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INSIGHT THAT MATTERS

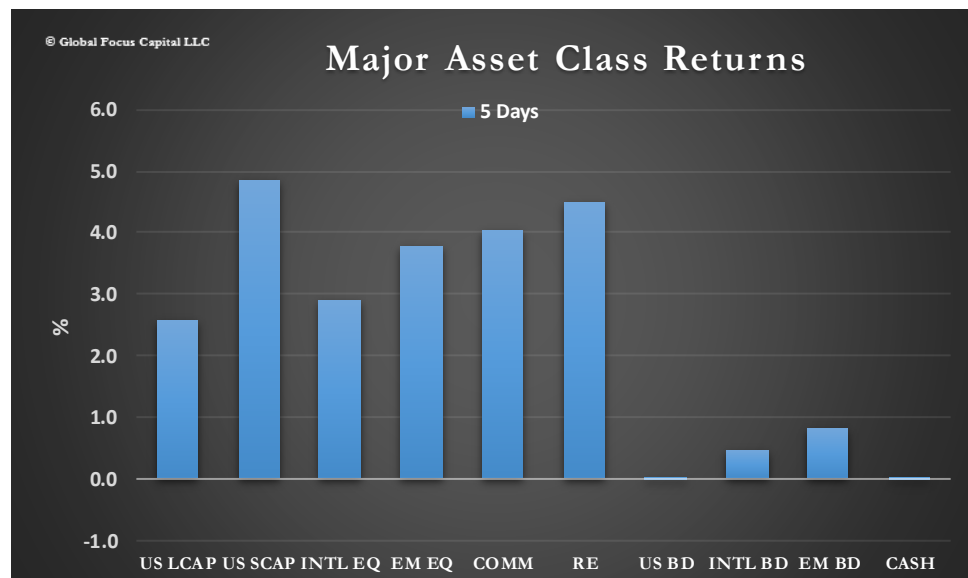
# The Asset Allocation Advisor

Weekly Review – January 13, 2019

Eric J. Weigel

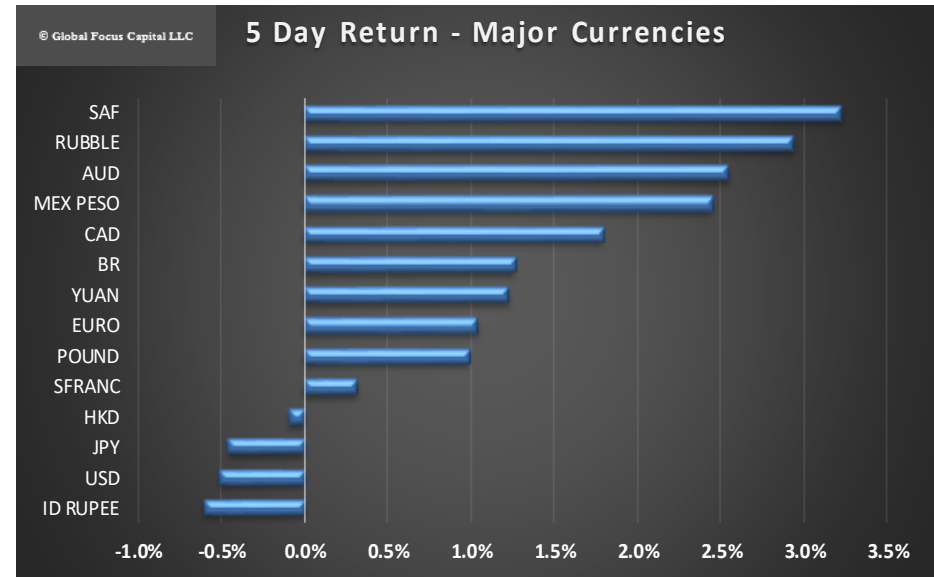
# The Week in Review

- ▶ A huge comeback for holders of risky assets such as equities, real estate and commodities
- ▶ US small caps perform the best of our major asset classes – up 4.8% for the week but still down 6% over the last 3 months
- ▶ REITS also had a huge week after a poor last couple of weeks – up 4.5% and 3.2% for 2019 thus far
- ▶ Commodity indices also made a nice comeback boosted by higher oil prices – up 7.5% for the year already
- ▶ Aggressive, domestically focused multi-asset class strategies out-performed less risky options
- ▶ In 2018 lower risk asset allocation strategies outperformed especially if allocations involved international equities but the story is reversed thus far this year
- ▶ Within equities, Growth has slightly under-performed Value but over the last year Growth remains solidly ahead
- ▶ Over the last year, Cash remains the best performing of the major asset classes



