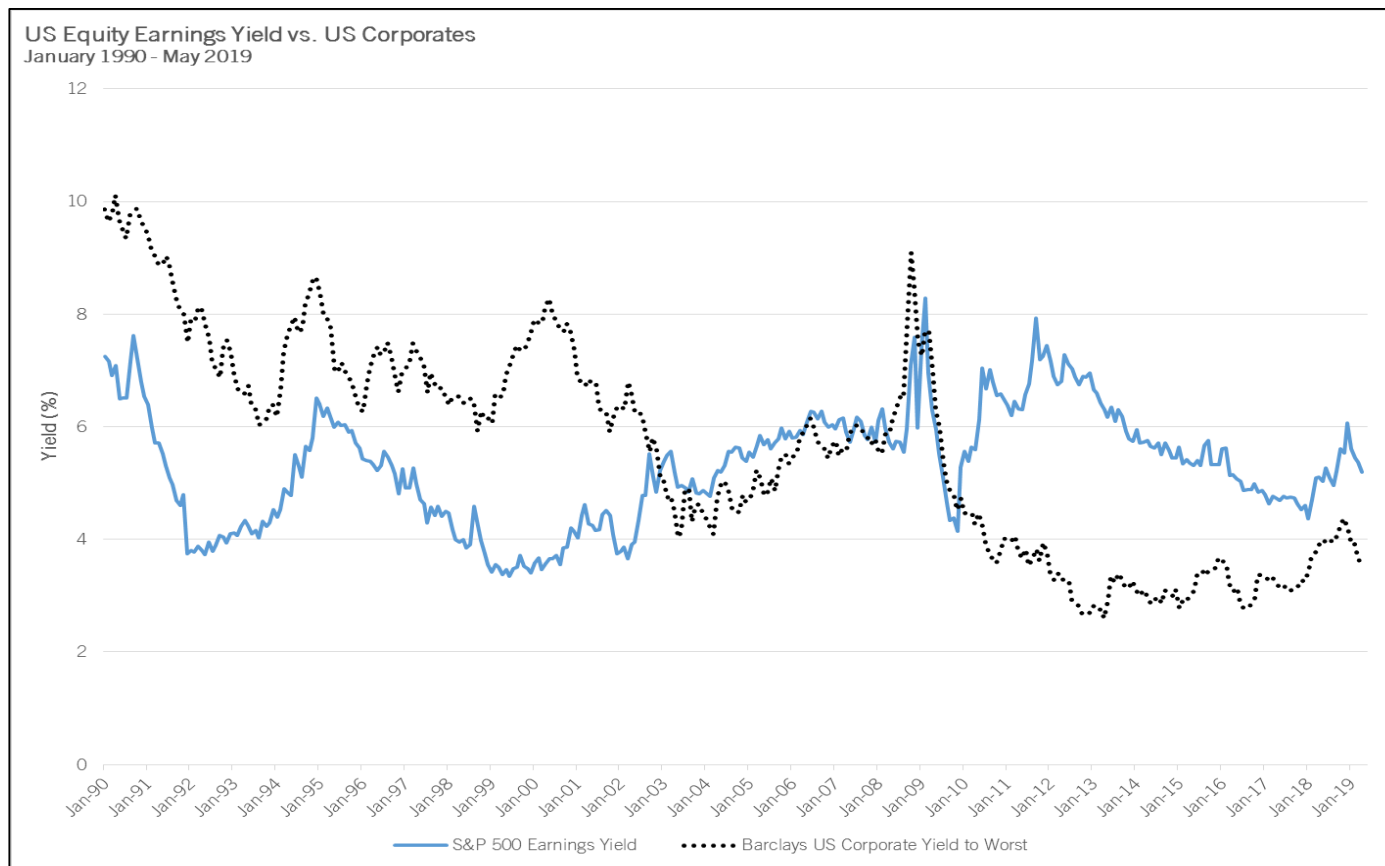
In the final weeks of 2018, the forward S&P 500 P/E ratio briefly fell to 14x, a level not seen since 2013. However, strong price appreciation and lower earnings revisions has erased this discount as the forward P/E now trades at ~16x. While sentiment continues to improve as the index inches closer to fresh all-time highs, the argument for further multiple expansion becomes more challenging.

Figure 22.



