



**GLOBAL FOCUS CAPITAL LLC**

INSIGHT THAT MATTERS

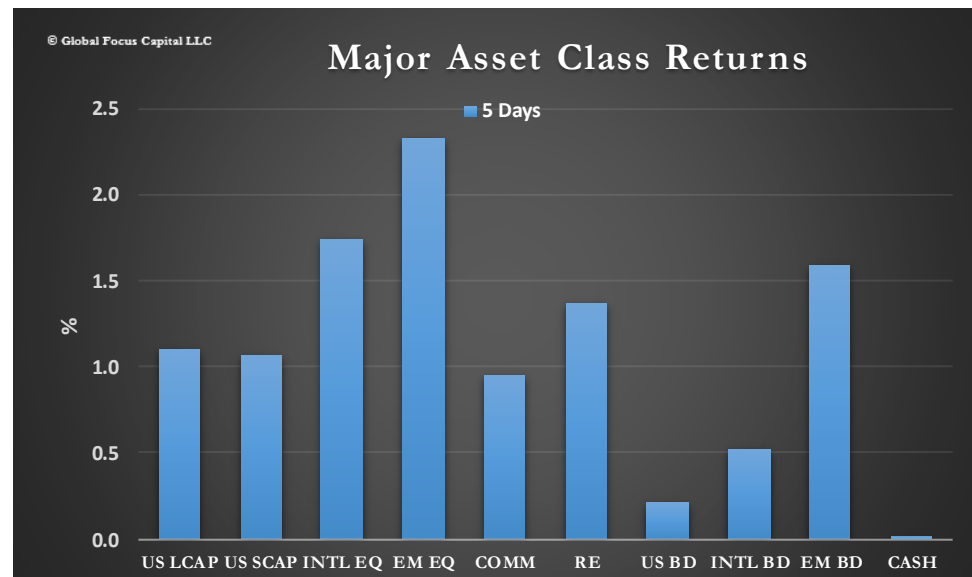
# The Asset Allocation Advisor

Weekly Review – January 27, 2019

Eric J. Weigel

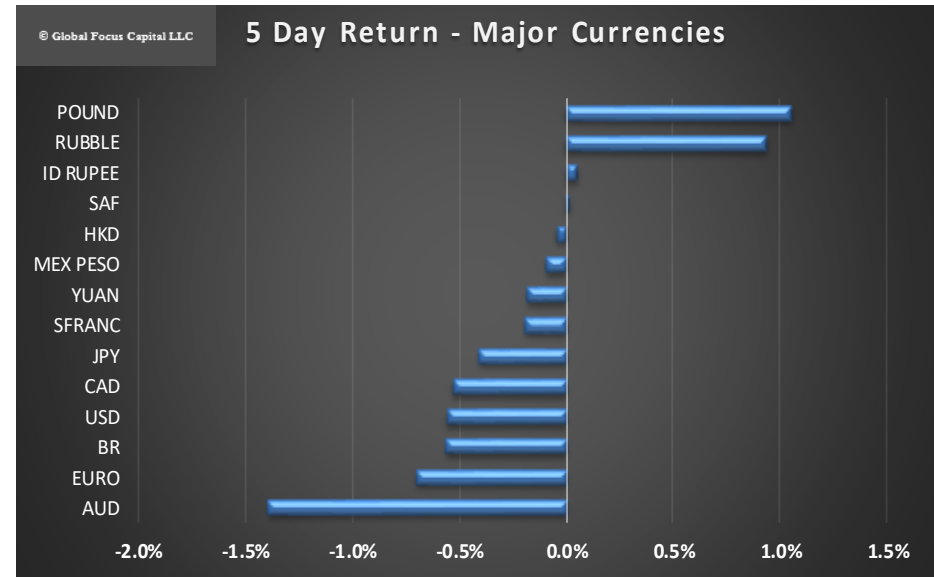
# The Week in Review

- ▶ The comeback for holders of risky assets such as equities, real estate and commodities continues
- ▶ EM equities perform the best of our major asset classes – up 2.3% for the week and over 9% over the last 3 months
- ▶ Developed international equities also had a huge week – up 1.7% and 5% for 2019 thus far
- ▶ Commodity indices also made a nice comeback boosted by higher oil prices – up 9.4% 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 in 2019 but over the last year Growth remains solidly ahead
- ▶ Over the last year, only Cash and US Reits exhibit positive returns