# Currencies

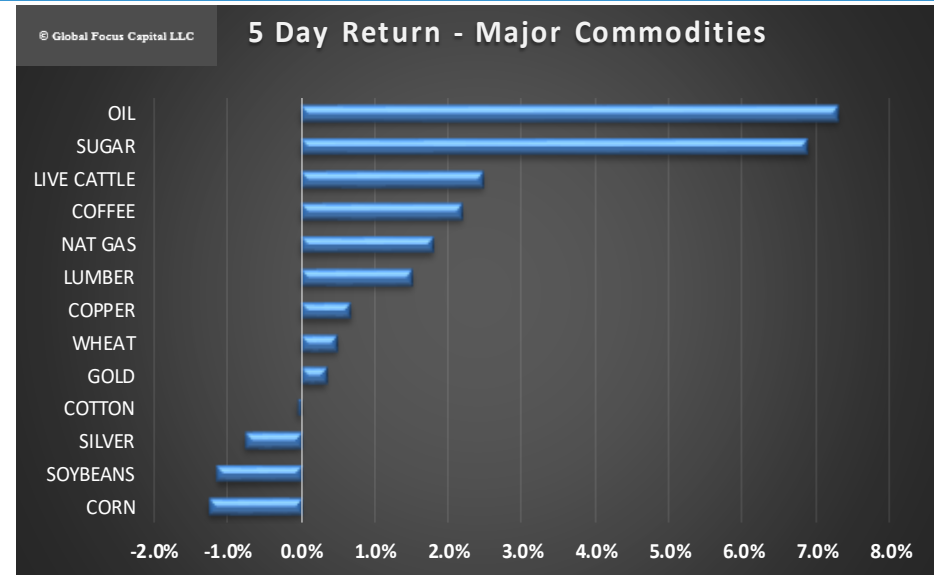
- ▶ The USD is losing some strength as budget discussions in Washington remain unresolved and the Fed has indicated being close to done with rate hikes
- ▶ A depreciating USD will boost international asset returns
- ▶ A big question mark for this coming week is what happens to Brexit (Tuesday vote)
- ▶ 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 gains last week relative to the USD as commodity prices have stabilized
- ▶ In general, FX volatility has increased substantially in the last couple of months



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

# Commodities

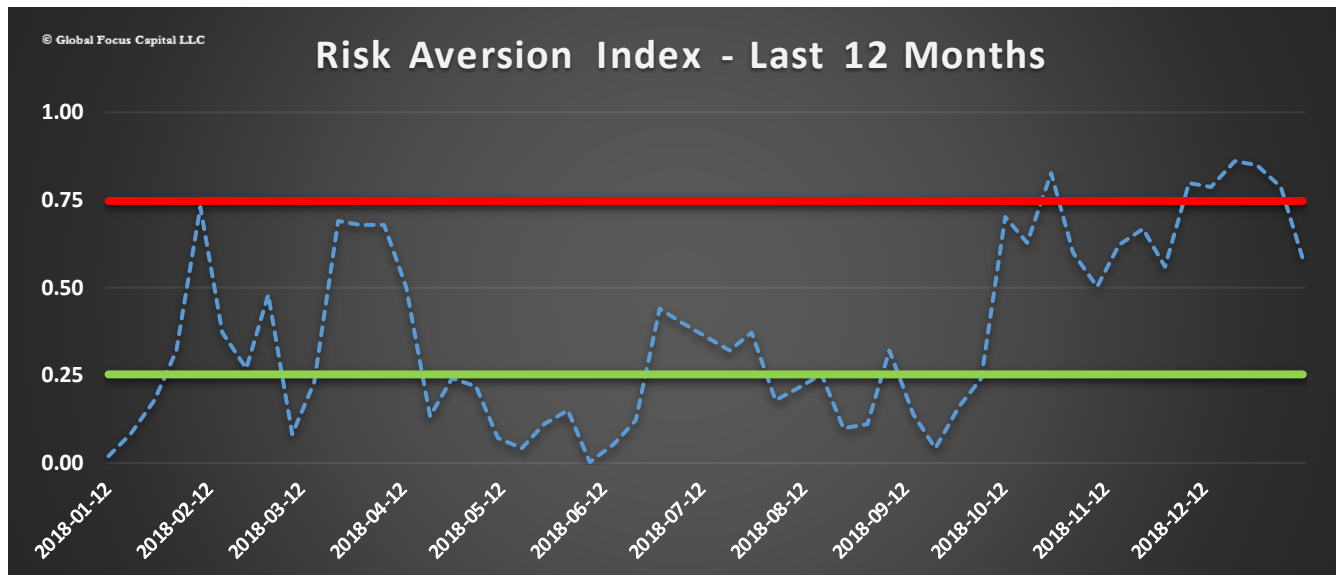
- ▶ Commodity indices continue in a Down Trend even as oil markets showed some nice gains last week
- ▶ On the flipside, grain prices went down slightly last week but have recovered from the lows of last summer
- ▶ Sugar and coffee prices recovered along with the Brazilian Real – these 2 commodities are very sensitive to the currency
- ▶ Gold and Silver are in the Break Out phase as investors have flocked to them as a hedge against equity volatility
- ▶ However, we still view US Treasuries as the best hedging option for equity risk



