



**GLOBAL FOCUS CAPITAL LLC**

INSIGHT THAT MATTERS

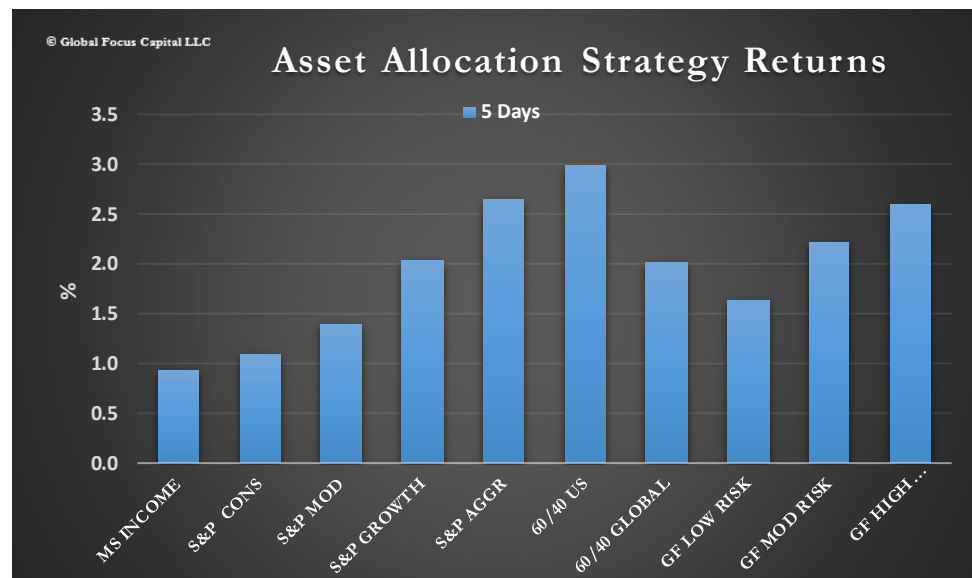
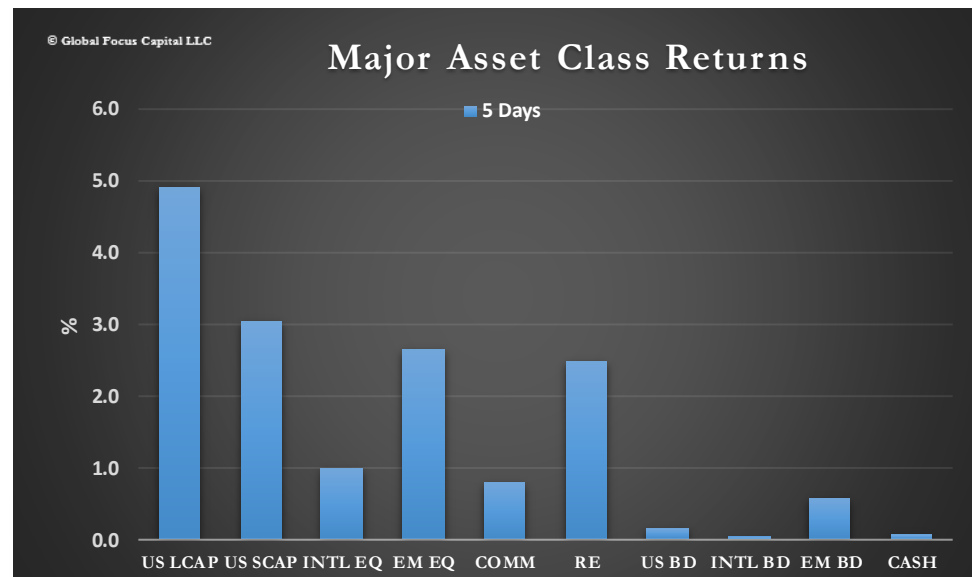
# The Asset Allocation Advisor

