



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

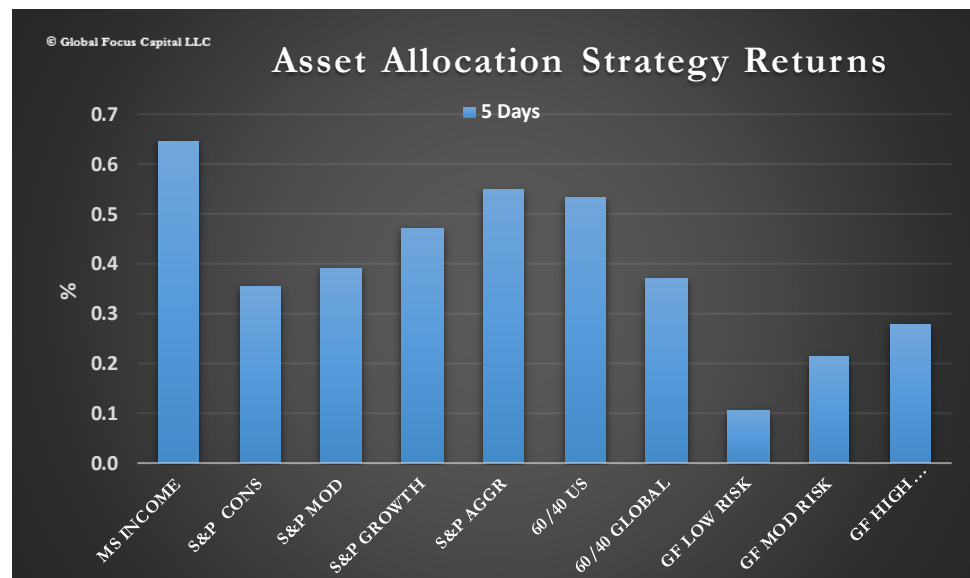
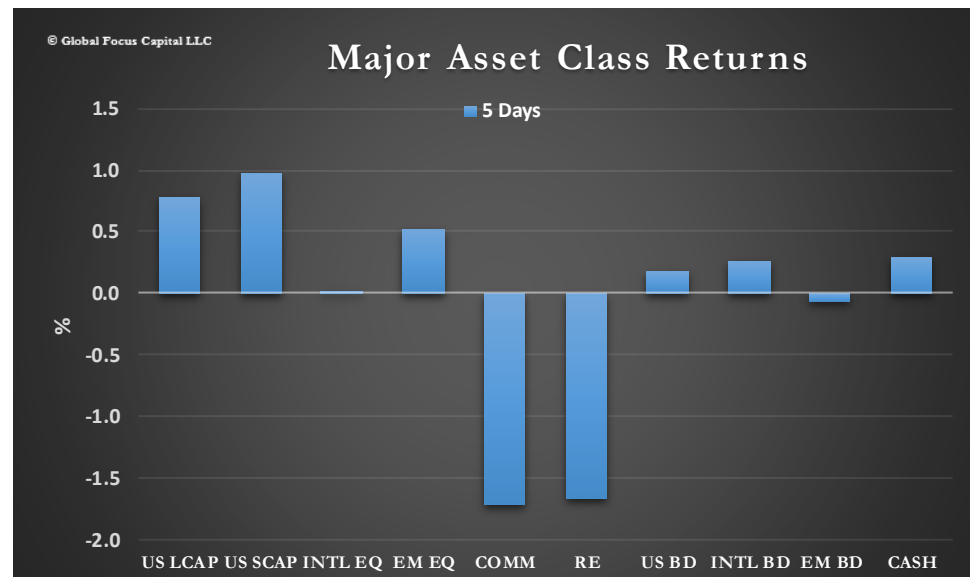
The Asset Allocation Advisor