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

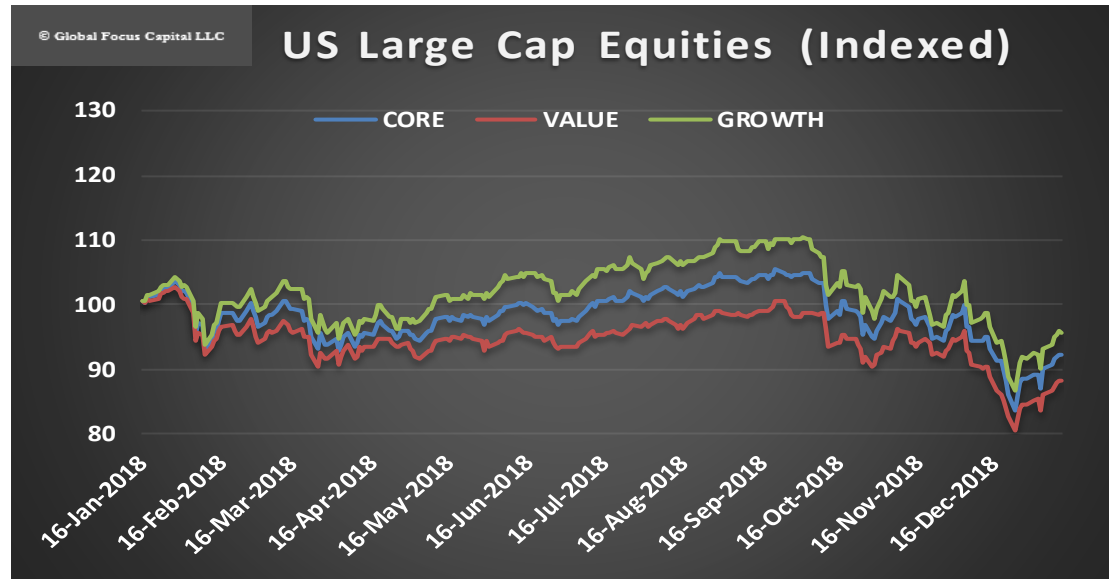
# Investor Risk Aversion Environment

- ▶ Fear from the markets seems to have abated a bit returned – our index stands in the higher end of the Normal Zone after several weeks in the Fear Zone
- ▶ Investors have become concerned about geopolitical issues affecting global growth as well the continued stand-off in DC
- ▶ We expect our RAI to remain close to the Fear Zone and a flipping back and forth indicative of a risk on/off market



# US Large Cap Equities

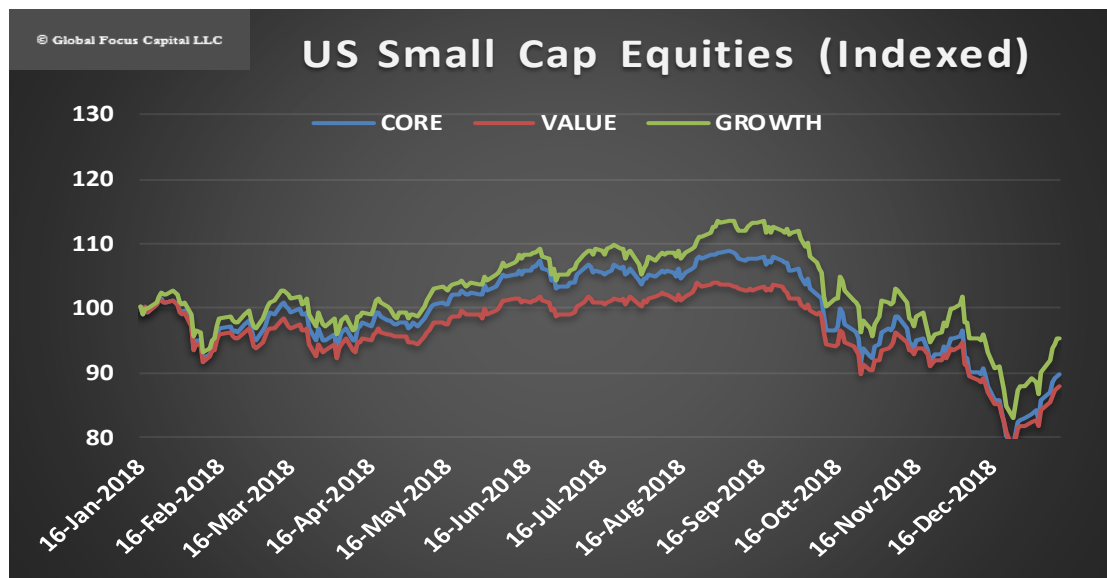
- ▶ **Outlook:**
  - ▶ Short-Term: Negative
  - ▶ Long-Term: Neutral
- ▶ **Valuation:** Stretched
- ▶ **Growth:** Average, at risk
- ▶ **Income:** Minimal
- ▶ **Risk Profile:** Increasing
- ▶ **Of Note:** Value is catching up to Growth, sector rotation is starting to take hold, time to hunt for stock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



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	29.9%	30.3%	21.9%	15.4%	18.2%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.48	-0.23	-0.22	-0.20	-0.03
CORR TO COMM	0.41	0.25	-0.04	0.57	0.46
CORR TO USD	0.19	0.11	0.19	-0.22	0.04
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	UP TREND	DOWN TREND	BREAK DOWN	DOWN TREND	BREAK DOWN
IT TECHNICALS	DOWN TREND	DOWN TREND	BREAK DOWN	BREAK DOWN	DETERIORATING
RSI	72.4	36.2	64.4	38.8	50.1
UP DAY % (LAST 20)	50%	40%	55%	40%	55%