Weekly Review – December 2, 2018

Eric J. Weigel

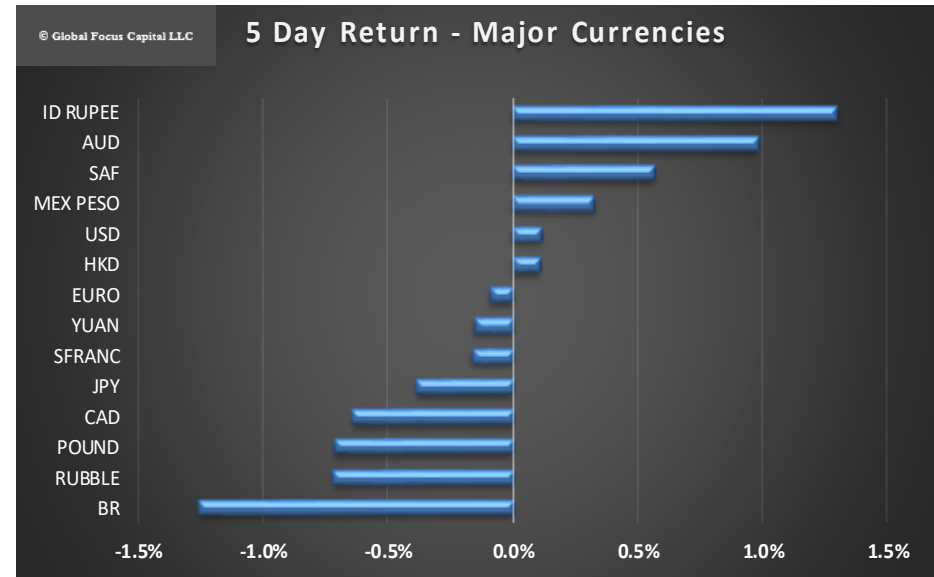
# The Week in Review

- ▶ Risky assets roar back after last week's tough week as The US Fed indicates that short-term rates are close to "normal"
- ▶ US ,large cap in particular staged a nice earnings related recovery
- ▶ REITS continue quietly performing well – up 5.8% for the year (best among our key asset classes)
- ▶ EM stocks also continue their recovery an are up 2.5% over the last month
- ▶ Aggressive, domestically focused multi-asset class strategies outperformed less risky and more internationally focused allocations
- ▶ YTD lower risk asset allocation strategies have outperformed especially if the allocations involved international equities
- ▶ Commodities remained volatile and subject to the direction of oil prices – the trend is still negative
- ▶ Within equities, US large caps outperformed and Growth dominated Value



# Currencies

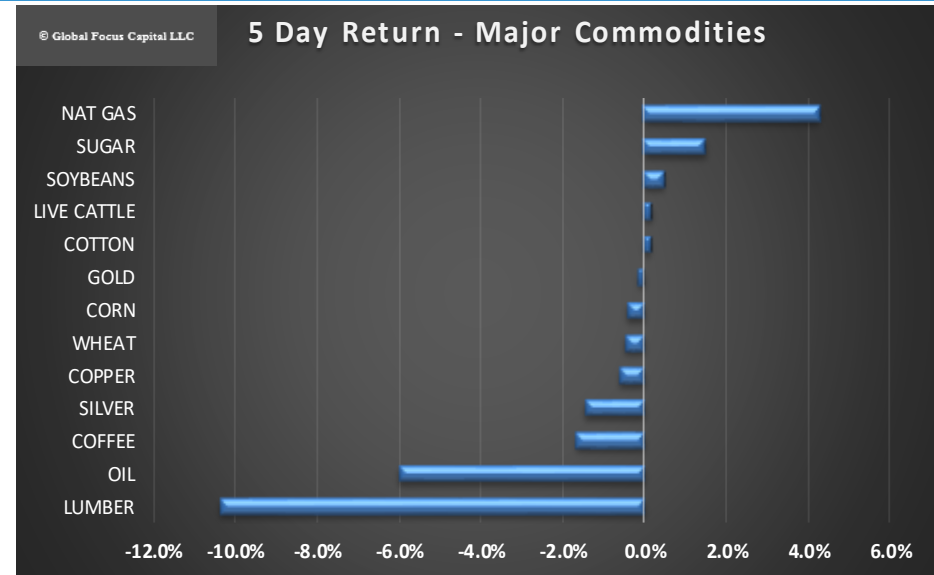
- ▶ The USD appreciated slightly last week and remains in a significant Up Trend
- ▶ The South African Rand continues recovering from oversold conditions
- ▶ The British Pound continued depreciating due to major uncertainty regarding whether BREXIT will pass Parliament
- ▶ The Mexican Peso recovered a bit last week as a new administration is sworn in this week
- ▶ 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	DOWN TREND
SFRANC	DOWN TREND
YUAN	DOWN TREND
USD	UP TREND
POUND	DOWN TREND
JPY	DOWN TREND
RUBBLE	IMPROVING
MEX PESO	DOWN TREND

# Commodities

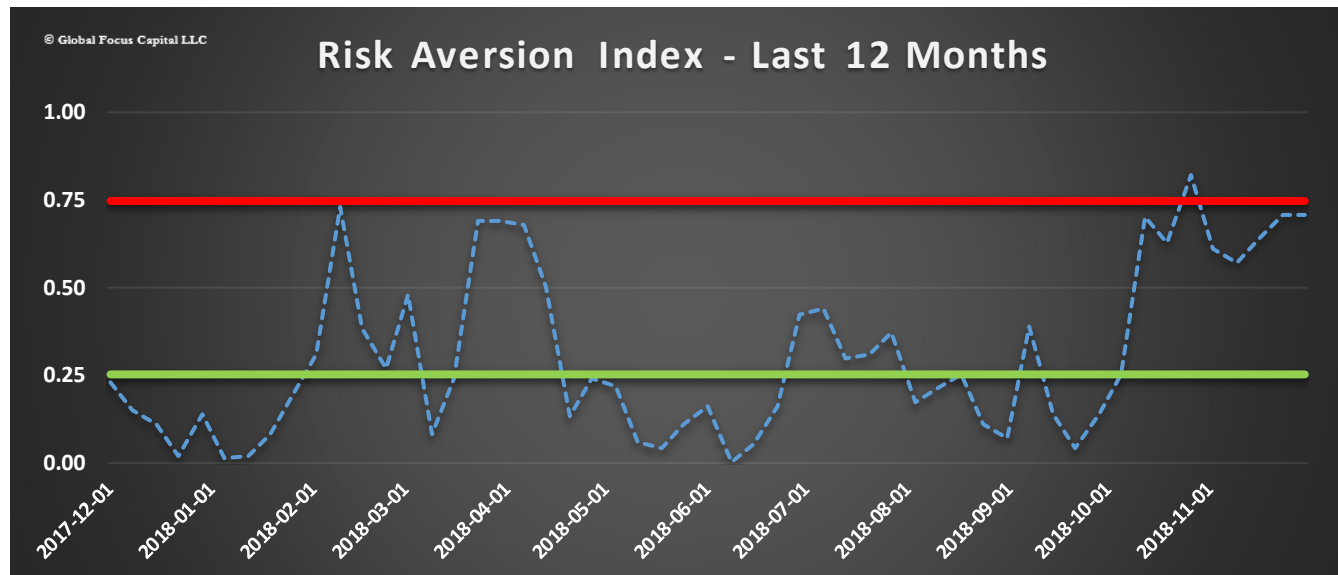
- ▶ Commodity indices continue in a Down Trend as oil markets had another down leg
- ▶ On the flipside, grain prices have been recovering since the summer with soybeans again up last week
- ▶ Lumber prices continue being extremely volatile and remain in a Down Trend
- ▶ Gold and Silver were slightly down last week and barring a real crisis continue on a down trend especially in light of higher short-term interest rates