# Currencies

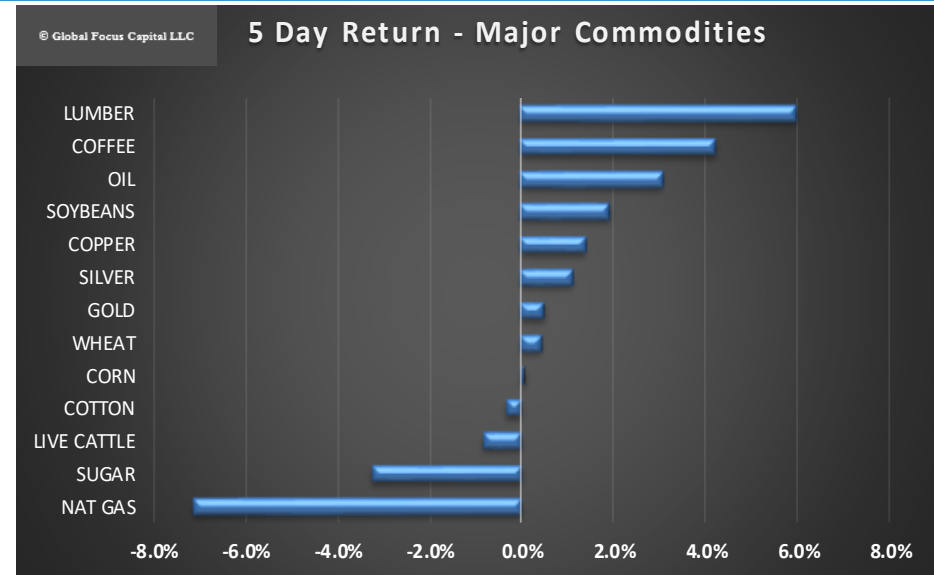
- ▶ The USD is losing some strength as budget discussions in Washington remain unresolved and the Fed has indicated being close to done with rate hikes
- ▶ A depreciating USD will boost international asset returns – we expect this effect to persist in 2019
- ▶ A big question mark for this coming week is what happens to Brexit (yet again) but sterling is showing strength
- ▶ The Yen is now in a Break Out phase as investors remain risk averse and the Yen is usually considered the “safe” trade
- ▶ Resource oriented currencies experienced losses last week relative to the USD despite firmer commodity prices
- ▶ 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	DOWN TREND
HKD	BREAK DOWN
SAF	BREAK OUT
BR	UP TREND
SFRANC	DOWN TREND
YUAN	IMPROVING
USD	DETERIORATING
POUND	BREAK OUT
JPY	BREAK OUT
RUBBLE	IMPROVING
MEX PESO	BREAK OUT

# Commodities

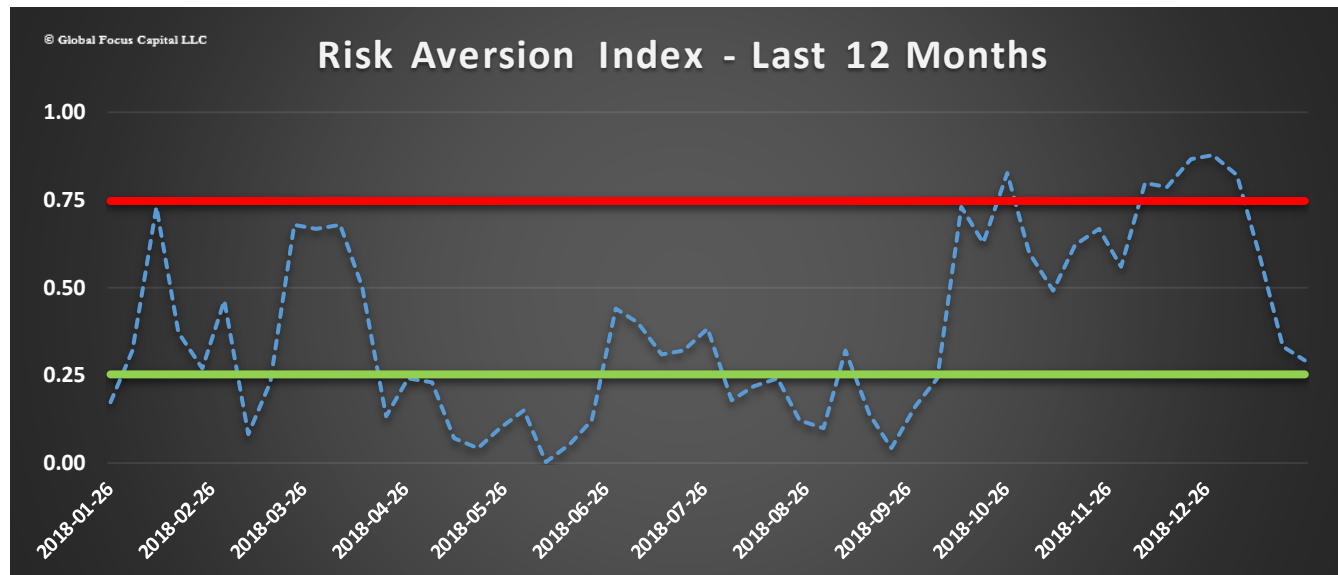
- ▶ Commodity indices continue in a Down Trend even as oil markets showed continued gains last week
- ▶ Grain prices have also continued their upward path from the lows of last summer
- ▶ Gold and Silver are in the Break Out phase as investors have flocked to them as a hedge against equity volatility
- ▶ However, we still view US Treasuries as the best hedging option for equity risk



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

# Investor Risk Aversion Environment

- ▶ Fear from the markets seems to have abated – our index stands in the lower end of the Normal Zone
- ▶ Investors have become concerned about geopolitical issues affecting global growth as well the continued stand-off in DC but over the course of 2019 these fears have been ignored
- ▶ We expect our RAI to remain volatile with a flipping back and forth indicative of a risk on/off market