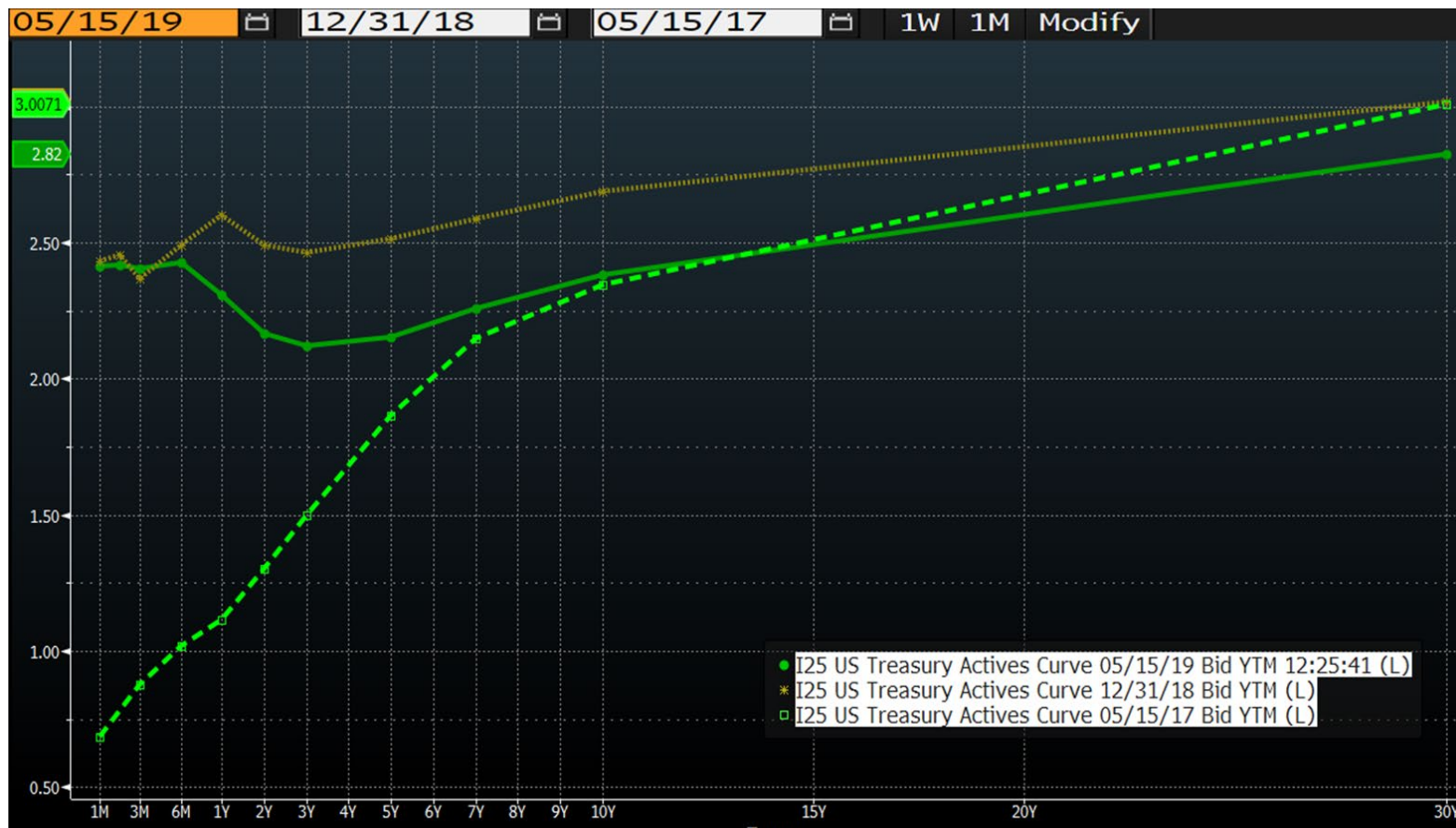
US Equities Maintain Relative Value as Rates Fall

Although equity valuations have risen, the drop in US interest rates across the curve (and the prospect of a continued Dovish Fed) keeps this relationship intact. Consistent with the entirety of the current bull market, the S&P 500's trailing twelve month (TTM) earnings yield (inverse of the P/E ratio) remains above the US Corporate Investment Grade Yield to Worst – which has been a typically bullish indicator for equity markets.



Yield Curve Inversion Sparks Recession Fears...

The US yield curve has proved to be a valuable predictor of future recessions, thus the inversion of the US 10 Year minus 3 Month Treasury yield curve has enhanced concerns about the health of the economy.



Other Economic Indicators Help Ease Concerns

According to ClearBridge Investments, more than twelve variables have historically foreshadowed a looming recession. While the yield curve, money supply, wage growth, and commodity factors are all currently signaling risk, these factors are offset by positive consumer and business activity components.