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

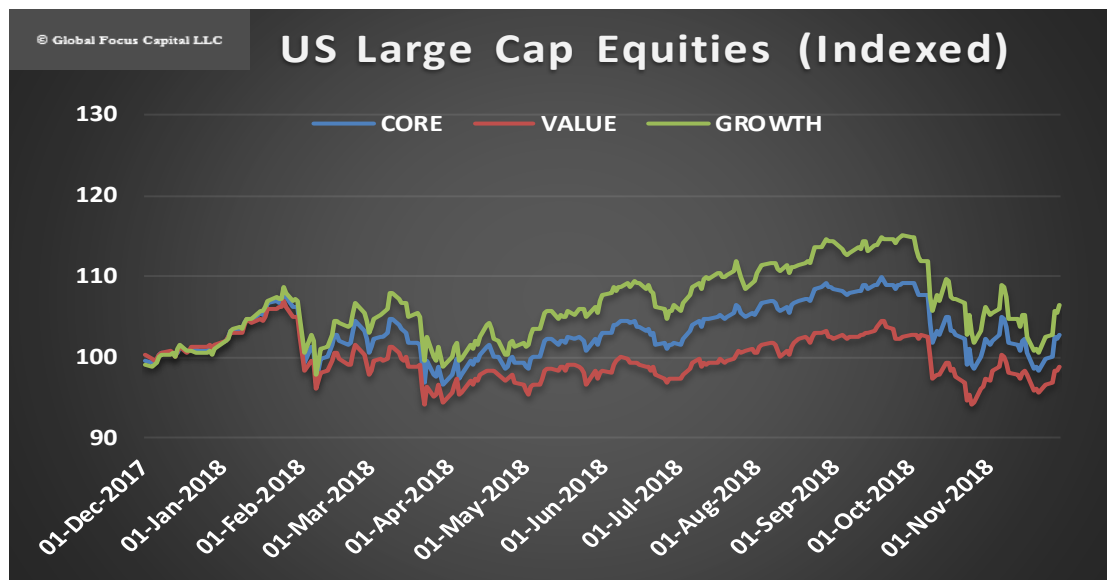
# Investor Risk Aversion Environment

- ▶ 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

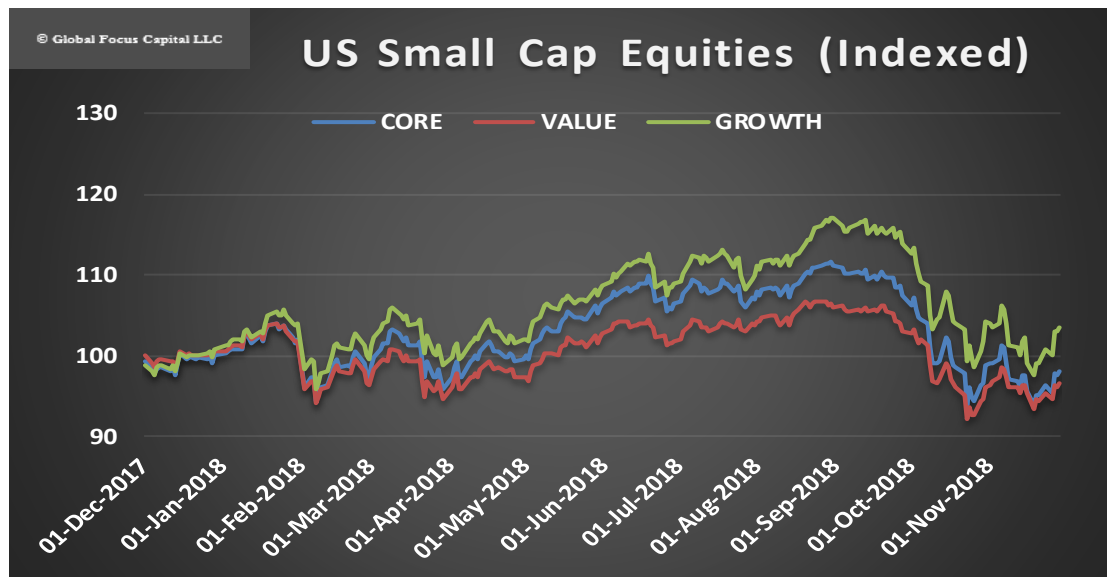
- ▶ **Outlook:**
  - ▶ Short-Term: Neutral
  - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Above Average, could be at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value is catching up to Growth, sector rotation is starting to take hold



