

Quant Coalescence: First Quarter 2017

Equity indices advanced in April as strong corporate earnings boosted performance.

With almost 60% of the S&P 500 companies having reported 1st quarter performance thus far, corporate earnings are expected to rise over 10% from the prior year. This positive performance pushed equities higher in April as optimism for accommodative trade policies, lower corporate taxes and reduced regulation, championed by the Trump administration, began to fade.

The breadth of this rally continues to narrow, as an example, 40 stocks are responsible for the majority of the S&P 500 gains and even fewer tech stocks lead the NASDAQ advance; *FANG* – Facebook, Amazon, Netflix and Google. Narrowing breadth can often be attributed as a symptom of late stage bull markets.

We have observed that PCM's Models have already been reflecting the "late stage" theme as our US Sector and US Industries have moved into traditionally more defensive allocations such as technology, healthcare and utilities.

Another theme that has produced positive returns is the move to international developed and emerging markets. U.S. markets, by many valuation methods, are overvalued and approaching the "dot com" era levels. We have observed increased rotation into the less expensive international and emerging markets. During the first four months of 2017, our global strategies have been heavily invested in Europe and the emerging markets, producing positive returns by being positioned to benefit from these flows of funds. We are now seeing our global models become more defensive, reducing allocations to equities in these markets by allocating to gold and bonds.

PCM believes that the fourth quarter of 2016 is the potential beginning of a long term bear market in bonds, as interest rates revert back to their long term mean. PCM's strategies reacted well by opportunistically moving into the "inverse" bond ETF's. This resulted in earning PCM strategies award winning performance and recognition.

Informa, (North America's oldest money manager data base) awarded: Fourth Quarter 2016

- PCM's Absolute Bond <http://www.pcminvestment.com/pcm-absolute-bond> & PCM US Bond Total Return <http://www.pcminvestment.com/pcm-us-bond-total-return> - **one star ranking**.
- Top performing ETF bond strategy in their ETF data base for the fourth quarter of 2016.
- PCM's Absolute Bond - **two star award** for top five performing ETF bond strategy for the entire year (2016), third out of 206 products.
- PCM's Alpha One <http://www.pcminvestment.com/pcm-alpha-one-total-return> , and GMAC 3 <http://www.pcminvestment.com/pcm-global-macro-3-total-return> also ranked number one and two for the quarter in the Global / International Balanced Universe of 329 products.

Prepared by Drew B. Wieder & Michael J. Chapman, May 9, 2017



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About "PCM Quant Coalescence"

Welcome to PCM's quarterly "Quant Coalescence" communication. We suspect that many of you are no different than us. That is to say that when our quantitative models rebalance every 2 weeks for some indexes or once a month for other indexes, you sometimes find yourselves asking "What is behind a rotation into that ETF?" This communication is our opportunity to "unite for a common end" with our clients and partners; keeping you updated on our thoughts and perspectives. As you know, our indexes are based on an absolute approach: we strive to make money in up markets or down markets, while trying to greatly minimize loss in any market environment.

Our indexes are also quantitative, reflective of our systematic, unbiased and technical approach. Since our indexes are unbiased, the quantitative models would obviously at times rotate into positions that cause us to scratch our heads. Nevertheless, being so close to the analysis as it unfolds, allows us to quickly begin to validate the fundamental reasons behind the quantitative "following of the money." At other times, the trades are not validated right away; the story unfolds as the days pass. We have been very excited about many of these "validations" and "ah ha" moments. We had another "ah ha" moment when we decided that these insights would also be interesting to those who have entrusted us with their financial peace of mind. Our goal is to be short and to the point, specific to what is happening in our indexes rather than a lengthy macroeconomic perspective.

For further disclaimers and disclosures, see our website for index disclosures and composite disclosures.