Weekly Review – December 30, 2018

Eric J. Weigel

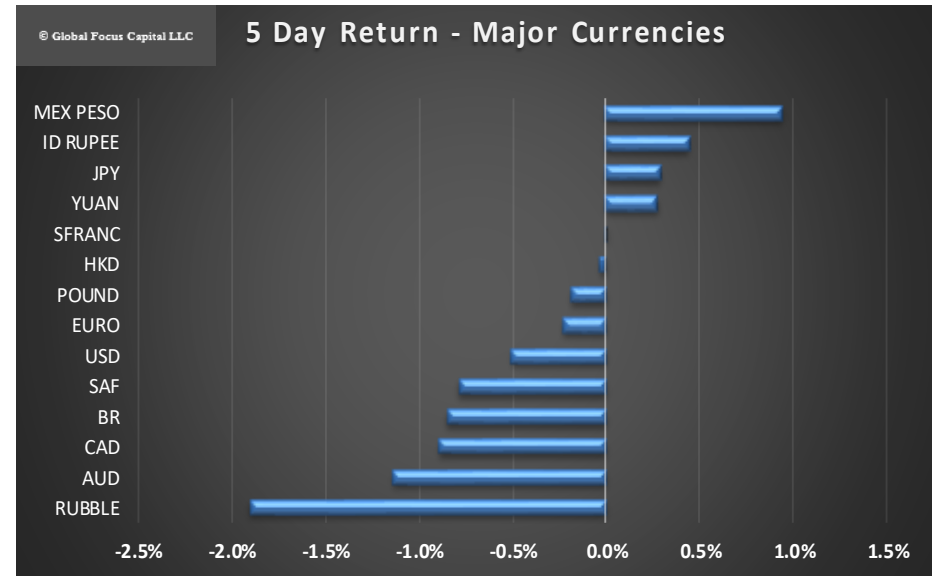
The Week in Review

- ▶ A slow week with a bit of cheer for equity investors
- ▶ US small caps recover the most – up 1% for the week but still down 21% over the last three months
- ▶ REITS gave back some gains last week (down 1.7%) and are now also in negative territory for 2018
- ▶ Commodity indices remain driven by lower oil prices with no sign of resurgent inflation
- ▶ Aggressive, domestically focused multi-asset class strategies out-performed less risky options
- ▶ YTD lower risk asset allocation strategies have outperformed especially if allocations involved international equities
- ▶ Within equities, Growth slightly under-performed Value but Growth remains solidly ahead for the year
- ▶ Cash remains the best performing of the major asset classes for the year



Currencies

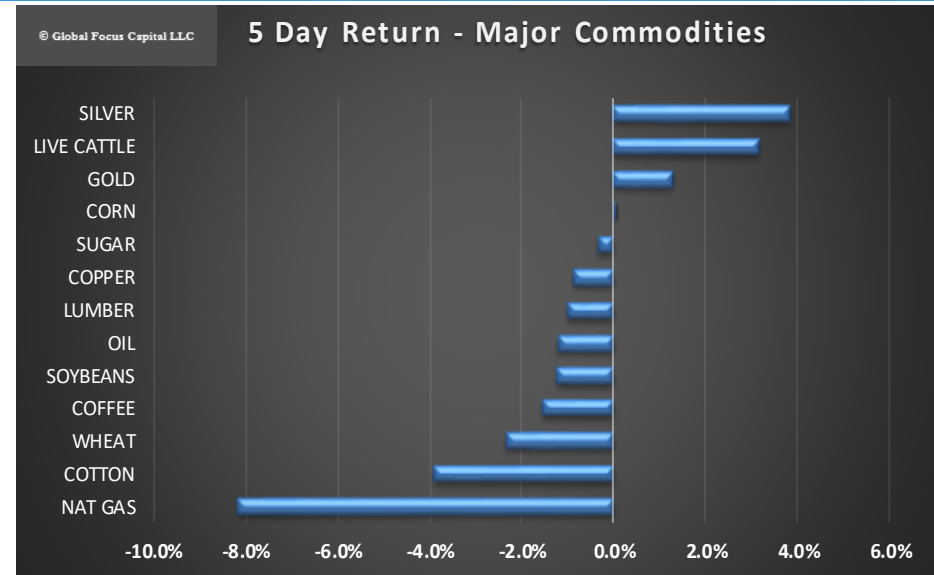
- ▶ The USD is losing some strength as budget discussions in Washington remain unresolved and the Fed has indicated being close to done with rate hikes
- ▶ A depreciating USD will boost international asset returns
- ▶ The British Pound continued depreciating due to major uncertainty regarding BREXIT early in 2019
- ▶ The Yen is now in a Break Out phase as investors remain very risk averse and the Yen is usually considered the “safe” trade
- ▶ Resource oriented currencies experienced the biggest losses last week relative to the USD as commodity prices remain in a Down Trend
- ▶ In general, FX volatility has increased substantially in the last couple of months



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

Commodities

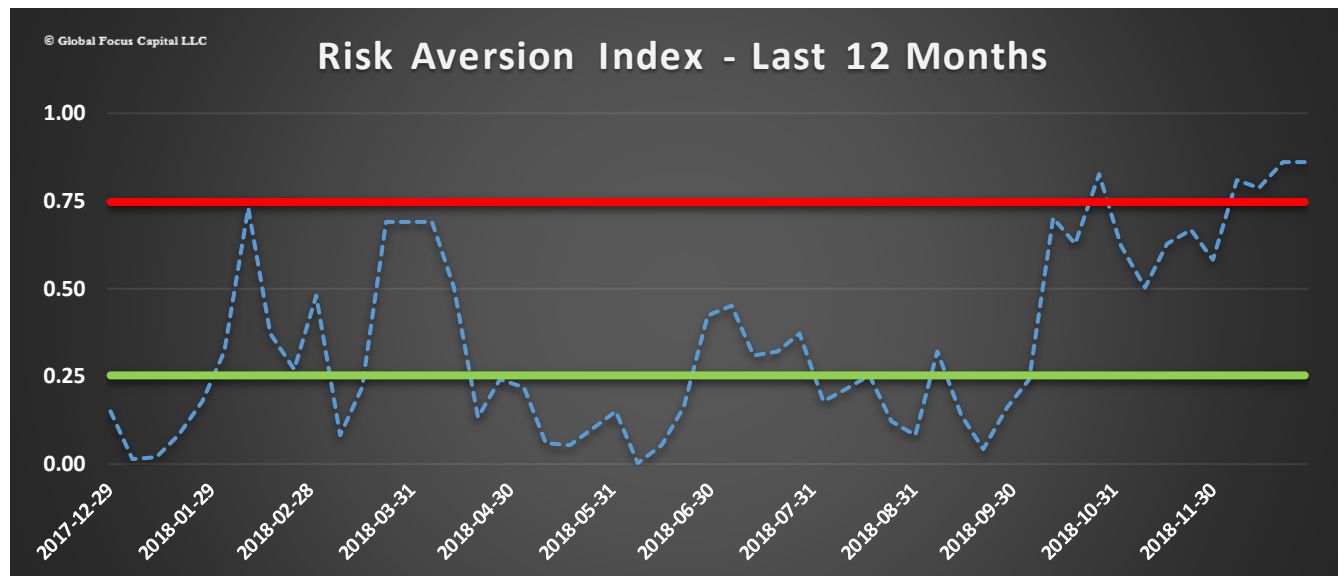
- ▶ Commodity indices continue in a Down Trend as oil markets had another down leg
- ▶ On the flipside, grain prices have been recovering since the summer
- ▶ Natural gas prices were down over 8% due to warmer predicted weather and lower levels of fuel switching than anticipated
- ▶ Gold and Silver had good weeks as investors have become more risk averse and the Fed has indicated only 2 more rate hikes for 2019
- ▶ However, we still view US Treasuries as the best hedging option for equity risk