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	18.8%	20.8%	23.6%	7.2%	14.4%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	0.06	-0.40	-0.33	-0.27	0.02
CORR TO COMM	-0.07	0.05	0.42	0.84	0.49
CORR TO USD	-0.21	-0.24	0.25	-0.38	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	BREAK OUT	DETERIORATING	IMPROVING	DETERIORATING	DETERIORATING
IT TECHNICALS	BREAK DOWN	BREAK DOWN	BREAK DOWN	UP TREND	UP TREND
RSI	50.2	50.1	43.1	57.1	35.7
UP DAY % (LAST 20)	50%	40%	35%	50%	45%

# 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	21.7%	24.8%	26.7%	9.2%	14.5%
CORR TO US STOCKS	0.89	0.92	0.91	0.78	0.83
CORR TO US BONDS	-0.14	-0.47	-0.35	-0.08	-0.24
CORR TO COMM	-0.05	0.22	0.32	0.73	0.47
CORR TO USD	-0.28	-0.32	0.09	-0.25	0.27
UP BETA	1.09	1.05	1.10	0.53	0.68
DOWN BETA	0.94	0.94	0.94	1.42	0.86
ST TECHNICALS	BREAK OUT	BREAK DOWN	IMPROVING	DETERIORATING	UP TREND
IT TECHNICALS	DOWN TREND	BREAK DOWN	BREAK DOWN	UP TREND	UP TREND
RSI	43.1	50.2	43.0	64.2	50.3
UP DAY % (LAST 20)	45%	40%	35%	60%	55%

# International Developed Markets

## ▶ Outlook:

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

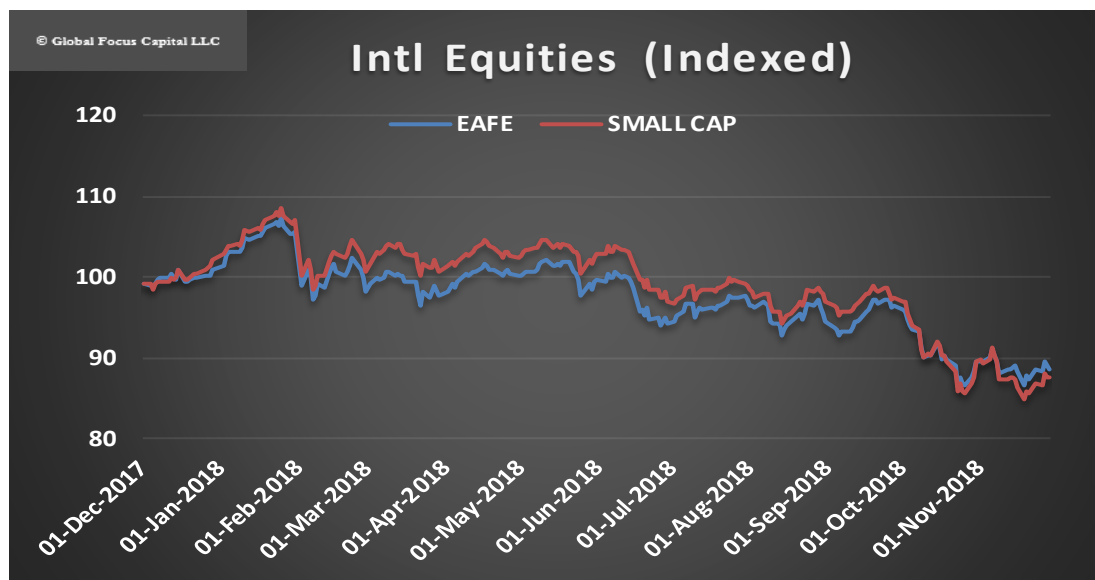
## ▶ Valuation: Neutral

## ▶ 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	17.7%	16.5%	12.4%	10.9%	23.9%
CORR TO US STOCKS	0.92	0.93	0.84	0.56	0.95
CORR TO US BONDS	-0.42	-0.18	0.15	-0.27	-0.28
CORR TO COMM	0.39	0.56	0.19	0.63	0.60
CORR TO USD	-0.13	0.06	-0.53	-0.06	0.11
UP BETA	0.77	0.76	0.83	1.01	0.66
DOWN BETA	0.72	0.72	0.71	1.25	0.87
ST TECHNICALS	IMPROVING	DETERIORATING	IMPROVING	BREAK DOWN	IMPROVING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
RSI	50.2	69.3	43.0	50.1	50.0
UP DAY % (LAST 20)	50%	55%	35%	40%	55%