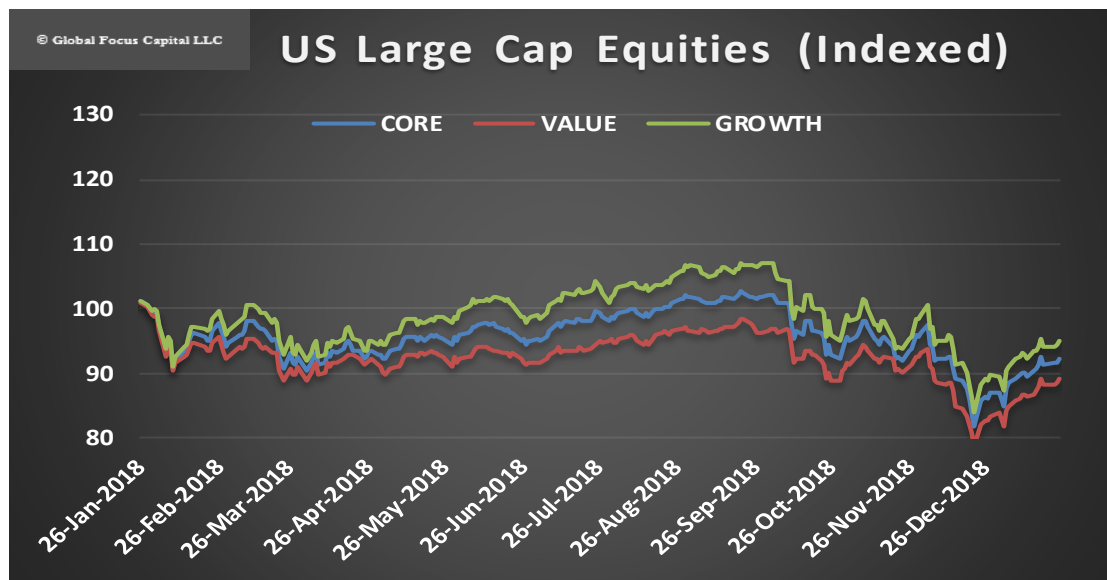
# Current Major Asset Class Correlations

- ▶ Correlations tend to drop as capital market fears dissipate
- ▶ Given our RAI index (in the lower end of the Normal Zone) we currently see asset class volatilities and correlations dropping
- ▶ The best hedge to equity risk remains holding bonds

GF CAP Regime Corr	US LCAP	US SCAP	INTL EQ	EM EQ	COMM	RE	US BD	INTL BD	EM BD	CASH
US LCAP	1	0.83	0.73	0.64	0.19	0.61	-0.11	-0.13	0.36	-0.12
US SCAP	0.83	1	0.67	0.64	0.21	0.64	-0.13	-0.12	0.34	-0.13
INTL	0.73	0.67	1	0.80	0.38	0.50	0.03	0.18	0.44	-0.14
EM EQ	0.64	0.64	0.80	1	0.39	0.47	0.04	0.07	0.54	-0.13
COMM	0.19	0.21	0.38	0.39	1	0.15	0.05	0.26	0.27	-0.02
RE	0.61	0.64	0.50	0.47	0.15	1	-0.01	-0.02	0.32	-0.12
US BD	-0.11	-0.13	0.03	0.04	0.05	-0.01	1	0.47	0.43	-0.03
INTL BD	-0.13	-0.12	0.18	0.07	0.26	-0.02	0.47	1	0.20	-0.01
EM BD	0.36	0.34	0.44	0.54	0.27	0.32	0.43	0.20	1	-0.04
CASH	-0.12	-0.13	-0.14	-0.13	-0.02	-0.12	-0.03	-0.01	-0.04	1

# 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	23.4%	29.9%	30.8%	21.8%	12.3%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.50	-0.50	-0.23	-0.25	-0.03
CORR TO COMM	0.56	0.38	0.27	0.56	0.36
CORR TO USD	0.27	0.19	0.05	0.03	-0.17
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	BREAK OUT	DOWN TREND	DOWN TREND	BREAK OUT
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN	DETERIORATING
RSI	85.7	65.2	29.0	28.7	46.2
UP DAY % (LAST 20)	80%	50%	40%	30%	50%

