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INSIGHT THAT MATTERS

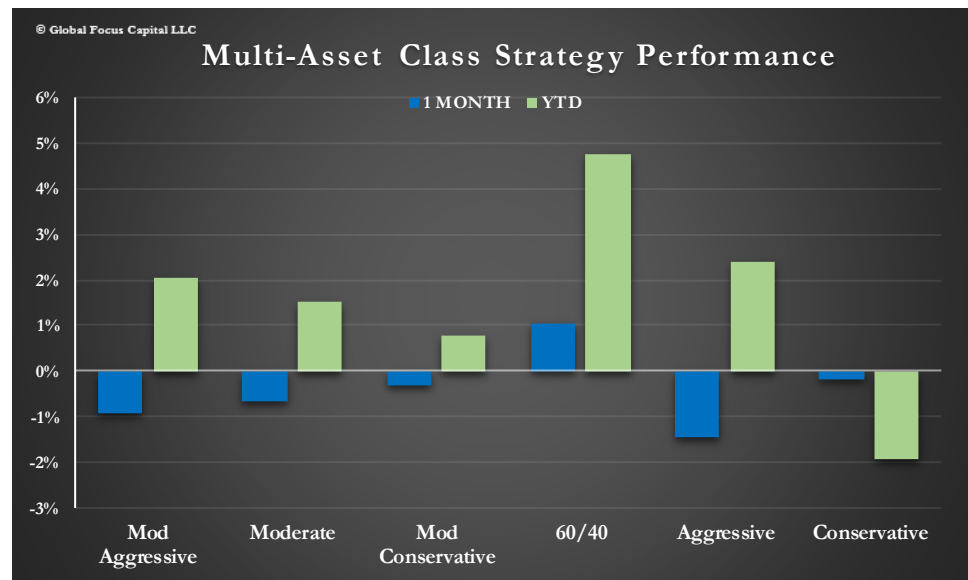
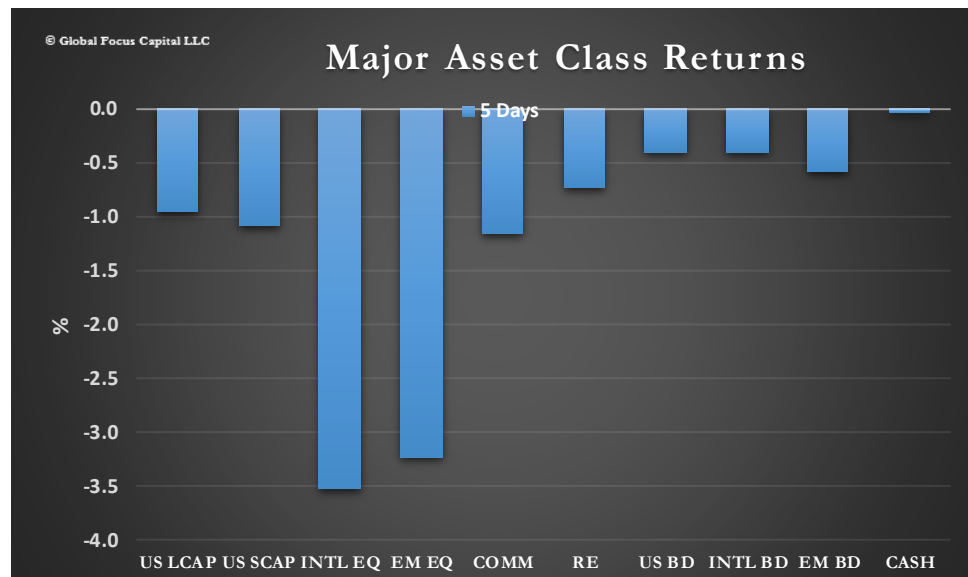
The Asset Allocation Advisor

Weekly Review – September 9, 2018

Eric J. Weigel

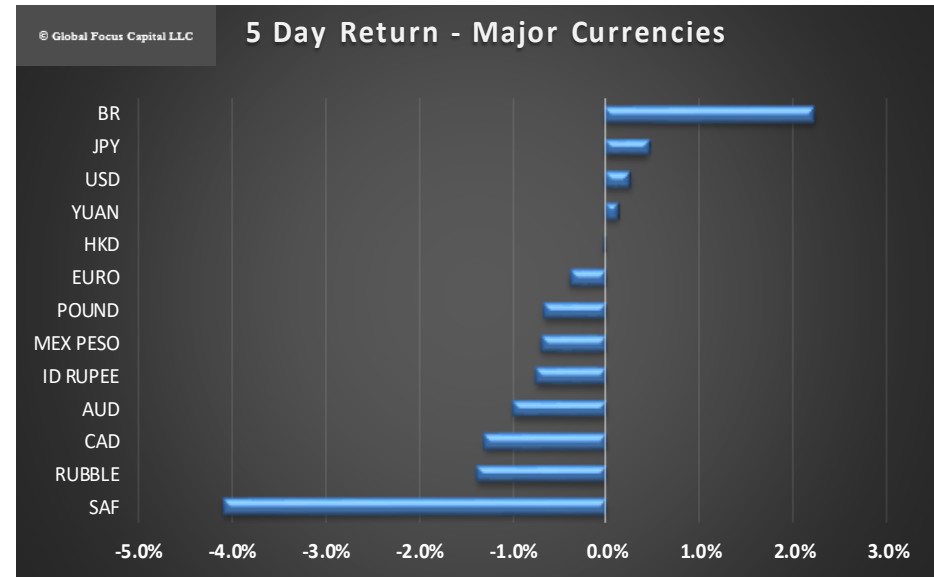
The Week in Review

- ▶ President Trump wasn't the only one having a bad week - is this a Fake Correction?
- ▶ Cash is king once again – nothing worked last week
- ▶ US assets lost less if that is any consolation
- ▶ International equities lost the most value last week
- ▶ A 60/40 mix of purely US assets out-performed a global version
- ▶ Lower risk multi-asset strategies out-performed last week and are ahead in the last month



