



**GLOBAL FOCUS CAPITAL LLC**  
INSIGHT THAT MATTERS

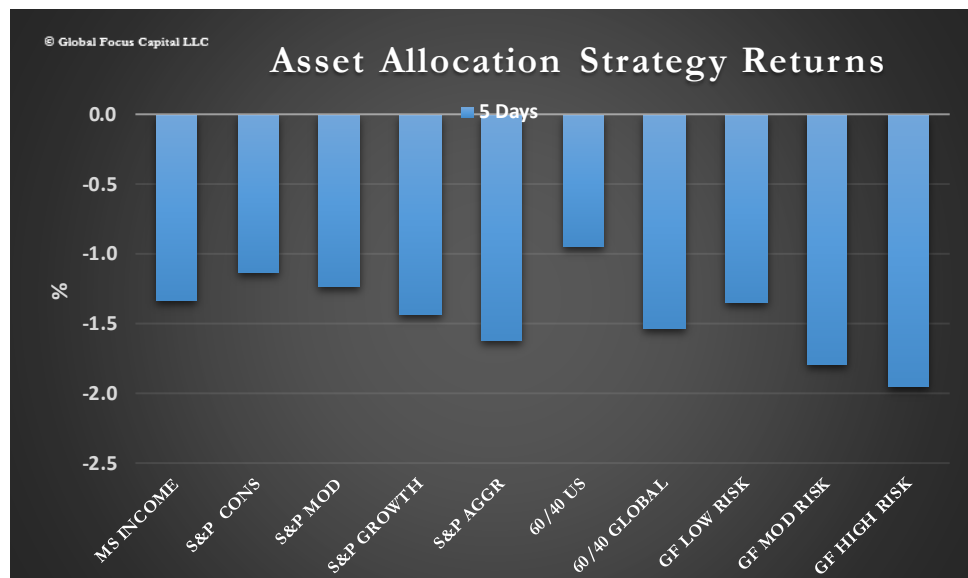
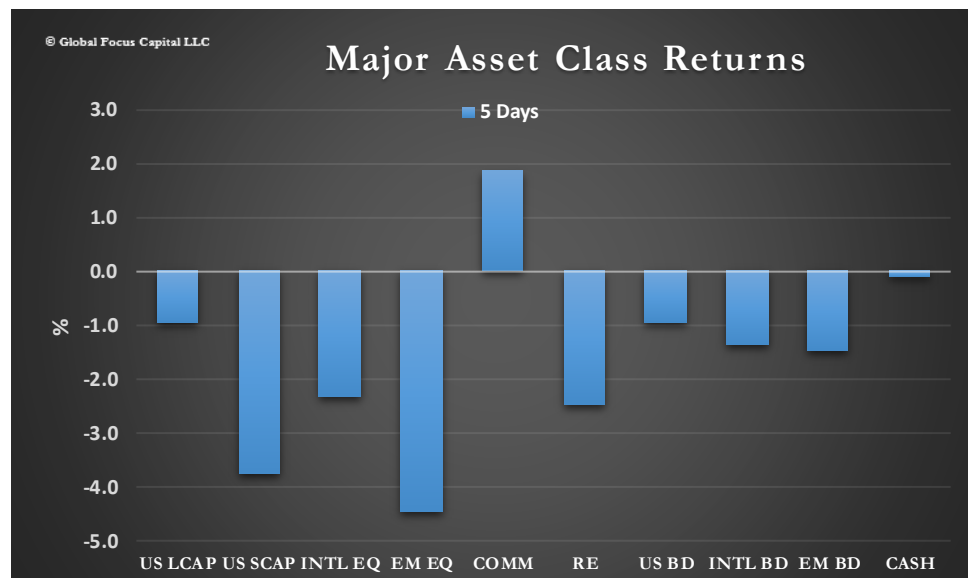
# The Asset Allocation Advisor

Weekly Review – October 7, 2018

Eric J. Weigel

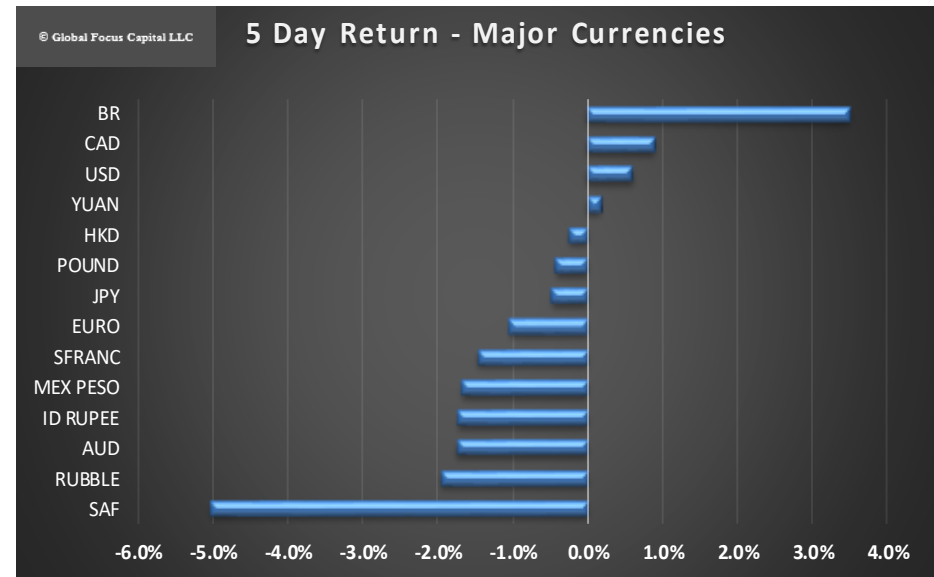
# The Week in Review

- ▶ Risky assets suffered large losses last week with EM stocks taking the biggest beating
- ▶ Fixed income also experienced losses as interest rates globally spiked up
- ▶ Only Commodities as an asset class experienced positive returns
- ▶ Within equities, US large cap lost the least as Value strategies actually showed slight gains
- ▶ 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