# 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	31.0%	31.1%	24.9%	15.0%	18.4%
CORR TO US STOCKS	0.96	0.96	0.95	0.79	0.97
CORR TO US BONDS	-0.49	-0.30	-0.22	-0.26	-0.04
CORR TO COMM	0.42	0.17	-0.05	0.43	0.47
CORR TO USD	0.13	0.14	0.25	-0.22	0.14
UP BETA	1.02	1.04	1.11	0.20	0.81
DOWN BETA	0.98	0.92	1.01	0.90	0.97
ST TECHNICALS	UP TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND
RSI	79.7	21.3	43.4	35.7	50.0
UP DAY % (LAST 20)	55%	30%	40%	40%	55%

# International Developed Markets

## ▶ Outlook:

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

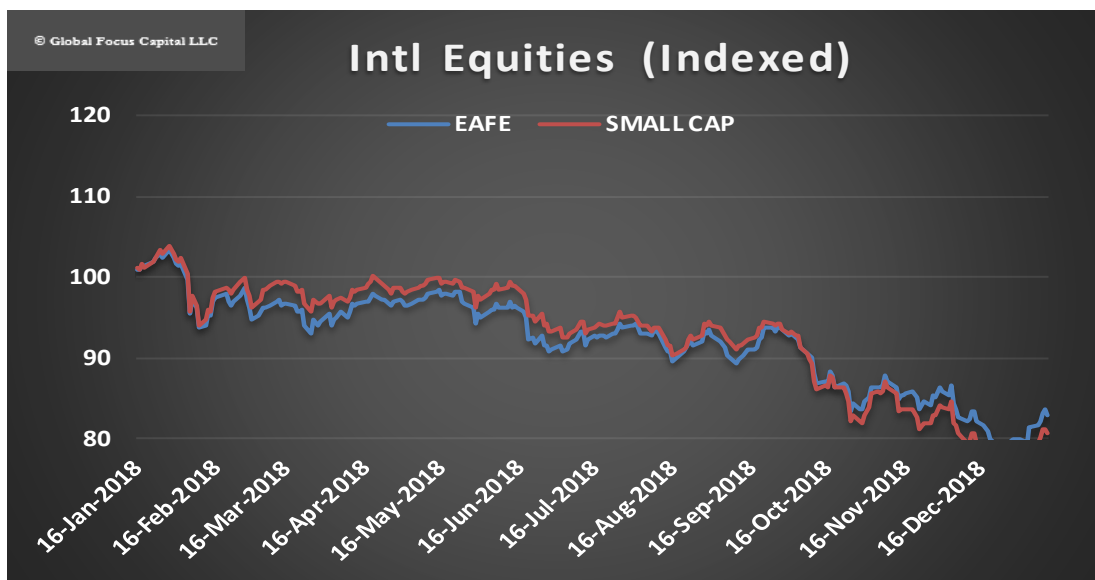
## ▶ Valuation: Neutral

## ▶ 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	18.2%	18.2%	17.6%	11.3%	13.4%
CORR TO US STOCKS	0.84	0.90	0.91	0.79	0.94
CORR TO US BONDS	-0.36	0.12	-0.53	0.24	0.00
CORR TO COMM	0.22	0.22	0.10	0.52	0.48
CORR TO USD	-0.05	0.19	-0.01	-0.35	-0.09
UP BETA	0.66	0.62	0.76	0.82	0.65
DOWN BETA	0.62	0.60	0.73	1.09	0.86
ST TECHNICALS	UP TREND	DOWN TREND	DOWN TREND	DOWN TREND	DETERIORATING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	64.8	28.6	43.0	21.6	50.1
UP DAY % (LAST 20)	45%	30%	50%	40%	60%