Currencies

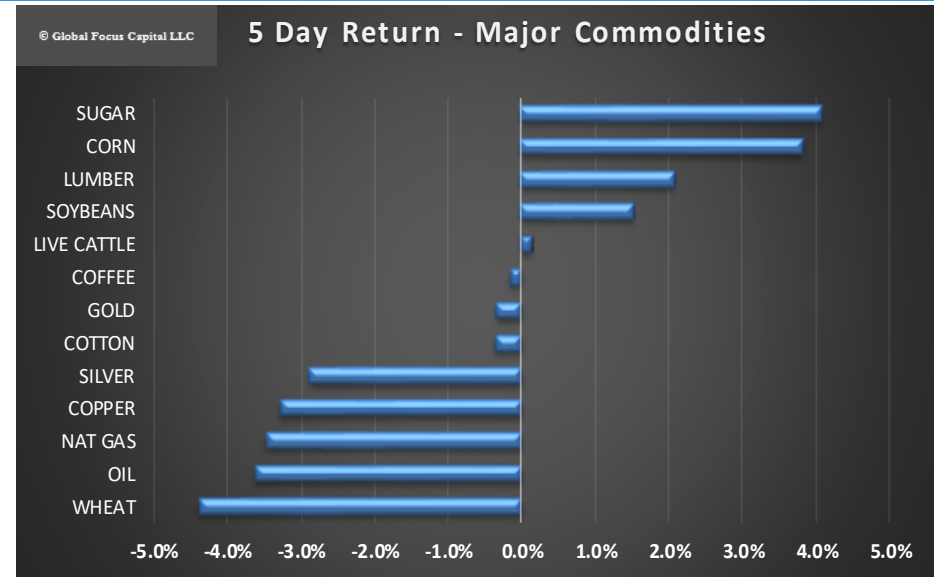
- ▶ The USD was range bound last week but continues in a technical Up Trend phase
- ▶ Within EM currencies the pattern was mixed
 - ▶ The Rand continued depreciating while the Brazilian Real regained some ground versus the USD
- ▶ Within the major currencies, the yen outperformed
- ▶ The Yuan has stabilized after a period of depreciation but remains volatile within the “official” range



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

Commodities

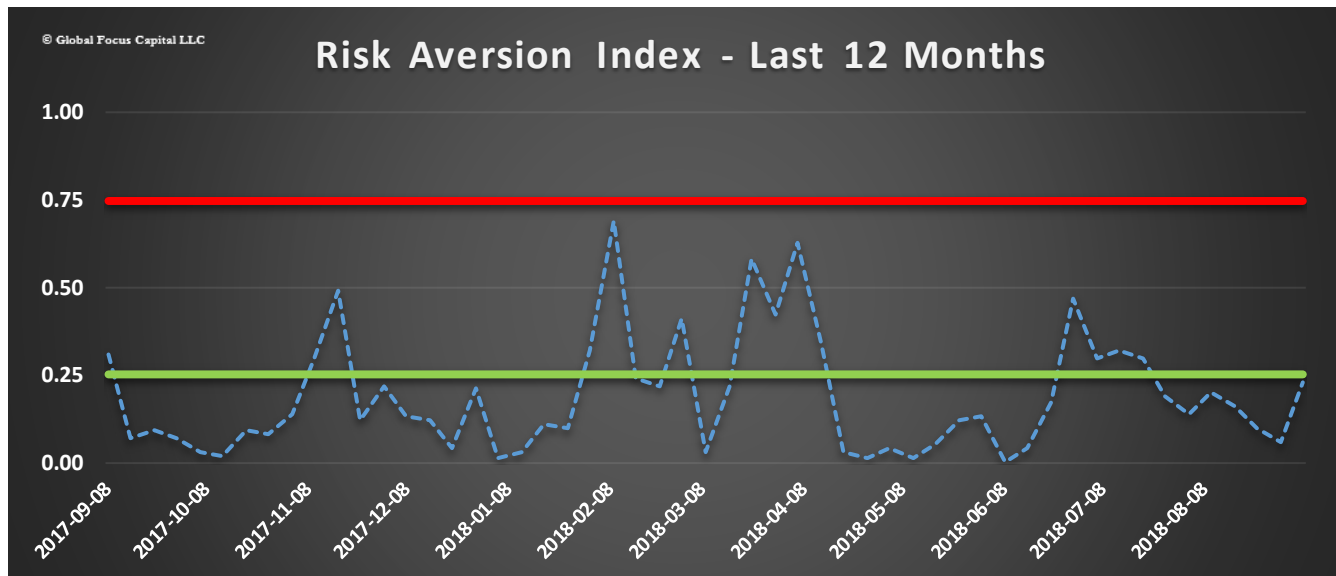
- ▶ Grains are getting whipsawed by trade war on/off issues
- ▶ Corn and soybeans continue being most at risk but regained some ground last week while Wheat continues deteriorating
- ▶ Oil is also getting whipsawed by political tensions – down over 3% last week after several up weeks
- ▶ Gold and Silver lost more ground last week and the trend is down especially as ST interest rates keep climbing higher