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

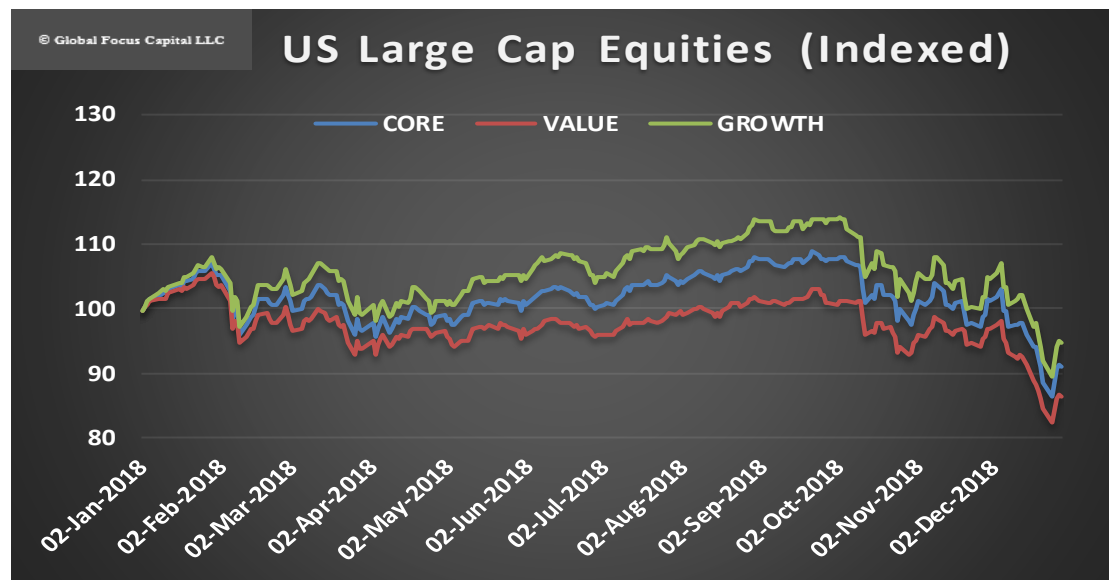
Investor Risk Aversion Environment

- ▶ Fear from the markets seems to have returned – our index stands in the Fear Zone after a prolonged period of exuberance
- ▶ Investors are now becoming more concerned about geopolitical issues affecting global growth as well the continued stand-off in DC
- ▶ We expect our RAI to remain in the Fear Zone and a flipping back and forth indicative of a risk on/off market



US Large Cap Equities

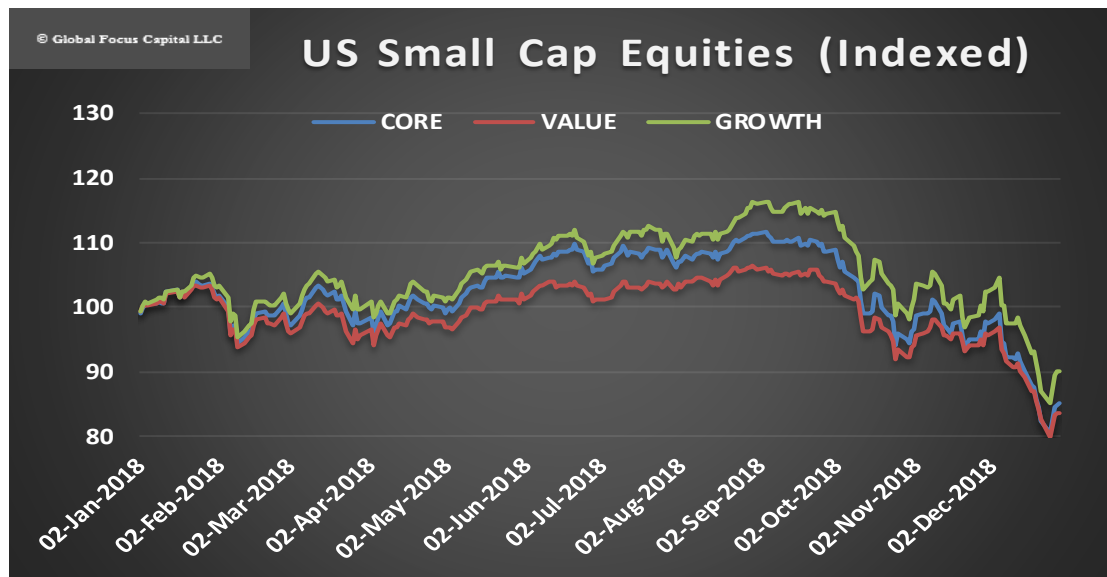
- ▶ **Outlook:**
 - ▶ Short-Term: Neutral
 - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Average, could be at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value is catching up to Growth, sector rotation is starting to take hold, time to hunt for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



