



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

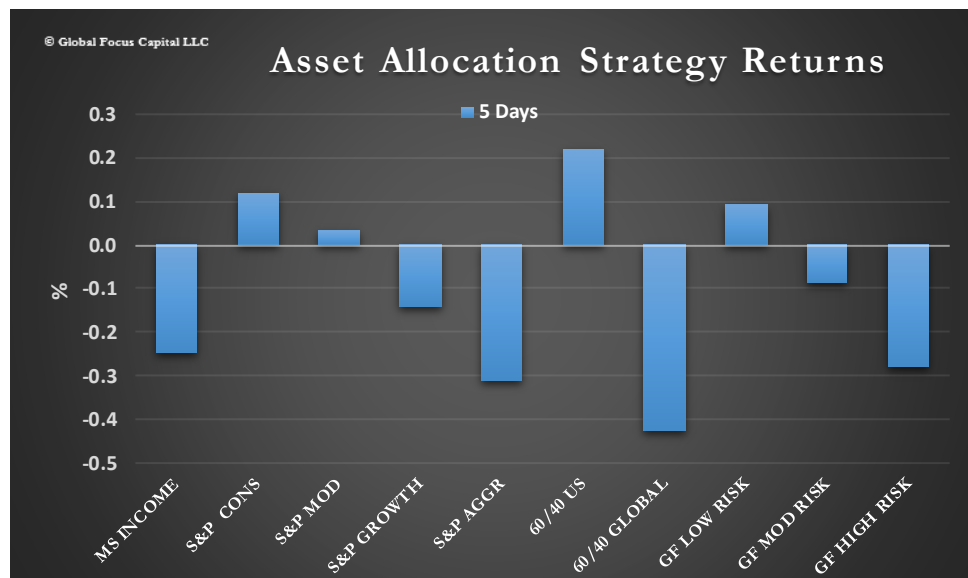
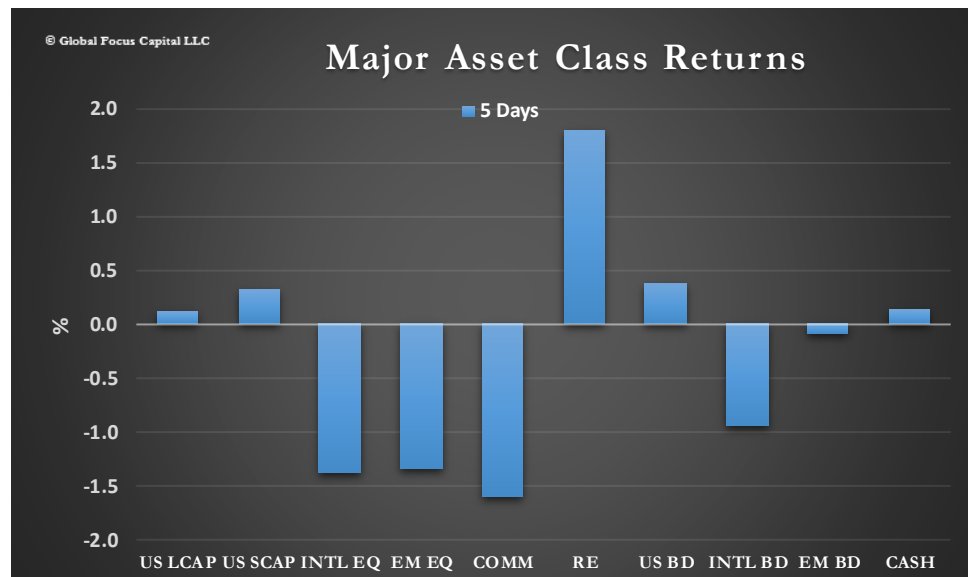
The Asset Allocation Advisor