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

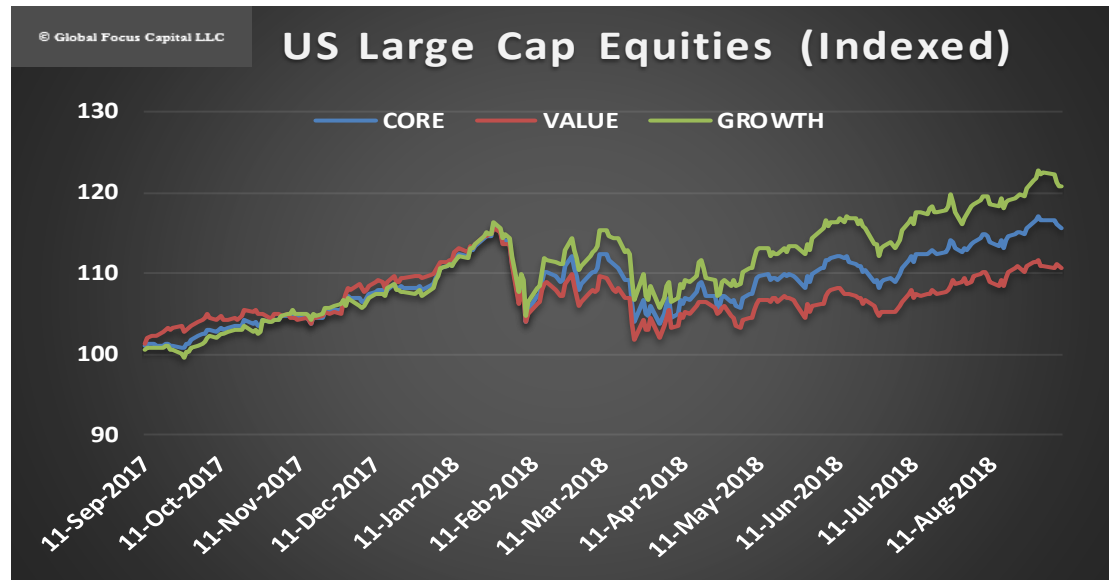
Investor Risk Aversion Environment

- ▶ All fear from the markets seems to be gone even after all the shenanigans in Washington, Iran and North Korea
- ▶ 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

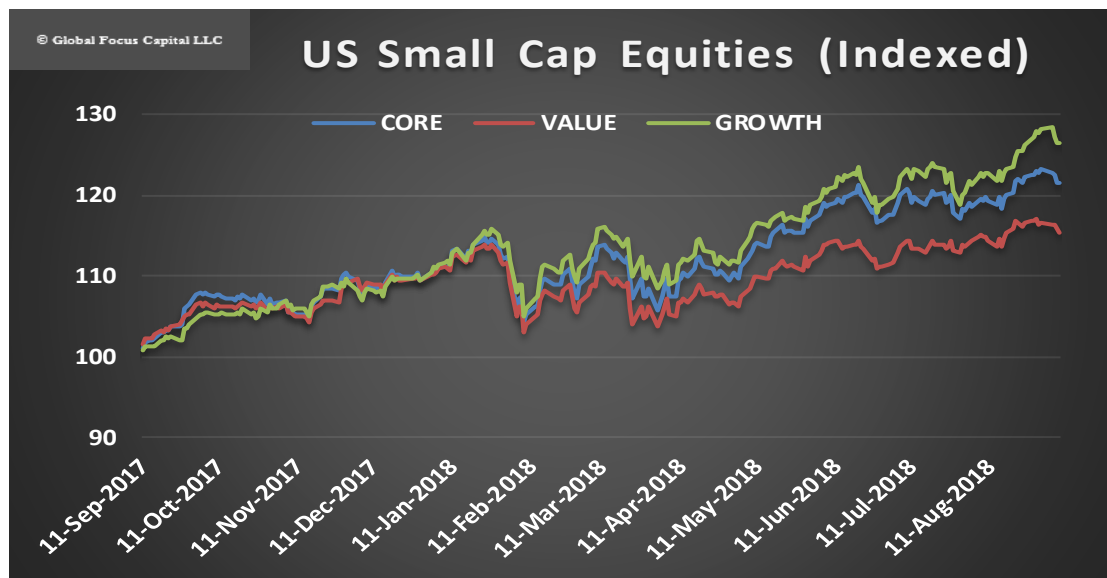
- ▶ **Outlook:**
 - ▶ Short-Term: Neutral
 - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Above Average
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value should start catching up to Growth if interest rates don't jump up, for now mo is winning



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	7.2%	7.3%	6.7%	9.4%	6.4%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.26	-0.04	0.20	-0.51	-0.39
CORR TO COMM	0.83	0.73	0.52	0.43	-0.19
CORR TO USD	-0.38	-0.18	0.21	0.13	0.05
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	DETERIORATING	UP TREND	UP TREND	UP TREND	UP TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	UP TREND
RSI	50.1	50.1	57.2	57.4	57.2
UP DAY % (LAST 20)	50%	50%	55%	55%	55%