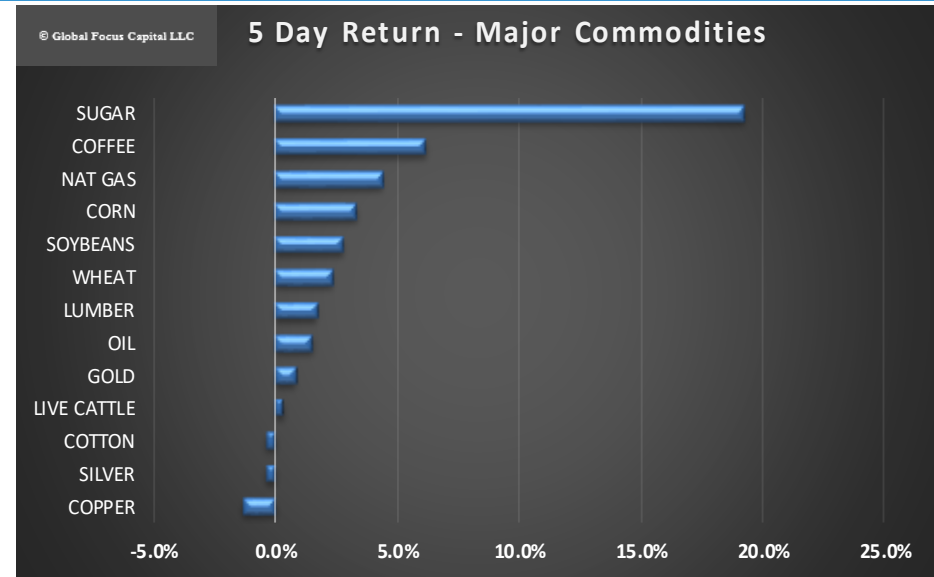
- ▶ The USD regained lost strength last week
- ▶ The Brazilian Real spiked up as pro business President is expected to be elected
- ▶ EM currencies continue getting pounded with the Rand taking the biggest beating as SA enters a recession
- ▶ As central banks normalize their policies expect enhanced volatility as market participants balance interest rate differentials with economic growth dynamics
- ▶ 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	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	DOWN TREND
MEX PESO	BREAK DOWN

# Commodities

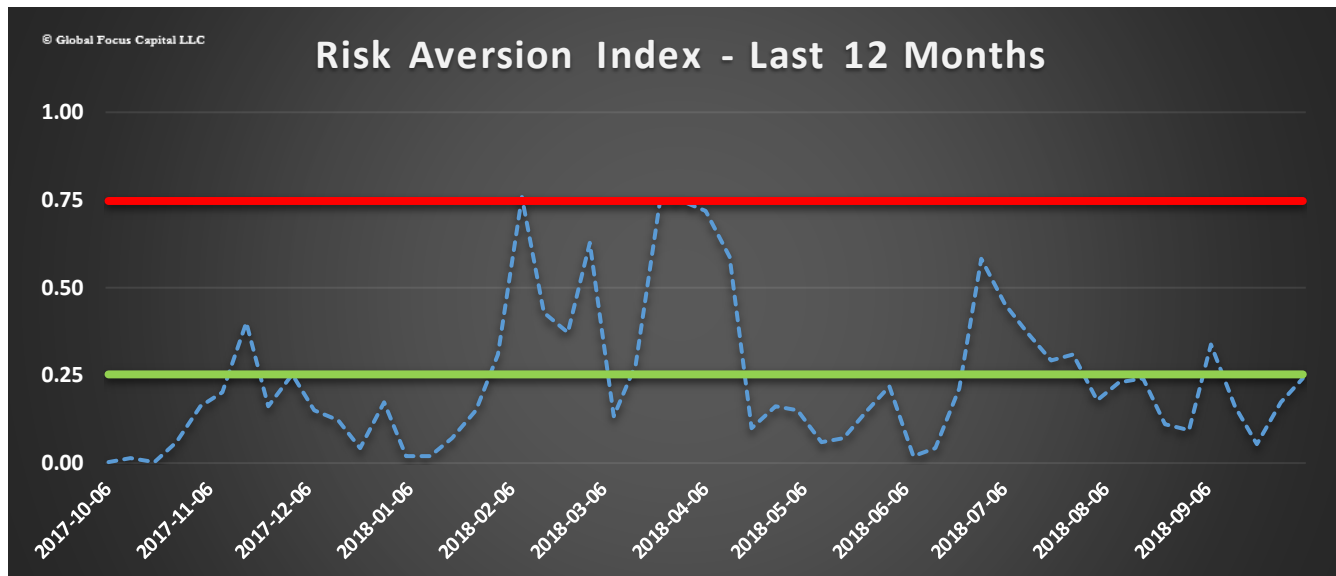
- ▶ Best week this year for commodity prices – potentially a wake up call as investor update their inflationary expectations
- ▶ Sugar and coffee prices were up the most boosted by the appreciation of the Brazilian Real
- ▶ Grain prices recovered from previous week lows but until tariffs with China are not agreed to we should expect to see huge volatility
- ▶ 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 especially in light of higher short-term interest rates