Weekly Review – February 10, 2019

Eric J. Weigel

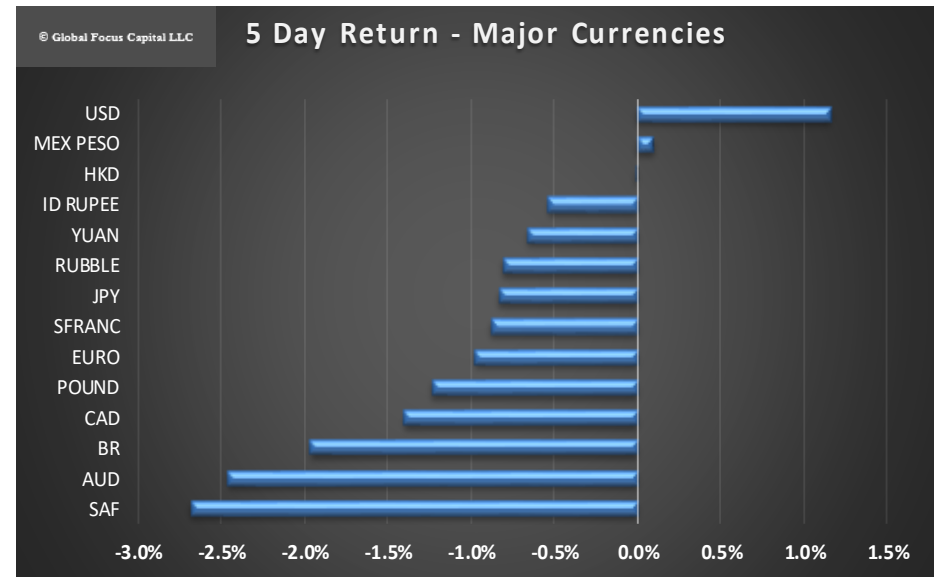
The Week in Review

- ▶ The comeback for holders of risky assets was interrupted this week as growth concerns took over the agenda
- ▶ US assets managed to eke out gains with REITS especially having a good week
- ▶ EM and International equities had down weeks both in local currency as well as in USD terms
- ▶ On a YTD basis US Small Cap and REITS are in the lead – up 11.8%
- ▶ Commodity indices had a poor week as energy prices suffered large losses this past week
- ▶ In the context of balanced 60/40 strategies US strategies out-performed strategies more globally focused
- ▶ Aggressive, domestically focused multi-asset class strategies under-performed less risky options
- ▶ Within equities, Growth has slightly under-performed Value in 2019 but over the last year Growth remains solidly ahead
- ▶ Thus far in 2019 more aggressive multi-asset strategies have outperformed



Currencies

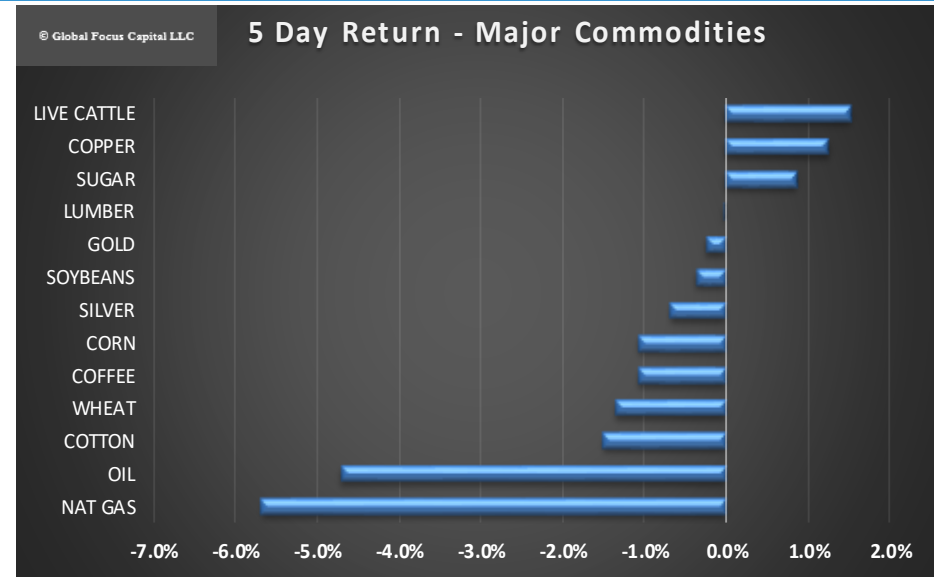
- ▶ The USD had a strong week, up over 1%, despite ongoing budget discussions in Washington and a pause by the Fed in raising rates
- ▶ For 2019 we still expect the USD to depreciate slightly
- ▶ A depreciating USD will boost international asset returns – we expect this effect to persist in 2019
- ▶ A big question mark for this coming week is what happens to Brexit (yet again) – sterling is being massively tossed around depending on political prospects
- ▶ The Yen is now in an Up Trend 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 as oil and gas prices trended down
- ▶ In general, FX volatility has increased substantially in the last couple of months



