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INSIGHT THAT MATTERS

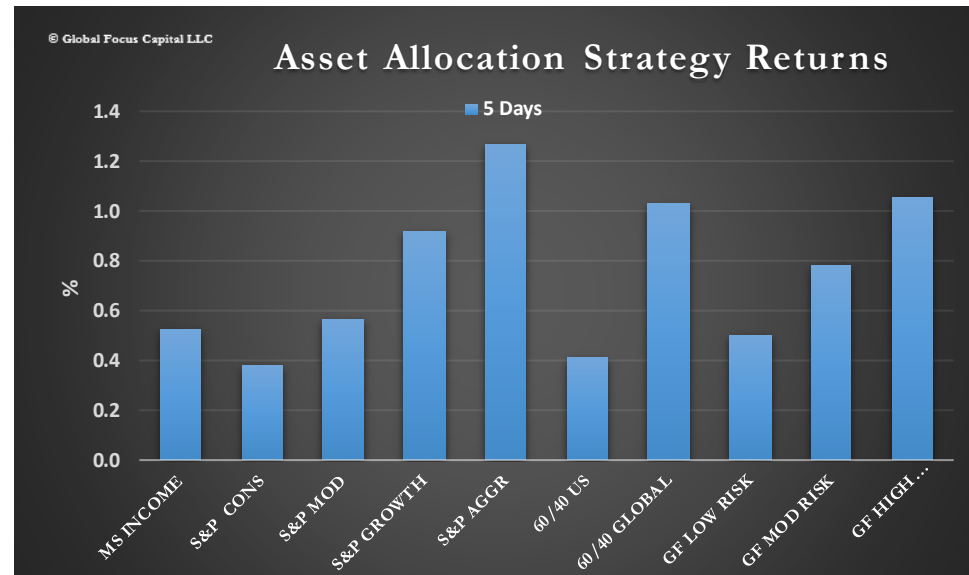
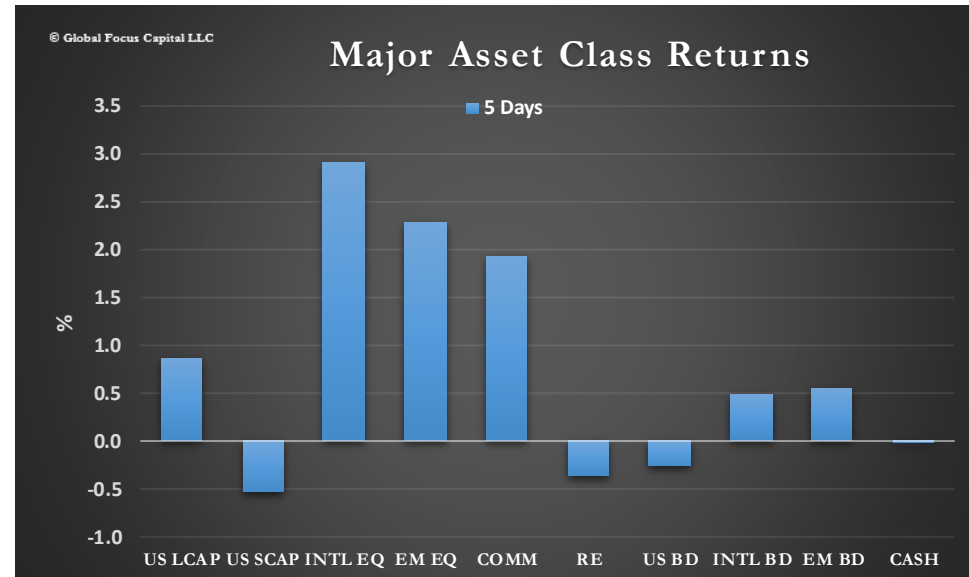
The Asset Allocation Advisor

Weekly Review – September 23, 2018

Eric J. Weigel

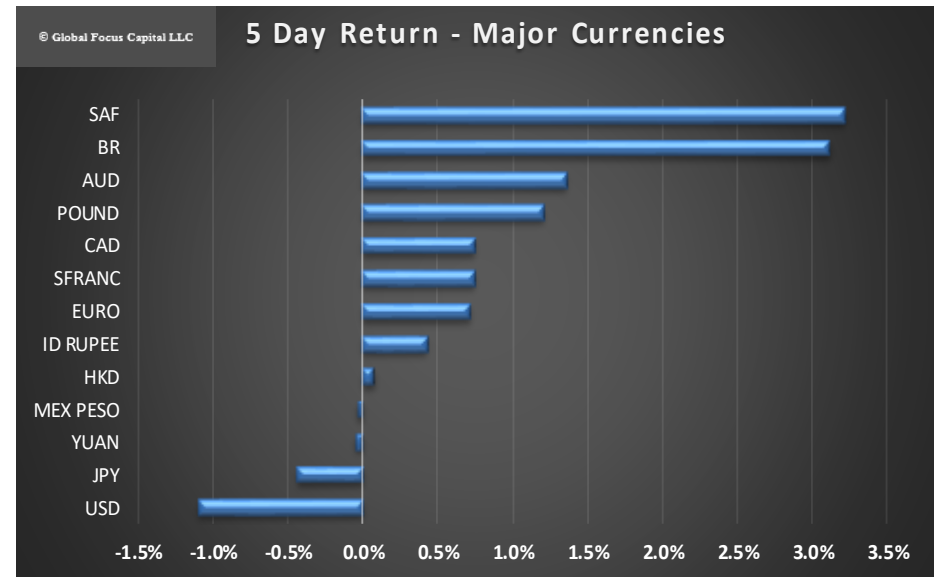
The Week in Review

- ▶ Risky assets continued recovering last week with International assets out-performing domestic assets
- ▶ Developed market equities did best this week with EAFE out-performing the US
- ▶ EM equity and bonds recovered from pretty poor momentum – currency helped last week for a change
- ▶ A 60/40 mix of purely US assets under-performed a global version but remains vastly ahead YTD
- ▶ In general, higher risk multi-asset strategies out-performed last week and remain ahead YTD



