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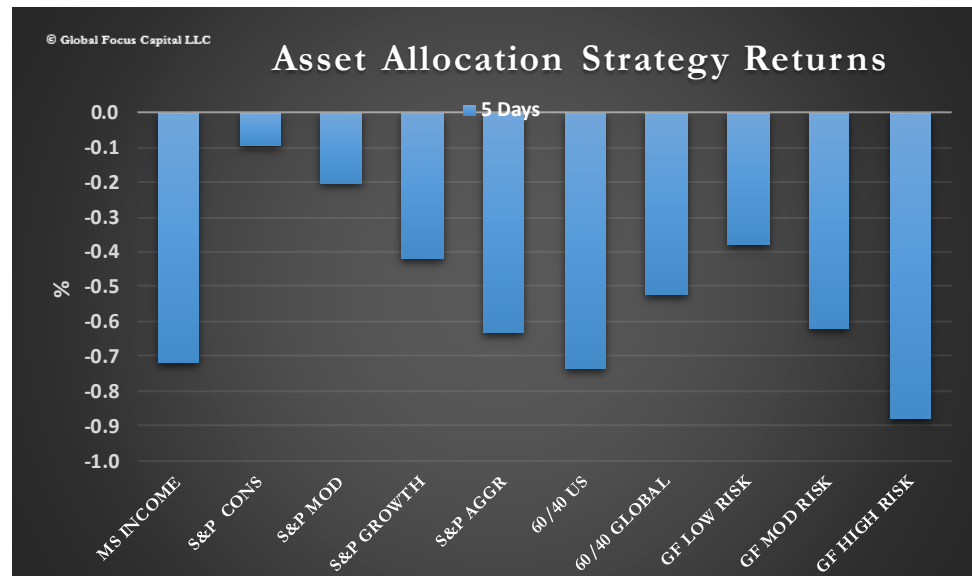
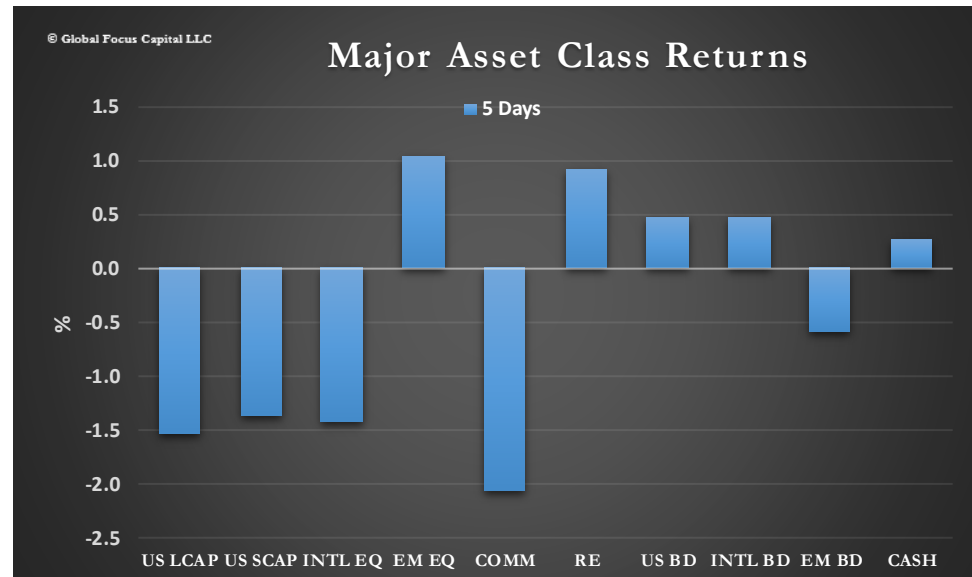
# The Asset Allocation Advisor