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

Commodities

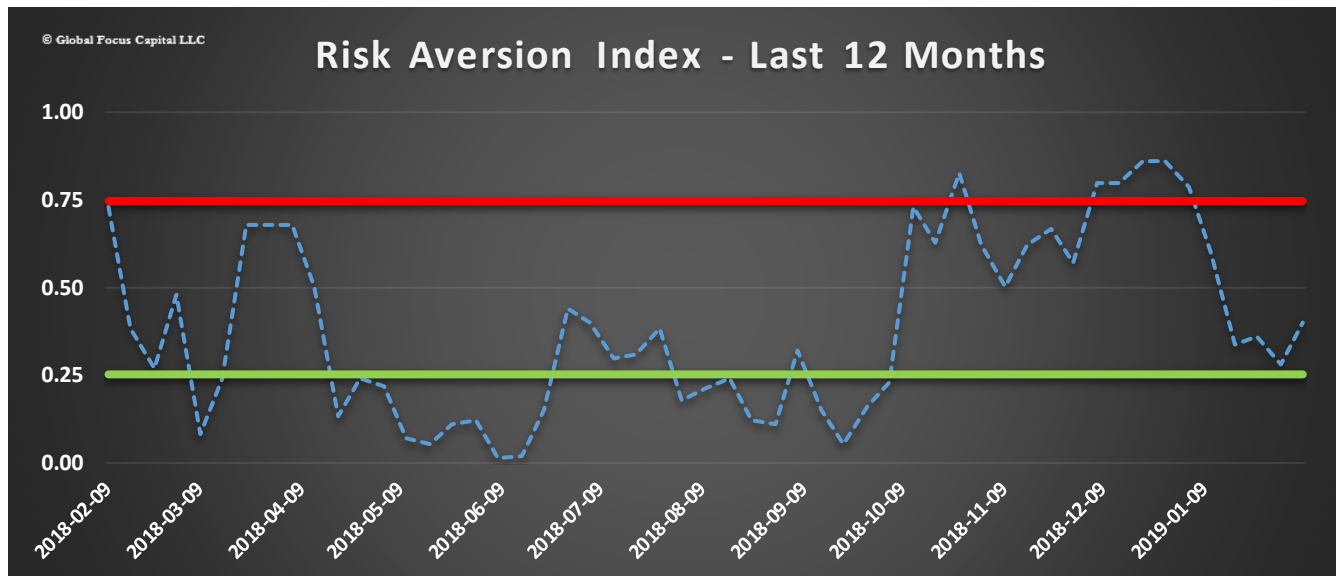
- ▶ Commodity indices continue in a Down Trend even as oil markets have found some stability
- ▶ Oil and gas were down big last week due to warmer weather in the US and oversupply conditions
- ▶ Soybean prices should be firming up as a trade deal with China gets some traction
- ▶ Gold and Silver while slightly down last week are becoming a hedge for nervous equity investors
- ▶ However, we still view US Treasuries as the best hedging option for equity risk