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

# Investor Risk Aversion Environment

- ▶ Fear from the markets seems to be gone even after all the major political upheaval in Washington
- ▶ Investors seem much more focused on global growth and capital market fundamentals rather than political uncertainty
- ▶ We continue in the Exuberant Zone but edged real close to the Normal Zone as of the end of last week



# US Large Cap Equities

## ▶ Outlook:

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

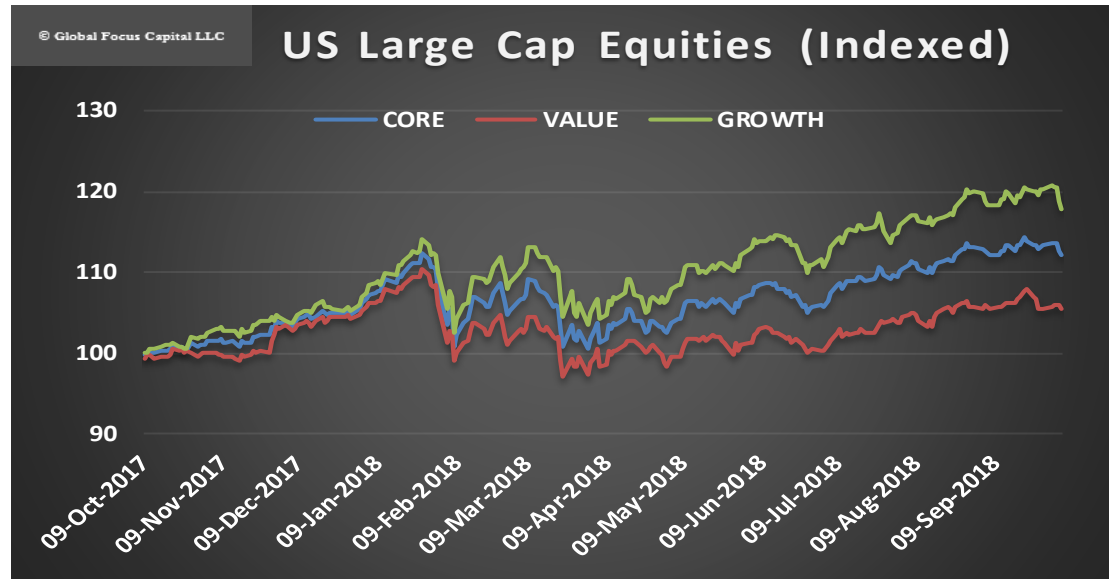
## ▶ Valuation: Stretched

## ▶ Growth: Above Average

## ▶ Income: Minimal

## ▶ Risk Profile: Increasing

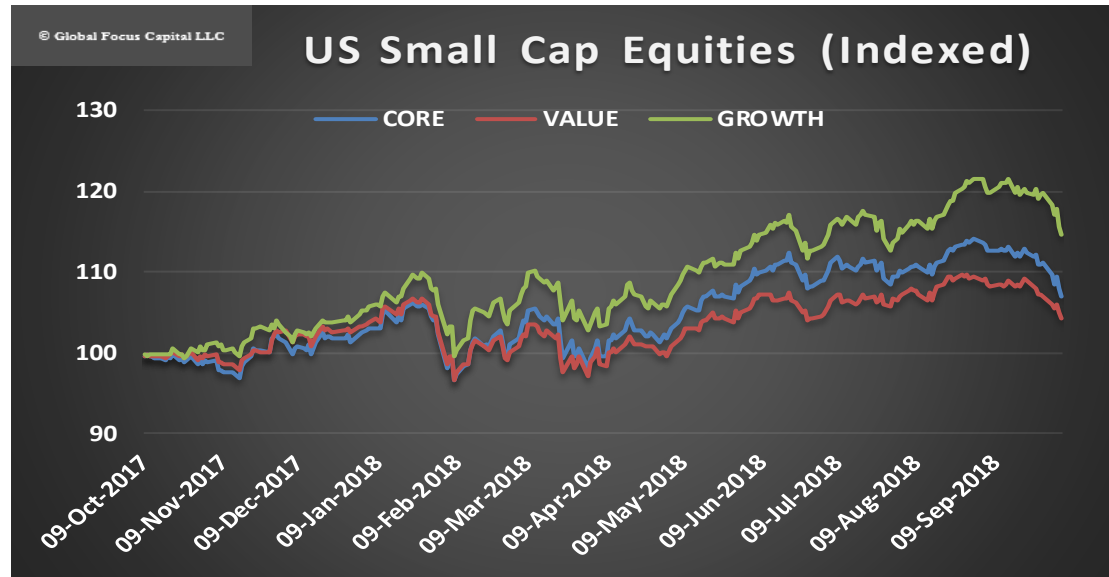
## ▶ Of Note: Value should start catching up to Growth, sector rotation is starting to take hold



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	6.5%	6.6%	7.2%	10.0%	6.4%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.11	-0.02	-0.26	-0.09	-0.12
CORR TO COMM	0.21	0.39	0.83	0.36	-0.04
CORR TO USD	-0.20	-0.14	-0.38	0.08	-0.27
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	BREAK DOWN	UP TREND	DETERIORATING	UP TREND	UP TREND
IT TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	UP TREND
RSI	50.1	57.2	50.1	71.6	71.5
UP DAY % (LAST 20)	60%	65%	50%	60%	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, big reversal last week, growth stocks took large hit