Currencies

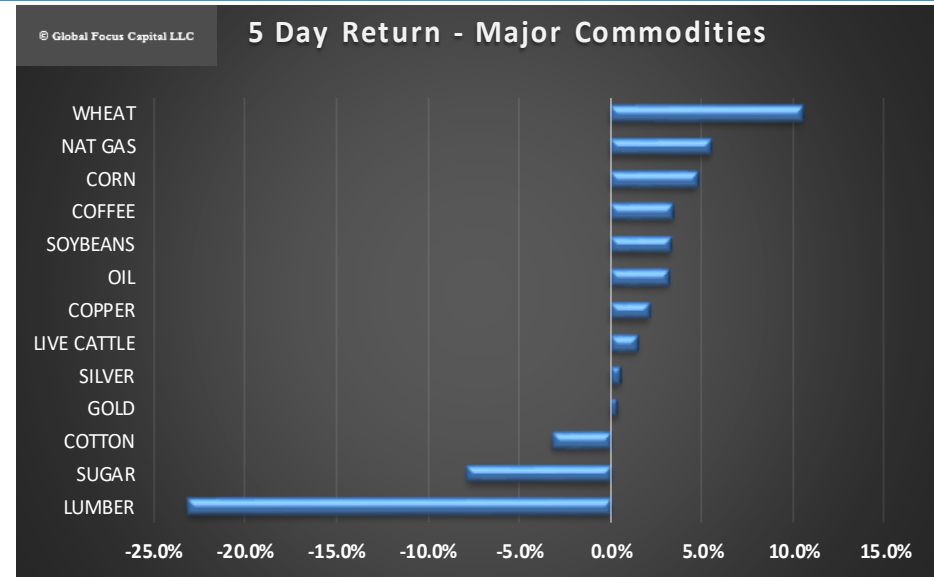
- ▶ The USD gave up ground last week – second week in a row
- ▶ Foreign central banks are reading their way toward policy normalization
- ▶ Within EM currencies the pattern was bullish with wide ranging appreciation versus the USD
 - ▶ The Rand and Real recovered nicely
- ▶ Within the major currencies, resource oriented currencies such as the AUD and CAD appreciated the most
- ▶ The Yuan has stabilized after a period of depreciation – authorities have refrained so far from using a weaker currency to fight tariffs



CURRENCY	TECHNICAL STAGE
AUD	DOWN TREND
ID RUPEE	DOWN TREND
CAD	IMPROVING
EURO	IMPROVING
HKD	IMPROVING
SAF	DOWN TREND
BR	DOWN TREND
SFRANC	BREAK OUT
YUAN	DOWN TREND
USD	DETERIORATING
POUND	IMPROVING
JPY	DOWN TREND
RUBBLE	DOWN TREND
MEX PESO	UP TREND

Commodities

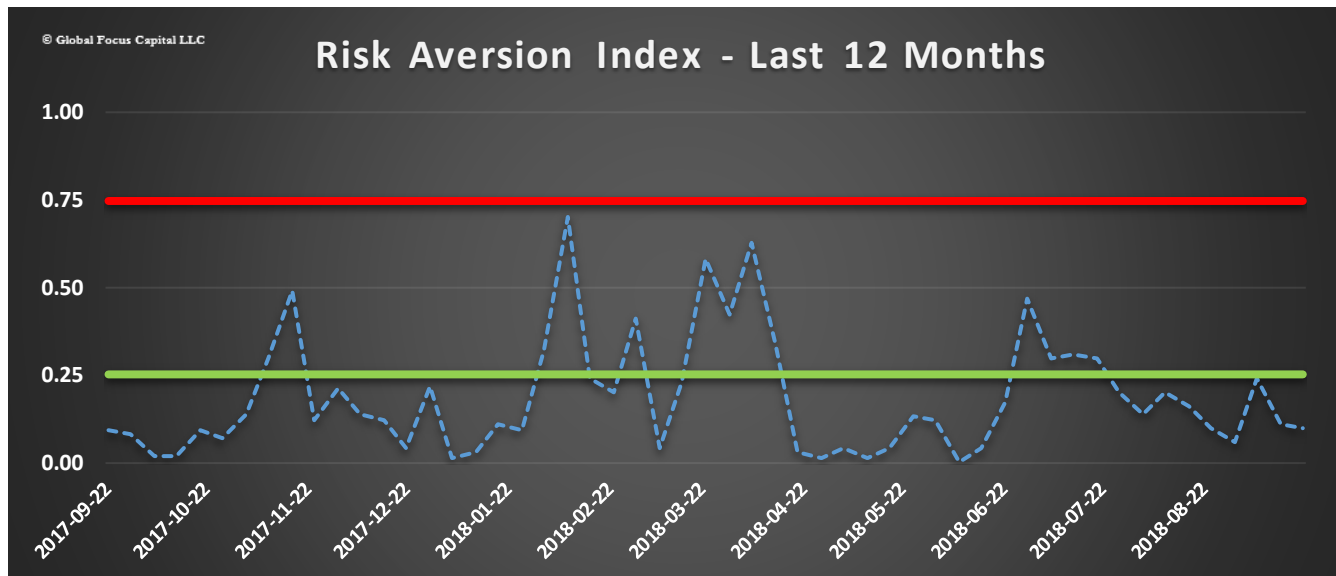
- ▶ Lumber suffered a disastrous week as conditions of over-valuation are being worked through
- ▶ Grains are getting whipsawed by trade war on/off issues but in general benefitted from the belief that negotiations will take place between China and the US
- ▶ Coffee recovered along with the Brazilian Real
- ▶ Oil keeps marching higher as economic growth remains robust and sanctions against Iran take a bite out of supplies
- ▶ Gold and Silver were stable last week for a change but barring a real crisis continue on a down trend



