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INSIGHT THAT MATTERS

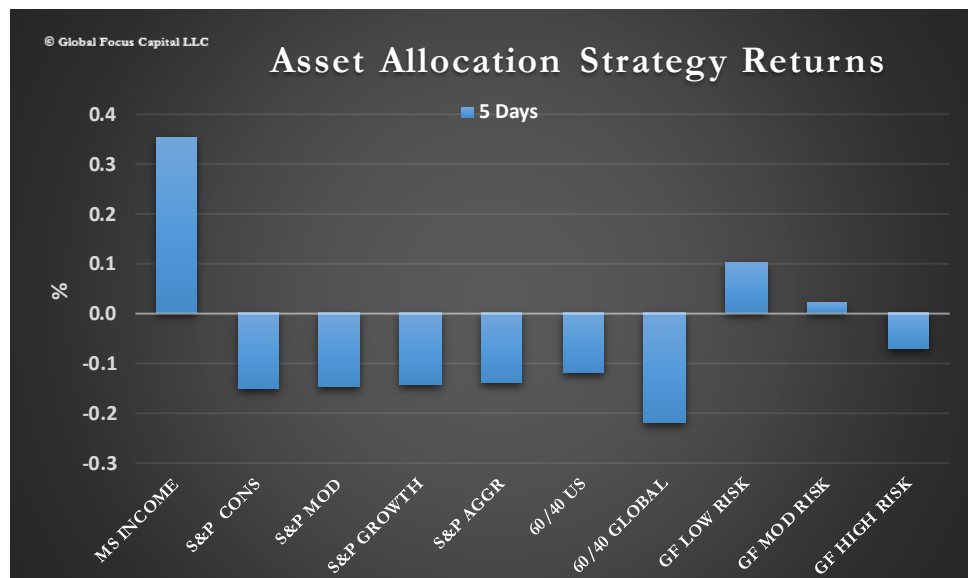
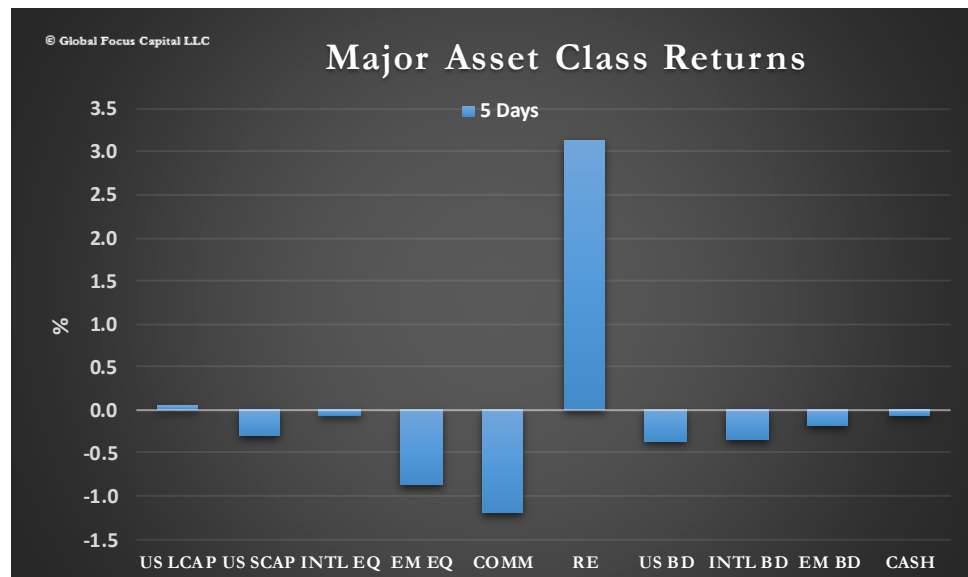
The Asset Allocation Advisor