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	11.1%	7.3%	9.2%	12.3%	11.3%
CORR TO US STOCKS	0.61	0.73	0.78	0.82	0.83
CORR TO US BONDS	-0.34	-0.06	-0.08	-0.10	-0.06
CORR TO COMM	-0.05	0.36	0.81	0.07	0.16
CORR TO USD	-0.09	0.17	-0.25	0.06	0.05
UP BETA	0.51	0.72	0.53	0.76	1.24
DOWN BETA	1.46	1.52	1.51	0.71	1.79
ST TECHNICALS	DOWN TREND	DOWN TREND	DETERIORATING	BREAK OUT	UP TREND
IT TECHNICALS	DETERIORATING	UP TREND	UP TREND	UP TREND	UP TREND
RSI	43.2	42.9	57.2	57.2	71.5
UP DAY % (LAST 20)	50%	55%	55%	65%	70%

# International Developed Markets

## ▶ Outlook:

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

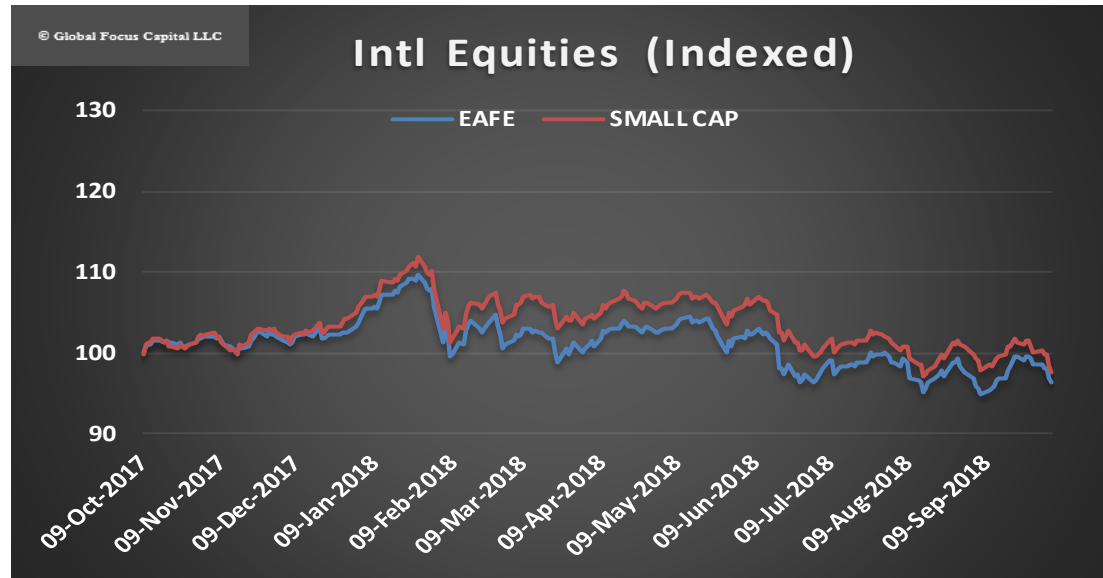
## ▶ Valuation: Neutral

## ▶ 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	10.6%	12.9%	11.2%	15.5%	8.0%
CORR TO US STOCKS	0.84	0.78	0.60	0.75	0.72
CORR TO US BONDS	0.23	-0.26	-0.32	-0.70	0.25
CORR TO COMM	0.71	0.70	0.67	0.33	0.09
CORR TO USD	-0.29	-0.22	-0.05	0.02	-0.05
UP BETA	1.12	0.91	1.01	0.78	0.70
DOWN BETA	1.32	1.09	1.13	0.49	0.98
ST TECHNICALS	BREAK DOWN	BREAK OUT	BREAK DOWN	IMPROVING	UP TREND
IT TECHNICALS	DOWN TREND	IMPROVING	DOWN TREND	DOWN TREND	UP TREND
RSI	50.2	71.7	43.1	64.4	71.3
UP DAY % (LAST 20)	65%	65%	40%	50%	70%