# US Small Cap Equities

## ► Outlook:

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

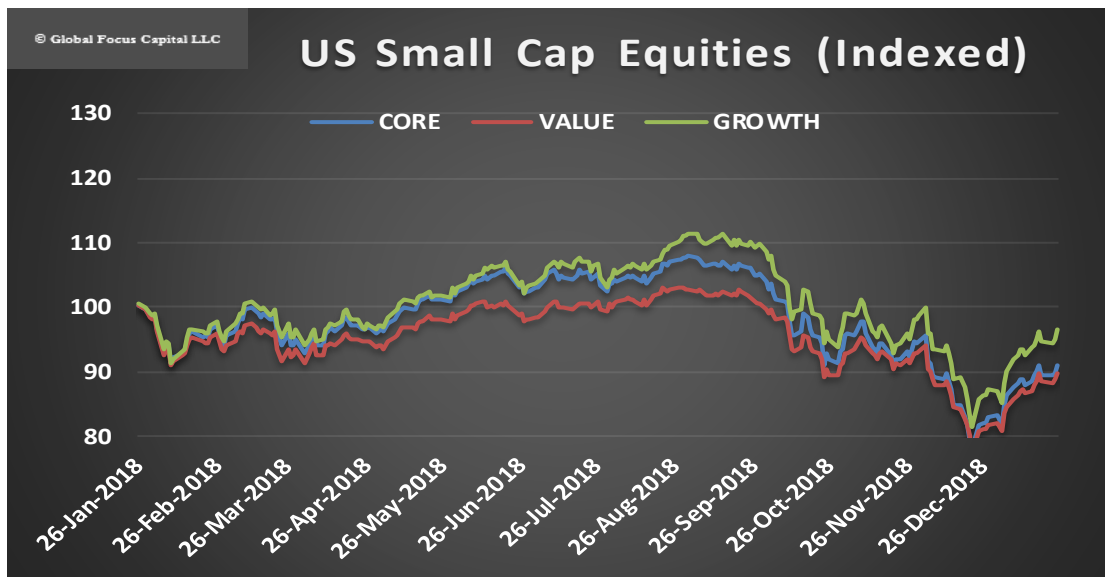
## ► Valuation: Neutral

## ► Growth: Average but at risk

## ► Income: Minimal

## ► Risk Profile: Increasing

## ► Of Note: Expect a continued recovery versus large cap stocks



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	23.3%	31.0%	31.6%	23.9%	11.6%
CORR TO US STOCKS	0.97	0.96	0.94	0.88	0.84
CORR TO US BONDS	-0.50	-0.51	-0.28	-0.27	-0.14
CORR TO COMM	0.60	0.39	0.19	0.44	0.35
CORR TO USD	0.22	0.14	0.09	0.17	-0.11
UP BETA	0.98	1.02	1.03	1.00	0.76
DOWN BETA	1.01	0.98	0.94	1.01	0.97
ST TECHNICALS	UP TREND	UP TREND	DOWN TREND	DOWN TREND	BREAK OUT
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN	UP TREND
RSI	78.6	72.6	14.3	28.6	43.0
UP DAY % (LAST 20)	80%	55%	25%	25%	55%



# International Developed Markets

## ► Outlook:

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

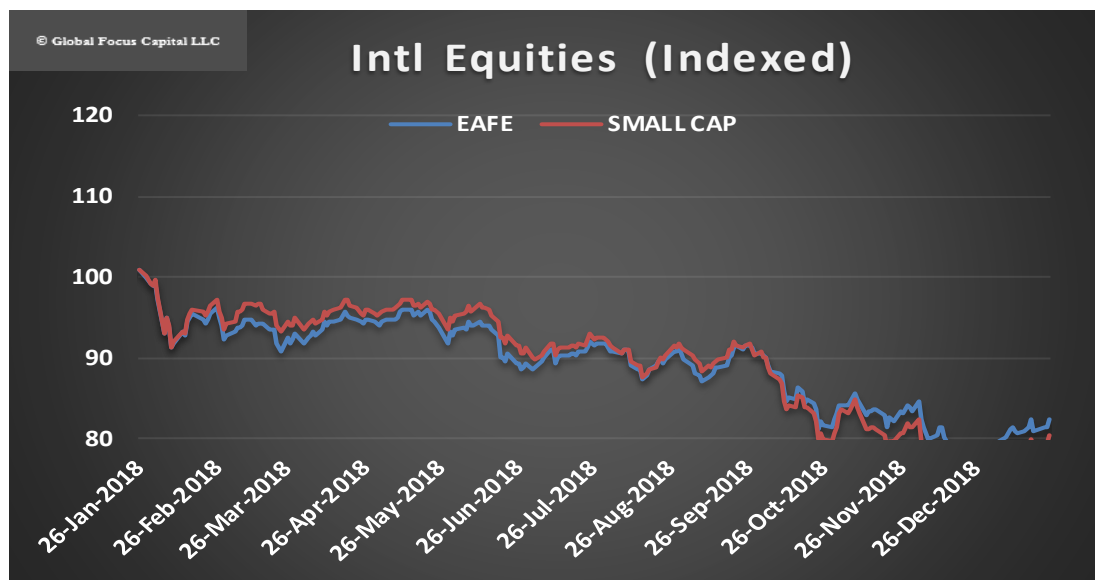
## ► Valuation: Neutral

## ► 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	20.8%	18.3%	18.0%	9.6%	13.9%
CORR TO US STOCKS	0.87	0.84	0.85	0.71	0.94
CORR TO US BONDS	-0.40	-0.33	0.03	0.30	-0.08
CORR TO COMM	0.26	0.20	0.21	0.08	0.61
CORR TO USD	-0.01	0.01	0.10	-0.28	0.11
UP BETA	0.62	0.63	0.62	0.80	0.62
DOWN BETA	0.58	0.62	0.62	1.34	0.83
ST TECHNICALS	UP TREND	UP TREND	DOWN TREND	DOWN TREND	BREAK OUT
IT TECHNICALS	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	78.7	65.0	21.6	28.6	42.9
UP DAY % (LAST 20)	75%	50%	25%	25%	55%