Weekly Review – October 21, 2018

Eric J. Weigel

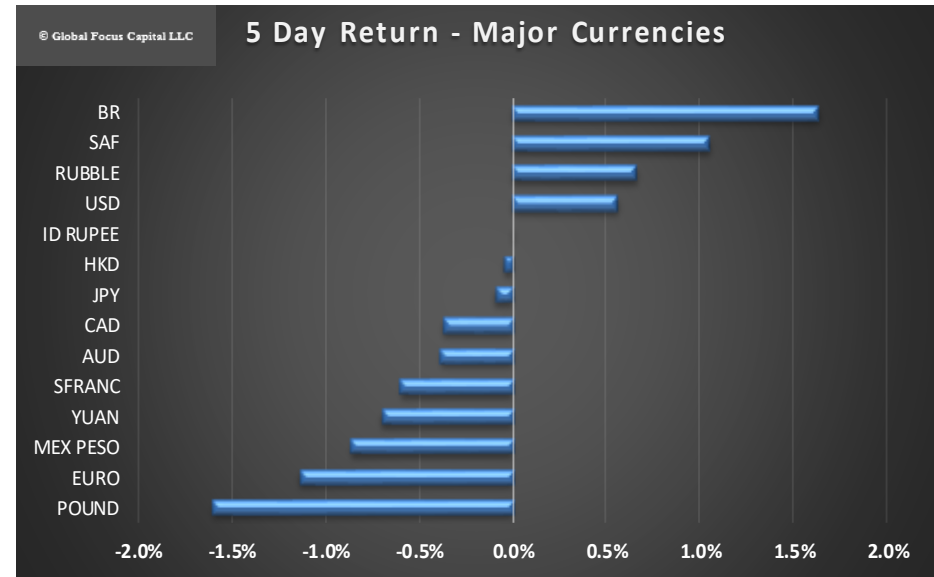
The Week in Review

- ▶ Risky assets suffered large losses last week with the exception of REITS up over 3%
- ▶ Fixed income also experienced losses as interest rates globally moved up yet again
- ▶ In general, while the losses paled in comparison to the previous week, multi-asset investors continued losing capital
- ▶ Within equities, US large cap ended up flat with Value strategies outperforming Growth by 1.3%
- ▶ A 60/40 mix of purely US assets outperformed a global version and remains vastly ahead YTD
- ▶ In general, higher risk multi-asset strategies under-performed last week and but remain ahead YTD



Currencies

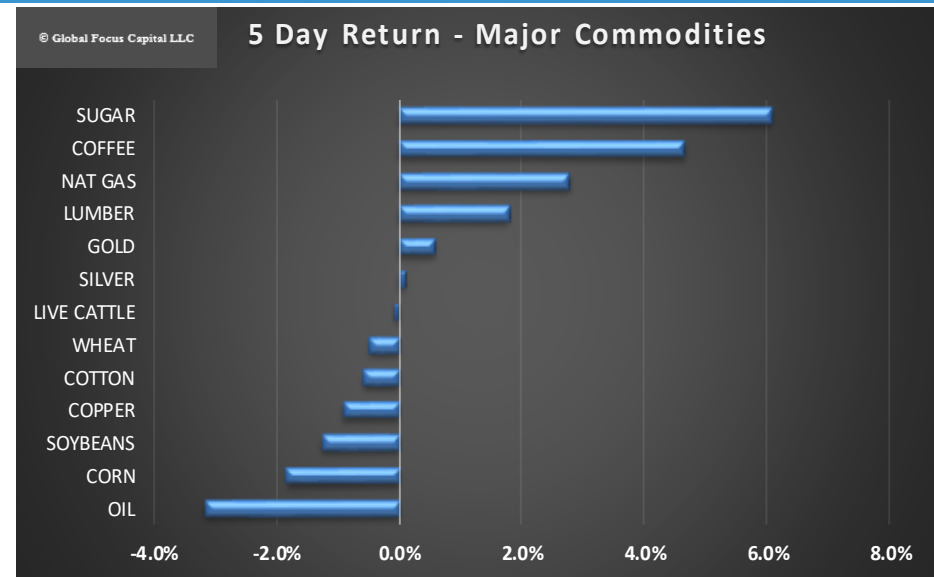
- ▶ The USD once again regained lost strength last week
- ▶ The Brazilian Real further recovered as a pro business President is on deck
- ▶ EM currencies were mixed with the Peso and Yuan losing additional ground
- ▶ The British Pound lost about 1.5% last week as Brexit negotiations continue without a clear outcome
- ▶ The Yuan avoided being labelled a currency manipulator by the US Treasury but the trend is for further depreciation



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

Commodities

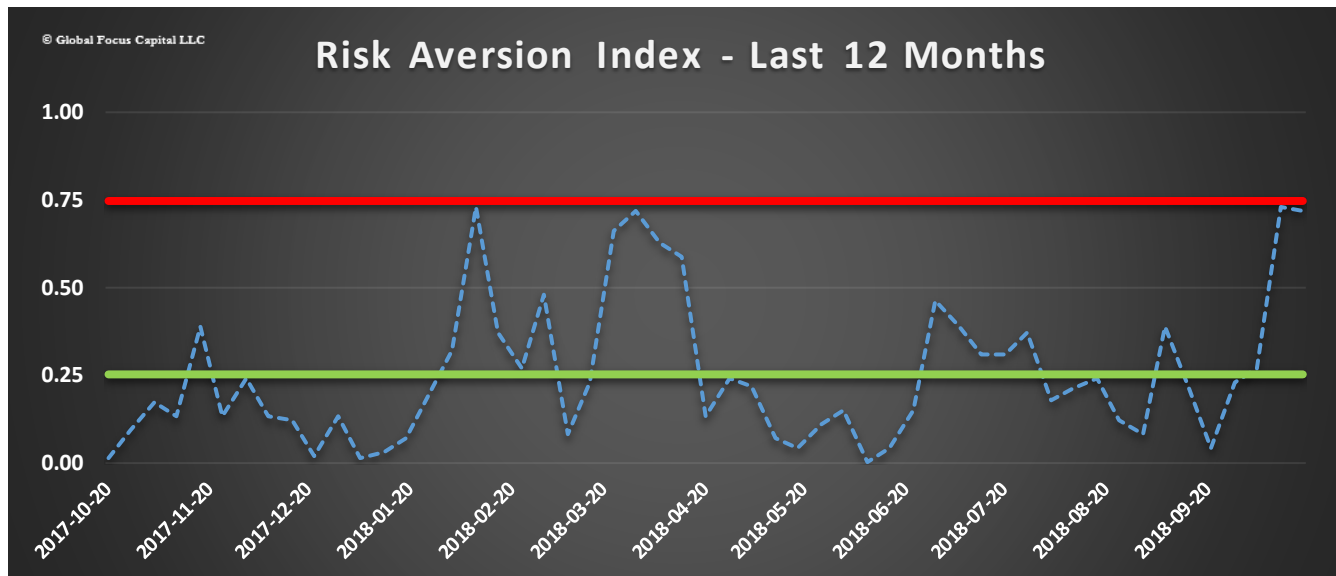
- ▶ Commodity indices gave back some of the gains from the previous week as oil prices retreated
- ▶ Grain prices also retreated further but prices have stabilized from the bottom hit in the summer
- ▶ Sugar and Coffee showed the most gains aided by an appreciating Brazilian Real
- ▶ Gold and Silver were stable last week for a change but barring a real crisis continue on a down trend especially in light of higher short-term interest rates