# International Emerging Markets

## ▶ Outlook:

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

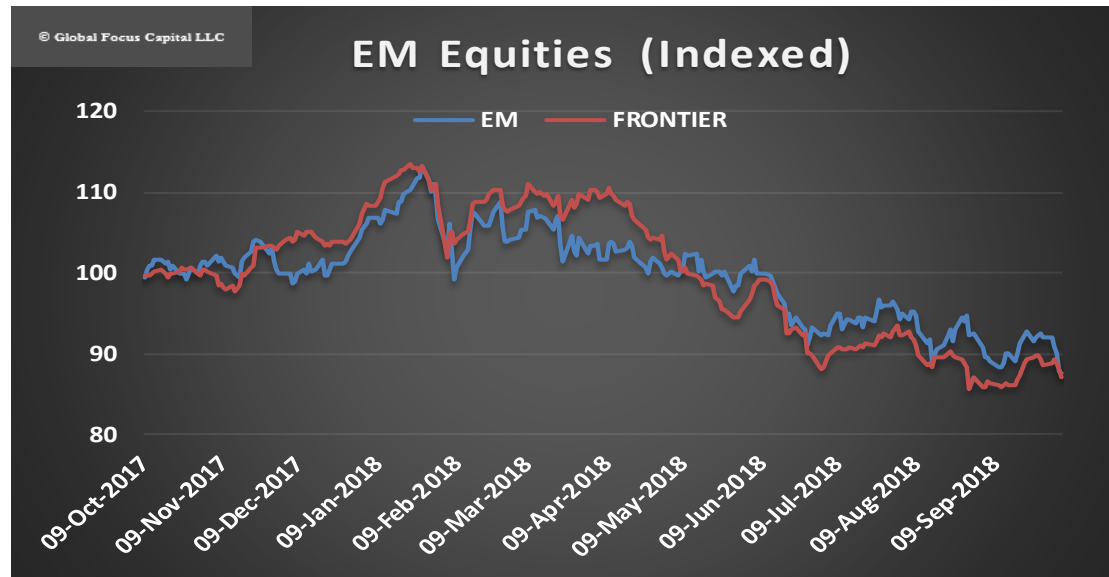
## ▶ Valuation: Inexpensive

## ▶ Growth: Average

## ▶ Income: Neutral

## ▶ Risk Profile: Increasing

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



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	19.3%	21.9%	19.8%	16.3%	14.7%
CORR TO US STOCKS	0.74	0.78	0.63	0.74	0.39
CORR TO US BONDS	0.16	-0.15	-0.19	-0.73	0.40
CORR TO COMM	0.77	0.78	0.70	0.25	0.34
CORR TO USD	-0.25	-0.16	0.06	-0.05	0.02
UP BETA	1.72	1.29	1.45	0.98	1.46
DOWN BETA	1.97	1.33	1.38	0.80	1.33
ST TECHNICALS	BREAK DOWN	BREAK OUT	BREAK DOWN	BREAK OUT	UP TREND
IT TECHNICALS	DOWN TREND	IMPROVING	DOWN TREND	DOWN TREND	UP TREND
RSI	57.6	57.4	57.5	50.2	76.9
UP DAY % (LAST 20)	55%	60%	55%	40%	75%

# US Bonds

## ▶ Outlook:

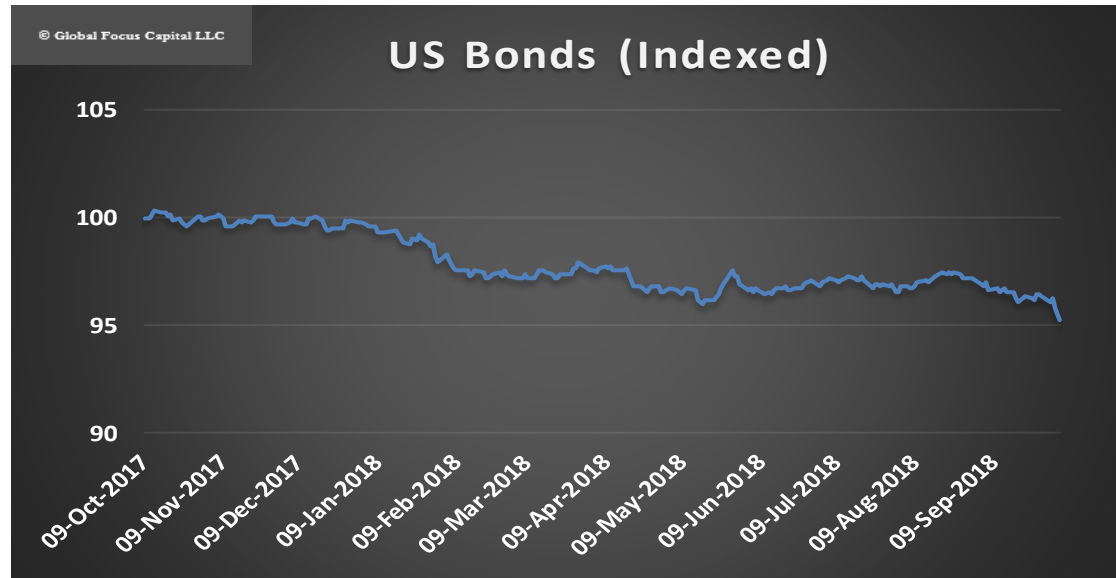
- ▶ Short-Term: Neutral
- ▶ Long-Term: Negative

## ▶ Valuation: Stretched

## ▶ Income: Minimal

## ▶ Risk Profile: Increasing

- ▶ **Of Note:** Tight spread in 10-2 yr notes 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	2.4%	2.5%	2.2%	2.4%	2.7%
CORR TO US STOCKS	0.17	-0.07	-0.09	0.34	-0.20
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.21	0.50	0.20	-0.03	0.20
CORR TO USD	-0.59	-0.39	-0.19	-0.05	-0.14
UP BETA	0.17	0.11	0.10	0.00	-0.05
DOWN BETA	-0.12	-0.18	-0.17	0.01	-0.17
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
RSI	35.8	46.2	35.8	64.3	30.8
UP DAY % (LAST 20)	40%	40%	50%	70%	40%