# International Emerging Markets

## ▶ Outlook:

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

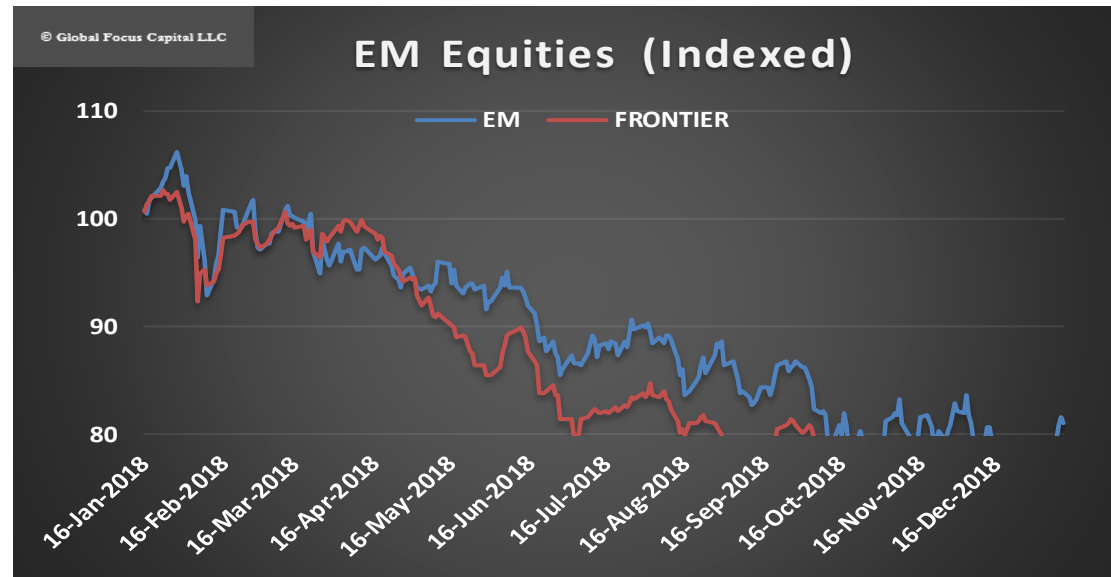
## ▶ Valuation: Inexpensive

## ▶ Growth: Average

## ▶ Income: Neutral

## ▶ Risk Profile: Increasing

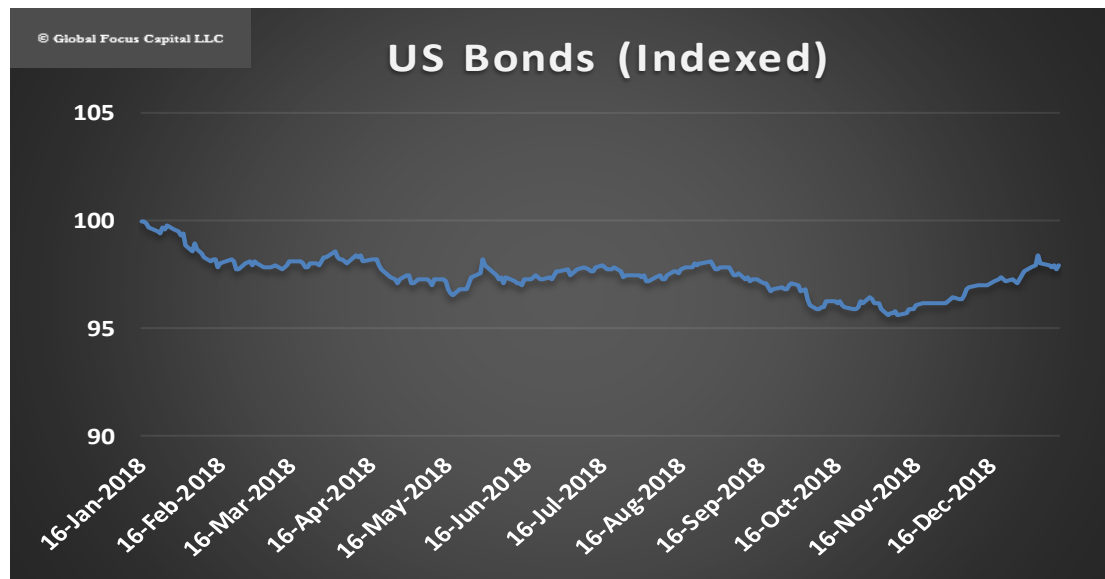
## ▶ Of Note: trade war fears, currency depreciation, in recovery mode, showing improvement



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	22.8%	25.5%	29.0%	17.9%	24.2%
CORR TO US STOCKS	0.86	0.80	0.79	0.71	0.94
CORR TO US BONDS	-0.25	0.23	-0.41	0.18	-0.16
CORR TO COMM	0.14	0.18	0.10	0.58	0.53
CORR TO USD	-0.19	-0.15	-0.16	-0.28	0.06
UP BETA	0.70	0.72	1.20	1.89	1.17
DOWN BETA	0.65	0.57	0.77	1.33	0.92
ST TECHNICALS	UP TREND	DOWN TREND	BREAK DOWN	DOWN TREND	DOWN TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	BREAK DOWN
RSI	57.7	28.7	50.1	36.3	43.2
UP DAY % (LAST 20)	45%	30%	55%	50%	50%

# US Bonds

- ▶ **Outlook:**
  - ▶ Short-Term: Positive
  - ▶ 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	2.5%	2.9%	3.0%	2.6%	3.7%
CORR TO US STOCKS	-0.36	-0.25	0.01	-0.06	-0.19
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	-0.01	-0.18	-0.11	0.15	-0.08
CORR TO USD	0.08	-0.06	0.05	-0.24	0.05
UP BETA	-0.04	0.00	0.06	0.17	-0.04
DOWN BETA	-0.05	-0.04	-0.06	-0.13	-0.03
ST TECHNICALS	UP TREND	UP TREND	UP TREND	IMPROVING	DOWN TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND
RSI	57.2	71.4	64.3	42.9	43.0
UP DAY % (LAST 20)	65%	70%	65%	40%	45%