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	9.2%	12.2%	10.7%	9.2%	12.3%
CORR TO US STOCKS	0.78	0.77	0.54	0.75	0.69
CORR TO US BONDS	-0.08	-0.24	-0.01	-0.38	-0.16
CORR TO COMM	0.81	0.35	0.20	0.25	0.06
CORR TO USD	-0.25	0.04	0.02	0.02	0.11
UP BETA	0.53	0.74	0.79	0.86	1.32
DOWN BETA	1.51	1.15	1.11	0.99	1.42
ST TECHNICALS	DETERIORATING	UP TREND	BREAK OUT	UP TREND	BREAK OUT
IT TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	UP TREND
RSI	57.2	64.4	57.4	64.5	43.0
UP DAY % (LAST 20)	55%	55%	55%	70%	50%

International Developed Markets

▶ Outlook:

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

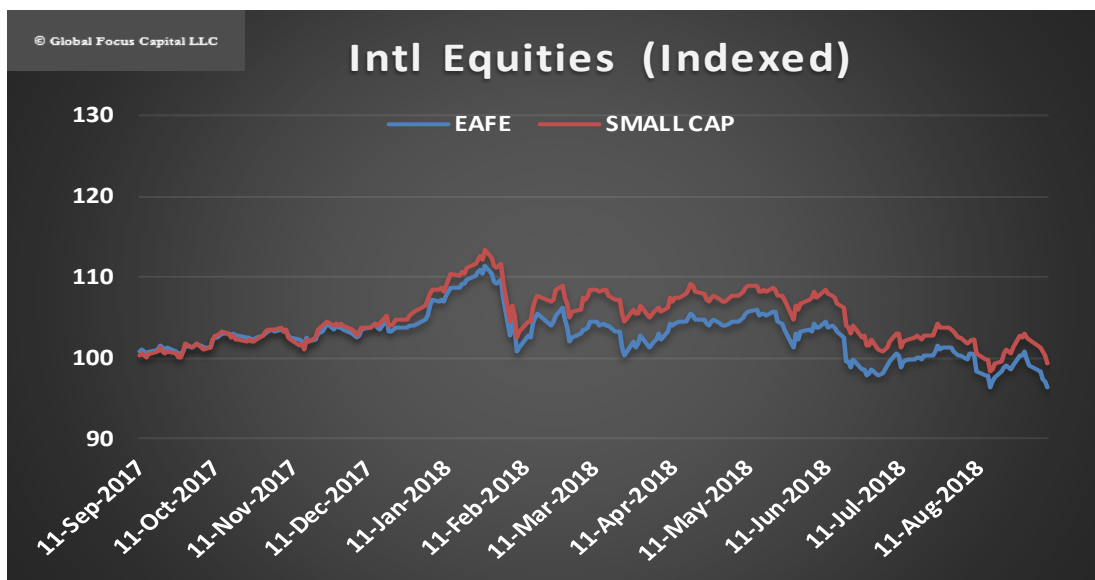
▶ Valuation: Neutral

▶ 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	11.2%	9.3%	12.2%	6.8%	7.4%
CORR TO US STOCKS	0.60	0.68	0.81	0.76	0.69
CORR TO US BONDS	-0.32	0.23	0.10	0.57	0.04
CORR TO COMM	0.67	0.78	0.69	0.41	0.08
CORR TO USD	-0.05	-0.11	0.09	0.30	-0.14
UP BETA	1.01	0.96	1.07	0.72	0.56
DOWN BETA	1.13	1.28	1.15	0.66	0.89
ST TECHNICALS	BREAK DOWN	IMPROVING	BREAK DOWN	IMPROVING	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND	UP TREND
RSI	43.1	42.8	46.3	50.1	50.1
UP DAY % (LAST 20)	40%	45%	50%	50%	55%

International Emerging Markets

▶ Outlook:

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

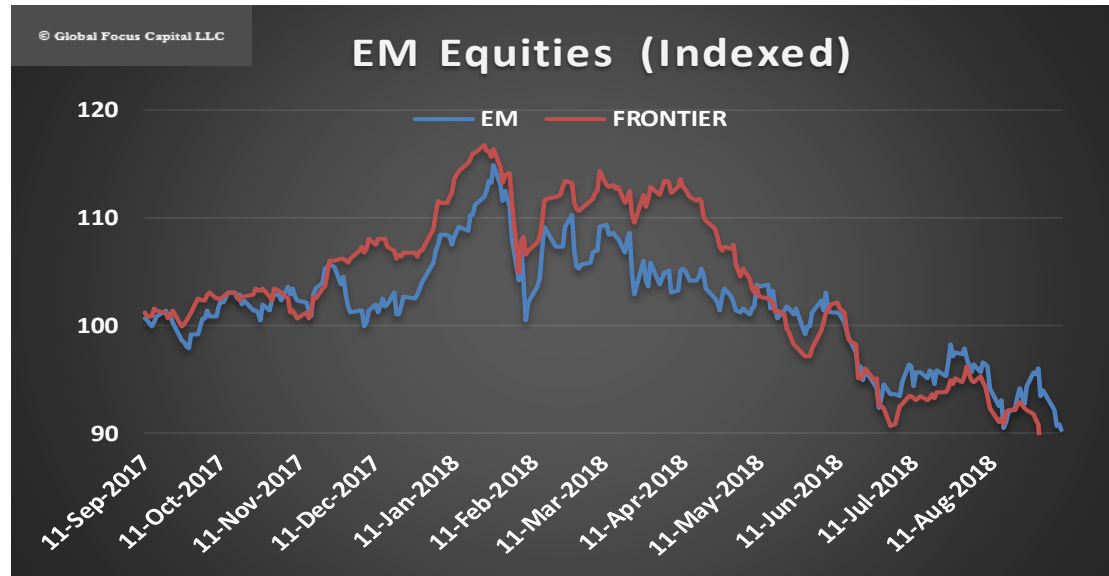
▶ Valuation: Inexpensive

▶ Growth: Above Average

▶ Income: Neutral

▶ Risk Profile: Increasing

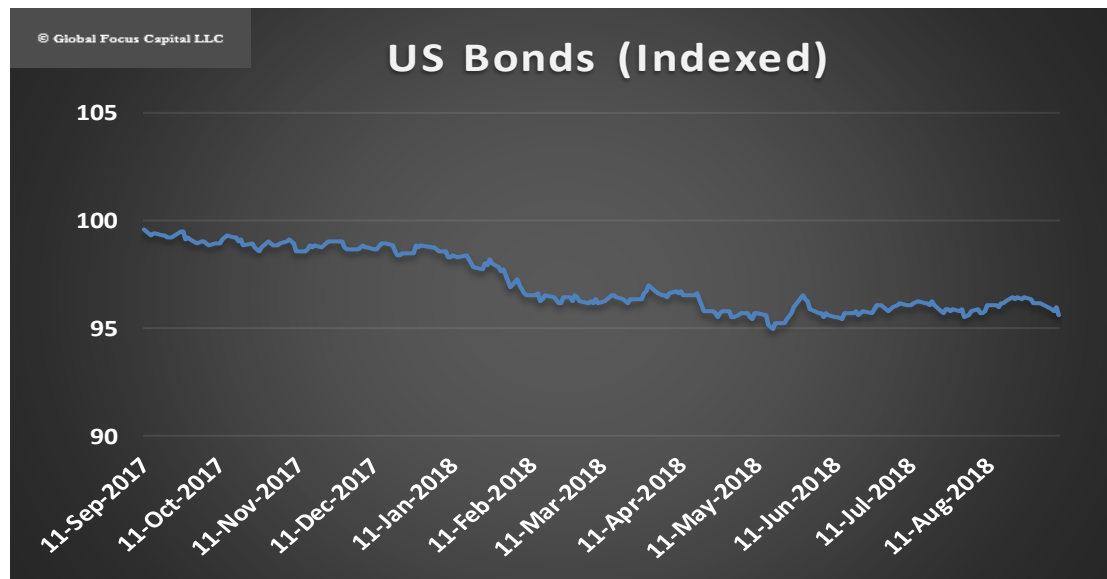
▶ **Of Note:** China's weight in EM index is a huge issue (>30%), trade war fears, currency depreciation, weakening commodity prices, slight recovery in LATAM



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	19.8%	17.7%	18.8%	15.8%	14.4%
CORR TO US STOCKS	0.63	0.61	0.79	0.62	0.66
CORR TO US BONDS	-0.19	0.19	0.01	0.52	-0.01
CORR TO COMM	0.70	0.75	0.63	0.40	0.34
CORR TO USD	0.06	0.11	0.16	0.27	-0.29
UP BETA	1.45	1.31	1.55	1.10	1.34
DOWN BETA	1.38	1.41	1.13	0.89	0.80
ST TECHNICALS	BREAK DOWN	IMPROVING	BREAK DOWN	BREAK DOWN	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
RSI	57.5	49.8	43.1	38.7	50.1
UP DAY % (LAST 20)	55%	50%	45%	40%	50%

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	2.2%	3.6%	4.1%	2.5%	2.1%
CORR TO US STOCKS	-0.09	-0.69	-0.42	-0.20	-0.45
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.20	-0.26	-0.16	0.05	0.45
CORR TO USD	-0.19	-0.05	0.10	0.07	0.03
UP BETA	0.10	-0.10	-0.06	0.02	-0.05
DOWN BETA	-0.17	-0.17	-0.12	-0.05	-0.11
ST TECHNICALS	DOWN TREND	UP TREND	IMPROVING	BREAK DOWN	DOWN TREND
IT TECHNICALS	DOWN TREND	IMPROVING	IMPROVING	DOWN TREND	BREAK DOWN
RSI	35.8	69.2	61.6	42.9	42.9
UP DAY % (LAST 20)	50%	65%	50%	45%	40%

International Developed Bonds

▶ Outlook:

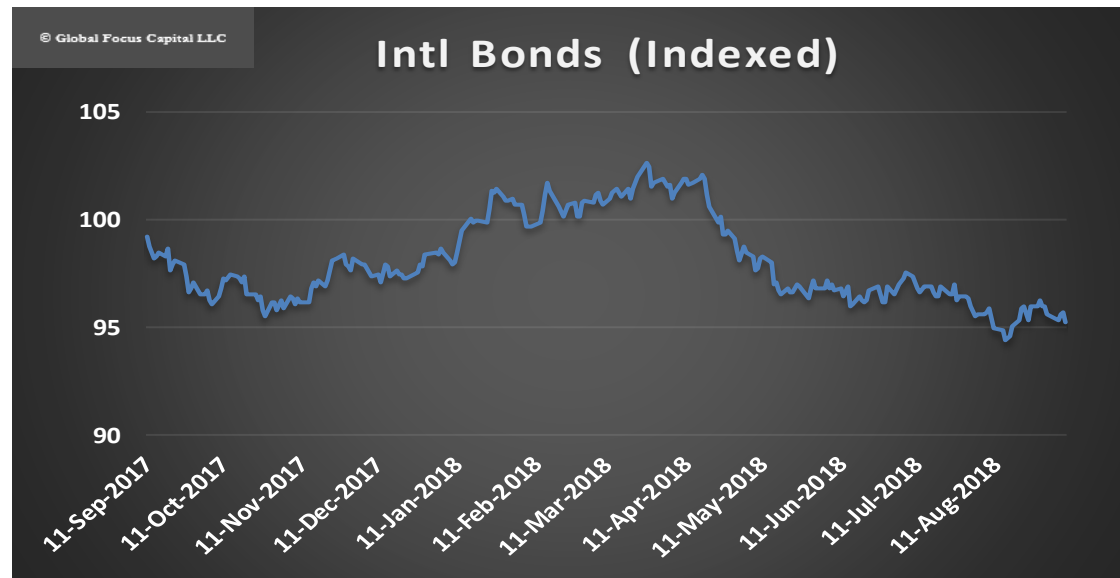
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

▶ 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	6.3%	6.0%	6.1%	6.3%	5.7%
CORR TO US STOCKS	-0.06	-0.02	0.44	-0.11	-0.24
CORR TO US BONDS	0.01	-0.24	0.22	0.19	0.47
CORR TO COMM	0.29	0.34	0.28	0.13	0.07
CORR TO USD	-0.17	-0.10	0.18	0.32	0.16
UP BETA	0.14	0.04	0.22	0.22	-0.28
DOWN BETA	-0.05	0.13	0.20	-0.02	-0.11
ST TECHNICALS	BREAK DOWN	IMPROVING	DOWN TREND	UP TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND
RSI	57.2	57.2	46.2	57.2	30.8
UP DAY % (LAST 20)	55%	55%	40%	55%	40%

International Emerging Bonds

▶ Outlook:

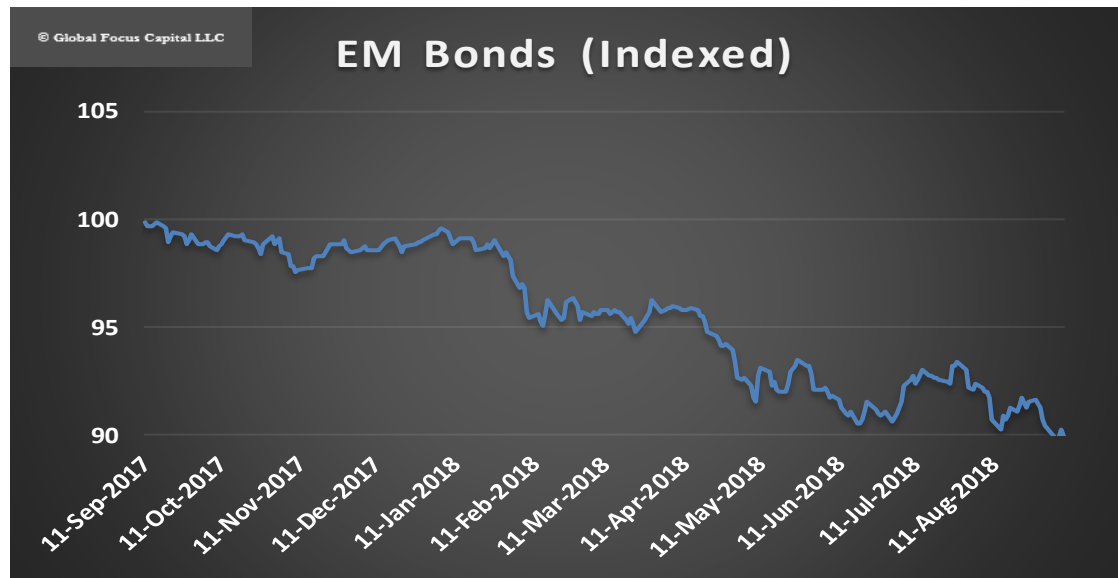
- ▶ Short-Term: Negative
- ▶ Long-Term: Positive

▶ 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	5.3%	7.6%	7.0%	5.0%	4.6%
CORR TO US STOCKS	-0.07	0.24	0.52	0.70	0.00
CORR TO US BONDS	0.34	0.50	0.66	0.42	0.00
CORR TO COMM	0.18	0.15	0.19	0.23	0.00
CORR TO USD	-0.03	0.31	0.42	0.04	0.00
UP BETA	0.67	0.20	0.28	0.18	0.16
DOWN BETA	0.12	0.19	0.12	0.22	0.28
ST TECHNICALS	DOWN TREND	IMPROVING	DOWN TREND	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	42.9	38.5	30.9	28.7	64.3
UP DAY % (LAST 20)	45%	35%	25%	40%	65%