Weekly Review – November 18, 2018

Eric J. Weigel

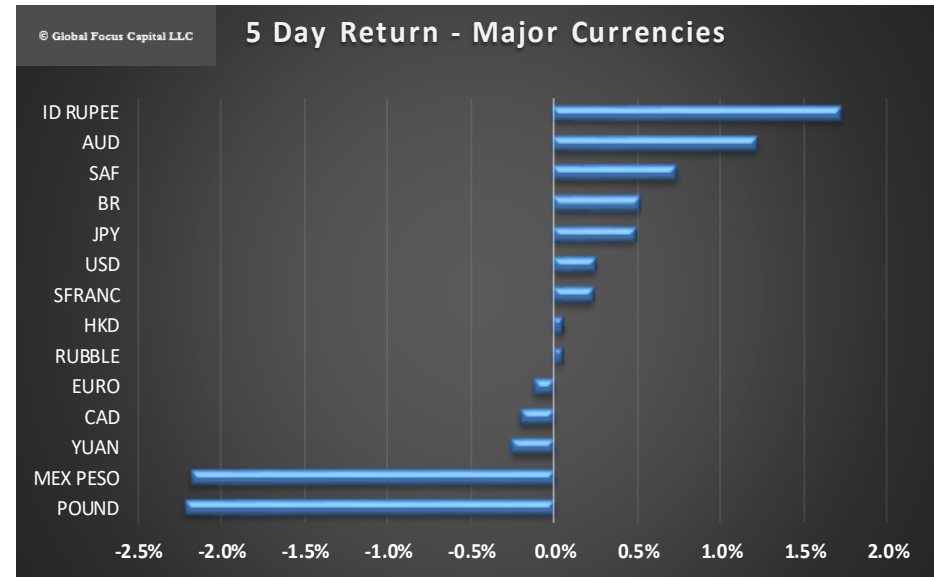
# The Week in Review

- ▶ Yet another tough week for risky assets with 2 exceptions – Emerging Mkt equities and REITS
- ▶ The outperformance of EM equities was driven by a bounce back in the Chinese market (up 2.8% last week)
- ▶ Conservative (bond heavy) multi-asset class strategies outperformed riskier (heavier equity) allocations
- ▶ YTD lower risk asset allocation strategies have also outperformed especially if the allocations involved international equities
- ▶ Commodities remained volatile and subject to the direction of oil prices – the trend is increasingly negative
- ▶ Within equities, US Midcaps outperformed last week with Value stocks trouncing Growth stocks by 1.1% over the last 5 days
- ▶ A 60/40 mix of purely US assets under-performed last week a global version but remains vastly ahead YTD



# Currencies

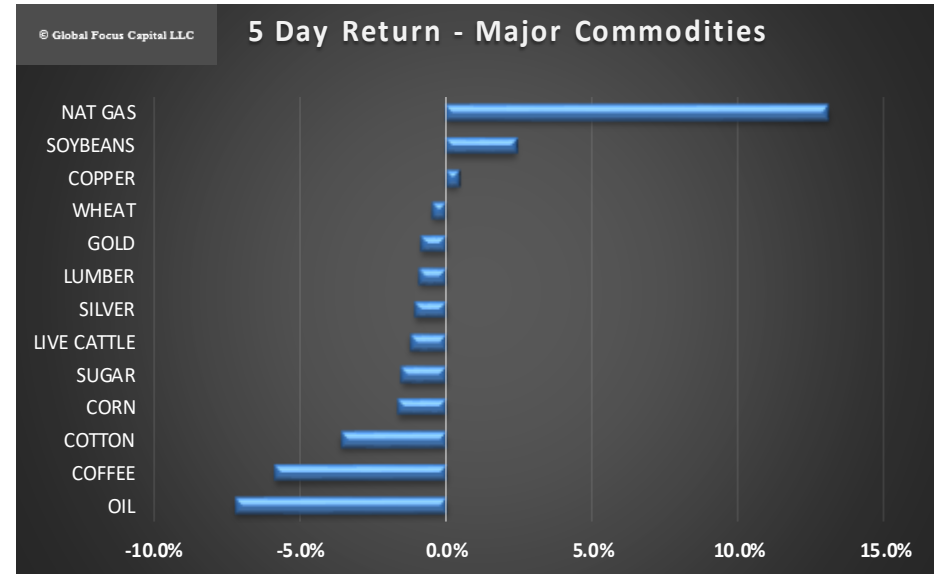
- ▶ The USD appreciated slightly last week and remains in a significant Up Trend
- ▶ The South African Rand continues recovering from oversold conditions
- ▶ The British Pound got pounded due to major uncertainty regarding whether BREXIT will pass Parliament
- ▶ Theresa May can't seem to win even when she resolves major uncertainties (Irish border this week, deal with EU)
- ▶ The Mexican Peso continues its depreciation versus the USD and is firmly in a Down Trend Stage policy
- ▶ In general, FX volatility has increased substantially in the last couple of months



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

# Commodities

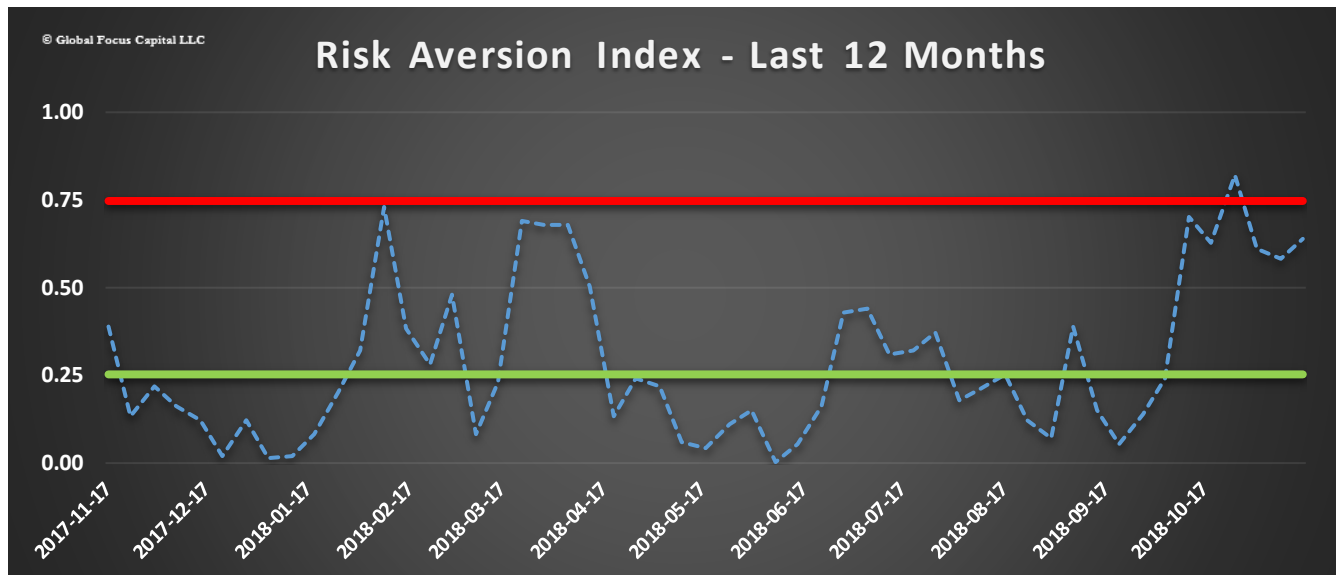
- ▶ Commodity indices had a bad week due to the continued down trend in oil prices
- ▶ Oil prices dropped 7% last week and are down over 18% over the last 60 days
- ▶ On the flipside, grain prices have been recovering since the summer with soybeans again up last week
- ▶ Lumber prices continue being extremely volatile and remain in a Down Trend
- ▶ 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	BREAK OUT
COFFEE	IMPROVING
LUMBER	DOWN TREND
SUGAR	UP TREND
COTTON	DOWN TREND
NAT GAS	UP TREND
OIL	BREAK DOWN
COPPER	IMPROVING
SILVER	DOWN TREND
GOLD	IMPROVING