# International Emerging Markets

## ► Outlook:

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

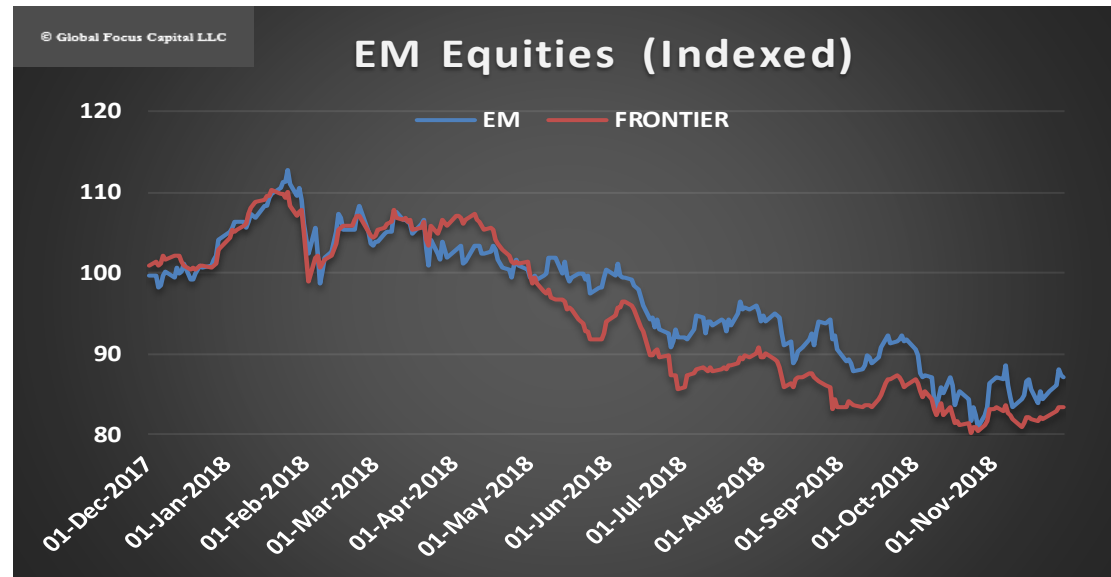
## ► Valuation: Inexpensive

## ► Growth: Average

## ► Income: Neutral

## ► Risk Profile: Increasing

## ► Of Note: trade war fears, currency depreciation, in recovery mode



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	31.3%	26.8%	20.7%	19.7%	32.3%
CORR TO US STOCKS	0.80	0.84	0.74	0.62	0.90
CORR TO US BONDS	-0.32	0.04	0.23	-0.11	-0.04
CORR TO COMM	0.47	0.45	0.19	0.69	0.61
CORR TO USD	-0.19	0.10	-0.18	0.10	0.08
UP BETA	1.22	1.35	1.49	1.45	1.19
DOWN BETA	0.81	0.78	0.81	1.20	0.88
ST TECHNICALS	UP TREND	UP TREND	BREAK OUT	BREAK DOWN	UP TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	57.3	64.6	50.4	64.5	57.2
UP DAY % (LAST 20)	55%	60%	45%	55%	55%

# US Bonds

## ► Outlook:

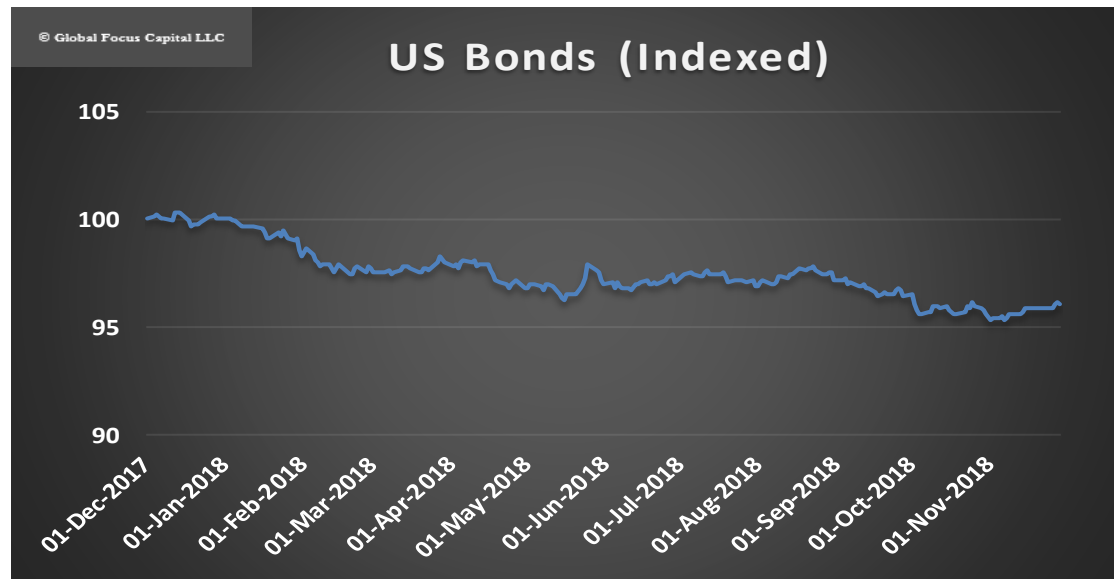
- Short-Term: Neutral
- Long-Term: Negative

## ► Valuation: Stretched

## ► Income: Minimal

## ► Risk Profile: Increasing

- **Of Note:** Tight spread in 10-2 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	2.7%	2.5%	2.2%	2.2%	2.2%
CORR TO US STOCKS	-0.06	0.11	-0.33	-0.03	-0.13
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.03	0.08	0.10	0.21	0.03
CORR TO USD	-0.38	-0.44	-0.06	-0.09	0.20
UP BETA	0.07	0.06	0.04	0.10	-0.11
DOWN BETA	-0.07	-0.08	-0.06	-0.02	-0.20
ST TECHNICALS	UP TREND	BREAK OUT	BREAK DOWN	DOWN TREND	BREAK OUT
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
RSI	64.3	57.1	28.6	42.9	50.0
UP DAY % (LAST 20)	65%	55%	35%	55%	55%