# International Developed Bonds

## ▶ Outlook:

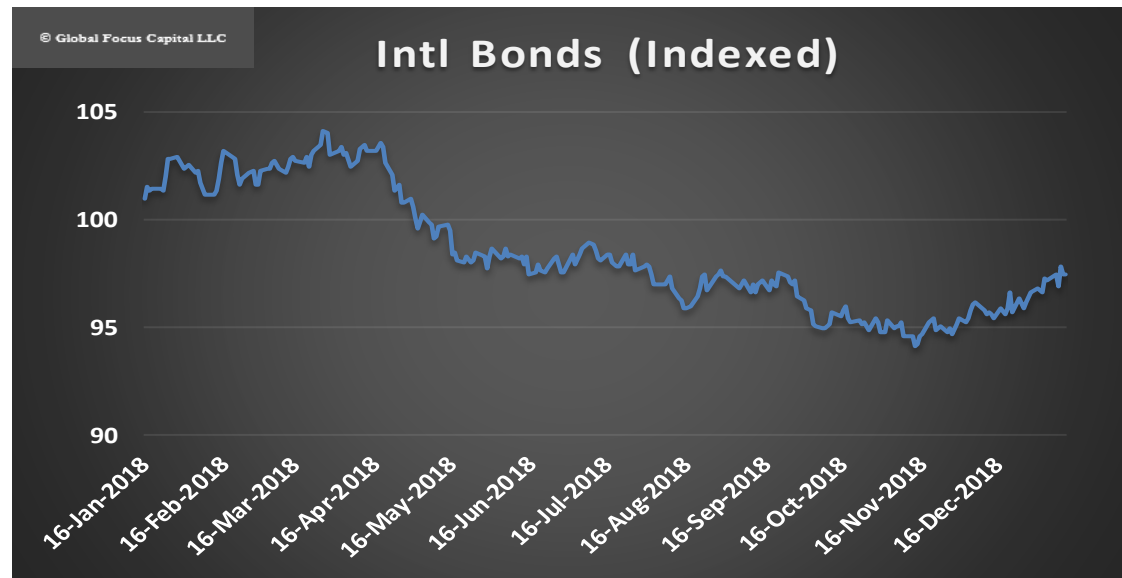
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

## ▶ 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	5.5%	4.9%	5.8%	5.2%	6.2%
CORR TO US STOCKS	-0.15	-0.26	-0.07	0.11	0.23
CORR TO US BONDS	0.47	0.62	0.58	0.00	0.23
CORR TO COMM	0.33	-0.23	-0.12	0.54	0.71
CORR TO USD	0.24	0.07	-0.04	-0.13	0.09
UP BETA	-0.03	0.04	0.20	0.25	0.13
DOWN BETA	-0.06	-0.05	-0.05	0.23	0.09
ST TECHNICALS	UP TREND	UP TREND	UP TREND	IMPROVING	DOWN TREND
IT TECHNICALS	BREAK OUT	IMPROVING	IMPROVING	DOWN TREND	DETERIORATING
RSI	53.9	50.1	64.4	38.5	57.3
UP DAY % (LAST 20)	50%	60%	70%	30%	55%

# International Emerging Bonds

## ▶ Outlook:

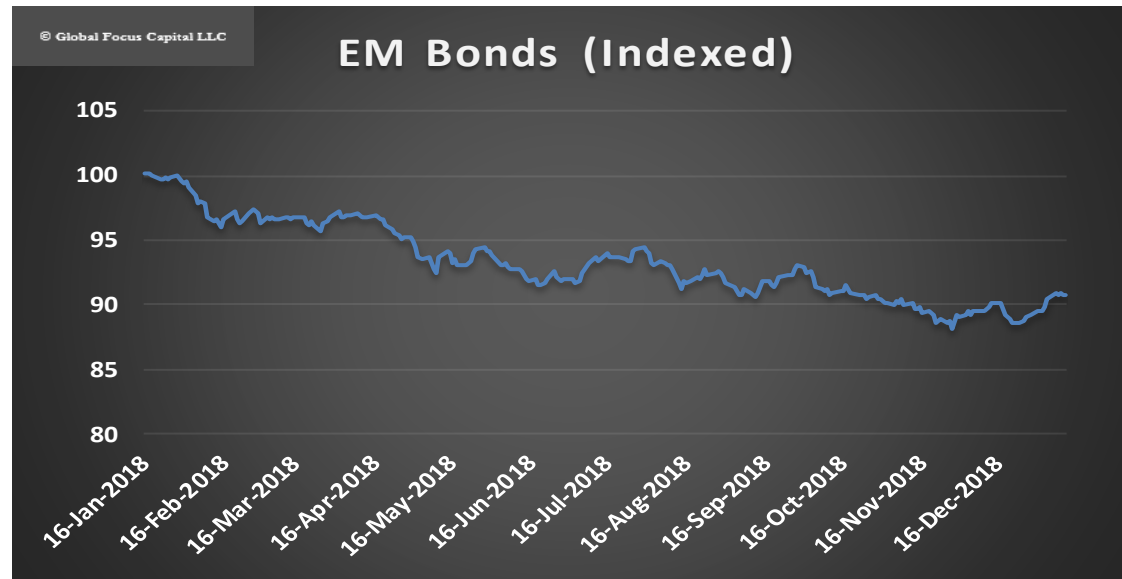
- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