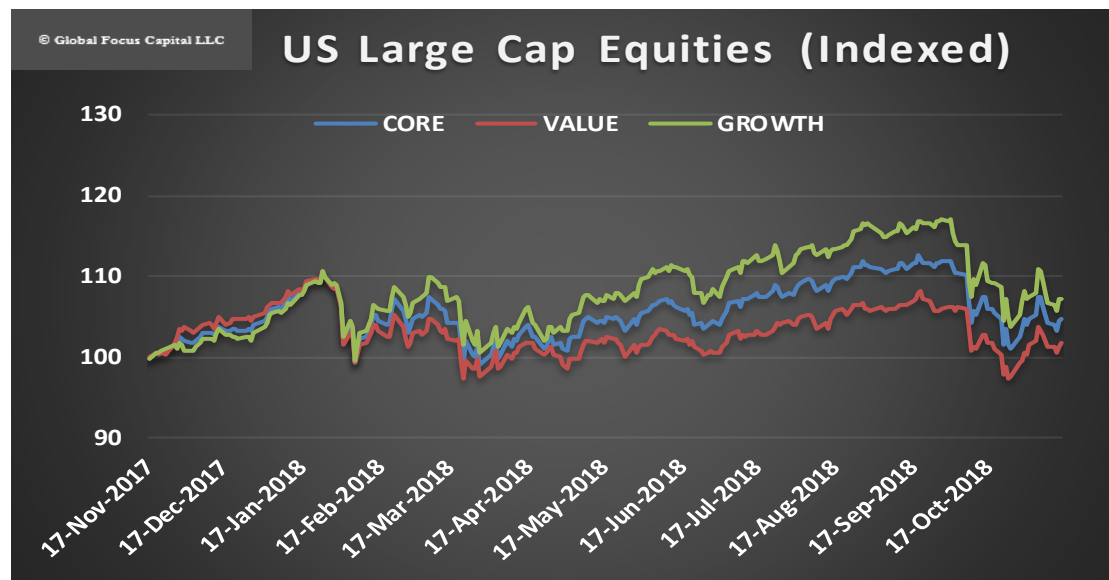
# Investor Risk Aversion Environment

- ▶ 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

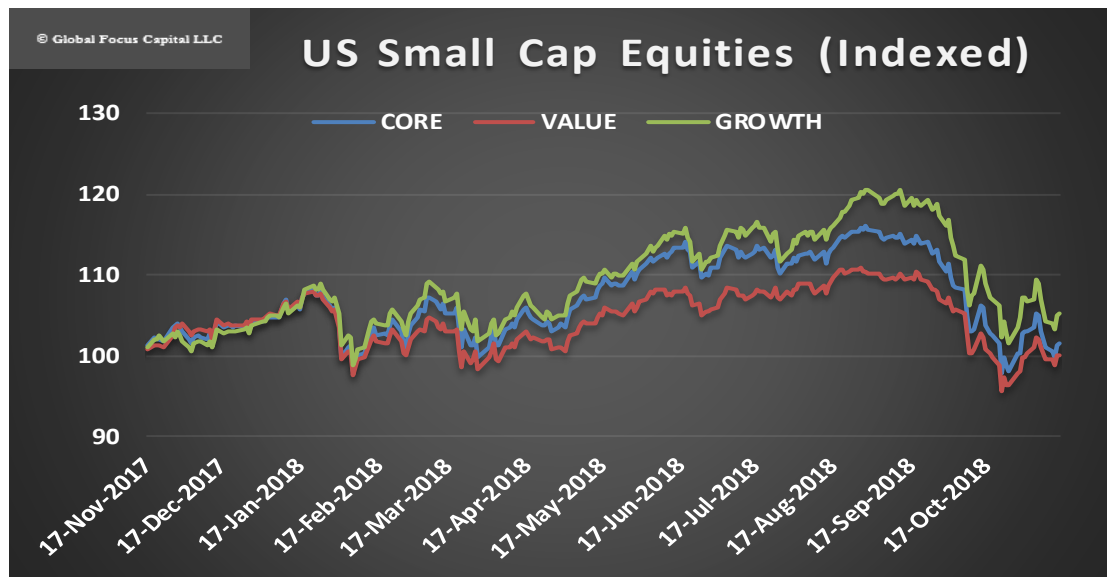
- ▶ **Outlook:**
  - ▶ Short-Term: Neutral
  - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Above Average, could be at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value is catching up to Growth, sector rotation is starting to take hold