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

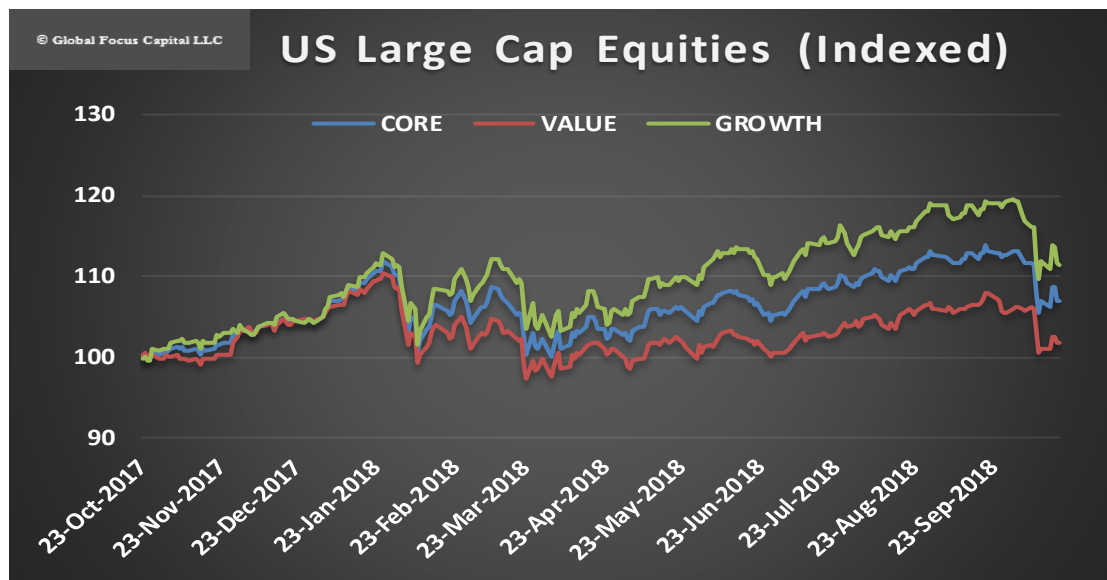
Investor Risk Aversion Environment

- ▶ Fear from the markets seems to have returned – our index stands at the very top of the Neutral Zone after a prolonged period of exuberance
- ▶ Investors still seem much more focused on global growth and capital market fundamentals rather than political uncertainty
- ▶ We expect a further rise in our RAI into the Fear Zone and a flipping back and forth indicative of a risk on/off market



US Large Cap Equities

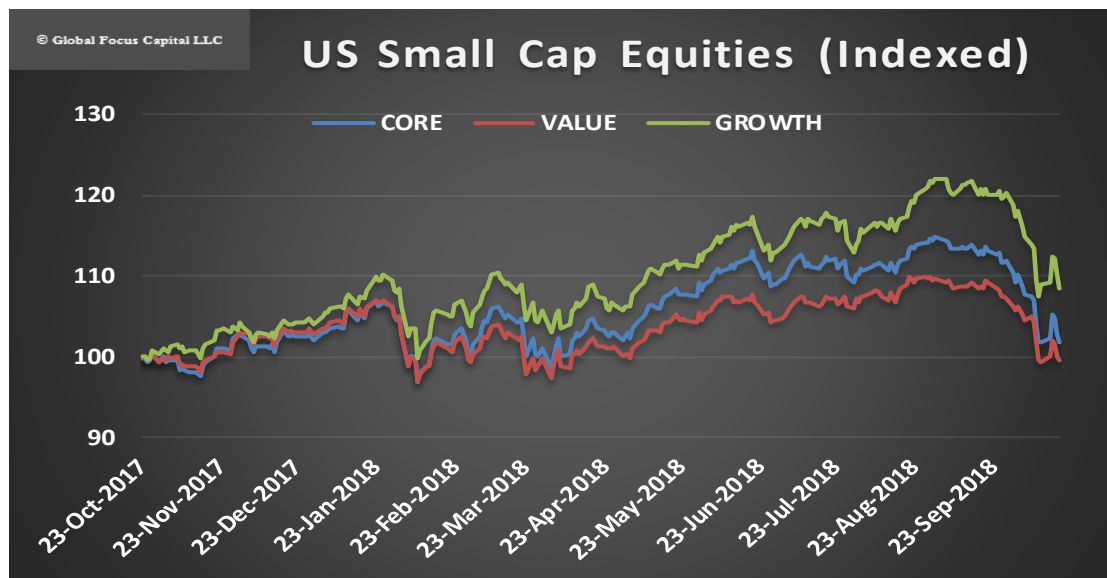
- ▶ **Outlook:**
 - ▶ Short-Term: Neutral
 - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Above Average
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value should start catching up to Growth, sector rotation is starting to take hold