# International Developed Bonds

## ► Outlook:

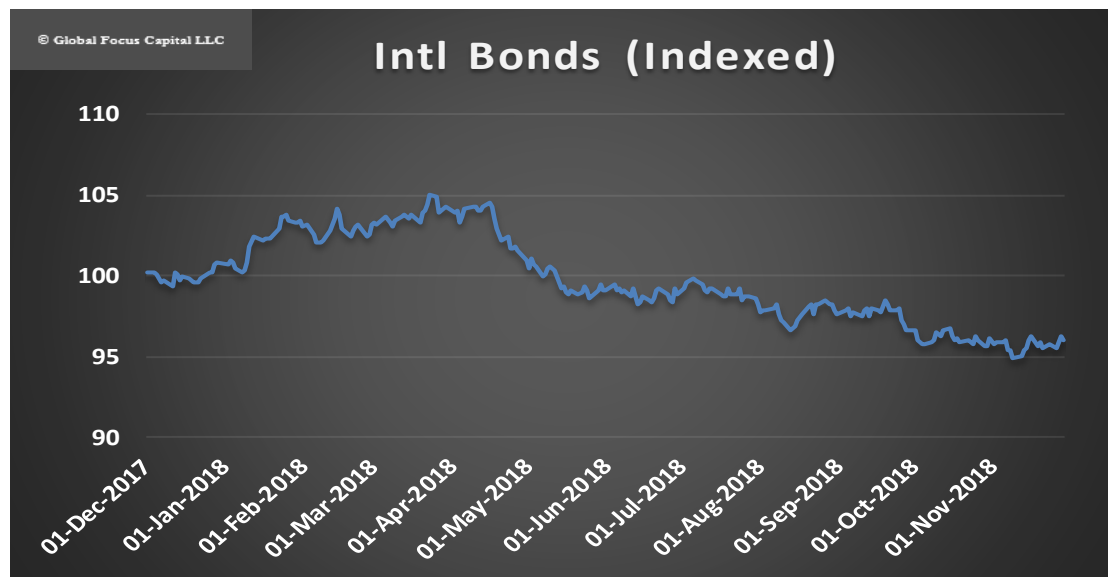
- Short-Term: Negative
- Long-Term: Negative

## ► 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	5.8%	6.1%	5.8%	6.3%	5.6%
CORR TO US STOCKS	0.06	0.19	0.35	-0.03	0.09
CORR TO US BONDS	0.55	0.58	-0.04	0.07	0.55
CORR TO COMM	-0.02	0.24	0.35	0.31	0.24
CORR TO USD	-0.81	-0.35	-0.31	-0.14	0.20
UP BETA	0.18	0.09	0.08	0.14	0.00
DOWN BETA	-0.03	-0.07	-0.09	-0.02	-0.11
ST TECHNICALS	UP TREND	IMPROVING	BREAK OUT	DETERIORATING	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	64.3	50.0	46.3	64.3	57.2
UP DAY % (LAST 20)	55%	45%	45%	55%	55%

# International Emerging Bonds

## ► Outlook:

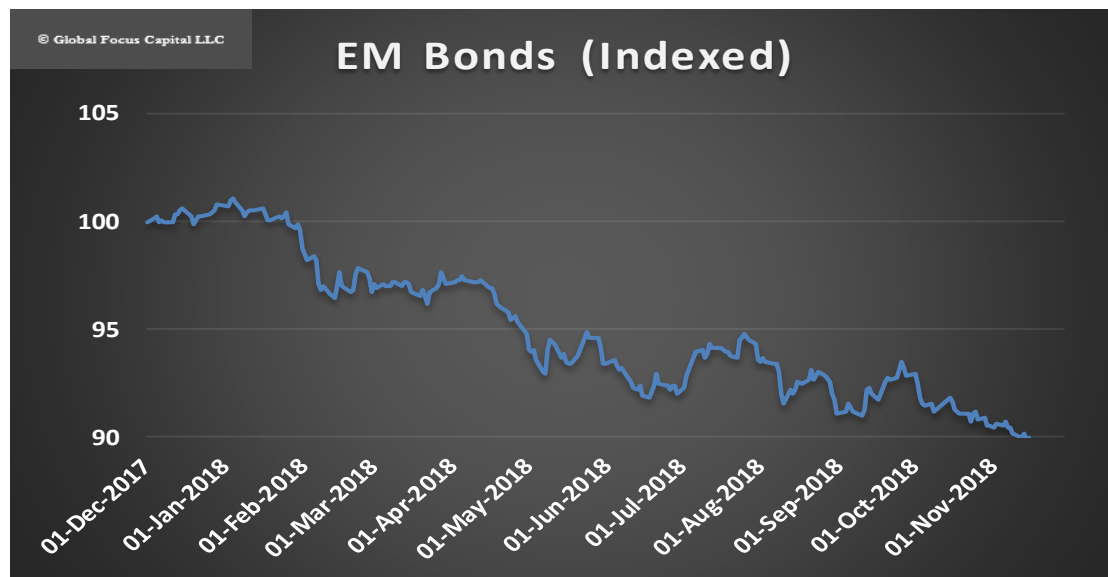
- Short-Term: Neutral
- Long-Term: Neutral