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	30.2%	21.0%	19.5%	5.8%	22.8%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.46	-0.24	-0.18	-0.03	-0.16
CORR TO COMM	0.26	-0.05	-0.09	0.27	0.51
CORR TO USD	0.15	-0.02	-0.22	0.16	-0.11
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	BREAK OUT	UP TREND	BREAK OUT
IT TECHNICALS	DOWN TREND	BREAK DOWN	BREAK DOWN	UP TREND	DETERIORATING
RSI	36.3	57.3	42.8	57.2	57.5
UP DAY % (LAST 20)	35%	55%	55%	55%	45%

US Small Cap Equities

- ▶ **Outlook:**
 - ▶ Short-Term: Negative
 - ▶ Long-Term: Positive
- ▶ **Valuation:** Neutral
- ▶ **Growth:** Average but at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Expect a continued recovery versus large cap stocks in January, strong rebound potential



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	31.2%	24.5%	22.7%	9.3%	22.6%
CORR TO US STOCKS	0.96	0.95	0.88	0.56	0.96
CORR TO US BONDS	-0.49	-0.24	-0.31	-0.22	-0.18
CORR TO COMM	0.15	-0.05	-0.07	0.34	0.53
CORR TO USD	0.15	-0.12	-0.22	-0.03	-0.06
UP BETA	1.04	1.11	1.09	0.75	0.75
DOWN BETA	0.96	0.97	0.95	1.55	0.94
ST TECHNICALS	DOWN TREND	DOWN TREND	BREAK OUT	DOWN TREND	BREAK OUT
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING	UP TREND
RSI	28.4	36.4	35.8	50.3	64.7
UP DAY % (LAST 20)	30%	40%	50%	45%	55%

International Developed Markets

► Outlook:

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

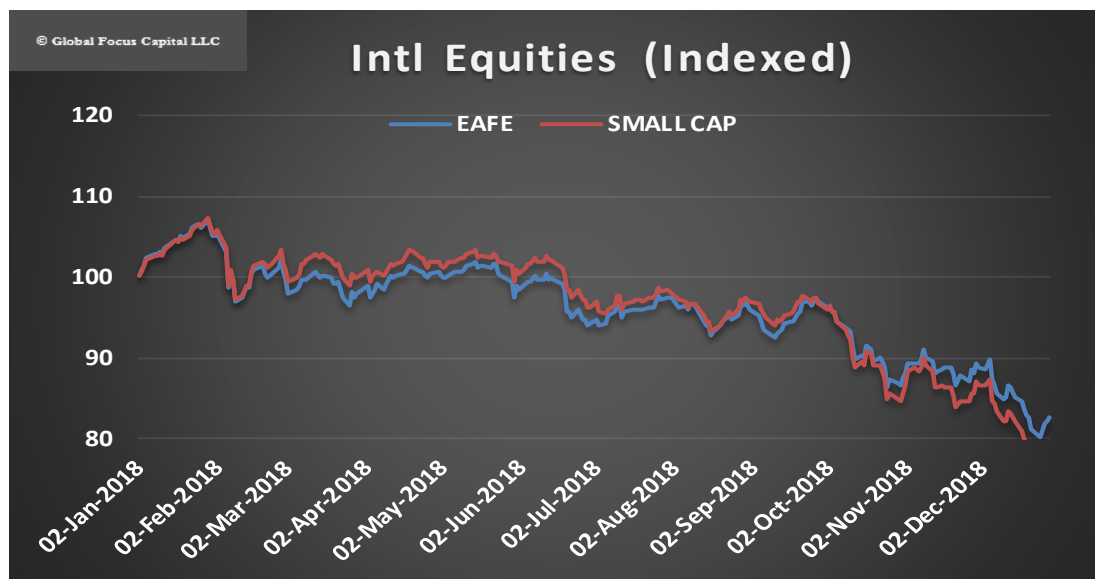
► Valuation: Neutral

► 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, USD strength not expected to last



INTL DEV EQ (EFA)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	18.4%	18.1%	19.4%	11.8%	13.1%
CORR TO US STOCKS	0.89	0.92	0.93	0.84	0.88
CORR TO US BONDS	-0.12	-0.50	-0.48	0.00	0.28
CORR TO COMM	0.23	0.05	0.40	0.70	0.34
CORR TO USD	-0.12	-0.14	0.04	-0.02	0.01
UP BETA	0.62	0.78	0.76	1.10	0.63
DOWN BETA	0.61	0.72	0.71	1.13	0.90
ST TECHNICALS	DOWN TREND	DOWN TREND	BREAK OUT	DETERIORATING	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DETERIORATING
RSI	35.8	35.9	50.1	71.3	64.5
UP DAY % (LAST 20)	30%	45%	60%	65%	50%

International Emerging Markets

► Outlook:

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

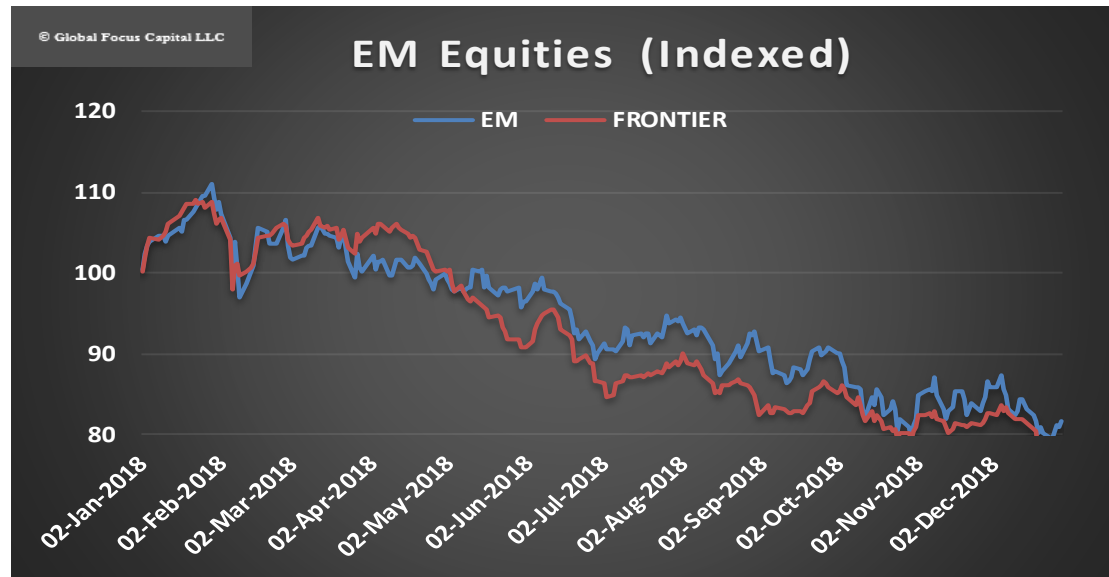
► Valuation: Inexpensive

► Growth: Average

► Income: Neutral

► Risk Profile: Increasing

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



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	26.3%	29.5%	31.2%	21.3%	21.1%
CORR TO US STOCKS	0.80	0.82	0.86	0.81	0.79
CORR TO US BONDS	0.14	-0.39	-0.37	-0.01	0.10
CORR TO COMM	0.19	0.03	0.47	0.83	0.51
CORR TO USD	-0.23	-0.24	0.01	0.15	0.03
UP BETA	0.72	1.23	1.21	1.44	1.15
DOWN BETA	0.59	0.78	0.78	1.38	0.90
ST TECHNICALS	IMPROVING	BREAK DOWN	UP TREND	DETERIORATING	IMPROVING
IT TECHNICALS	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND	DETERIORATING
RSI	35.9	43.0	57.5	64.5	57.4
UP DAY % (LAST 20)	30%	50%	65%	60%	50%

US Bonds

► Outlook:

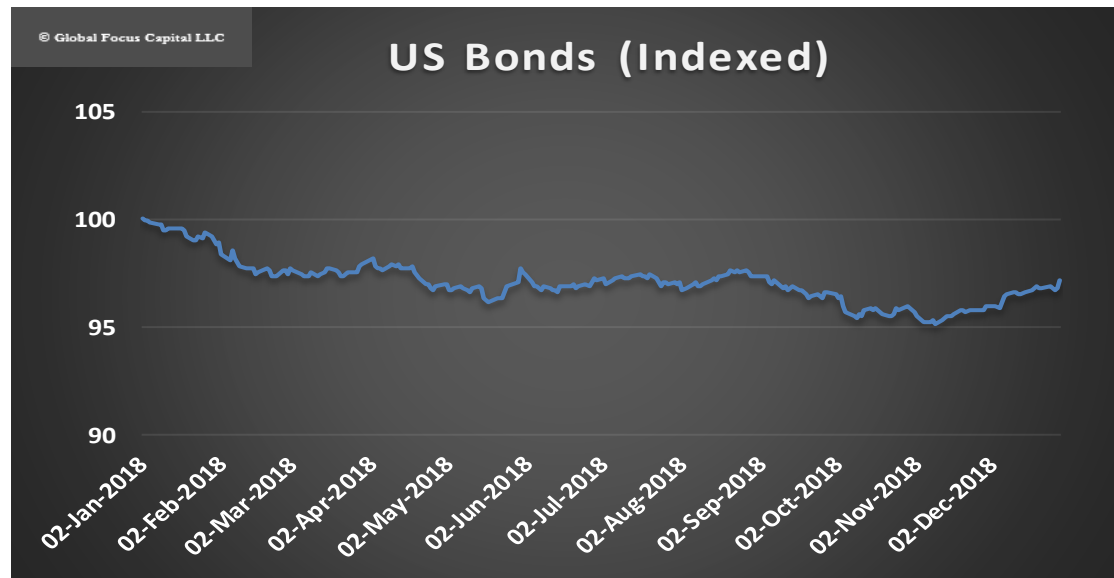
- Short-Term: Neutral
- Long-Term: Negative

► Valuation: Stretched

► Income: Minimal

► Risk Profile: Increasing

- **Of Note:** Tight spread in 10-2 year notes, blowing out credit spreads, lower inflationary expectations, see rates being range bound in 2019