# International Developed Bonds

## ▶ Outlook:

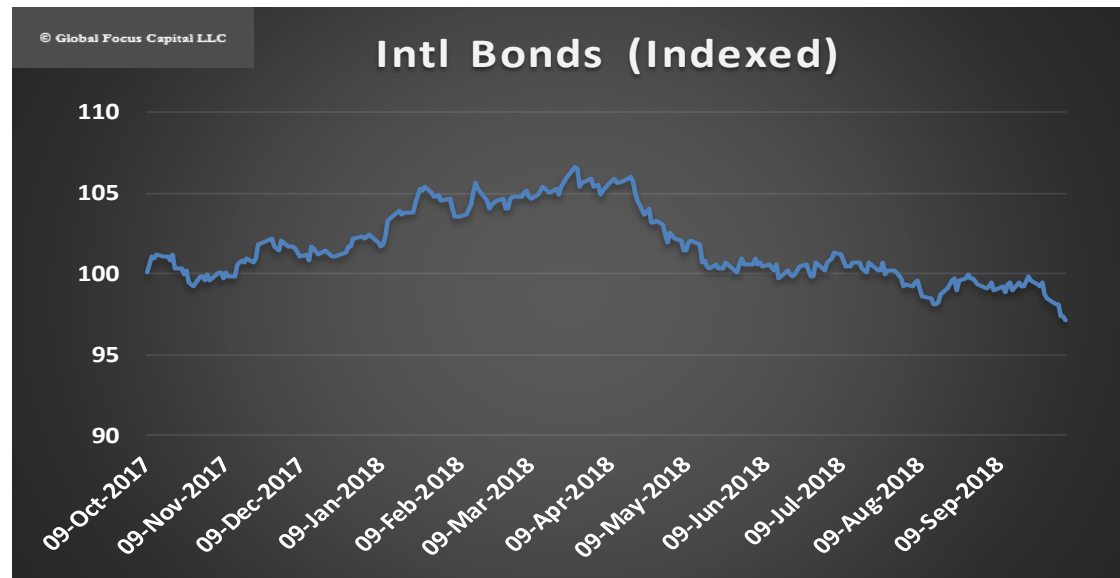
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

## ▶ 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	4.9%	5.5%	6.3%	6.6%	6.7%
CORR TO US STOCKS	0.06	0.02	-0.06	0.22	-0.62
CORR TO US BONDS	0.29	0.21	0.01	0.54	0.57
CORR TO COMM	0.50	0.40	0.29	0.28	0.32
CORR TO USD	-0.19	-0.11	-0.17	0.02	-0.11
UP BETA	0.29	0.13	0.14	0.18	0.00
DOWN BETA	-0.04	-0.09	-0.05	-0.13	-0.03
ST TECHNICALS	DOWN TREND	BREAK OUT	BREAK DOWN	DETERIORATING	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	14.4	50.1	57.2	43.0	57.2
UP DAY % (LAST 20)	30%	50%	55%	45%	55%

# International Emerging Bonds

## ▶ Outlook:

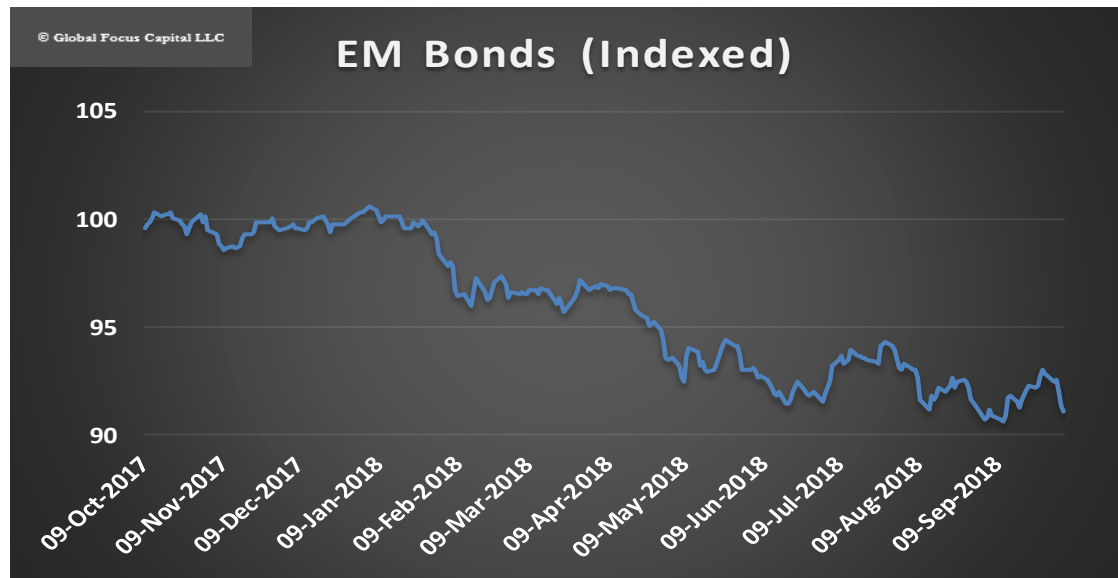
- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

## ▶ 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	5.7%	4.8%	5.3%	4.6%	3.7%
CORR TO US STOCKS	0.56	0.16	-0.07	0.52	0.00
CORR TO US BONDS	0.33	0.25	0.34	0.43	0.00
CORR TO COMM	0.51	0.14	0.18	0.24	0.00
CORR TO USD	-0.09	-0.15	-0.03	-0.46	0.00
UP BETA	0.52	0.56	0.67	0.15	0.25
DOWN BETA	0.46	0.22	0.12	0.17	0.18
ST TECHNICALS	BREAK DOWN	BREAK OUT	DOWN TREND	UP TREND	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DETERIORATING
RSI	50.1	57.3	42.9	64.4	57.2
UP DAY % (LAST 20)	50%	50%	45%	60%	60%