Commodities

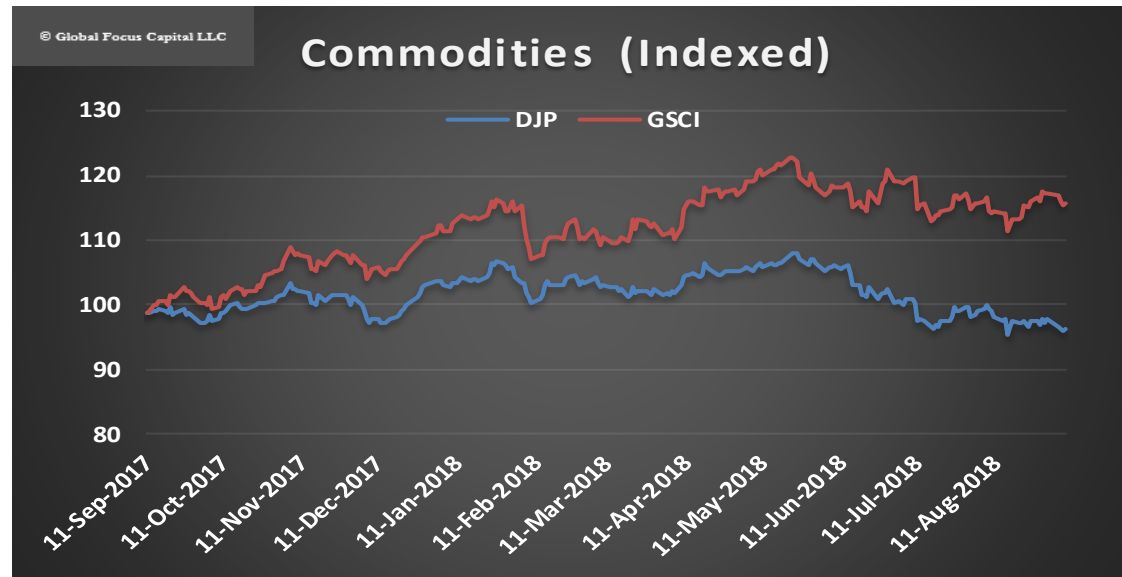
▶ Outlook:

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

▶ Valuation: Neutral

▶ Risk Profile: Increasing

▶ **Of Note:** Big difference in performance between GSCI and Bloomberg indices, precious metals are imploding with no end in sight in the face of higher interest rates, inflation seems a non-issue



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	15.3%	16.4%	12.8%	10.3%	8.4%
CORR TO US STOCKS	0.45	0.47	0.34	0.30	0.08
CORR TO US BONDS	0.29	0.30	-0.02	-0.08	0.31
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.33	0.00	0.31	0.06	-0.09
UP BETA	0.79	0.55	0.48	0.13	-0.13
DOWN BETA	1.08	0.93	0.83	0.18	0.45
ST TECHNICALS	DOWN TREND	DOWN TREND	DETERIORATING	IMPROVING	IMPROVING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND	DETERIORATING
RSI	50.2	50.1	57.3	46.0	57.1
UP DAY % (LAST 20)	50%	55%	50%	60%	50%

Real Estate

▶ Outlook:

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

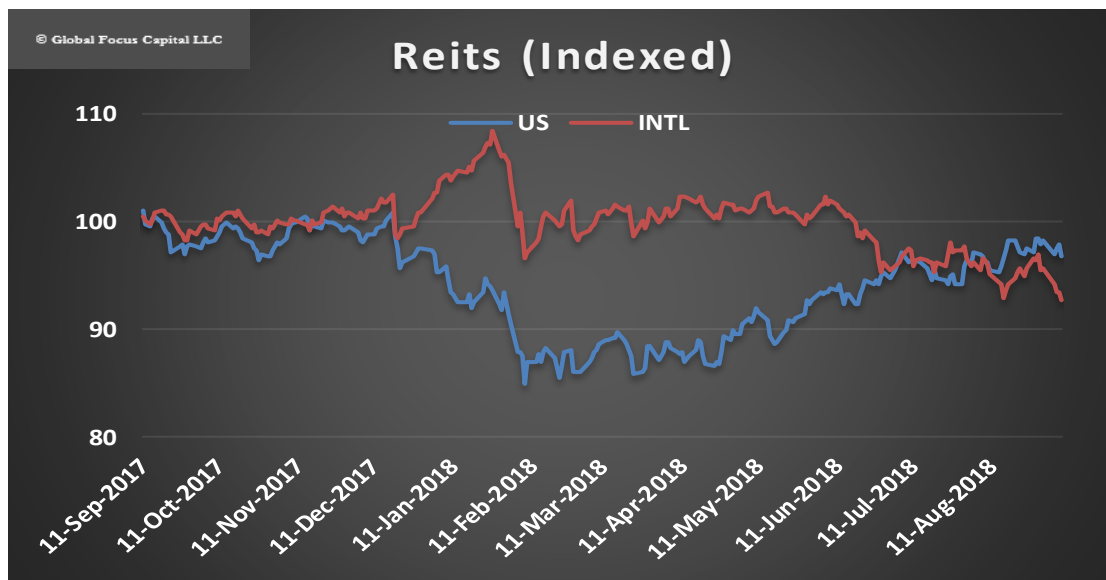
▶ Valuation: Stretched

▶ Growth: Slowing

▶ Income: Average

▶ Risk Profile: Increasing

- ▶ **Of Note:** Big recovery in the last few months, correlation to rates going down, good defensive capabilities (0.25 corr to US stocks)