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	20.3%	23.6%	17.5%	7.3%	27.5%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.47	-0.34	-0.07	-0.04	-0.08
CORR TO COMM	0.10	0.34	0.54	0.73	0.55
CORR TO USD	-0.02	-0.02	-0.07	-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	DETERIORATING	IMPROVING	DOWN TREND	UP TREND	UP TREND
IT TECHNICALS	BREAK DOWN	BREAK DOWN	BREAK DOWN	UP TREND	UP TREND
RSI	57.1	43.1	30.8	50.1	64.3
UP DAY % (LAST 20)	45%	35%	35%	50%	60%

# US Small Cap Equities

- ▶ **Outlook:**
  - ▶ Short-Term: Positive
  - ▶ Long-Term: Positive
- ▶ **Valuation:** Neutral
- ▶ **Growth:** Above Average but at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Expect a continued 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	24.1%	26.6%	18.9%	12.2%	24.2%
CORR TO US STOCKS	0.92	0.91	0.84	0.77	0.94
CORR TO US BONDS	-0.57	-0.34	-0.07	-0.24	-0.22
CORR TO COMM	0.21	0.33	0.42	0.35	0.59
CORR TO USD	-0.17	-0.01	0.00	0.27	0.14
UP BETA	1.05	1.09	0.87	0.74	0.74
DOWN BETA	0.94	0.95	0.90	1.12	0.82
ST TECHNICALS	DETERIORATING	BREAK OUT	DOWN TREND	UP TREND	UP TREND
IT TECHNICALS	BREAK DOWN	BREAK DOWN	BREAK DOWN	UP TREND	UP TREND
RSI	57.2	43.0	28.5	64.4	64.5
UP DAY % (LAST 20)	45%	40%	35%	55%	65%

# International Developed Markets

## ► Outlook:

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

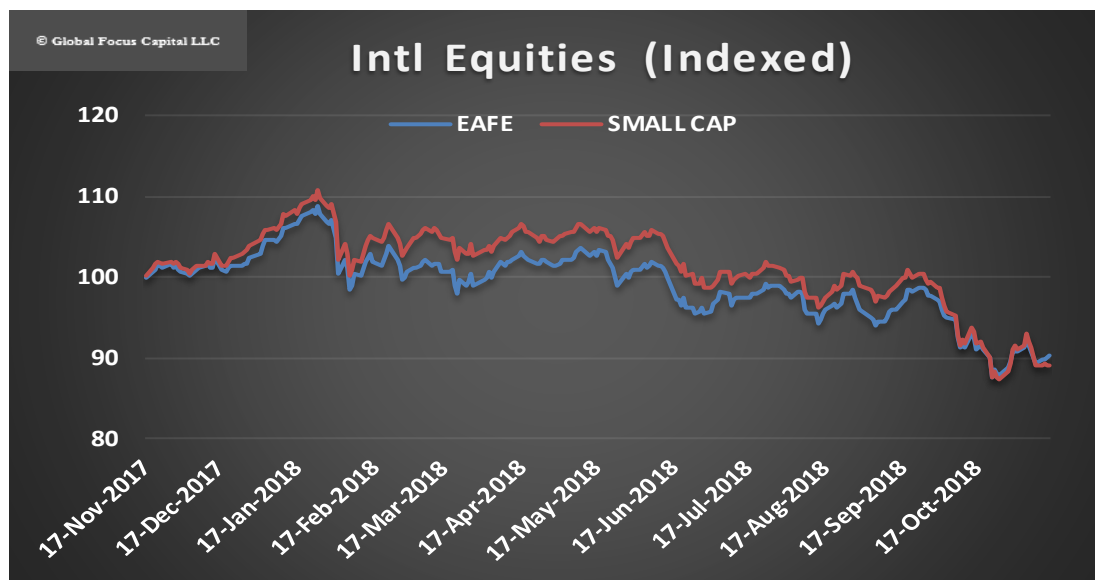
## ► Valuation: Neutral

## ► Growth: Below Average

## ► Income: Superior

## ► Risk Profile: Increasing

- **Of Note:** Int'l assets losing ground to US equities despite superior fundamentals, slowing growth in Europe is a concern



INTL DEV EQ (EFA)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	16.5%	12.3%	10.0%	9.3%	22.6%
CORR TO US STOCKS	0.92	0.82	0.64	0.68	0.96
CORR TO US BONDS	-0.24	-0.04	0.25	0.23	-0.29
CORR TO COMM	0.56	0.44	0.42	0.78	0.62
CORR TO USD	-0.27	-0.58	-0.46	-0.35	-0.14
UP BETA	0.77	0.83	0.84	0.96	0.75
DOWN BETA	0.72	0.71	0.67	1.14	0.86
ST TECHNICALS	DETERIORATING	IMPROVING	DOWN TREND	IMPROVING	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
RSI	76.9	50.2	21.1	42.8	57.4
UP DAY % (LAST 20)	55%	40%	30%	45%	55%