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

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

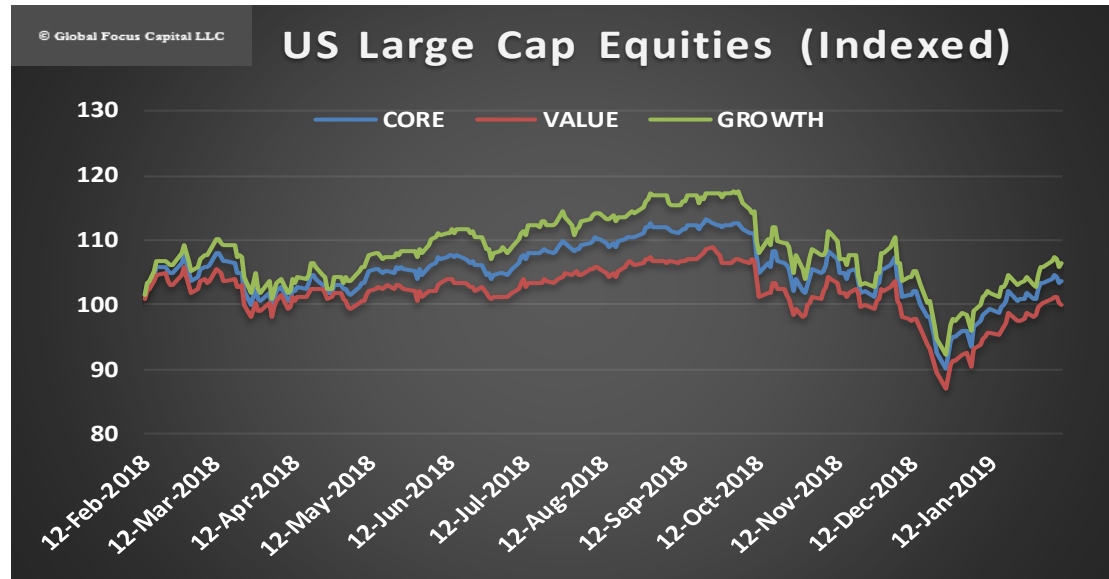
▶ Valuation: Stretched

▶ Growth: Average, at risk

▶ Income: Minimal

▶ Risk Profile: Increasing

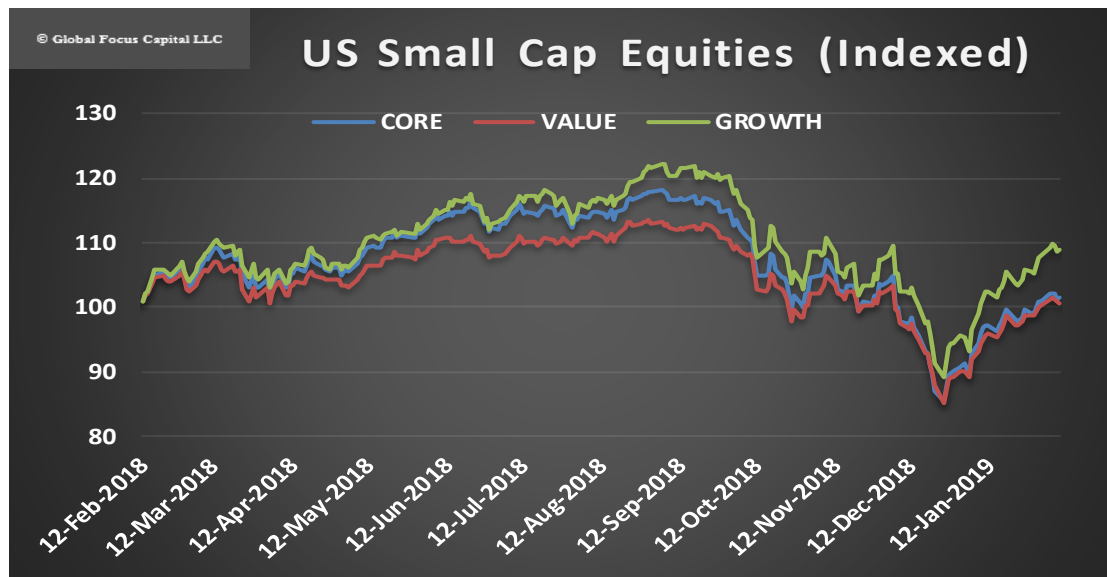
▶ Of Note: Value is catching up to Growth, sector rotation is starting to take hold, time to hunt for stock specific bargains



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	11.9%	23.4%	29.9%	21.4%	10.6%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	0.10	-0.50	-0.50	-0.36	0.38
CORR TO COMM	0.57	0.56	0.38	0.30	0.31
CORR TO USD	-0.42	-0.26	-0.22	0.19	-0.03
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	UP TREND	BREAK OUT	BREAK OUT	UP TREND
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	DETERIORATING	UP TREND
RSI	64.4	85.7	65.2	50.2	61.6
UP DAY % (LAST 20)	70%	80%	50%	45%	60%

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	12.5%	23.3%	31.0%	25.5%	9.2%
CORR TO US STOCKS	0.91	0.97	0.96	0.90	0.70
CORR TO US BONDS	0.01	-0.50	-0.51	-0.44	0.09
CORR TO COMM	0.54	0.60	0.39	0.34	0.14
CORR TO USD	-0.36	-0.25	-0.19	0.07	-0.08
UP BETA	0.95	0.98	1.02	1.03	0.84
DOWN BETA	0.97	1.01	0.98	0.94	1.09
ST TECHNICALS	UP TREND	UP TREND	UP TREND	UP TREND	UP TREND
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	BREAK DOWN	UP TREND
RSI	57.4	78.6	72.6	50.3	78.7
UP DAY % (LAST 20)	65%	80%	55%	45%	70%