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	17.5%	6.5%	6.6%	8.3%	11.9%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.07	-0.11	-0.02	-0.04	0.01
CORR TO COMM	0.54	0.21	0.39	0.41	0.38
CORR TO USD	0.28	-0.20	-0.14	0.08	-0.36
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	DOWN TREND	BREAK DOWN	UP TREND	UP TREND	BREAK DOWN
IT TECHNICALS	BREAK DOWN	UP TREND	UP TREND	UP TREND	UP TREND
RSI	30.8	50.1	57.2	64.3	50.2
UP DAY % (LAST 20)	35%	60%	65%	70%	60%

US Small Cap Equities

- ▶ **Outlook:**
 - ▶ Short-Term: Positive
 - ▶ Long-Term: Positive
- ▶ **Valuation:** Neutral
- ▶ **Growth:** Above Average
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Expect a recovery versus large cap stocks



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	18.9%	11.1%	7.3%	10.9%	13.4%
CORR TO US STOCKS	0.84	0.61	0.73	0.62	0.73
CORR TO US BONDS	-0.07	-0.34	-0.06	-0.06	0.04
CORR TO COMM	0.42	-0.05	0.36	0.27	0.20
CORR TO USD	0.13	-0.09	0.17	-0.15	0.08
UP BETA	0.87	0.51	0.72	0.73	1.14
DOWN BETA	0.90	1.46	1.52	0.73	1.07
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND	BREAK DOWN
IT TECHNICALS	BREAK DOWN	DETERIORATING	UP TREND	UP TREND	UP TREND
RSI	28.5	43.2	42.9	57.3	50.3
UP DAY % (LAST 20)	35%	50%	55%	65%	60%

International Developed Markets

▶ Outlook:

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

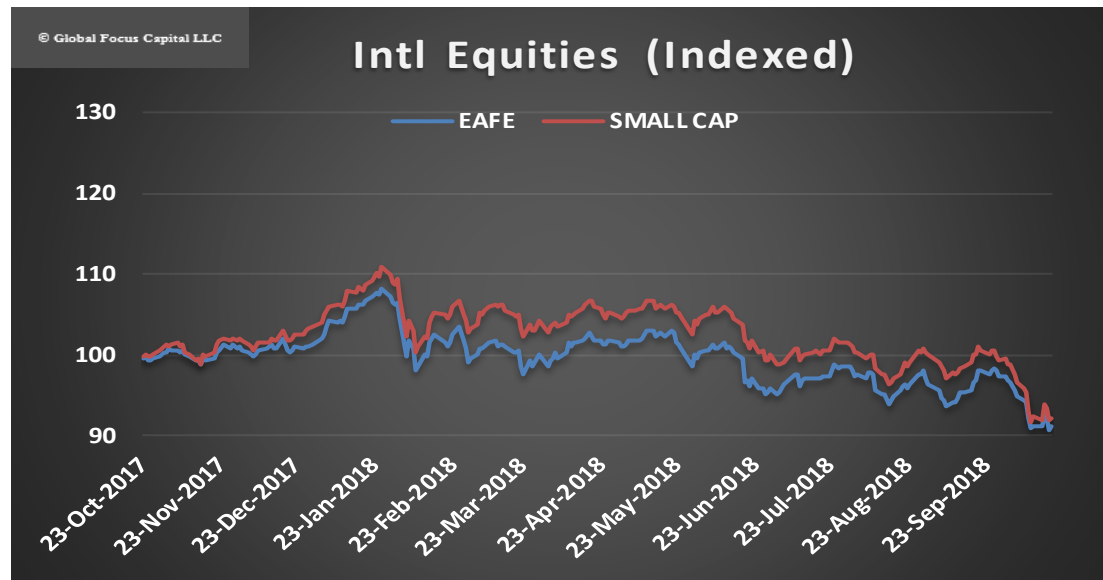
▶ Valuation: Neutral

▶ 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	10.0%	10.6%	12.9%	14.4%	9.3%
CORR TO US STOCKS	0.64	0.84	0.78	0.63	0.78
CORR TO US BONDS	0.25	0.23	-0.26	-0.13	0.18
CORR TO COMM	0.42	0.71	0.70	0.56	-0.13
CORR TO USD	-0.50	-0.29	-0.22	0.10	-0.13
UP BETA	0.84	1.12	0.91	0.87	0.81
DOWN BETA	0.67	1.32	1.09	0.43	0.83
ST TECHNICALS	DOWN TREND	BREAK DOWN	BREAK OUT	UP TREND	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND	UP TREND
RSI	21.1	50.2	71.7	61.6	50.2
UP DAY % (LAST 20)	30%	65%	65%	65%	55%

International Emerging Markets

▶ Outlook:

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

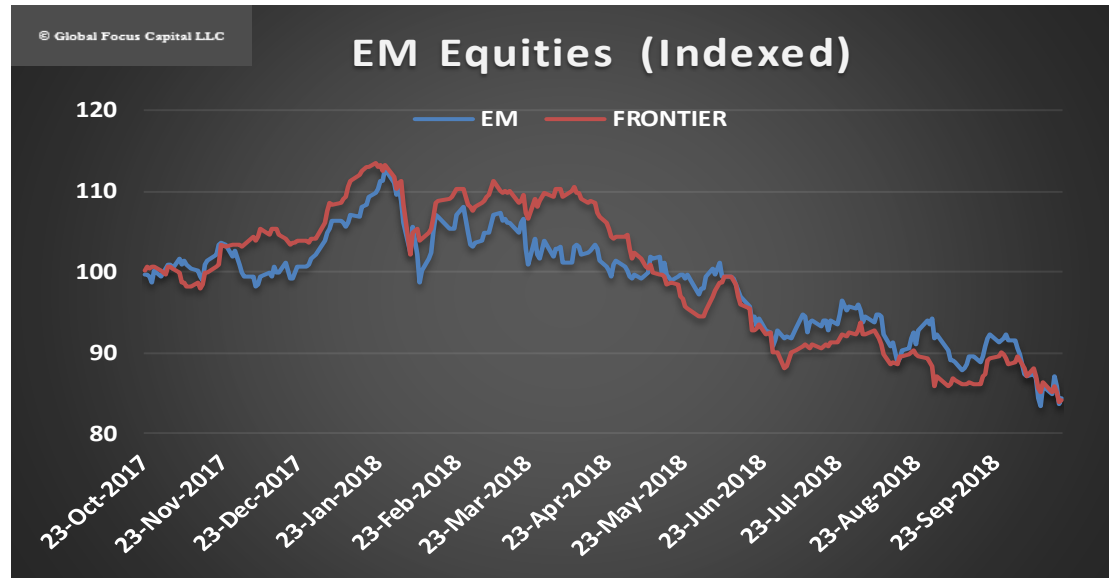
▶ Valuation: Inexpensive

▶ Growth: Average

▶ Income: Neutral

▶ Risk Profile: Increasing

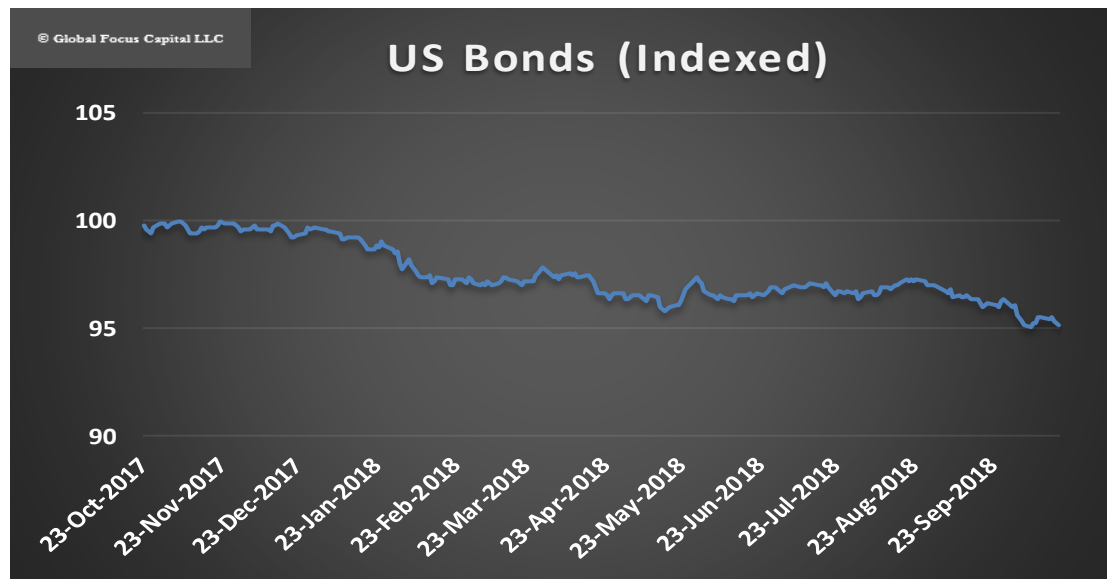
- ▶ **Of Note:** trade war fears, currency depreciation, LATAM recovered nicely last week but Asia took another hit



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	14.6%	19.3%	21.9%	16.0%	13.1%
CORR TO US STOCKS	0.59	0.74	0.78	0.65	0.65
CORR TO US BONDS	0.18	0.16	-0.15	-0.26	0.28
CORR TO COMM	0.44	0.77	0.78	0.41	0.13
CORR TO USD	-0.36	-0.25	-0.16	0.16	0.10
UP BETA	1.57	1.72	1.29	1.29	1.15
DOWN BETA	0.79	1.97	1.33	0.58	1.05
ST TECHNICALS	DOWN TREND	BREAK DOWN	BREAK OUT	UP TREND	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND	UP TREND
RSI	28.5	57.6	57.4	50.2	57.4
UP DAY % (LAST 20)	40%	55%	60%	55%	55%

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 got less tight last week, long treasuries provide minimal “disaster” relief, is the 10 yr poised to hit 3.5% soon?