# International Emerging Markets

## ► Outlook:

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

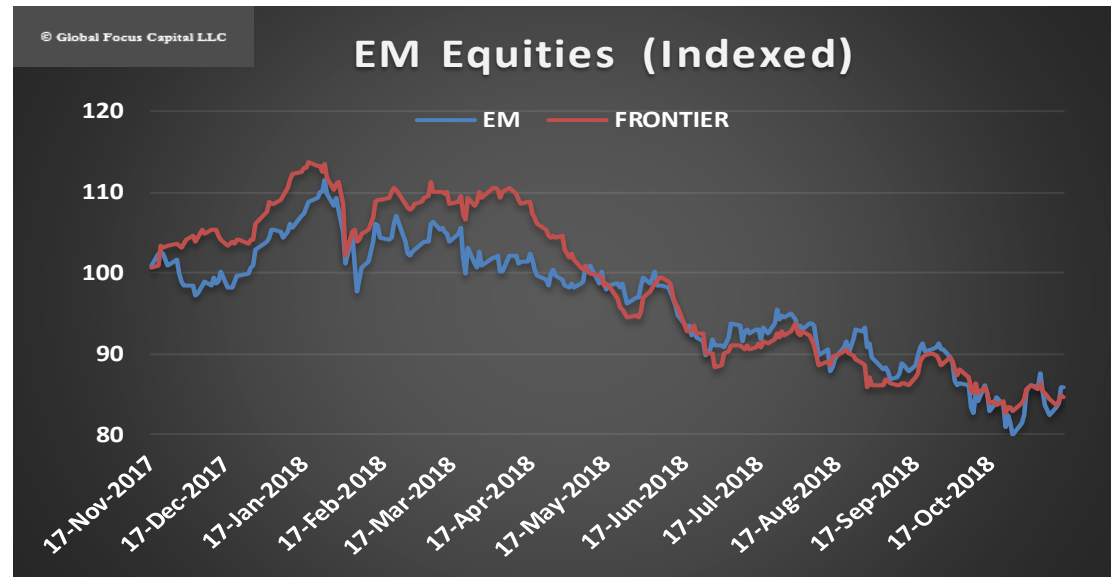
## ► Valuation: Inexpensive

## ► Growth: Average

## ► Income: Neutral

## ► Risk Profile: Increasing

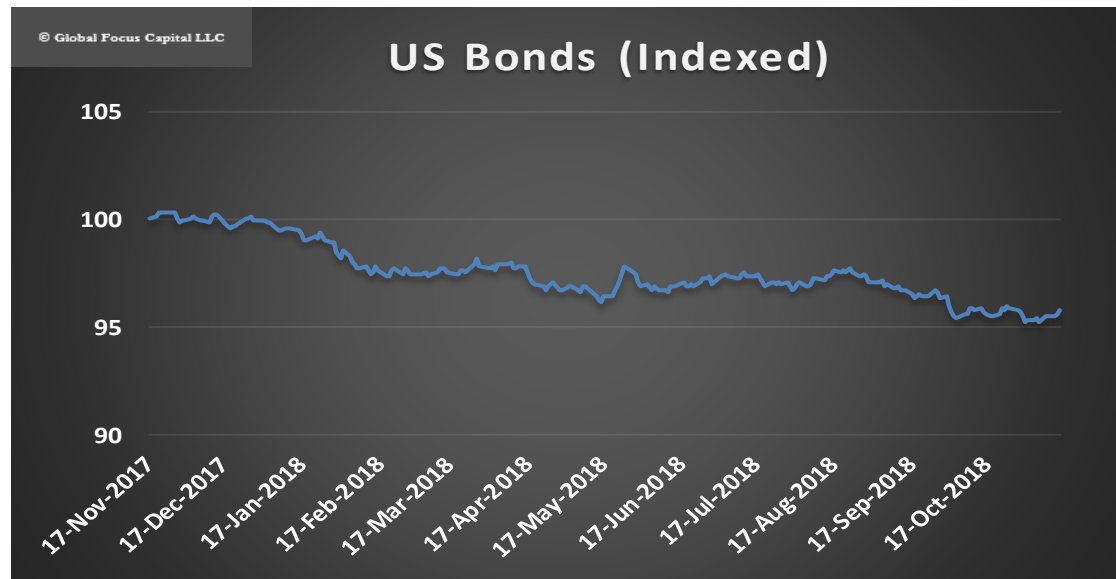
- **Of Note:** trade war fears, currency depreciation, Asia recovered nicely last week and LATAM seems to have stabilized



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	27.1%	20.9%	14.6%	17.7%	29.7%
CORR TO US STOCKS	0.84	0.77	0.59	0.61	0.89
CORR TO US BONDS	-0.01	0.13	0.18	0.19	-0.02
CORR TO COMM	0.48	0.42	0.44	0.75	0.64
CORR TO USD	-0.51	-0.67	-0.60	-0.33	-0.11
UP BETA	1.37	1.49	1.57	1.31	1.29
DOWN BETA	0.78	0.82	0.79	1.08	0.88
ST TECHNICALS	UP TREND	BREAK OUT	DOWN TREND	IMPROVING	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
RSI	71.5	57.6	28.5	49.8	57.3
UP DAY % (LAST 20)	60%	50%	40%	50%	55%

# US Bonds

- ▶ **Outlook:**
  - ▶ Short-Term: Neutral
  - ▶ Long-Term: Negative
- ▶ **Valuation:** Stretched
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Tight spread in 10-2 year notes got less tight last week, long treasuries provide minimal “disaster” relief, lower inflationary expectations might keep rates below 3.5%