			Recession						
		Current	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Financial	Yield Curve	×	×	×	×	×	×	×	×
	Credit Spreads	↑	×	×	×	×	×	↑	●
	Money Supply	●	×	×	×	×	×	×	×
Inflation	Wage Growth	●	×	×	×	×	×	×	×
	Commodities	●	×	×	×	×	●	●	●
Consumer	Housing Permits	↑	×	●	×	×	×	×	×
	Jobless Claims	↑	●	×	×	×	×	↑	×
	Retail Sales	↑	×	×	×	×	×	●	×
	Job Sentiment	↑	×	×	×	×	●	●	●
Business Activity	ISM New Orders	↑	×	×	×	×	×	×	×
	Profit Margins	↑	×	×	×	×	×	●	×
	Truck Shipments	↑	●	×	×	×	×	n/a	n/a
Overall		↑	×	×	×	×	×	●	×

↑ Expansion
 ● Caution
 × Recession

Chinese RMB Depreciates Rapidly on Trade Overhang

Escalating trade tensions have led to a swift depreciation in the Chinese yuan, reviving questions about China's willingness to use its currency as a tool of trade policy. As articulated by the WSJ, "...Beijing (is) in a tricky spot. A weaker currency makes Chinese goods cheaper for U.S. buyers, helping offset the impact of higher tariffs. But China is eager to prevent domestic concerns about currency depreciation feeding an exodus of capital and further exchange-rate weakness. A breaching of the symbolically important level of 7 to the dollar could be a trigger".



Cryptocurrencies Bounce Off Lows

The two largest cryptocurrencies by market value, Bitcoin and Ethereum, have doubled since the start of 2019, but remain significantly lower than highs seen during the euphoria of late 2017 and early 2018. Athena is currently in the process of refreshing our due diligence of the space, with an emphasis on how the underlying blockchain technology has progressed in the face of volatile price fluctuations.



Contact Information

CALIFORNIA

345 California Street
Suite 600
San Francisco, CA 94104
415.851.7700

athenacapital.com

MASSACHUSETTS

55 Old Bedford Road
Suite 302
Lincoln, MA 01773
781.274.9300

NEW YORK

150 East 52nd Street
Suite 21001
New York, NY 10022
212.897.9640



Disclosures and Disclaimers

Athena Capital Advisors LLC (“Athena”) prepared this document solely for the person to whom it has been given for informational and discussion purposes only. This document and the information contained herein are strictly confidential and may not be reproduced, distributed or communicated to any third party without the express written approval of Athena. Athena reserves the right at any time to amend or change the contents of this document without notice. The information and opinions herein reflect the views and opinions of Athena as of the date hereof and not as of any future date. All forecasts are speculative, subject to change at any time and may not come to pass due to economic and market conditions.

This document and the information contained shall not constitute an offer, solicitation or recommendation to sell or an offer to purchase any securities, investment products or investment advisory services. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, or should it be construed in any way as tax, accounting, legal or regulatory advice. An investment with Athena involves substantial risks and there can be no assurance that the investment objectives described herein will be achieved.

Athena believes that the research used in this presentation is based on accurate sources (including but not limited to economic and market data from various government and private sources and reputable external databases), but we have not independently verified those sources, and we therefore do not guarantee their accuracy. The opinions, projections and estimates contained herein reflect the views of Athena only and should not be construed as absolute statements and are subject to change without notice.

In considering the performance information contained herein, recipients should bear in mind that past and present performance is not necessarily indicative of future results, nor does it ensure that investors will not incur a loss with respect to their investment. Current performance may be higher or lower than the performance data quoted. Certain performance numbers in this presentation may be unaudited, preliminary and based on estimates. Final reported and audited performance numbers may vary considerably from these estimates due to many factors. Estimated gross (i.e., including any fees, expenses or taxes) and net (i.e., reflecting deduction of any fees, expenses or taxes) performance numbers could change materially as final performance figures and underlying investment costs and fees are determined and allocated. Certain information contained herein constitutes “forward-looking statements” which can be identified by the use of terms such as “may”, “will”, “should”, “seek”, “expect”, “anticipate”, “project”, “estimate”, “intend”, “continue”, “target” or “believe” (or the negatives thereof) or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. As a result, investors should not rely on such forward-looking statements in making their investment decisions. No representation or warranty is made as to future performance or such forward-looking statements.

Benchmarks are shown for illustrative purposes only and are provided for the purpose of making general market data available as a point of reference only. Such benchmarks may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management or performance fees and have limitations when used for comparison or other purposes because they, among other reasons, may have different trading strategy, volatility, credit, or other material characteristics (such as limitations on the number and types of securities or instruments). No representation is made that any benchmark or index is an appropriate measure for comparison.

The investment examples contained herein are for informational and illustrative purposes only and should not be construed as a guarantee of actual or future performance results. Individual investment results may vary considerably based on various factors such as fees, expenses and the timing of capital contributions. To see specific performance results, gross and net, please contact Athena.

Any description of tax consequences set forth herein is not intended as a substitute for careful tax planning. Recipients of this material are advised to consult tax counsel for advice specifically related to any and all tax consequences of an investment made with or through Athena. The information provided herein is not intended to, nor does it specifically advise on, tax matters pertaining to federal, state, estate, local, foreign or other tax consequences of an investment. The recipient is solely responsible for all tax consequences with respect to any investment made with or through Athena.