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	10.6%	9.8%	11.2%	12.7%	8.0%
CORR TO US STOCKS	0.25	0.33	0.48	0.40	0.05
CORR TO US BONDS	0.47	0.37	-0.17	0.40	0.46
CORR TO COMM	0.22	0.21	0.11	0.15	0.26
CORR TO USD	-0.29	0.08	0.09	-0.02	-0.13
UP BETA	0.12	0.64	0.74	0.23	0.38
DOWN BETA	-0.27	-0.22	0.01	0.61	0.52
ST TECHNICALS	BREAK DOWN	UP TREND	UP TREND	DETERIORATING	DOWN TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	IMPROVING	DETERIORATING
RSI	50.2	43.0	50.0	61.6	57.3
UP DAY % (LAST 20)	55%	50%	40%	60%	55%

This Coming Week

- ▶ Is cash the new King?
 - ▶ Bonds and stocks are over-valued but growth still holding up which is positive for stocks but for how long?
 - ▶ We still prefer risky assets but are lowering risk at the portfolio level.
- ▶ Are political issues in Washington of any concern to markets?
- ▶ The strong USD keeps crushing investors in international assets but should be losing some momentum.
- ▶ International equities keep losing ground to US stocks despite superior fundamentals – becoming the contrarian play of 2018
- ▶ EM equities in particular are taking a huge hit both on the asset side as well as currency
 - ▶ China has a lot to do with this given its weight in the MSCI index (30%)
- ▶ Growth is outperforming Value YTD but things may be turning around especially if interest rates remain range bound
- ▶ Global Tech has performed well this year but short-term it is in a break Down phase. More bad news to come or buy the dip? We are holding steady, not buying more.
- ▶ 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?

9/10/2018	Consumer Price Index (YoY)	China	2	0	2.1	2.2
9/10/2018	Producer Price Index (YoY)	China	2	0	4.6	4
9/10/2018	Consumer Price Index (MoM)	China	2	0	0.3	0.5
9/10/2018	Manufacturing Production (MoM)	United Kingdom	2	0	0.4	0.3
9/10/2018	Industrial Production (MoM)	United Kingdom	2	0	0.4	0.4
9/10/2018	Manufacturing Production (YoY)	United Kingdom	2	0	1.5	1
9/10/2018	Gross Domestic Product (MoM)	United Kingdom	3	0	0.1	0.3
9/10/2018	FOMC Member Bostic speech	United States	2	0	0	0
9/10/2018	Consumer Credit Change	United States	2	0	10.21	12.5
9/11/2018	FDI - Foreign Direct Investment (YTD) (YoY)	China	2	0	2.3	0
9/11/2018	ILO Unemployment Rate (3M)	United Kingdom	2	0	4	4.2
9/11/2018	Claimant Count Change	United Kingdom	2	0	6.2	0
9/11/2018	Average Earnings excluding Bonus (3Mo/Yr)	United Kingdom	3	0	2.7	2.7
9/11/2018	Average Earnings including Bonus (3Mo/Yr)	United Kingdom	3	0	2.4	2.5
9/11/2018	ZEW Survey - Economic Sentiment	Germany	2	0	-13.7	0
9/11/2018	ZEW Survey - Current Situation	Germany	2	0	72.6	72.3
9/12/2018	Fed's Bullard speech	United States	2	0	0	0
9/12/2018	Producer Price Index ex Food & Energy (YoY)	United States	2	0	2.7	2.8
9/12/2018	Fed's Beige Book	United States	2	0	0	0
9/12/2018	Foreign bond investment	Japan	2	0	543.4	0
9/12/2018	Foreign investment in Japan stocks	Japan	2	0	-4.6	0
9/13/2018	Harmonized Index of Consumer Prices (YoY)	Germany	3	0	1.9	0
9/13/2018	BoE Asset Purchase Facility	United Kingdom	3	0	435	435
9/13/2018	BoE Interest Rate Decision	United Kingdom	3	0	0.75	0.75
9/13/2018	Monetary Policy Summary	United Kingdom	3	0	0	0
9/13/2018	BOE MPC Vote Cut	United Kingdom	3	0	0	0
9/13/2018	Bank of England Minutes	United Kingdom	3	0	0	0
9/13/2018	BOE MPC Vote Hike	United Kingdom	3	0	9	0
9/13/2018	BOE MPC Vote Unchanged	United Kingdom	3	0	0	0
9/13/2018	Continuing Jobless Claims	United States	2	0	1,707	1,737
9/13/2018	Initial Jobless Claims	United States	2	0	203	211
9/13/2018	Consumer Price Index Ex Food & Energy (MoM)	United States	2	0	0.2	0.2
9/13/2018	Consumer Price Index (YoY)	United States	2	0	2.9	2.7
9/13/2018	Consumer Price Index Ex Food & Energy (YoY)	United States	3	0	2.4	2.4
9/13/2018	Consumer Price Index (MoM)	United States	2	0	0.2	0.1
9/13/2018	Consumer Price Index Core s.a	United States	2	0	257.93	258.804
9/13/2018	FOMC Member Bostic speech	United States	2	0	0	0
9/13/2018	Monthly Budget Statement	United States	2	0	-77	-160
9/14/2018	Retail Sales (YoY)	China	2	0	8.8	8.7
9/14/2018	Industrial Production (YoY)	China	2	0	6	5.9

Contact & Subscription Information

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