# International Emerging Markets

## ► Outlook:

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

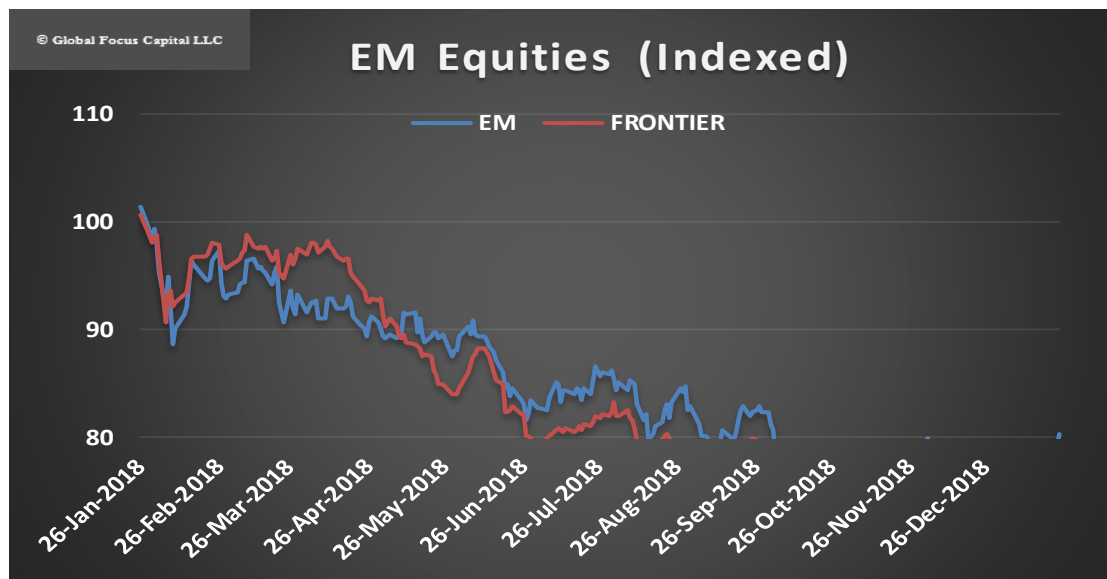
## ► Valuation: Inexpensive

## ► Growth: Average

## ► Income: Neutral

## ► Risk Profile: Increasing

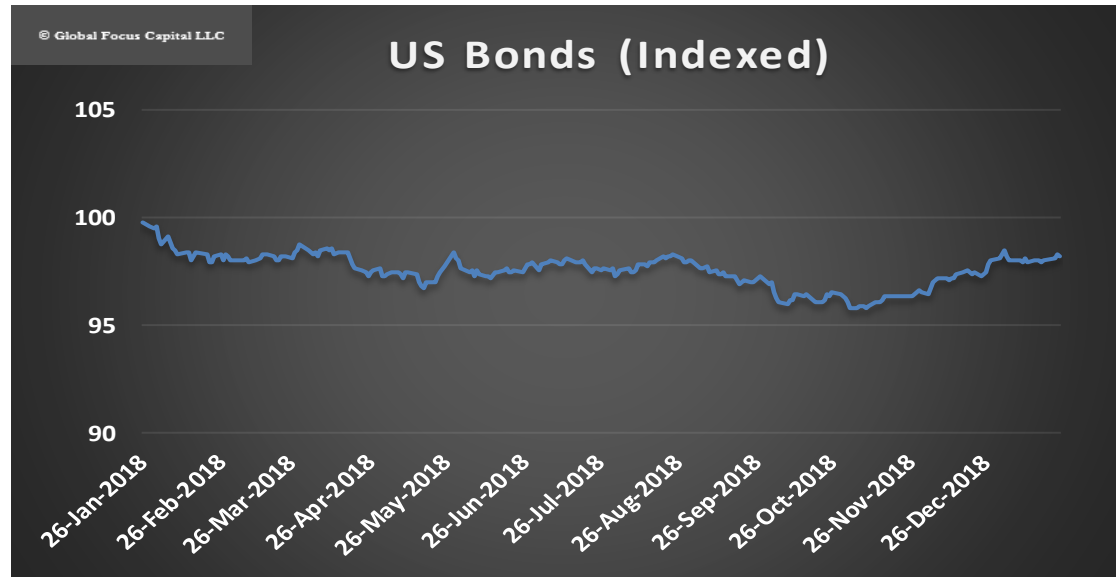
## ► Of Note: trade war fears, currency depreciation, in recovery mode, showing improvement



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	22.1%	22.9%	25.3%	15.5%	24.9%
CORR TO US STOCKS	0.74	0.86	0.78	0.64	0.92
CORR TO US BONDS	-0.50	-0.18	0.03	0.27	-0.18
CORR TO COMM	0.20	0.15	0.17	-0.02	0.60
CORR TO USD	-0.04	-0.14	-0.20	-0.02	0.11
UP BETA	0.56	0.67	0.71	1.39	1.24
DOWN BETA	0.52	0.65	0.59	2.11	0.90
ST TECHNICALS	UP TREND	UP TREND	DOWN TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN
RSI	78.7	64.9	28.6	36.0	28.6
UP DAY % (LAST 20)	70%	50%	35%	35%	40%