## ▶ 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	5.0%	6.5%	6.6%	5.8%	4.3%
CORR TO US STOCKS	0.43	0.34	0.41	0.61	0.00
CORR TO US BONDS	0.74	0.68	0.44	0.38	0.00
CORR TO COMM	0.15	-0.17	0.02	0.55	0.00
CORR TO USD	0.14	0.09	-0.29	0.61	0.00
UP BETA	0.14	0.14	0.23	0.50	0.13
DOWN BETA	0.02	0.05	0.10	0.22	0.21
ST TECHNICALS	UP TREND	DOWN TREND	UP TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND
RSI	69.3	61.7	69.4	50.0	25.2
UP DAY % (LAST 20)	60%	60%	55%	55%	35%

# Commodities

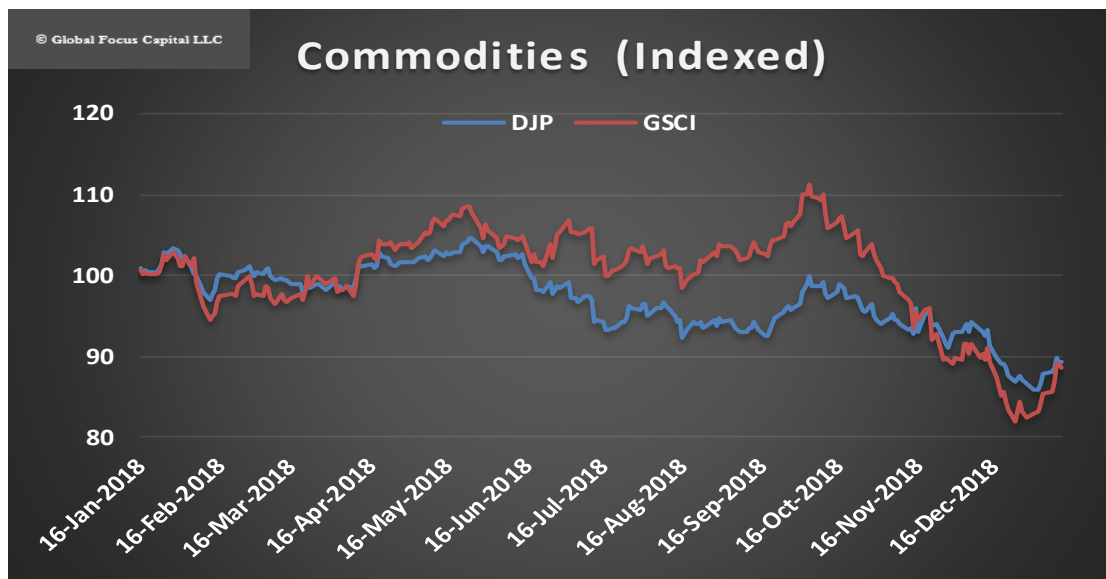
## ▶ Outlook:

- ▶ Short-Term: Neutral
- ▶ 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	23.1%	16.6%	12.2%	12.9%	9.6%
CORR TO US STOCKS	0.03	0.10	0.34	0.83	0.46
CORR TO US BONDS	0.05	-0.01	-0.10	-0.17	-0.26
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	0.01	0.02	-0.02	-0.15	-0.07
UP BETA	0.21	0.08	-0.11	0.48	0.04
DOWN BETA	0.11	0.20	0.11	1.11	0.30
ST TECHNICALS	BREAK OUT	DOWN TREND	DOWN TREND	UP TREND	DETERIORATING
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	BREAK OUT	UP TREND
RSI	57.3	21.8	43.1	64.4	50.0
UP DAY % (LAST 20)	45%	35%	45%	75%	50%