# Commodities

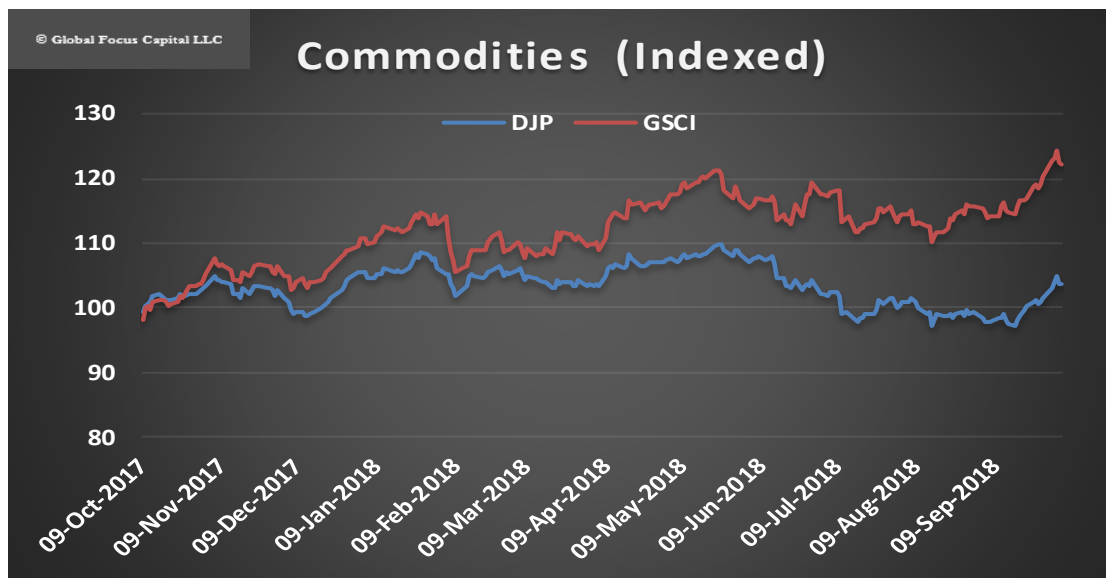
## ▶ Outlook:

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

## ▶ Valuation: Neutral

## ▶ Risk Profile: Increasing

- ▶ **Of Note:** Best week for commodities in a long time, maybe investors are now fearing inflation?



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	13.2%	11.5%	15.3%	8.0%	12.1%
CORR TO US STOCKS	0.68	0.53	0.45	0.54	-0.09
CORR TO US BONDS	0.04	0.29	0.29	-0.30	0.30
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.24	-0.16	-0.33	0.30	-0.07
UP BETA	0.47	0.52	0.79	0.12	-0.04
DOWN BETA	1.37	0.88	1.08	0.18	-0.77
ST TECHNICALS	UP TREND	BREAK OUT	DOWN TREND	DOWN TREND	UP TREND
IT TECHNICALS	BREAK OUT	IMPROVING	DOWN TREND	BREAK DOWN	UP TREND
RSI	78.3	50.3	50.2	50.2	53.9
UP DAY % (LAST 20)	65%	55%	50%	35%	65%

# Real Estate

## ▶ Outlook:

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

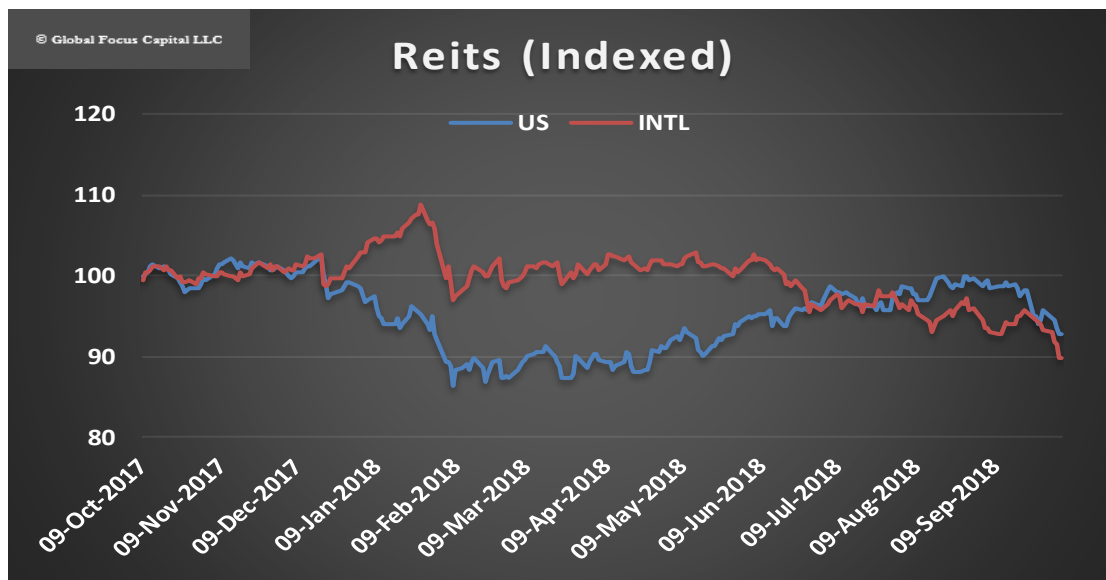
## ▶ Valuation: Stretched

## ▶ Growth: Slowing

## ▶ Income: Average

## ▶ Risk Profile: Increasing

- ▶ **Of Note:** Big recovery in the last few months but last week took a bit hit, correlation to rates increasing again