# 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	2.4%	2.5%	3.1%	2.3%	2.8%
CORR TO US STOCKS	-0.38	-0.42	-0.10	-0.10	0.14
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.00	-0.04	-0.14	0.04	0.04
CORR TO USD	-0.09	0.06	-0.09	-0.15	-0.06
UP BETA	-0.06	-0.04	0.00	0.08	0.00
DOWN BETA	-0.05	-0.04	-0.04	-0.19	-0.03
ST TECHNICALS	UP TREND	DETERIORATING	DETERIORATING	BREAK OUT	DOWN TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND
RSI	50.0	50.0	71.4	50.0	38.5
UP DAY % (LAST 20)	60%	60%	70%	40%	45%

# International Developed Bonds

## ► Outlook:

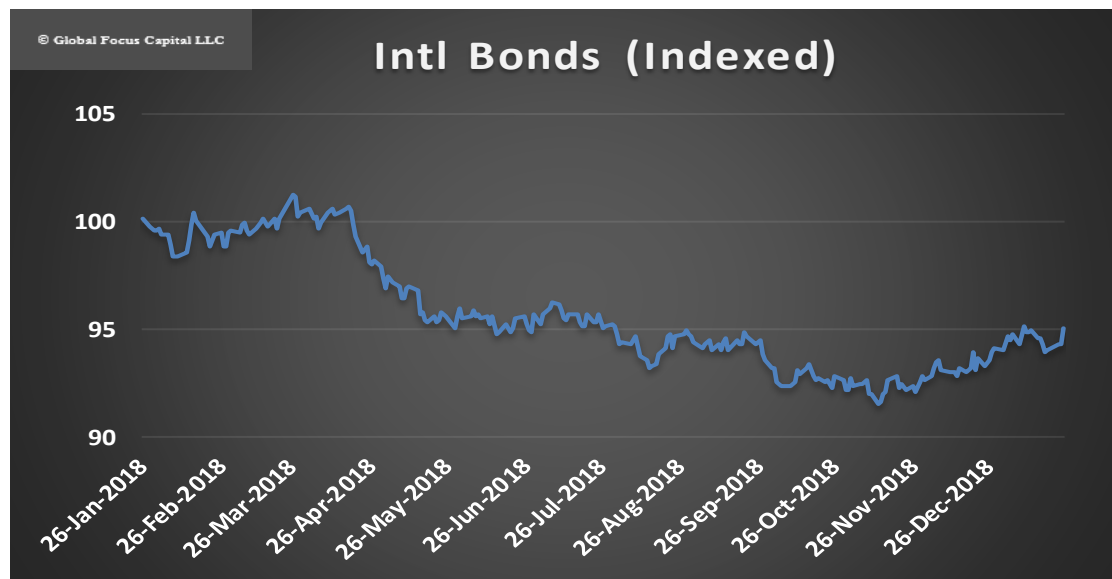
- Short-Term: Negative
- Long-Term: Negative

## ► 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	5.8%	5.0%	5.0%	5.9%	6.7%
CORR TO US STOCKS	0.15	-0.19	-0.31	0.31	0.21
CORR TO US BONDS	0.36	0.47	0.61	0.15	0.27
CORR TO COMM	0.39	0.32	-0.25	0.38	0.63
CORR TO USD	-0.05	0.25	0.03	-0.13	0.25
UP BETA	-0.06	-0.03	0.05	0.11	0.15
DOWN BETA	-0.05	-0.06	-0.05	0.10	0.07
ST TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	IMPROVING	IMPROVING	DOWN TREND	BREAK DOWN
RSI	53.9	57.2	50.1	57.2	21.5
UP DAY % (LAST 20)	55%	55%	55%	40%	35%

# International Emerging Bonds

## ► Outlook:

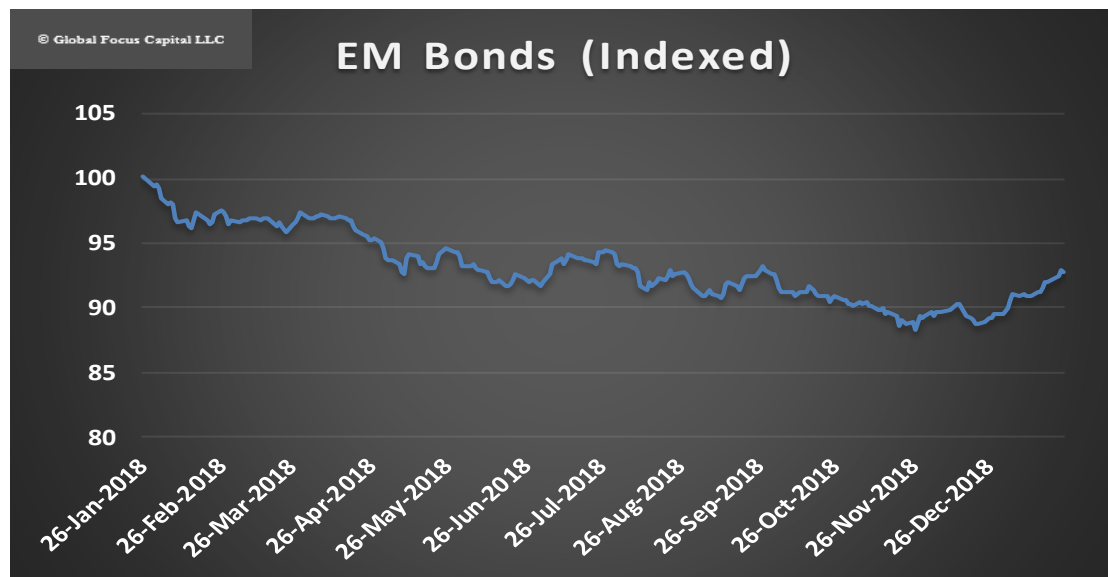
- Short-Term: Neutral
- Long-Term: Neutral