US BONDS (AGG)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	2.3%	2.2%	2.2%	3.6%	2.3%
CORR TO US STOCKS	0.01	-0.27	-0.05	-0.69	-0.27
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.33	-0.16	-0.03	-0.26	0.17
CORR TO USD	-0.04	0.15	0.28	-0.09	-0.17
UP BETA	0.06	0.05	0.12	-0.10	-0.10
DOWN BETA	-0.08	-0.06	-0.04	-0.01	-0.20
ST TECHNICALS	BREAK OUT	BREAK DOWN	DOWN TREND	UP TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
RSI	64.3	28.6	35.8	69.2	50.0
UP DAY % (LAST 20)	60%	35%	35%	65%	45%

# International Developed Bonds

## ► Outlook:

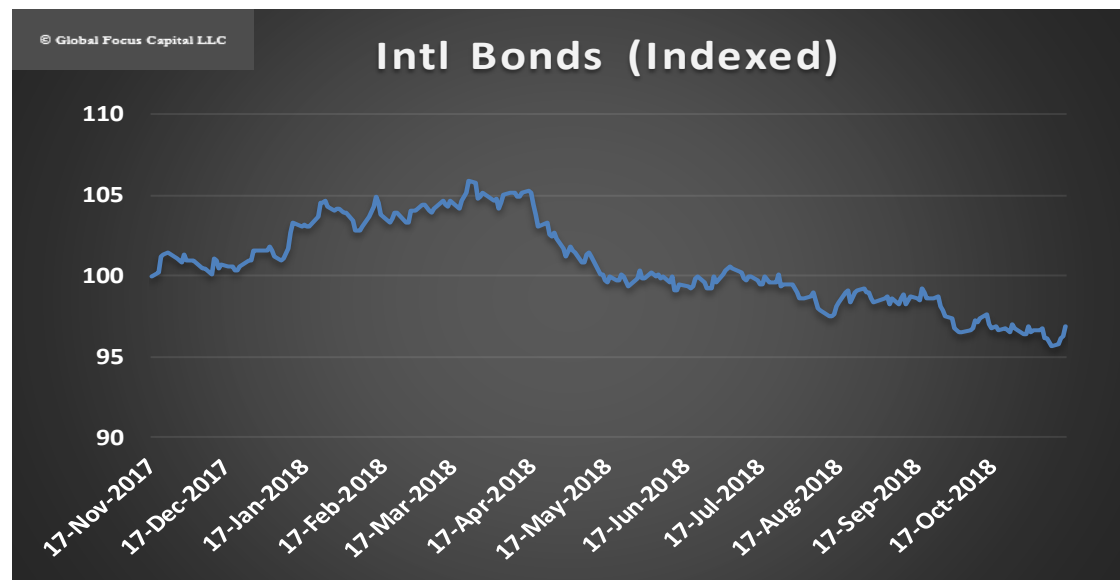
- Short-Term: Negative
- Long-Term: Negative

## ► 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	5.9%	5.8%	5.7%	6.0%	5.4%
CORR TO US STOCKS	0.12	0.36	0.25	-0.02	-0.27
CORR TO US BONDS	0.57	-0.02	0.07	-0.24	0.53
CORR TO COMM	0.34	0.29	0.46	0.34	0.44
CORR TO USD	-0.54	-0.90	-0.86	0.37	-0.15
UP BETA	0.09	0.08	0.21	0.04	0.08
DOWN BETA	-0.07	-0.10	-0.14	-0.14	-0.06
ST TECHNICALS	BREAK OUT	DOWN TREND	DOWN TREND	IMPROVING	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	58.4	38.5	46.2	57.2	64.3
UP DAY % (LAST 20)	45%	45%	35%	55%	55%

# International Emerging Bonds

## ► Outlook:

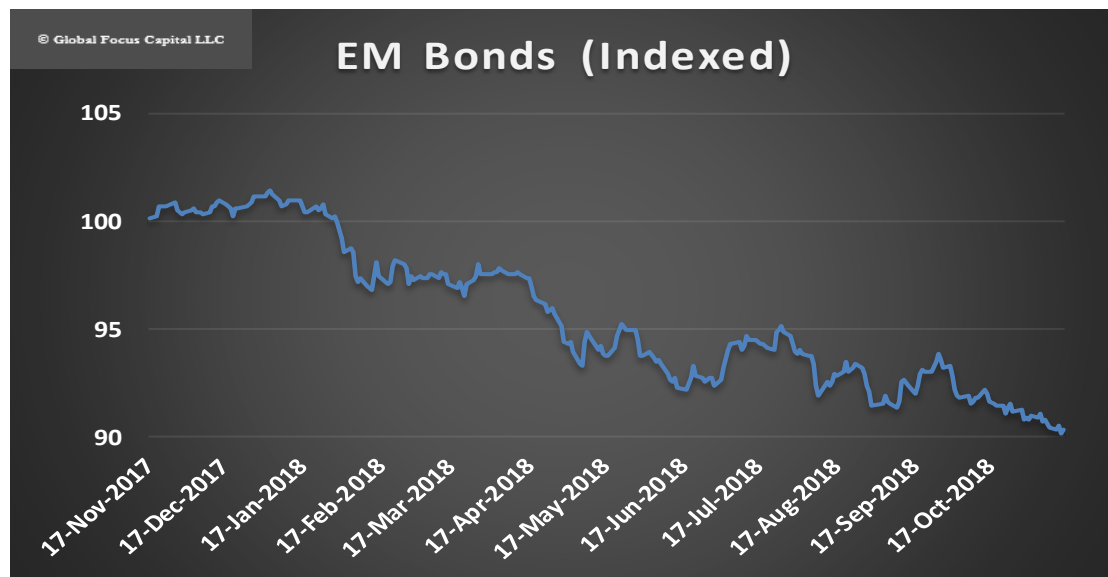
- Short-Term: Neutral
- Long-Term: Neutral