US BONDS (AGG)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	2.2%	2.4%	2.5%	3.0%	2.2%
CORR TO US STOCKS	-0.05	0.17	-0.07	0.22	-0.20
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	-0.03	0.21	0.50	0.22	0.22
CORR TO USD	-0.16	-0.59	-0.39	0.38	-0.18
UP BETA	0.12	0.17	0.11	-0.01	-0.17
DOWN BETA	-0.04	-0.12	-0.18	-0.01	-0.43
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
RSI	35.8	35.8	46.2	42.9	28.6
UP DAY % (LAST 20)	35%	40%	40%	50%	25%

International Developed Bonds

▶ Outlook:

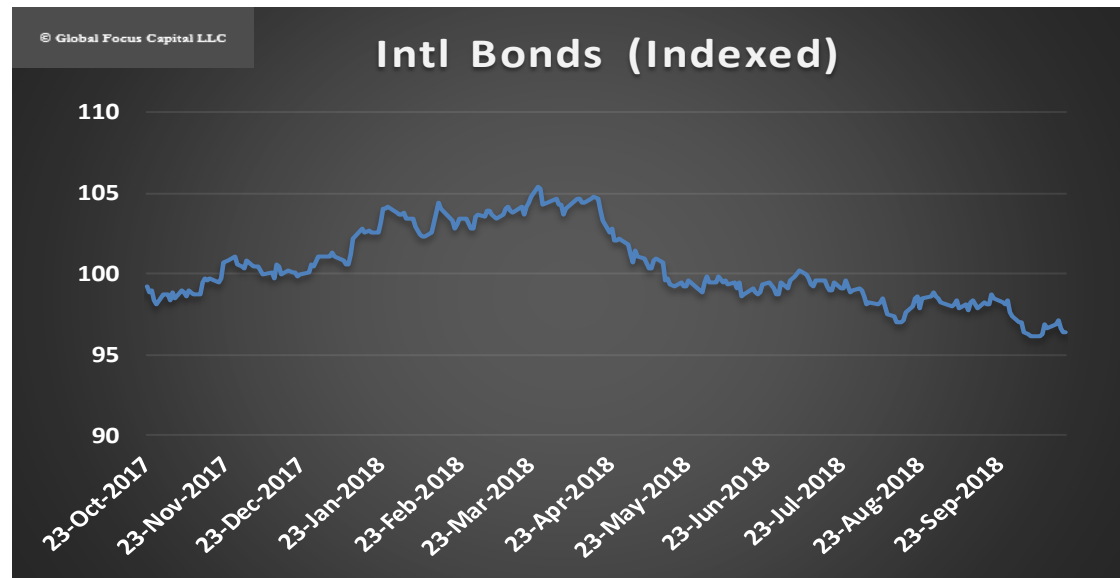
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

▶ 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	5.7%	4.9%	5.5%	6.4%	6.0%
CORR TO US STOCKS	0.25	0.06	0.02	0.39	-0.50
CORR TO US BONDS	0.07	0.29	0.21	0.70	0.55
CORR TO COMM	0.46	0.50	0.40	0.24	0.22
CORR TO USD	-0.06	-0.19	-0.11	0.08	-0.30
UP BETA	0.21	0.29	0.13	0.16	0.01
DOWN BETA	-0.14	-0.04	-0.09	-0.19	-0.28
ST TECHNICALS	DOWN TREND	DOWN TREND	BREAK OUT	DOWN TREND	DETERIORATING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	46.2	14.4	50.1	25.0	50.1
UP DAY % (LAST 20)	35%	30%	50%	35%	50%

International Emerging Bonds

▶ Outlook:

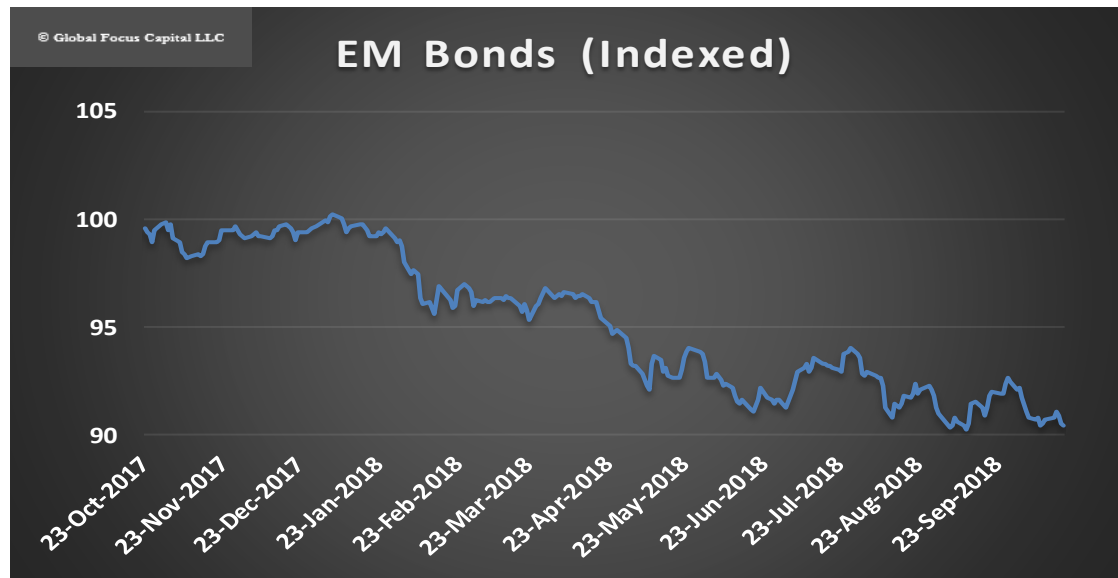
- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