## ► 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	5.9%	6.8%	6.8%	5.3%	2.8%
CORR TO US STOCKS	0.46	0.65	0.54	-0.10	0.00
CORR TO US BONDS	0.07	0.08	0.14	0.31	0.00
CORR TO COMM	0.53	0.59	0.58	0.22	0.00
CORR TO USD	-0.23	-0.14	-0.18	-0.04	0.00
UP BETA	0.26	0.15	0.20	0.67	0.09
DOWN BETA	0.11	0.07	0.06	0.10	-0.07
ST TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND
RSI	42.9	42.9	50.0	50.1	35.7
UP DAY % (LAST 20)	45%	45%	50%	45%	45%

# Commodities

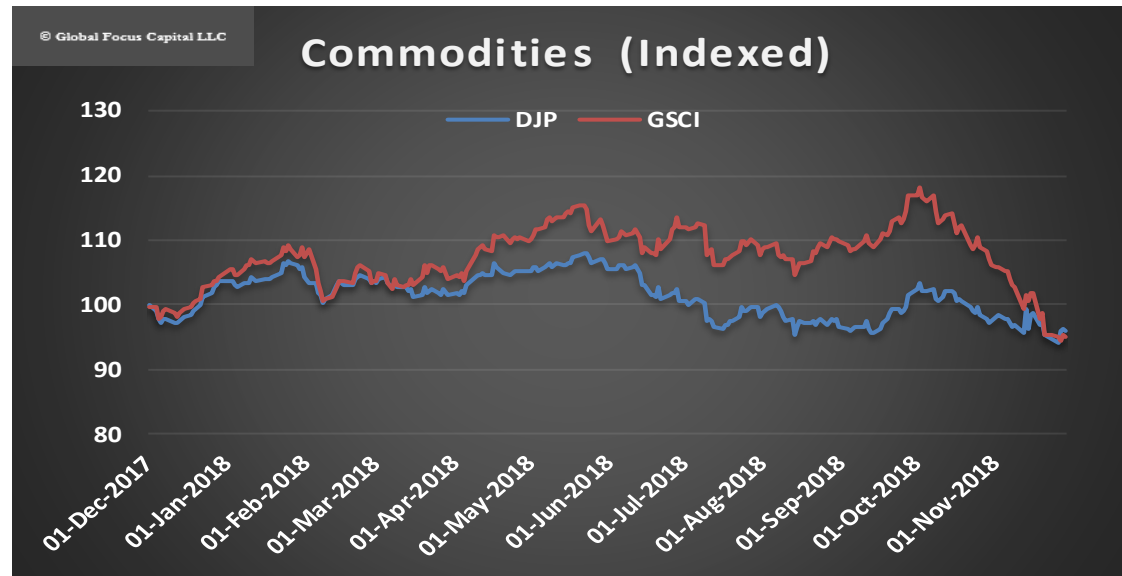
## ► Outlook:

- 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	12.8%	11.3%	10.4%	15.0%	10.8%
CORR TO US STOCKS	0.54	0.31	0.33	0.40	0.60
CORR TO US BONDS	-0.09	-0.15	0.19	0.31	-0.23
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	0.18	-0.04	-0.08	-0.20	0.04
UP BETA	-0.22	-0.33	-0.21	0.79	0.10
DOWN BETA	0.30	0.24	0.29	1.07	0.63
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
RSI	50.5	35.9	28.7	50.2	42.9
UP DAY % (LAST 20)	45%	35%	35%	45%	50%