## ► 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	4.5%	5.5%	6.6%	5.4%	6.2%
CORR TO US STOCKS	0.45	0.40	0.19	0.43	0.00
CORR TO US BONDS	0.53	0.74	0.69	0.43	0.00
CORR TO COMM	0.33	0.22	-0.19	0.59	0.00
CORR TO USD	0.13	0.11	0.07	0.02	0.00
UP BETA	0.10	0.14	0.14	0.27	0.19
DOWN BETA	0.00	0.02	0.05	0.13	0.23
ST TECHNICALS	UP TREND	UP TREND	BREAK DOWN	DOWN TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND	DOWN TREND
RSI	71.5	61.6	61.8	57.2	21.4
UP DAY % (LAST 20)	75%	60%	55%	45%	25%

# Commodities

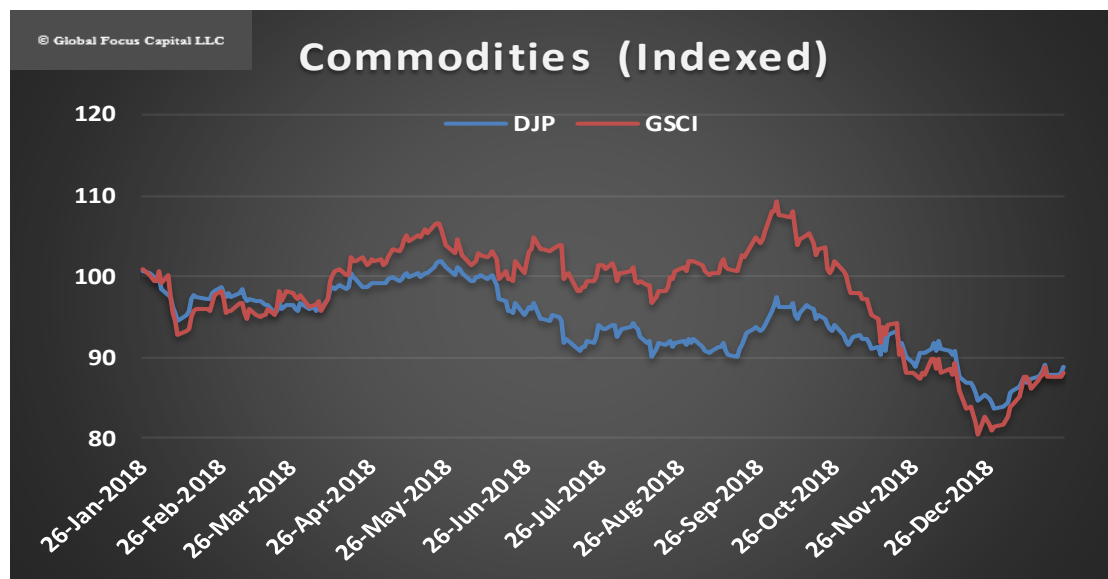
## ► Outlook:

- 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	24.1%	23.1%	9.7%	9.7%	9.2%
CORR TO US STOCKS	-0.07	-0.07	0.05	0.37	0.30
CORR TO US BONDS	0.16	0.12	-0.03	0.33	-0.21
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	0.00	0.04	0.03	-0.19	0.28
UP BETA	0.19	0.23	0.07	-0.07	0.00
DOWN BETA	-0.01	0.13	0.21	1.06	0.28
ST TECHNICALS	UP TREND	BREAK OUT	DOWN TREND	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	IMPROVING	UP TREND
RSI	78.6	50.1	21.7	35.9	46.2
UP DAY % (LAST 20)	70%	40%	35%	45%	50%