COMMODITY	TECHNICAL STAGE
CORN	DOWN TREND
WHEAT	UP TREND
SOYBEANS	DOWN TREND
LIVE CATTLE	IMPROVING
COFFEE	DOWN TREND
LUMBER	DOWN TREND
SUGAR	DOWN TREND
COTTON	BREAK DOWN
NAT GAS	UP TREND
OIL	UP TREND
COPPER	DOWN TREND
SILVER	DOWN TREND
GOLD	DOWN TREND

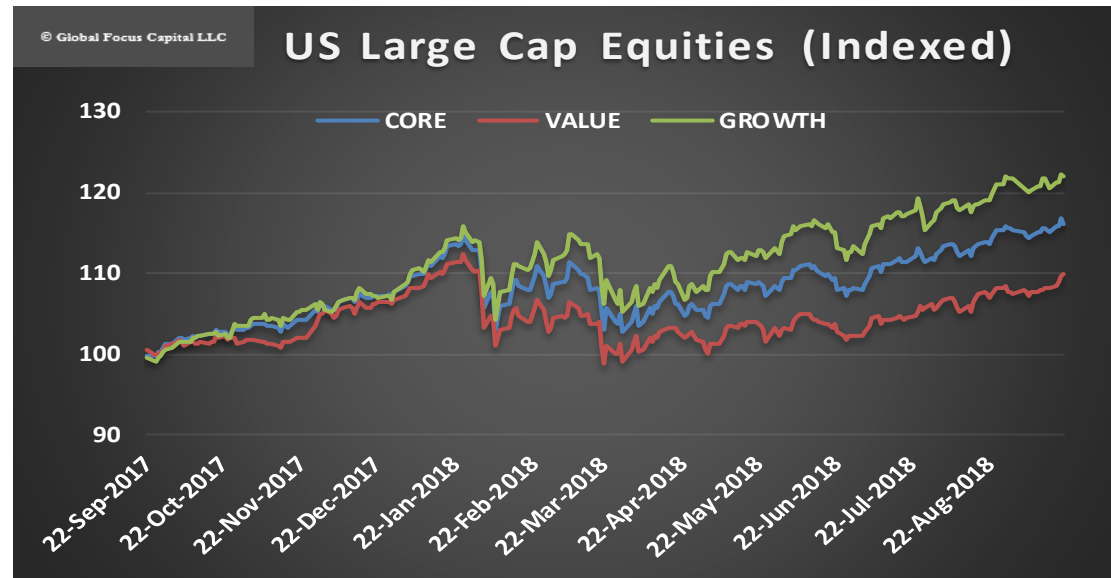
Investor Risk Aversion Environment

- ▶ All fear from the markets seems to be gone even after major political upheaval in Washington
- ▶ We continue pegged to the Exuberant Zone
- ▶ We have been expecting more of a risk on/off type of investor sentiment this year but so far we have had relative calm



US Large Cap Equities

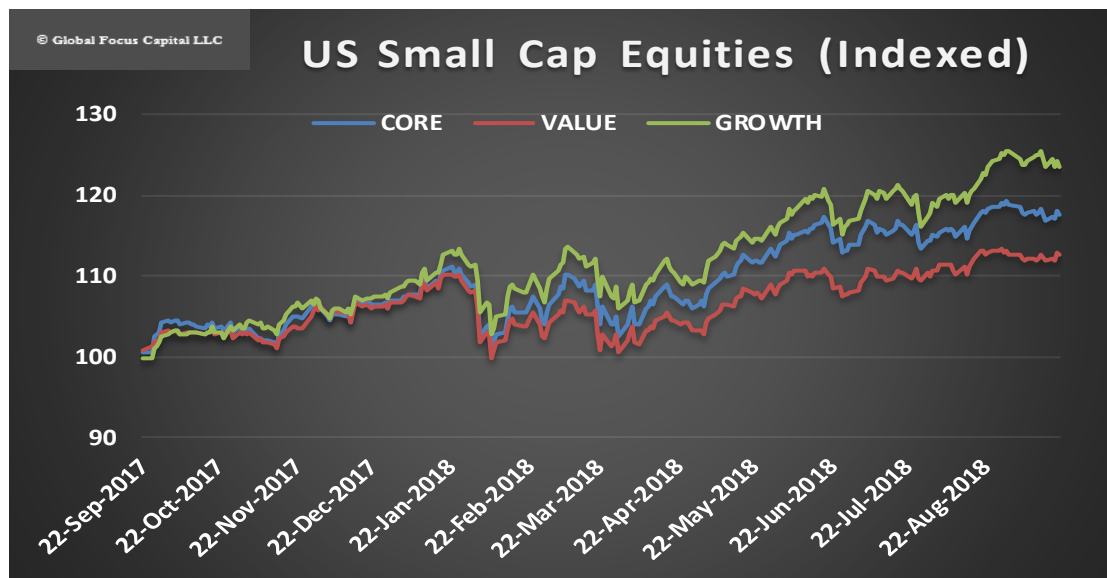
- ▶ **Outlook:**
 - ▶ Short-Term: Neutral
 - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Above Average
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value should start catching up to Growth if interest rates don't jump up, sector rotation is starting to take hold