## ► Valuation: Neutral

## ► Income: Above Average

## ► Risk Profile: Stable

- **Of Note:** Highly affected by USD and direction of 10 yr US note, attractive yields, indices are long duration



EM BONDS (EMB)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	6.8%	6.8%	6.6%	7.6%	2.8%
CORR TO US STOCKS	0.66	0.58	0.53	0.24	0.00
CORR TO US BONDS	0.04	0.08	0.47	0.50	0.00
CORR TO COMM	0.62	0.62	0.58	0.15	0.00
CORR TO USD	-0.50	-0.20	-0.31	0.34	0.00
UP BETA	0.16	0.20	0.35	0.20	0.10
DOWN BETA	0.07	0.07	0.07	0.12	-0.19
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND
RSI	50.1	42.9	42.9	38.5	43.0
UP DAY % (LAST 20)	50%	50%	45%	35%	40%

# Commodities

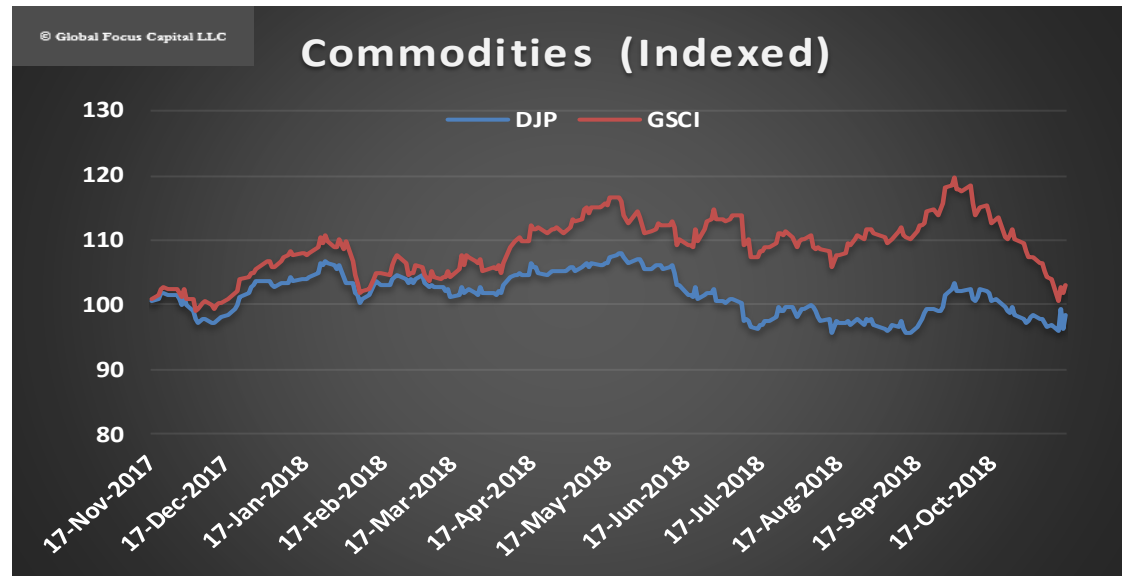
## ► Outlook:

- 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/Iran issues, slowing growth?



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	11.3%	10.2%	12.4%	16.4%	7.5%
CORR TO US STOCKS	0.31	0.27	0.79	0.47	0.03
CORR TO US BONDS	-0.09	0.22	-0.06	0.30	0.11
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	0.20	-0.18	-0.39	0.05	0.24
UP BETA	-0.38	-0.21	0.13	0.55	0.23
DOWN BETA	0.24	0.29	0.44	0.67	-0.02
ST TECHNICALS	BREAK OUT	DOWN TREND	BREAK DOWN	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND	UP TREND
RSI	43.1	28.5	50.2	50.1	64.3
UP DAY % (LAST 20)	35%	40%	60%	55%	50%