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	10.5%	11.8%	10.6%	11.9%	7.6%
CORR TO US STOCKS	0.45	0.28	0.25	0.63	0.46
CORR TO US BONDS	0.00	0.23	0.47	0.27	-0.26
CORR TO COMM	0.13	0.09	0.22	0.14	0.12
CORR TO USD	0.14	0.11	-0.29	-0.15	-0.33
UP BETA	0.38	0.58	0.12	0.49	0.14
DOWN BETA	-0.19	-0.13	-0.27	0.46	1.70
ST TECHNICALS	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND	DOWN TREND
IT TECHNICALS	BREAK DOWN	UP TREND	UP TREND	BREAK OUT	DOWN TREND
RSI	28.7	50.2	50.2	64.4	42.9
UP DAY % (LAST 20)	40%	55%	55%	60%	50%

# This Coming Week

- ▶ Risky assets keep outperforming YTD but last week was a down week across the board except for commodities
- ▶ 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 markets will calm down and that risky assets will recover this week
- ▶ We are also watching out for any strong jump in inflationary expectations
  - ▶ An important economic number to watch this week is US CPI on Thursday
- ▶ 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
- ▶ 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
- ▶ What will make investors price risk more in line with history?
  - ▶ A growth scare in the US, maybe? A real inflation scare?
- ▶ Biggest issue for investors is lack of a reasonable hedge to equity risk

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
10/8/2018	Caixin China Services PMI	China	2	0	51.5	51.5
10/8/2018	Industrial Production n.s.a. w.d.a. (YoY)	Germany	2	0	1.1	0
10/8/2018	BRC Like-For-Like Retail Sales (YoY)	United Kingdom	2	0	0.2	0
10/9/2018	Trade Balance s.a.	Germany	2	0	15.8	19
10/10/2018	Manufacturing Production (YoY)	United Kingdom	2	0	1.1	1.5
10/10/2018	Industrial Production (MoM)	United Kingdom	2	0	0.1	0.1
10/10/2018	Manufacturing Production (MoM)	United Kingdom	2	0	-0.2	0.2
10/10/2018	Gross Domestic Product (MoM)	United Kingdom	3	0	0.3	0.2
10/10/2018	10-y Bond Auction	Germany	2	0	0.49	0
10/10/2018	Producer Price Index ex Food & Energy (YoY)	United States	2	0	2.3	2.4
10/10/2018	FOMC Member Williams speech	United States	2	0	0	0
10/10/2018	FOMC Member Williams speech	United States	2	0	0	0
10/10/2018	FOMC Member Bostic speech	United States	2	0	0	0
10/10/2018	Foreign investment in Japan stocks	Japan	2	0	835.7	0
10/10/2018	Foreign bond investment	Japan	2	0	379.9	0
10/11/2018	BOE Credit Conditions Survey	United Kingdom	2	0	0	0
10/11/2018	Consumer Price Index Ex Food & Energy (MoM)	United States	2	0	0.1	0.2
10/11/2018	Consumer Price Index Ex Food & Energy (YoY)	United States	3	0	2.2	2.3
10/11/2018	Consumer Price Index (YoY)	United States	2	0	2.7	2.8
10/11/2018	Consumer Price Index (MoM)	United States	2	0	0.2	0.2
10/11/2018	Consumer Price Index Core s.a	United States	2	0	258.141	258.564
10/12/2018	Imports (YoY)	China	2	0	20	15.3
10/12/2018	Trade Balance CNY	China	2	0	179.75	192.276
10/12/2018	Exports (YoY)	China	2	0	9.8	9.3
10/12/2018	Exports (YoY) CNY	China	2	0	7.9	10.4
10/12/2018	Imports (YoY) CNY	China	2	0	18.8	2.6
10/12/2018	Trade Balance USD	China	2	0	27.91	19.4
10/12/2018	FDI - Foreign Direct Investment (YTD) (YoY)	China	2	0	2.3	0
10/12/2018	Harmonized Index of Consumer Prices (MoM)	Germany	2	0	0.4	0.4
10/12/2018	Harmonized Index of Consumer Prices (YoY)	Germany	2	0	2.2	2.2
10/12/2018	Consumer Price Index (MoM)	Germany	2	0	0.4	0.4
10/12/2018	Consumer Price Index (YoY)	Germany	2	0	2.3	2.3
10/12/2018	Michigan Consumer Sentiment Index	United States	2	0	100.1	98.5
10/12/2018	Baker Hughes US Oil Rig Count	United States	2	0	861	0
10/12/2018	FOMC Member Bostic speech	United States	2	0	0	0
10/12/2018	Monthly Budget Statement	United States	2	0	-214	0

# Contact & Subscription Information

Eric J. Weigel [eweigel@gf-cap.com](mailto:eweigel@gf-cap.com)

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

**Publications - [Sign Up Here](#)**

Weekly Asset Allocation Review - Free

Weekly Equity Themes Review - Free

The Equity Observer (Monthly) – Subscription Required

The Asset Allocation Advisor (Monthly) – Subscription Required

**Disclaimer: NOTHING HEREIN SHALL BE CONSTRUED AS INVESTMENT ADVICE, A RECOMMENDATION OR SOLICITATION TO BUY OR SELL ANY SECURITY.**

**PAST PERFORMANCE DOES NOT PREDICT OR GUARANTEE FUTURE SIMILAR RESULTS.**

**SEEK THE ADVICE OF AN INVESTMENT MANAGER, LAWYER AND ACCOUNTANT BEFORE YOU INVEST.**

**DON'T RELY ON ANYTHING HEREIN. DO YOUR OWN HOMEWORK.**

**THIS IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSIDER THE INVESTMENT NEEDS OR SUITABILITY OF ANY INDIVIDUAL.**

**THERE IS NO PROMISE TO CORRECT ANY ERRORS OR OMISSIONS OR NOTIFY THE READER OF ANY SUCH ERRORS**