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	6.6%	7.2%	7.3%	10.0%	5.5%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.02	-0.26	-0.04	-0.59	-0.24
CORR TO COMM	0.39	0.83	0.73	0.41	-0.17
CORR TO USD	-0.63	-0.48	-0.08	-0.08	0.14
UP BETA	1.00	1.00	1.00	1.00	1.00
DOWN BETA	1.00	1.00	1.00	1.00	1.00
ST TECHNICALS	UP TREND	DETERIORATING	UP TREND	DOWN TREND	UP TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	DETERIORATING	UP TREND
RSI	57.2	50.1	50.1	50.2	57.3
UP DAY % (LAST 20)	65%	50%	50%	55%	65%

US Small Cap Equities

- ▶ **Outlook:**
 - ▶ Short-Term: Positive
 - ▶ Long-Term: Positive
- ▶ **Valuation:** Neutral
- ▶ **Growth:** Above Average
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Benefitting from strong USD, growth is vastly outperforming Value



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	7.3%	9.2%	12.2%	12.9%	11.0%
CORR TO US STOCKS	0.73	0.78	0.77	0.81	0.77
CORR TO US BONDS	-0.06	-0.08	-0.24	-0.32	-0.16
CORR TO COMM	0.36	0.81	0.35	0.13	0.16
CORR TO USD	-0.57	-0.27	0.27	-0.37	-0.13
UP BETA	0.72	0.53	0.74	0.88	1.28
DOWN BETA	1.52	1.51	1.15	0.98	1.64
ST TECHNICALS	DOWN TREND	DETERIORATING	UP TREND	BREAK DOWN	UP TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	UP TREND
RSI	42.9	57.2	64.4	64.5	64.5
UP DAY % (LAST 20)	55%	55%	55%	65%	60%

International Developed Markets

▶ Outlook:

- ▶ Short-Term: Positive
- ▶ Long-Term: Positive

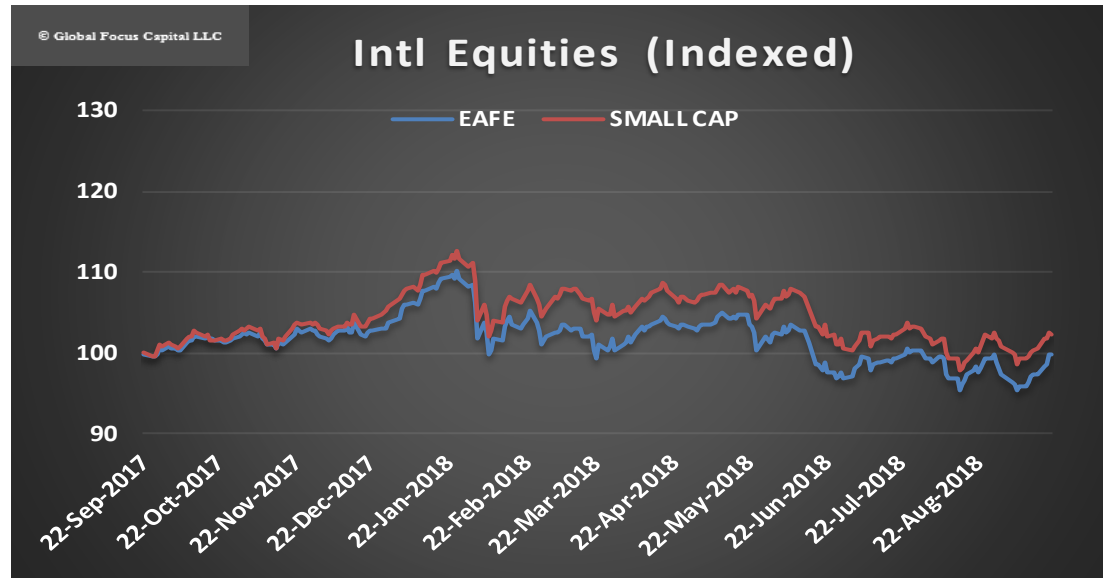
▶ Valuation: Neutral

▶ Growth: Below Average

▶ Income: Superior

▶ Risk Profile: Increasing

▶ Of Note: Int'l assets losing ground to US equities despite superior fundamentals



INTL DEV EQ (EFA)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	12.9%	11.2%	9.3%	12.5%	7.1%
CORR TO US STOCKS	0.78	0.60	0.68	0.87	0.75
CORR TO US BONDS	-0.26	-0.32	0.23	-0.61	-0.05
CORR TO COMM	0.70	0.67	0.78	0.41	0.05
CORR TO USD	-0.74	-0.73	-0.35	0.13	0.15
UP BETA	0.91	1.01	0.96	0.66	0.62
DOWN BETA	1.09	1.13	1.28	0.61	0.20
ST TECHNICALS	BREAK OUT	BREAK DOWN	IMPROVING	DOWN TREND	UP TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND
RSI	71.7	43.1	42.8	43.0	64.5
UP DAY % (LAST 20)	65%	40%	45%	45%	70%

International Emerging Markets

▶ Outlook:

- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

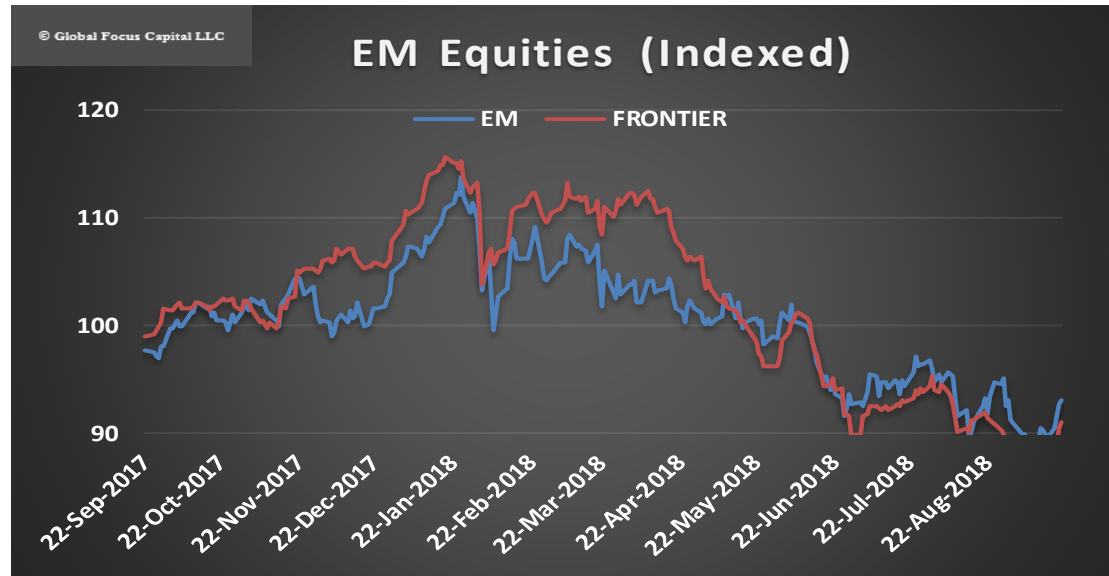
▶ Valuation: Inexpensive

▶ Growth: Average

▶ Income: Neutral

▶ Risk Profile: Increasing

- ▶ **Of Note:** trade war fears, currency depreciation, weakening commodity prices, LATAM continues on a down trend



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	21.9%	19.8%	17.7%	19.2%	15.7%
CORR TO US STOCKS	0.78	0.63	0.61	0.76	0.47
CORR TO US BONDS	-0.15	-0.19	0.19	-0.26	0.10
CORR TO COMM	0.78	0.70	0.75	0.26	0.30
CORR TO USD	-0.66	-0.62	-0.33	0.23	0.01
UP BETA	1.29	1.45	1.31	1.02	1.40
DOWN BETA	1.34	1.38	1.41	0.96	-0.60
ST TECHNICALS	BREAK OUT	BREAK DOWN	IMPROVING	DOWN TREND	UP TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	57.4	57.5	49.8	15.2	78.9
UP DAY % (LAST 20)	60%	55%	50%	25%	75%

US Bonds

▶ Outlook:

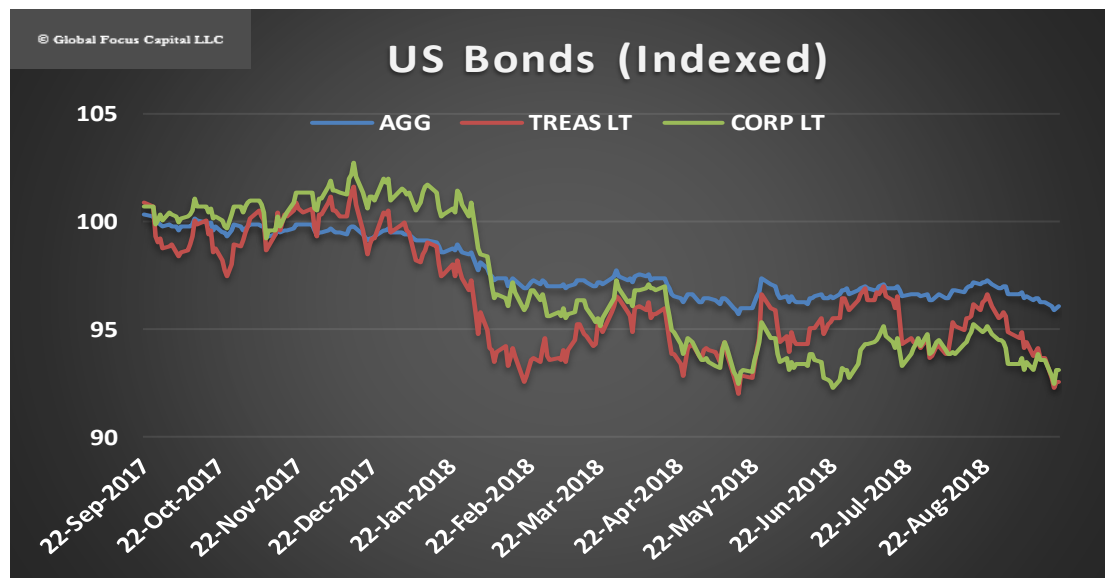
- ▶ Short-Term: Neutral
- ▶ Long-Term: Negative

▶ Valuation: Stretched

▶ Income: Minimal

▶ Risk Profile: Increasing

- ▶ **Of Note:** Tight spread in 10-2 yr notes, real yields negative or close to zero, long treasuries provide minimal “disaster” relief



US BONDS (AGG)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	2.5%	2.2%	3.6%	2.8%	2.4%
CORR TO US STOCKS	-0.07	-0.09	-0.69	0.22	-0.21
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.50	0.20	-0.26	0.06	0.41
CORR TO USD	0.26	0.18	-0.09	-0.09	0.16
UP BETA	0.11	0.10	-0.10	0.00	-0.07
DOWN BETA	-0.18	-0.17	-0.17	-0.05	-0.10
ST TECHNICALS	DOWN TREND	DOWN TREND	UP TREND	UP TREND	IMPROVING
IT TECHNICALS	DOWN TREND	DOWN TREND	IMPROVING	IMPROVING	DOWN TREND
RSI	46.2	35.8	69.2	64.3	57.2
UP DAY % (LAST 20)	40%	50%	65%	55%	50%

International Developed Bonds

▶ Outlook:

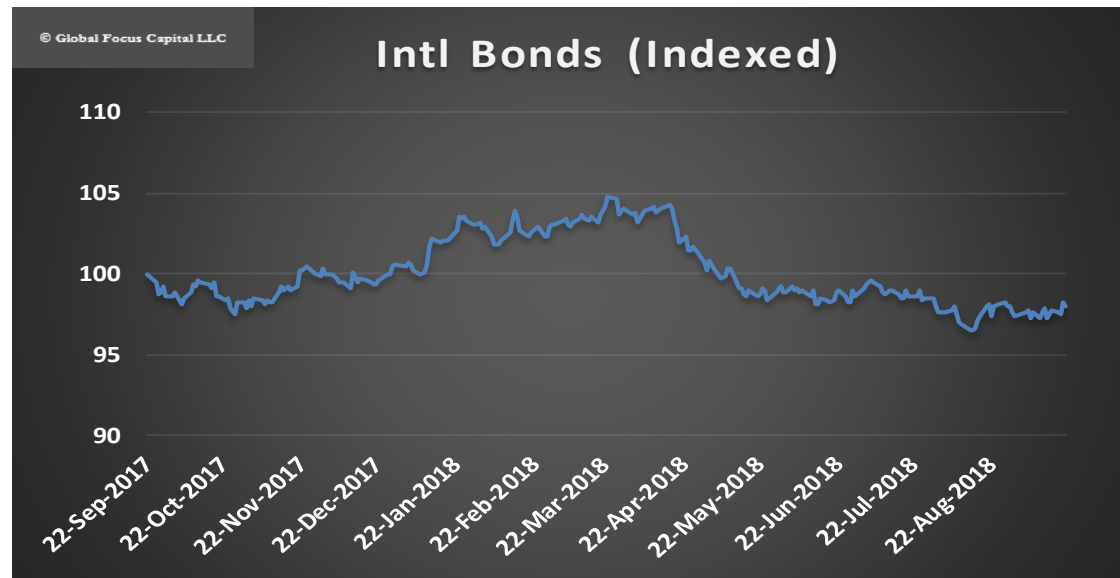
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

▶ Valuation: Stretched

▶ Income: Minimal

▶ Risk Profile: Increasing

- ▶ **Of Note:** Really just a currency play at the moment given super low yields, not expecting USD to lose significant ground anytime soon



INTL BONDS (IGOV)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	5.5%	6.3%	6.0%	6.2%	6.3%
CORR TO US STOCKS	0.02	-0.06	-0.02	-0.05	-0.50
CORR TO US BONDS	0.21	0.01	-0.24	0.36	0.64
CORR TO COMM	0.40	0.29	0.34	0.25	0.33
CORR TO USD	-0.19	0.20	0.37	0.08	0.14
UP BETA	0.13	0.14	0.04	0.14	-0.32
DOWN BETA	-0.09	-0.05	0.13	-0.07	-0.15
ST TECHNICALS	BREAK OUT	BREAK DOWN	IMPROVING	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	50.1	57.2	57.2	50.1	50.1
UP DAY % (LAST 20)	50%	55%	55%	55%	45%

International Emerging Bonds

▶ Outlook:

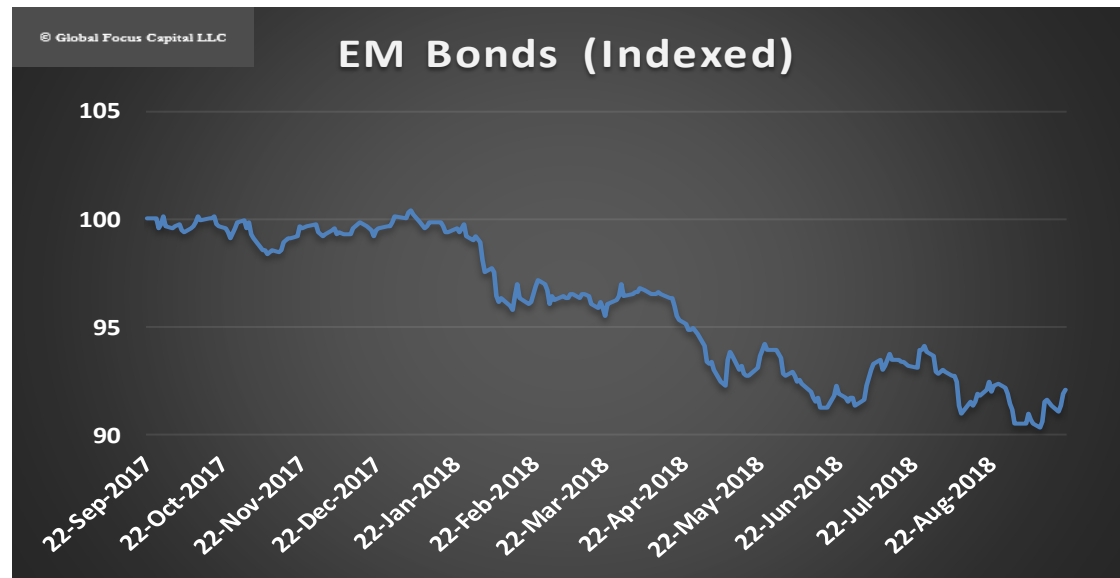
- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

▶ Valuation: Neutral

▶ Income: Above Average

▶ Risk Profile: Stable

▶ Of Note: Highly affected by USD and direction of 10 yr US note, attractive yields



EM BONDS (EMB)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	4.8%	5.3%	7.6%	4.7%	4.2%
CORR TO US STOCKS	0.16	-0.07	0.24	0.65	0.00
CORR TO US BONDS	0.25	0.34	0.50	0.39	0.00
CORR TO COMM	0.14	0.18	0.15	0.57	0.00
CORR TO USD	-0.32	0.13	0.34	0.33	0.00
UP BETA	0.56	0.67	0.20	0.05	0.19
DOWN BETA	0.22	0.12	0.19	0.18	0.14
ST TECHNICALS	BREAK OUT	DOWN TREND	IMPROVING	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	57.3	42.9	38.5	35.8	71.5
UP DAY % (LAST 20)	50%	45%	35%	30%	70%