# Real Estate

## ► Outlook:

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

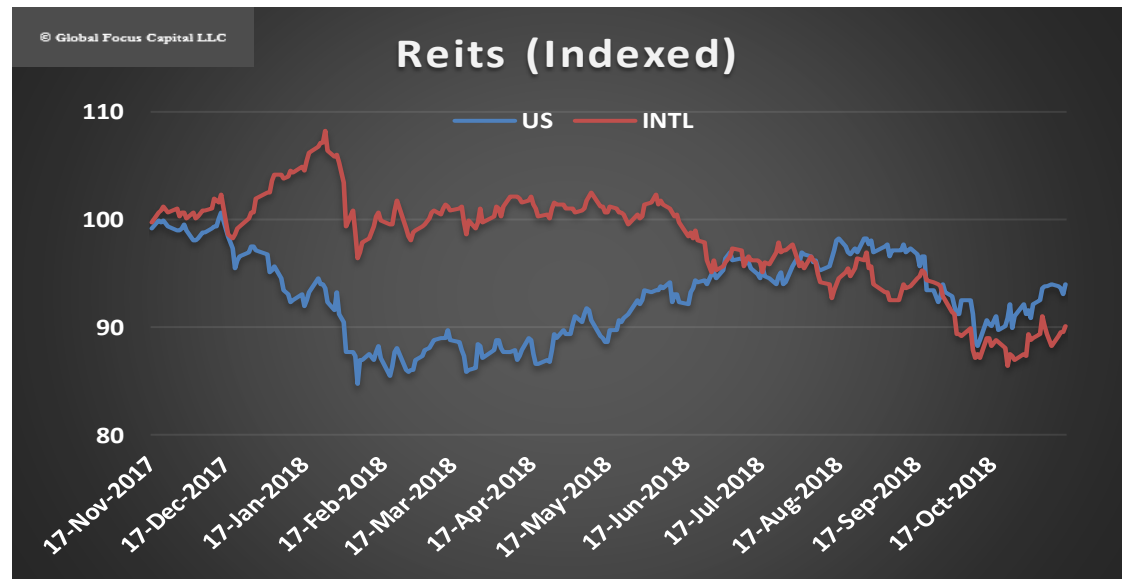
## ► Valuation: Stretched

## ► Growth: Slowing

## ► Income: Average

## ► Risk Profile: Increasing

- **Of Note:** Keeps recovering as correlations to both stocks and bonds have dropped, increase in diversification potential



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	16.2%	15.3%	10.7%	9.8%	14.6%
CORR TO US STOCKS	0.29	0.30	0.29	0.33	0.14
CORR TO US BONDS	0.37	0.61	0.30	0.37	0.41
CORR TO COMM	-0.06	0.01	0.22	0.21	0.16
CORR TO USD	0.09	0.21	-0.13	-0.58	-0.01
UP BETA	0.56	0.64	0.69	0.64	0.26
DOWN BETA	0.25	0.29	0.59	-0.02	1.17
ST TECHNICALS	UP TREND	DETERIORATING	IMPROVING	UP TREND	BREAK OUT
IT TECHNICALS	UP TREND	BREAK DOWN	BREAK DOWN	UP TREND	DOWN TREND
RSI	57.2	57.4	35.8	43.0	57.5
UP DAY % (LAST 20)	60%	55%	40%	50%	55%

# This Coming Week

- ▶ Home bias keeps winning as multi-asset strategies with international assets have significantly underperformed
- ▶ The strong USD is partly to blame but we do not see a significant reversal anytime soon as US monetary policy is being normalized
- ▶ We still foresee one further rate hike in the US in December but fixed income market conditions have stabilized
- ▶ 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 signs of industry rotation toward value sectors
  - ▶ The Momentum trade while still ahead YTD is quickly losing strength
- ▶ Q3 reporting is semi heavy in the US – looking for commentary on tariffs, slowing growth and inflationary pressures

Date	Time	Name	Country	Volatility	Actual	Previous	Consensus
11/18/2018		Imports (YoY)	Japan	2	0	7	0
11/18/2018		Exports (YoY)	Japan	2	0	-1.2	0
11/18/2018		Merchandise Trade Balance Total	Japan	2	0	139.6	0
11/18/2018		Adjusted Merchandise Trade Balance	Japan	2	0	-238.9	0
11/19/2018		Bank of Japan Governor Kuroda Speech	Japan	2	0	0	0
11/19/2018		FOMC Member Williams speech	United States	2	0	0	0
11/20/2018		BoJ Monetary Policy Statement	Japan	3	0	0	0
11/20/2018		Autumn Forecast Statement	United Kingdom	2	0	0	0
11/20/2018		Housing Starts (MoM)	United States	2	0	1.201	1.235
11/20/2018		Building Permits (MoM)	United States	2	0	1.241	1.268
11/21/2018		All Industry Activity Index (MoM)	Japan	2	0	0.5	0
11/21/2018		Public Sector Net Borrowing	United Kingdom	2	0	3.259	0
11/21/2018		Durable Goods Orders ex Transportation	United States	2	0	0.1	0.2
11/21/2018		Durable Goods Orders	United States	2	0	0.8	-1.8
11/21/2018		Existing Home Sales (MoM)	United States	2	0	5.15	5.23
11/21/2018		National CPI Ex-Fresh Food (YoY)	Japan	2	0	1	0
11/21/2018		National CPI Ex Food, Energy (YoY)	Japan	2	0	0.4	0
11/21/2018		National Consumer Price Index (YoY)	Japan	2	0	1.2	0
11/21/2018		Foreign investment in Japan stocks	Japan	2	0	360.9	0
11/21/2018		Foreign bond investment	Japan	2	0	1620.8	0
11/22/2018		Inflation Report Hearings	United Kingdom	3	0	0	0
11/23/2018		Gross Domestic Product w.d.a (YoY)	Germany	2	0	1.1	0
11/23/2018		Gross Domestic Product (QoQ)	Germany	2	0	-0.2	-0.2
11/23/2018		Gross Domestic Product (YoY)	Germany	2	0	1.1	1.1
11/23/2018		Markit PMI Composite	Germany	2	0	53.4	0
11/23/2018		Markit Manufacturing PMI	Germany	2	0	52.2	52.1
11/23/2018		Markit Services PMI	Germany	2	0	54.7	54.4
11/23/2018		Markit PMI Composite	United States	2	0	54.9	56
11/23/2018		Markit Services PMI	United States	2	0	54.8	54.8

# Contact & Subscription Information

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