US BONDS (AGG)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	3.1%	3.0%	2.5%	2.3%	3.4%
CORR TO US STOCKS	-0.27	-0.20	-0.02	0.12	-0.21
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	-0.21	-0.10	0.18	0.24	-0.18
CORR TO USD	0.25	0.48	0.57	0.16	-0.24
UP BETA	0.00	0.07	0.07	0.14	-0.08
DOWN BETA	-0.04	-0.06	-0.07	-0.09	-0.06
ST TECHNICALS	UP TREND	UP TREND	UP TREND	DOWN TREND	BREAK DOWN
IT TECHNICALS	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND
RSI	71.4	64.4	64.3	46.2	53.9
UP DAY % (LAST 20)	70%	65%	60%	45%	45%

International Developed Bonds

► Outlook:

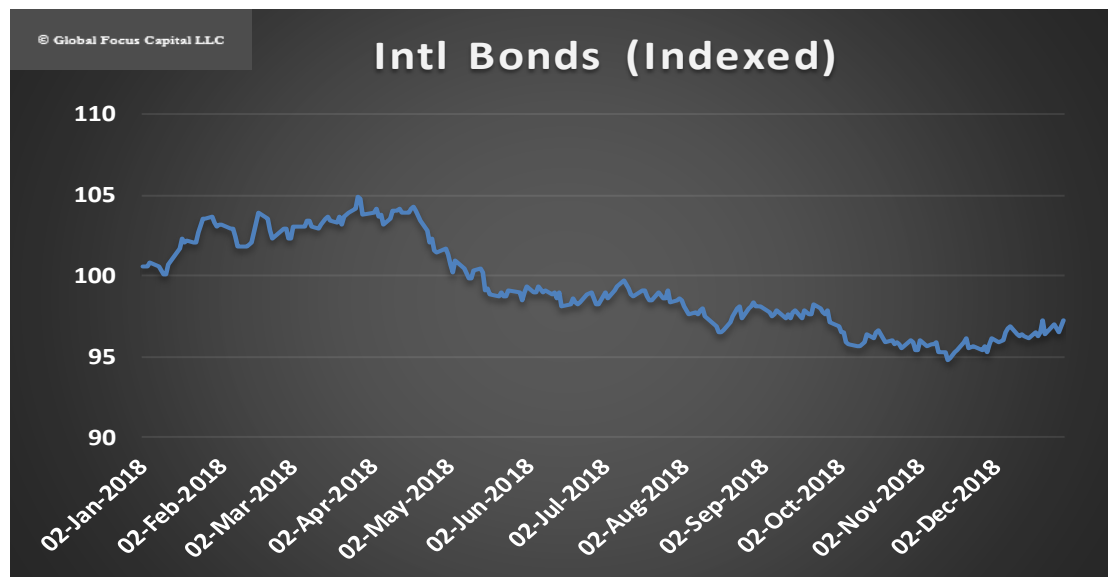
- Short-Term: Negative
- Long-Term: Negative

► 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	4.8%	5.7%	5.8%	5.2%	6.5%
CORR TO US STOCKS	-0.27	-0.26	0.05	0.15	0.13
CORR TO US BONDS	0.58	0.57	0.62	0.41	0.38
CORR TO COMM	-0.24	-0.13	0.01	0.56	0.48
CORR TO USD	0.09	0.19	0.27	0.16	-0.02
UP BETA	0.04	0.23	0.19	0.28	0.02
DOWN BETA	-0.04	-0.05	-0.04	0.36	0.11
ST TECHNICALS	UP TREND	DETERIORATING	UP TREND	DOWN TREND	BREAK OUT
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	DOWN TREND	UP TREND
RSI	50.1	57.2	61.6	28.7	64.3
UP DAY % (LAST 20)	60%	65%	55%	40%	60%

International Emerging Bonds

► Outlook:

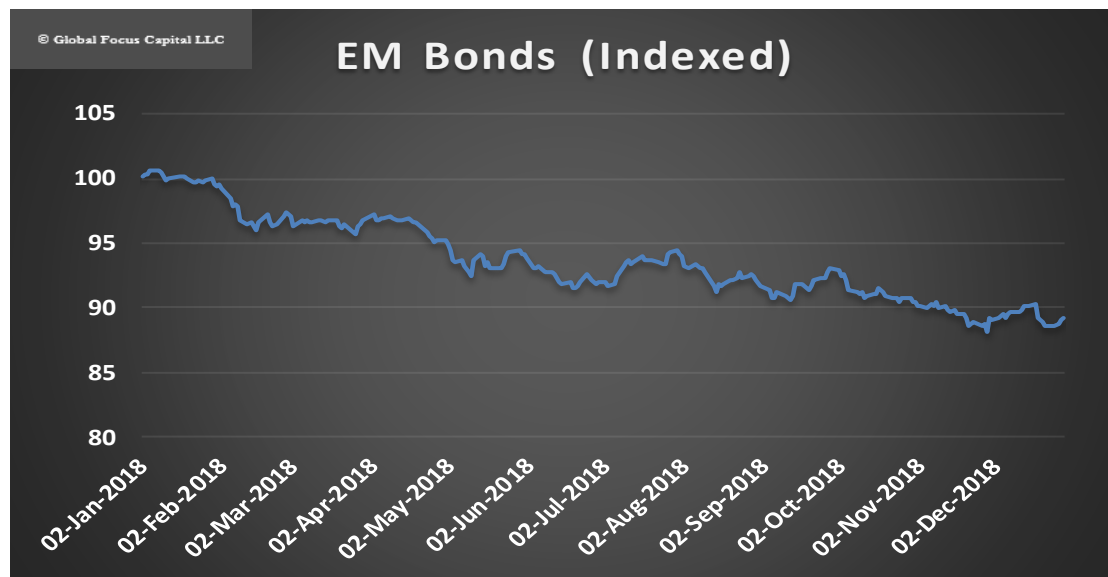
- Short-Term: Neutral
- Long-Term: Neutral