Commodities

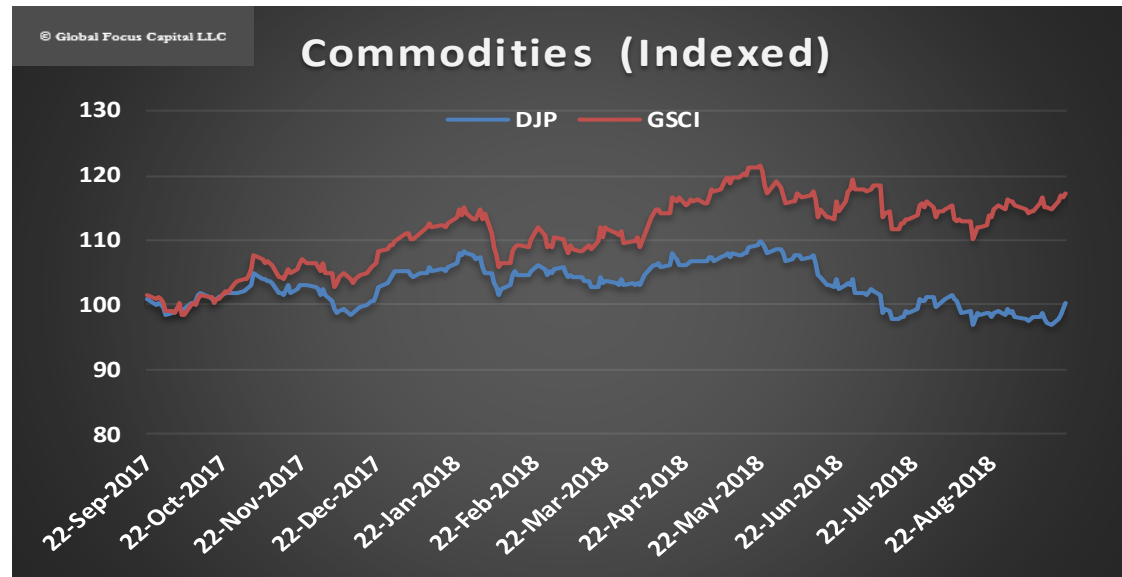
▶ Outlook:

- ▶ Short-Term: Neutral
- ▶ Long-Term: Positive

▶ Valuation: Neutral

▶ Risk Profile: Increasing

- ▶ **Of Note:** Big difference in performance between GSCI and Bloomberg indices, inflation seems a non-issue



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	11.5%	15.3%	16.4%	6.4%	11.5%
CORR TO US STOCKS	0.53	0.45	0.47	0.23	0.07
CORR TO US BONDS	0.29	0.29	0.30	0.02	0.12
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.51	-0.18	0.05	-0.17	0.11
UP BETA	0.52	0.79	0.55	0.22	-0.08
DOWN BETA	0.89	1.08	0.93	0.17	-1.01
ST TECHNICALS	BREAK OUT	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND
RSI	50.3	50.2	50.1	46.4	92.6
UP DAY % (LAST 20)	55%	50%	55%	40%	80%

Real Estate

▶ Outlook:

- ▶ Short-Term: Neutral
- ▶ Long-Term: Positive

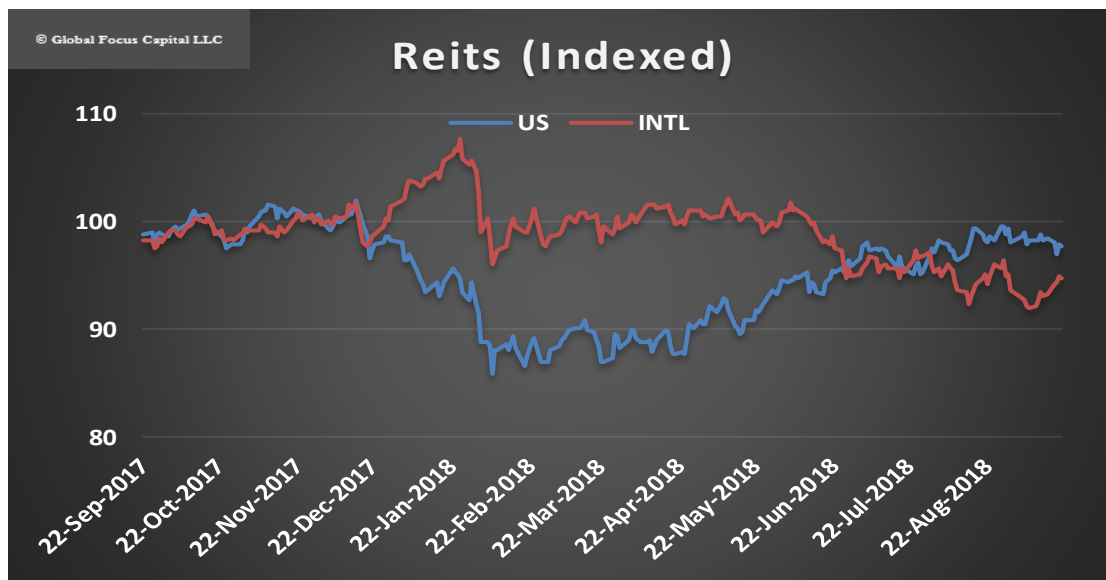
▶ Valuation: Stretched

▶ Growth: Slowing

▶ Income: Average

▶ Risk Profile: Increasing

- ▶ **Of Note:** Big recovery in the last few months, correlation to rates going down, good defensive capabilities (0.28 corr to US stocks)