▶ 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	6.6%	5.7%	4.8%	3.8%	4.4%
CORR TO US STOCKS	0.53	0.56	0.16	0.13	0.00
CORR TO US BONDS	0.47	0.33	0.25	0.45	0.00
CORR TO COMM	0.58	0.51	0.14	0.18	0.00
CORR TO USD	0.08	-0.09	-0.15	-0.23	0.00
UP BETA	0.35	0.52	0.56	0.22	0.17
DOWN BETA	0.07	0.46	0.22	0.16	0.15
ST TECHNICALS	DOWN TREND	BREAK DOWN	BREAK OUT	UP TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	BREAK DOWN
RSI	42.9	50.1	57.3	42.9	50.1
UP DAY % (LAST 20)	45%	50%	50%	55%	50%

Commodities

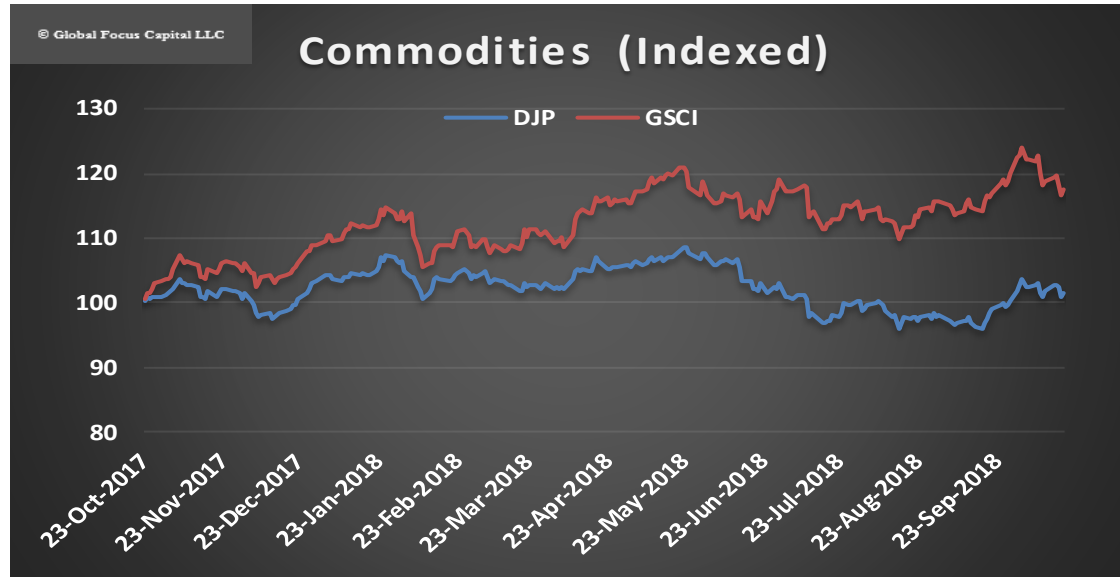
▶ Outlook:

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

▶ Valuation: Neutral

▶ Risk Profile: Increasing

- ▶ **Of Note:** Indices are dominated by oil, expect further volatility due to Saudi Arabia issues and possible sanctions



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	12.4%	13.2%	11.5%	10.9%	10.2%
CORR TO US STOCKS	0.79	0.68	0.53	0.34	-0.05
CORR TO US BONDS	-0.06	0.04	0.29	-0.14	0.18
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.22	-0.24	-0.16	0.37	0.18
UP BETA	0.13	0.47	0.52	0.46	0.24
DOWN BETA	0.44	1.37	0.88	0.27	-0.69
ST TECHNICALS	BREAK DOWN	UP TREND	BREAK OUT	BREAK OUT	BREAK DOWN
IT TECHNICALS	IMPROVING	BREAK OUT	IMPROVING	BREAK DOWN	UP TREND
RSI	50.2	78.3	50.3	35.7	43.0
UP DAY % (LAST 20)	60%	65%	55%	40%	45%

Real Estate

▶ Outlook:

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

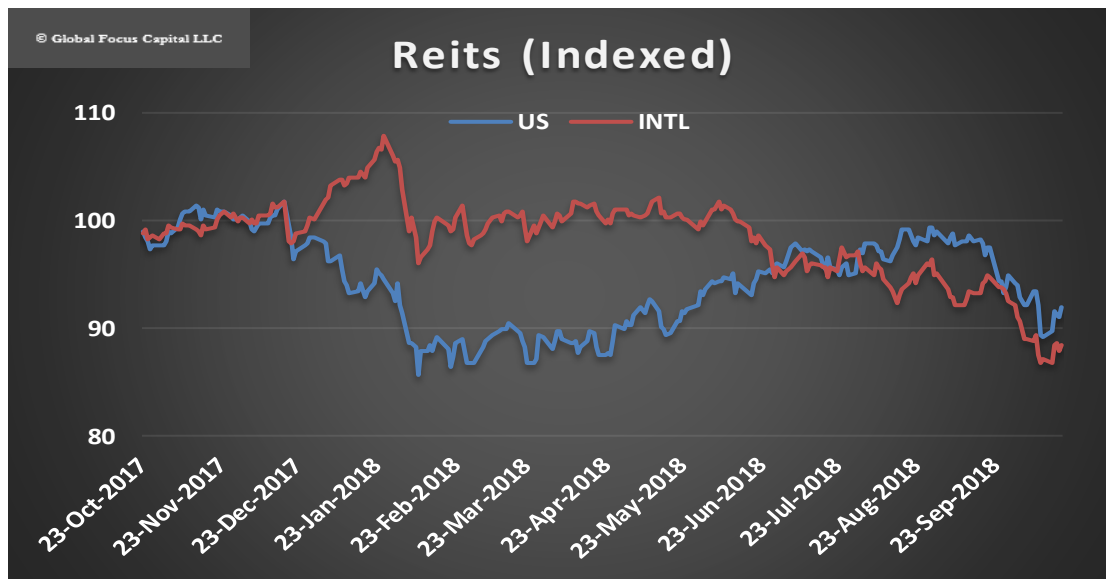
▶ Valuation: Stretched

▶ Growth: Slowing

▶ Income: Average

▶ Risk Profile: Increasing

- ▶ **Of Note:** Big recovery last week, maybe a sigh of relief as interest rates in the US have stabilized for now



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	10.7%	10.5%	11.8%	11.4%	12.1%
CORR TO US STOCKS	0.29	0.45	0.28	0.48	0.52
CORR TO US BONDS	0.30	0.00	0.23	0.22	0.27
CORR TO COMM	0.22	0.13	0.09	0.14	0.25
CORR TO USD	-0.44	0.14	0.11	-0.19	-0.32
UP BETA	0.69	0.38	0.58	0.63	-0.27
DOWN BETA	0.59	-0.19	-0.13	0.39	1.84
ST TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
IT TECHNICALS	BREAK DOWN	BREAK DOWN	UP TREND	UP TREND	DOWN TREND
RSI	35.8	28.7	50.2	35.8	43.1
UP DAY % (LAST 20)	40%	40%	55%	50%	40%

This Coming Week

- ▶ US risky assets keep outperforming YTD but last week was a down week across the board except for REITS
- ▶ The worst performing asset categories are international equities with EM down almost 15% YTD
- ▶ The critical variable to watch for this week is the US 10 Year Note – another spike up and risky assets will be under great stress
- ▶ Our view is that volatility is here to stay
 - ▶ In fact we see current asset class volatility as normal
- ▶ We are also watching out for any strong jump in inflationary expectations
 - ▶ Tariffs are inflationary and will be reflected in higher consumer prices eventually
- ▶ EM equities in particular are taking a huge hit both on the asset side as well as currency – this is turning out to be a lost year for EM investors
 - ▶ We still believe that an allocation is warranted
- ▶ Value dramatically outperformed Growth last week and we are seeing faint signs of industry rotation toward value sectors
 - ▶ The Momentum trade while still ahead YTD is quickly losing strength
- ▶ Earning season in the US is back with Amazon, Microsoft and Google all reporting

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
10/22/2018	All Industry Activity Index (MoM)	Japan	2	0	0	0
10/22/2018	Chicago Fed National Activity Index	United States	2	0	0.18	0
10/24/2018	Coincident Index	Japan	2	0	117.5	0
10/24/2018	Leading Economic Index	Japan	2	0	104.4	0
10/24/2018	Markit PMI Composite	Germany	2	0	55	54.9
10/24/2018	Markit Manufacturing PMI	Germany	2	0	53.7	53.4
10/24/2018	Markit Services PMI	Germany	2	0	55.9	55.5
10/24/2018	10-y Bond Auction	Germany	2	0	0.55	0
10/24/2018	Housing Price Index (MoM)	United States	2	0	0.2	0
10/24/2018	Markit Services PMI	United States	2	0	53.5	54
10/24/2018	Markit PMI Composite	United States	2	0	53.9	0
10/24/2018	New Home Sales (MoM)	United States	2	0	0.629	0.62
10/24/2018	Fed's Beige Book	United States	2	0	0	0
10/24/2018	Foreign investment in Japan stocks	Japan	2	0	52.6	0
10/24/2018	Foreign bond investment	Japan	2	0	1016.9	0
10/25/2018	GfK Consumer Confidence Survey	Germany	2	0	10.6	10.5
10/25/2018	IFO - Business Climate	Germany	2	0	103.7	103.1
10/25/2018	IFO - Current Assessment	Germany	2	0	106.4	106
10/25/2018	IFO - Expectations	Germany	2	0	101	100.3
10/25/2018	Durable Goods Orders ex Transportation	United States	2	0	0.1	0.3
10/25/2018	Durable Goods Orders	United States	2	0	4.5	-0.9
10/25/2018	Pending Home Sales (MoM)	United States	2	0	-1.8	-0.1
10/25/2018	Tokyo CPI ex Fresh Food (YoY)	Japan	3	0	1	0.9
10/25/2018	Tokyo CPI ex Food, Energy (YoY)	Japan	2	0	0.7	0
10/25/2018	Tokyo Consumer Price Index (YoY)	Japan	2	0	1.3	0
10/26/2018	Gross Domestic Product Price Index	United States	2	0	3.3	0
10/26/2018	Gross Domestic Product Annualized	United States	3	0	4.2	3.3
10/26/2018	Personal Consumption Expenditures Prices (C	United States	2	0	2	2
10/26/2018	Core Personal Consumption Expenditures (Qe	United States	3	0	2.1	2
10/26/2018	Baker Hughes US Oil Rig Count	United States	2	0	873	0

Contact & Subscription Information

Eric J. Weigel eweigel@gf-cap.com

[Website: https://gf-cap.com](https://gf-cap.com)

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