► 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	6.4%	6.4%	7.0%	6.1%	3.2%
CORR TO US STOCKS	0.43	0.37	0.58	0.56	0.00
CORR TO US BONDS	0.71	0.50	0.01	0.23	0.00
CORR TO COMM	-0.46	0.08	0.55	0.34	0.00
CORR TO USD	0.41	0.26	-0.19	0.14	0.00
UP BETA	0.14	0.25	0.26	0.59	0.11
DOWN BETA	0.04	0.11	0.10	0.25	0.02
ST TECHNICALS	DOWN TREND	UP TREND	IMPROVING	UP TREND	DETERIORATING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	DOWN TREND
RSI	61.7	69.4	42.9	64.3	61.6
UP DAY % (LAST 20)	60%	60%	45%	60%	45%

Commodities

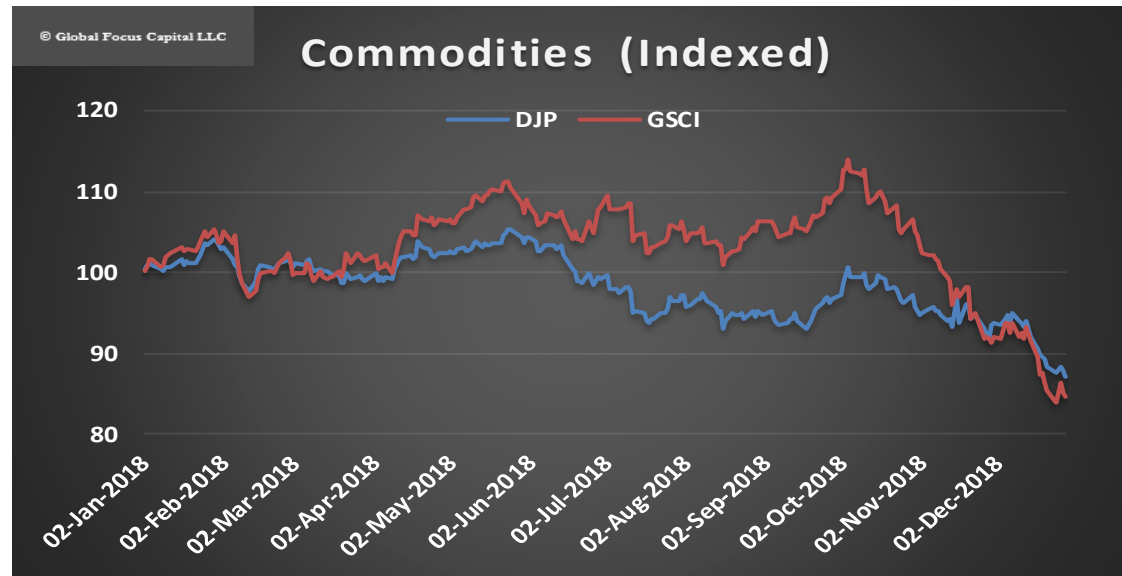
► Outlook:

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

► Valuation: Neutral

► Risk Profile: Increasing

- **Of Note:** Indices are dominated by oil, expect further volatility, slower global growth will drive demand and prices down, need an inflation spike to revive



COMMODITIES (DJP)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	19.4%	11.7%	13.1%	13.9%	12.6%
CORR TO US STOCKS	-0.03	0.31	0.52	0.73	0.49
CORR TO US BONDS	0.00	0.05	-0.22	0.03	-0.03
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.07	0.26	0.19	0.19	0.18
UP BETA	0.08	-0.07	-0.23	0.46	0.13
DOWN BETA	0.20	0.13	0.29	0.96	0.32
ST TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	BREAK OUT	UP TREND
RSI	14.4	43.1	43.3	71.9	57.3
UP DAY % (LAST 20)	30%	50%	45%	65%	55%

Real Estate

► Outlook:

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

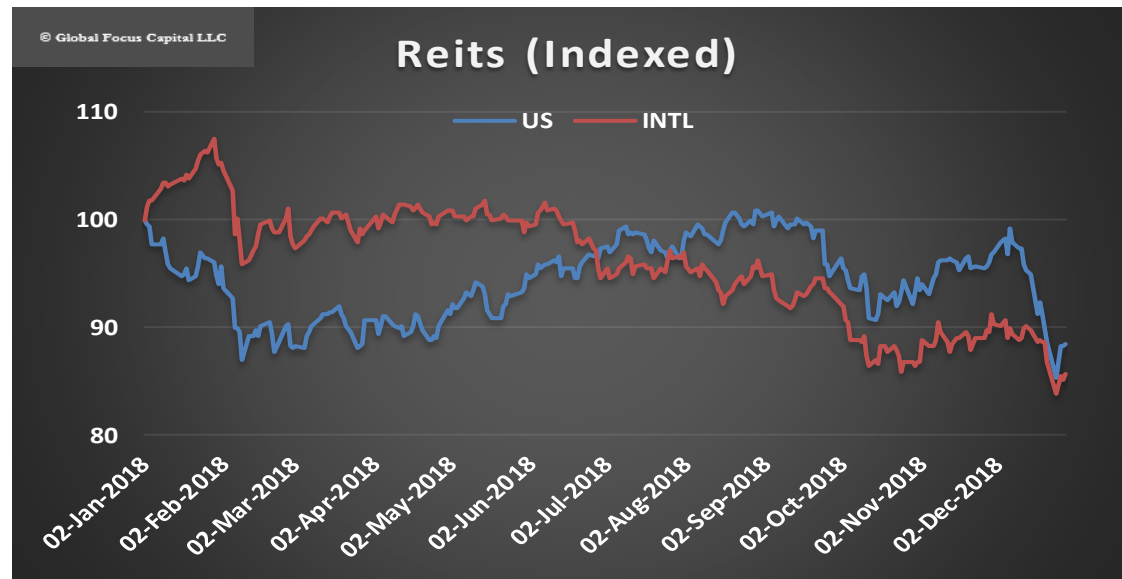
► Valuation: Stretched

► Growth: Slowing

► Income: Average

► Risk Profile: Increasing

- **Of Note:** A bad month but yields are attractive, correlations to stocks have gone up recently



US REITS (VNQ)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	16.3%	20.9%	20.5%	11.2%	23.4%
CORR TO US STOCKS	0.36	0.50	0.57	0.39	0.70
CORR TO US BONDS	-0.01	-0.15	0.05	-0.01	0.34
CORR TO COMM	-0.16	-0.08	0.25	0.04	0.17
CORR TO USD	0.36	0.17	0.09	-0.24	0.28
UP BETA	0.65	0.63	0.53	0.41	-0.01
DOWN BETA	0.72	0.40	0.25	-0.15	0.59
ST TECHNICALS	DOWN TREND	BREAK DOWN	UP TREND	DOWN TREND	BREAK DOWN
IT TECHNICALS	DOWN TREND	UP TREND	UP TREND	DETERIORATING	DOWN TREND
RSI	28.5	57.3	57.2	43.0	42.8
UP DAY % (LAST 20)	40%	55%	60%	50%	35%

This Coming Week

- ▶ The year of risk-off continues with little to offer us hope that risky assets will recover soon – there may be a spike in January but risk is being shunned at the moment
- ▶ While not comfortable, US investors should allocate more money to non-US stocks due to their lower valuations
- ▶ The strong USD will not persist much stronger as the FED appears close to the end in terms of interest rate hikes
- ▶ The Value/Growth discussion is being overshadowed by sector rotation but on a risk-adjusted basis we believe that higher allocations to Value are warranted
- ▶ We are also watching out for any 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
 - ▶ We still believe that an allocation is warranted
- ▶ Our biggest concerns revolve around blowing out interest rate spreads and a slowing global economy
- ▶ Leverage on the balance sheet of companies should be cross-checked for sustainability
- ▶ We still see a risk on/off market next year making it difficult for short-term investors – probably best to extend horizons

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
12/31/2018	Non-manufacturing PMI	China	2	0	53.4	0
12/31/2018	NBS Manufacturing PMI	China	2	0	50	49.9
12/31/2018	Dallas Fed Manufacturing Business Index	United States	2	0	17.6	0
1/2/2019	Caixin Manufacturing PMI	China	2	0	50.2	50.1
1/2/2019	Markit Manufacturing PMI	Germany	2	0	51.5	51.5
1/2/2019	Markit Manufacturing PMI	United Kingdom	2	0	53.1	52.5
1/2/2019	Markit Manufacturing PMI	United States	2	0	53.9	0
1/3/2019	PMI Construction	United Kingdom	2	0	53.4	52.9
1/3/2019	ADP Employment Change	United States	2	0	179	175
1/3/2019	Continuing Jobless Claims	United States	2	0	1,701	0
1/3/2019	Initial Jobless Claims	United States	2	0	216	0
1/3/2019	ISM Manufacturing PMI	United States	3	0	59.3	58
1/3/2019	ISM Prices Paid	United States	3	0	60.7	58
1/3/2019	Construction Spending (MoM)	United States	2	0	-0.1	0.3
1/4/2019	Caixin Services PMI	China	2	0	53.8	0
1/4/2019	Unemployment Change	Germany	2	0	-16	-12
1/4/2019	Unemployment Rate s.a.	Germany	2	0	5	5
1/4/2019	Mortgage Approvals	United Kingdom	2	0	67,086	66.5
1/4/2019	Markit Services PMI	United Kingdom	2	0	50.4	50.7
1/4/2019	Nonfarm Payrolls	United States	3	0	155	178
1/4/2019	Average Hourly Earnings (YoY)	United States	3	0	3.1	3
1/4/2019	Average Weekly Hours	United States	3	0	34.4	34.5
1/4/2019	Unemployment Rate	United States	3	0	3.7	3.7
1/4/2019	Labor Force Participation Rate	United States	3	0	62.9	0
1/4/2019	Average Hourly Earnings (MoM)	United States	3	0	0.2	0.3
1/4/2019	Markit PMI Composite	United States	2	0	53.6	54.7
1/4/2019	Markit Services PMI	United States	2	0	53.4	53.4
1/4/2019	FOMC Member Bostic speech	United States	2	0	0	0
1/4/2019	Fed's Powell Speech	United States	3	0	0	0
1/4/2019	Baker Hughes US Oil Rig Count	United States	2	0	885	0

Contact & Subscription Information

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