# Real Estate

## ► Outlook:

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

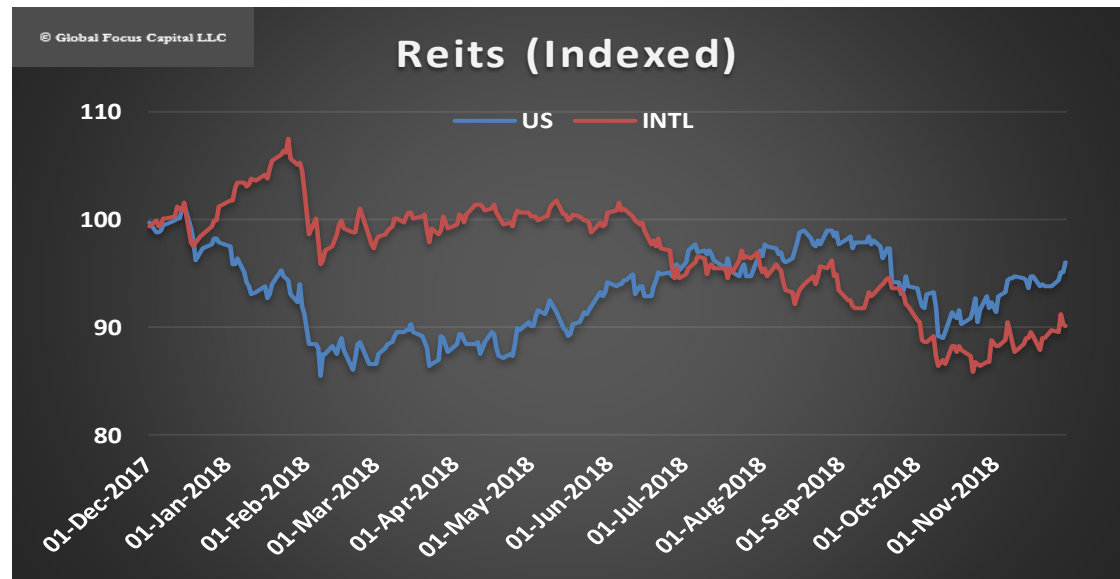
## ► Valuation: Stretched

## ► 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	20.8%	16.3%	15.5%	11.1%	18.3%
CORR TO US STOCKS	0.54	0.33	0.21	0.18	0.30
CORR TO US BONDS	0.02	0.41	0.57	0.49	0.60
CORR TO COMM	0.20	-0.17	-0.08	0.16	-0.09
CORR TO USD	0.20	-0.22	-0.55	-0.24	0.15
UP BETA	0.53	0.57	0.63	0.12	0.26
DOWN BETA	0.26	0.25	0.30	-0.12	0.90
ST TECHNICALS	UP TREND	DETERIORATING	UP TREND	UP TREND	UP TREND
IT TECHNICALS	UP TREND	DETERIORATING	DETERIORATING	UP TREND	DOWN TREND
RSI	64.5	57.1	64.5	57.3	71.8
UP DAY % (LAST 20)	65%	60%	55%	60%	70%

# This Coming Week

- ▶ Home bias keeps winning as multi-asset strategies with international assets have significantly underperformed
- ▶ The strong USD is partly to blame and the end may be near as the Fed indicates rates close to "normal"
- ▶ 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 (which have been trending down)
  - ▶ Tariffs are inflationary and will be reflected in higher consumer prices eventually
- ▶ EM equities in particular are recovering but will end up in the red this year
  - ▶ We still believe that an allocation is warranted
- ▶ Growth outperformed Value last week but we are seeing signs of industry rotation toward value sectors
  - ▶ The Momentum trade while still ahead YTD is losing strength despite a bif up week
- ▶ The G20 meeting concludes – the US and China are still at odds over tariffs but maybe rational minds will prevail?

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
12/3/2018	Caixin Manufacturing PMI	China	2	0	50.1	50
12/3/2018	Markit Manufacturing PMI	Germany	2	0	51.6	51.6
12/3/2018	Markit Manufacturing PMI	United Kingdom	2	0	51.1	51.5
12/3/2018	ISM Prices Paid	United States	3	0	71.6	68.3
12/3/2018	ISM Manufacturing PMI	United States	3	0	57.7	57.8
12/3/2018	FOMC Member Brainard Speech	United States	2	0	0	0
12/3/2018	MPC Member Haldane Speech	United Kingdom	2	0	0	0
12/3/2018	FOMC Member Kaplan Speech	United States	2	0	0	0
12/4/2018	BOE's Governor Carney speech	United Kingdom	3	0	0	0
12/4/2018	PMI Construction	United Kingdom	2	0	53.2	52.6
12/4/2018	MPC Member Vlieghe speech	United Kingdom	2	0	0	0
12/5/2018	Caixin Services PMI	China	2	0	50.8	50.8
12/5/2018	Markit Services PMI	Germany	2	0	53.3	53.3
12/5/2018	Markit PMI Composite	Germany	2	0	52.2	52.2
12/5/2018	Markit Services PMI	United Kingdom	2	0	52.2	52.5
12/5/2018	ADP Employment Change	United States	2	0	227	189
12/5/2018	Nonfarm Productivity	United States	2	0	2.2	2.3
12/5/2018	Unit Labor Costs	United States	2	0	1.2	1.1
12/5/2018	Markit PMI Composite	United States	2	0	54.4	0
12/5/2018	Markit Services PMI	United States	2	0	54.4	54.4
12/5/2018	ISM Non-Manufacturing PMI	United States	2	0	60.3	59.7
12/5/2018	Fed's Powell Speech	United States	3	0	0	0
12/5/2018	Fed's Beige Book	United States	2	0	0	0
12/5/2018	Foreign investment in Japan stocks	Japan	2	0	-195	0
12/5/2018	Foreign bond investment	Japan	2	0	-736.4	0
12/6/2018	OPEC meeting	United States	2	0	0	0
12/6/2018	Fed's Quarles speech	United States	2	0	0	0
12/6/2018	Trade Balance	United States	2	0	-54	-54
12/6/2018	Continuing Jobless Claims	United States	2	0	1.71	0
12/6/2018	Initial Jobless Claims	United States	2	0	234	220
12/6/2018	Factory Orders (MoM)	United States	2	0	0.7	-0.2
12/6/2018	Overall Household Spending (YoY)	Japan	2	0	-1.6	1.6
12/6/2018	Fed's Powell Speech	United States	3	0	0	0
12/7/2018	Leading Economic Index	Japan	2	0	104.3	0
12/7/2018	Coincident Index	Japan	2	0	114.4	0
12/7/2018	Industrial Production n.s.a. w.d.a. (YoY)	Germany	2	0	0.8	0

# Contact & Subscription Information

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