# Real Estate

## ▶ Outlook:

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

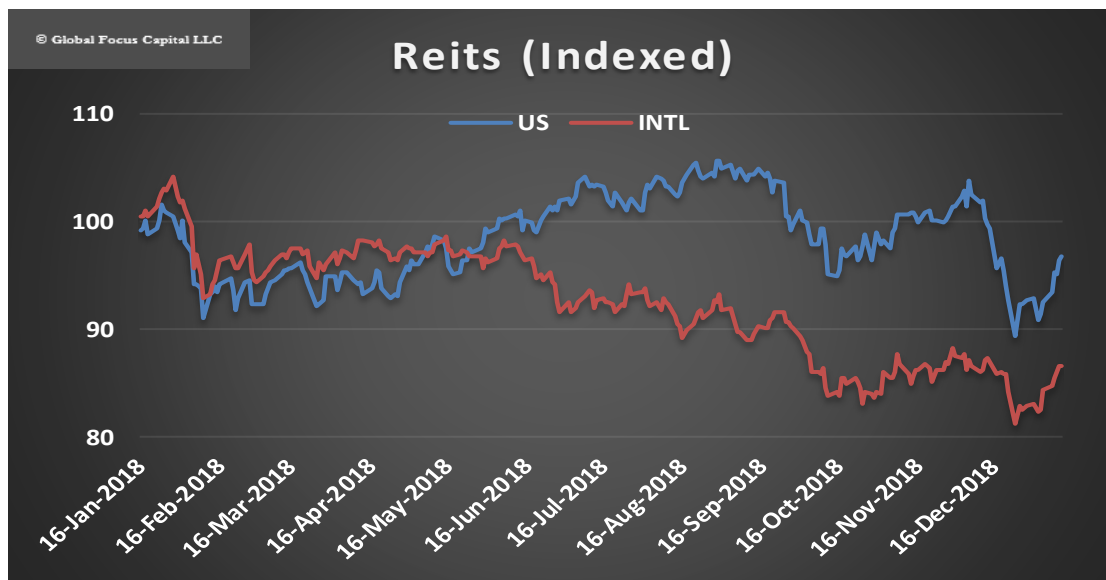
## ▶ Valuation: Stretched

## ▶ 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	11.1%	16.2%	21.1%	10.4%	15.4%
CORR TO US STOCKS	0.46	0.44	0.56	0.31	0.54
CORR TO US BONDS	0.14	-0.01	-0.07	0.03	0.62
CORR TO COMM	0.09	-0.19	0.05	0.14	-0.01
CORR TO USD	-0.16	-0.17	0.08	-0.04	-0.25
UP BETA	0.62	0.65	0.61	0.29	0.09
DOWN BETA	0.68	0.68	0.42	-0.13	0.59
ST TECHNICALS	BREAK OUT	DOWN TREND	BREAK DOWN	DOWN TREND	DOWN TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	UP TREND	BREAK DOWN	DOWN TREND
RSI	64.7	21.5	64.4	36.0	35.8
UP DAY % (LAST 20)	50%	40%	55%	35%	40%

# This Coming Week

- ▶ While risky assets recovered last week we still think that 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 longer 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
- ▶ 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 this year making it difficult for short-term investors – probably best to extend horizons
- ▶ In general, investors seem very pessimistic making contrarian plays interesting from a tactical perspective
- ▶ In this environment of fear it is best to allocate capital to specific assets rather than asset classes

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
1/14/2019	Exports (YoY)	China	2	0	5.4	3
1/14/2019	Exports (YoY) CNY	China	2	0	10.2	0
1/14/2019	Imports (YoY) CNY	China	2	0	7.8	0
1/14/2019	Trade Balance USD	China	2	0	44.71	51.53
1/14/2019	Imports (YoY)	China	2	0	3	5
1/14/2019	Trade Balance CNY	China	2	0	306.04	0
1/14/2019	FDI - Foreign Direct Investment (YTD) (YoY)	China	2	0	-1.3	0
1/15/2019	UK Parliamentary vote on Brexit	United Kingdom	3	0	0	0
1/15/2019	Producer Price Index ex Food & Energy (YoY)	United States	2	0	2.7	2.7
1/15/2019	Machinery Orders (MoM)	Japan	2	0	7.6	3.5
1/15/2019	Machinery Orders (YoY)	Japan	2	0	4.5	0.4
1/16/2019	Harmonized Index of Consumer Prices (YoY)	Germany	3	0	1.7	1.7
1/16/2019	Retail Price Index (MoM)	United Kingdom	2	0	0	0.5
1/16/2019	Retail Price Index (YoY)	United Kingdom	2	0	3.2	2.8
1/16/2019	Producer Price Index - Input (YoY) n.s.a	United Kingdom	2	0	5.6	4.6
1/16/2019	PPI Core Output (YoY) n.s.a	United Kingdom	2	0	2.4	0
1/16/2019	Consumer Price Index (MoM)	United Kingdom	2	0	0.2	0.2
1/16/2019	Core Consumer Price Index (YoY)	United Kingdom	3	0	1.8	1.8
1/16/2019	Consumer Price Index (YoY)	United Kingdom	3	0	2.3	2.2
1/16/2019	Retail Sales ex Autos (MoM)	United States	3	0	0.2	0.2
1/16/2019	Retail Sales (MoM)	United States	2	0	0.2	0.2
1/16/2019	Retail Sales control group	United States	3	0	0.9	0
1/16/2019	Fed's Beige Book	United States	2	0	0	0
1/17/2019	Initial Jobless Claims	United States	2	0	216	0
1/17/2019	Continuing Jobless Claims	United States	2	0	1,722	0
1/17/2019	Philadelphia Fed Manufacturing Survey	United States	2	0	9.4	10
1/17/2019	National CPI Ex Food, Energy (YoY)	Japan	2	0	0.3	0
1/17/2019	National CPI Ex-Fresh Food (YoY)	Japan	2	0	0.9	0.8
1/17/2019	National Consumer Price Index (YoY)	Japan	2	0	0.8	0
1/17/2019	Foreign investment in Japan stocks	Japan	2	0	-248.5	0
1/18/2019	Industrial Production (YoY)	Japan	2	0	1.4	0
1/18/2019	Retail Sales ex-Fuel (MoM)	United Kingdom	2	0	1.2	-0.5
1/18/2019	Retail Sales ex-Fuel (YoY)	United Kingdom	2	0	3.8	4
1/18/2019	Retail Sales (YoY)	United Kingdom	2	0	3.6	3.5
1/18/2019	Retail Sales (MoM)	United Kingdom	2	0	1.4	-0.7

# Contact & Subscription Information

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