# Real Estate

## ► Outlook:

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

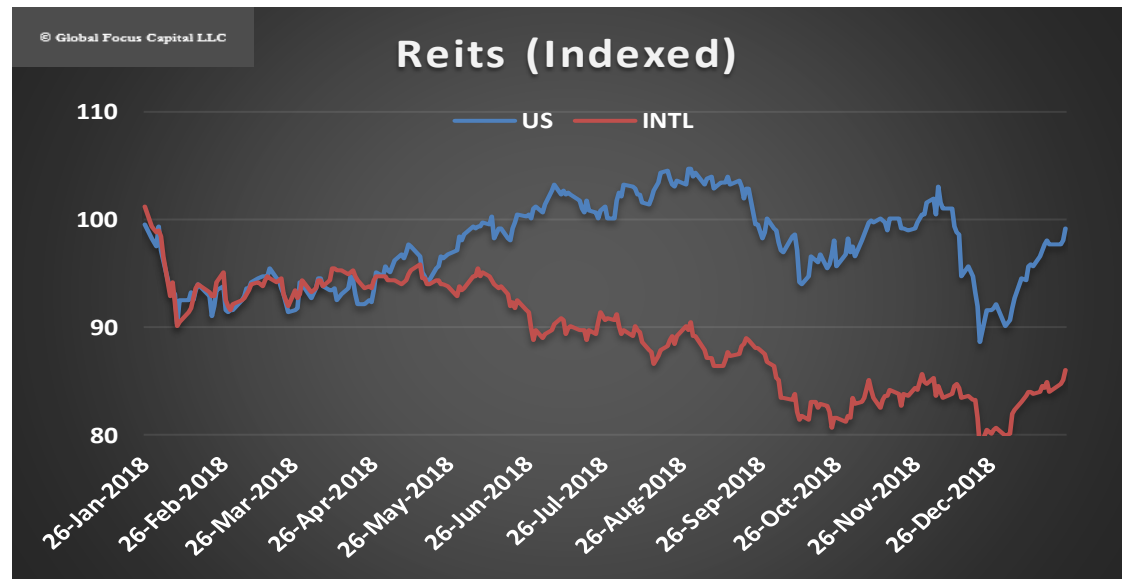
## ► Valuation: Stretched

## ► Growth: Slowing

## ► Income: Average

## ► Risk Profile: Increasing

- **Of Note:** A great month with yields still 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	15.1%	11.9%	17.3%	9.9%	13.2%
CORR TO US STOCKS	0.45	0.35	0.43	0.22	0.52
CORR TO US BONDS	0.10	-0.13	-0.02	0.48	0.19
CORR TO COMM	0.14	0.08	-0.12	0.04	0.21
CORR TO USD	0.05	-0.18	-0.19	-0.04	-0.11
UP BETA	0.56	0.64	0.65	0.69	0.06
DOWN BETA	0.64	0.68	0.68	-0.22	0.59
ST TECHNICALS	UP TREND	BREAK OUT	DOWN TREND	DOWN TREND	UP TREND
IT TECHNICALS	BREAK OUT	DOWN TREND	DOWN TREND	BREAK DOWN	IMPROVING
RSI	78.7	57.4	28.9	50.3	43.1
UP DAY % (LAST 20)	75%	45%	45%	40%	50%

# 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 and a depreciating USD
- ▶ 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
- ▶ Our biggest concerns revolve around a slowing global economy - The IMF recently lowered 2019 growth numbers to 3.5%
- ▶ 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

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
1/27/2019	BoJ Monetary Policy Meeting Minutes	Japan	3	0	0	0
1/28/2019	Chicago Fed National Activity Index	United States	2	0	0.22	0
1/29/2019	S&P/Case-Shiller Home Price Indices (YoY)	United States	2	0	5	4.9
1/29/2019	Consumer Confidence	United States	2	0	0	0
1/29/2019	UK Parliamentary vote on Brexit Plan B	United Kingdom	3	0	0	0
1/29/2019	Large Retailers' Sales	Japan	2	0	-0.7	0
1/29/2019	Retail Trade (YoY)	Japan	2	0	1.4	0.8
1/29/2019	Retail Trade s.a (MoM)	Japan	2	0	-1	0
1/30/2019	GfK Consumer Confidence Survey	Germany	2	0	10.4	10.3
1/30/2019	Mortgage Approvals	United Kingdom	2	0	63.728	63.05
1/30/2019	10-y Bond Auction	Germany	2	0	0.29	0
1/30/2019	Harmonized Index of Consumer Prices (MoM)	Germany	2	0	0.3	-0.9
1/30/2019	Harmonized Index of Consumer Prices (YoY)	Germany	3	0	1.7	1.8
1/30/2019	ADP Employment Change	United States	2	0	271	178
1/30/2019	Pending Home Sales (MoM)	United States	2	0	-0.7	0
1/30/2019	Fed's Monetary Policy Statement	United States	3	0	0	0
1/30/2019	Fed Interest Rate Decision	United States	3	0	2.5	2.5
1/30/2019	Industrial Production (YoY)	Japan	2	0	1.5	0
1/30/2019	Foreign investment in Japan stocks	Japan	2	0	-66.7	0
1/31/2019	GfK Consumer Confidence	United Kingdom	2	0	-14	-15
1/31/2019	Non-manufacturing PMI	China	2	0	53.8	0
1/31/2019	NBS Manufacturing PMI	China	2	0	49.4	49.3
1/31/2019	Retail Sales (MoM)	Germany	2	0	1.4	-0.7
1/31/2019	Unemployment Change	Germany	2	0	-14	-10
1/31/2019	Unemployment Rate s.a.	Germany	2	0	5	5
1/31/2019	Continuing Jobless Claims	United States	2	0	1,713	0
1/31/2019	Initial Jobless Claims	United States	2	0	199	211
1/31/2019	Chicago Purchasing Managers' Index	United States	2	0	65.4	62
1/31/2019	German Buba President Weidmann speech	Germany	2	0	0	0
1/31/2019	Unemployment Rate	Japan	2	0	2.5	2.4
1/31/2019	Jobs/applicants ratio	Japan	2	0	1.63	1.63
2/1/2019	Caixin Manufacturing PMI	China	2	0	49.7	49.5



# Contact & Subscription Information

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