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	11.8%	10.6%	9.8%	14.1%	8.7%
CORR TO US STOCKS	0.28	0.25	0.33	0.59	0.50
CORR TO US BONDS	0.23	0.47	0.37	0.61	-0.07
CORR TO COMM	0.09	0.22	0.21	0.05	-0.05
CORR TO USD	0.13	-0.07	-0.58	0.08	0.01
UP BETA	0.58	0.12	0.64	0.28	0.08
DOWN BETA	-0.13	-0.27	-0.22	0.50	1.50
ST TECHNICALS	DOWN TREND	BREAK DOWN	UP TREND	UP TREND	DOWN TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	BREAK OUT	BREAK DOWN
RSI	50.2	50.2	43.0	50.2	50.2
UP DAY % (LAST 20)	55%	55%	50%	50%	55%

This Coming Week

- ▶ Risky assets keep outperforming despite political headwinds
- ▶ The strong USD keeps crushing investors in international assets but should be losing some momentum.
- ▶ EM equities in particular are taking a huge hit both on the asset side as well as currency
- ▶ Growth is outperforming Value YTD but things may be turning around especially if interest rates remain range bound
- ▶ Gold and Silver are losing their luster – not providing downside hedge and very driven by trends in short-term rates
- ▶ What will make investors price risk more in line with history?
 - ▶ A growth scare in the US, maybe? A real inflation scare? Waiting for Impeachment?
- ▶ Biggest issue for investors is lack of a reasonable hedge to equity risk

9/24/2018	IFO - Business Climate	Germany	2	0	103.8	103
9/24/2018	IFO - Expectations	Germany	2	0	101.2	0
9/24/2018	IFO - Current Assessment	Germany	2	0	106.4	0
9/24/2018	Chicago Fed National Activity Index	United States	2	0	0.13	0.02
9/24/2018	BoJ Monetary Policy Meeting Minutes	Japan	3	0	0	0
9/25/2018	Bank of Japan Governor Kuroda Speech	Japan	3	0	0	0
9/25/2018	MPC Member Vlieghe speech	United Kingdom	2	0	0	0
9/25/2018	S&P/Case-Shiller Home Price Indices (YoY)	United States	2	0	6.3	6.2
9/25/2018	Housing Price Index (MoM)	United States	2	0	0.2	0.4
9/26/2018	New Home Sales (MoM)	United States	2	0	0.627	0.637
9/26/2018	FOMC Economic Projections	United States	3	0	0	0
9/26/2018	Fed's Powell Speech	United States	3	0	0	0
9/26/2018	Fed's Monetary Policy Statement	United States	3	0	0	0
9/26/2018	Fed Interest Rate Decision	United States	3	0	2	0
9/26/2018	FOMC Press conference	United States	3	0	0	0
9/27/2018	OPEC meeting	United States	2	0	0	0
9/27/2018	GfK Consumer Confidence Survey	Germany	2	0	10.5	10.5
9/27/2018	Bank of Japan Governor Kuroda Speech	Japan	3	0	0	0
9/27/2018	MPC Member Haldane Speech	United Kingdom	2	0	0	0
9/27/2018	Harmonized Index of Consumer Prices (YoY)	Germany	3	0	1.9	1.9
9/27/2018	Initial Jobless Claims	United States	2	0	201	207
9/27/2018	Continuing Jobless Claims	United States	2	0	1,645	1,691
9/27/2018	Gross Domestic Product Price Index	United States	2	0	3.2	3.2
9/27/2018	Gross Domestic Product Annualized	United States	3	0	4.2	4.2
9/27/2018	Personal Consumption Expenditures Prices (C	United States	2	0	1.9	0.9
9/27/2018	Core Personal Consumption Expenditures (Qo	United States	3	0	2	2.2
9/27/2018	Durable Goods Orders ex Transportation	United States	2	0	0.2	0.5
9/27/2018	Durable Goods Orders	United States	2	0	-1.7	1.7
9/27/2018	Pending Home Sales (MoM)	United States	2	0	-0.7	0.3
9/27/2018	FOMC Member Kaplan Speech	United States	2	0	0	0
9/27/2018	GfK Consumer Confidence	United Kingdom	2	0	-7	-10
9/27/2018	Tokyo CPI ex Fresh Food (YoY)	Japan	3	0	0.9	0.8
9/27/2018	Tokyo Consumer Price Index (YoY)	Japan	2	0	1.2	1.1
9/27/2018	Tokyo CPI ex Food, Energy (YoY)	Japan	2	0	0.6	0.6
9/27/2018	Unemployment Rate	Japan	2	0	2.5	2.4
9/27/2018	Jobs/applicants ratio	Japan	2	0	1.63	1.62
9/27/2018	Foreign investment in Japan stocks	Japan	2	0	-1481.7	0
9/27/2018	Foreign bond investment	Japan	2	0	2312	0
9/27/2018	Retail Trade (YoY)	Japan	2	0	1.5	1.2
9/27/2018	Retail Trade s.a (MoM)	Japan	2	0	0.1	-0.1
9/27/2018	Large Retailers' Sales	Japan	2	0	-1.6	-0.2
9/28/2018	Caixin Manufacturing PMI	China	2	0	50.6	50.6
9/28/2018	Unemployment Rate s.a.	Germany	2	0	5.2	5.1
9/28/2018	Unemployment Change	Germany	2	0	-8	-8
9/28/2018	Gross Domestic Product (YoY)	United Kingdom	2	0	1.3	1.3
9/28/2018	Gross Domestic Product (QoQ)	United Kingdom	2	0	0.4	0.4

Contact & Subscription Information

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