International Developed Markets

▶ Outlook:

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

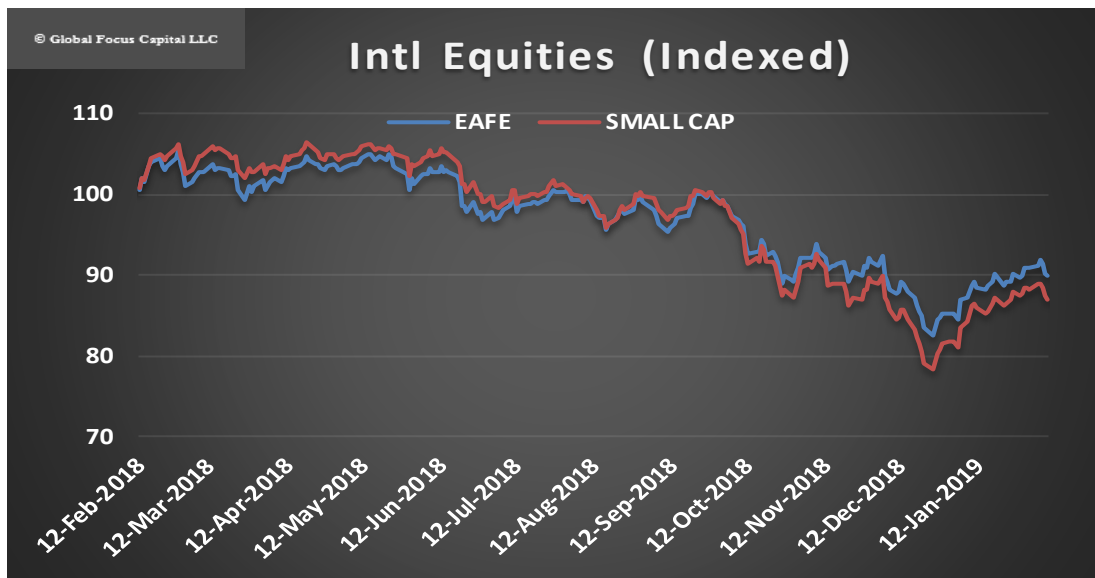
▶ Valuation: Neutral

▶ 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	17.5%	20.8%	18.3%	13.2%	7.5%
CORR TO US STOCKS	0.89	0.87	0.84	0.87	0.84
CORR TO US BONDS	-0.45	-0.40	-0.33	0.14	0.19
CORR TO COMM	0.66	0.26	0.20	0.50	0.71
CORR TO USD	-0.13	0.07	-0.04	0.12	0.12
UP BETA	0.62	0.62	0.63	0.77	0.51
DOWN BETA	0.52	0.58	0.62	0.66	0.82
ST TECHNICALS	DETERIORATING	UP TREND	UP TREND	UP TREND	UP TREND
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	DOWN TREND	UP TREND
RSI	57.2	78.7	65.0	54.1	78.5
UP DAY % (LAST 20)	60%	75%	50%	45%	65%

International Emerging Markets

▶ Outlook:

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

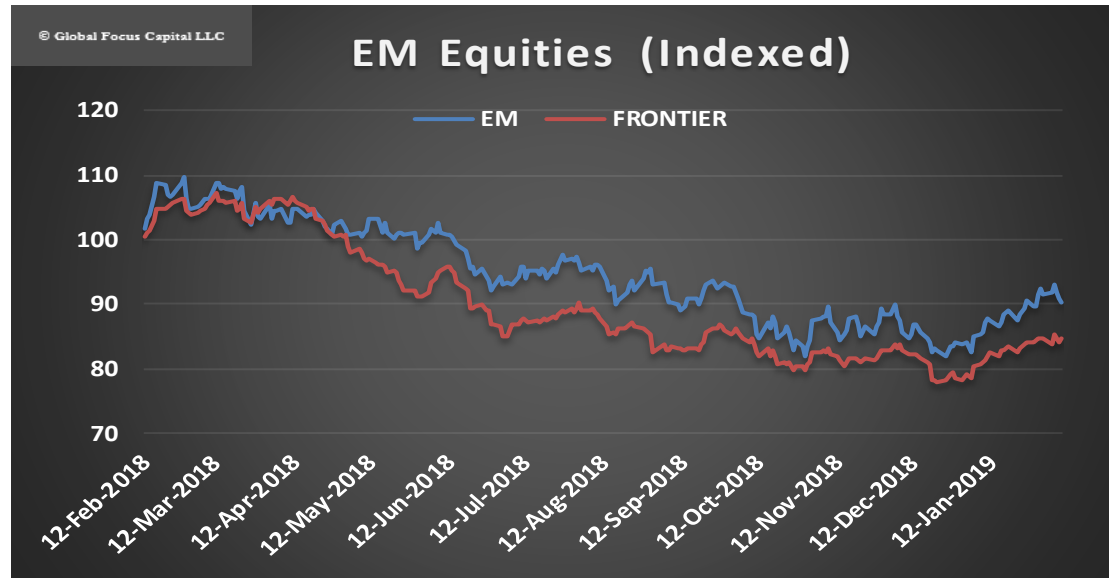
▶ Valuation: Inexpensive

▶ Growth: Average

▶ Income: Neutral

▶ Risk Profile: Increasing

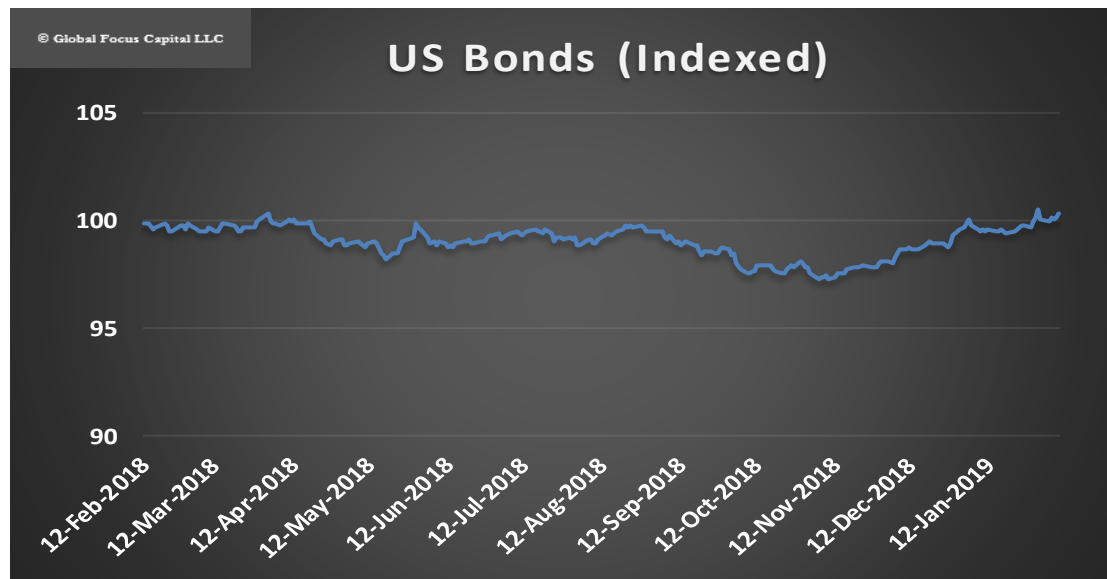
▶ Of Note: trade war fears, currency depreciation, in recovery mode, showing improvement



EM EQ (EEM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	19.0%	22.1%	22.9%	23.8%	14.3%
CORR TO US STOCKS	0.74	0.74	0.86	0.79	0.78
CORR TO US BONDS	-0.52	-0.50	-0.18	0.30	0.15
CORR TO COMM	0.56	0.20	0.15	0.42	0.65
CORR TO USD	-0.04	0.16	0.00	0.12	0.07
UP BETA	0.58	0.56	0.67	1.31	1.03
DOWN BETA	0.42	0.52	0.65	0.80	0.83
ST TECHNICALS	DETERIORATING	UP TREND	UP TREND	BREAK DOWN	BREAK DOWN
IT TECHNICALS	IMPROVING	IMPROVING	IMPROVING	DOWN TREND	BREAK DOWN
RSI	57.3	78.7	64.9	50.5	57.3
UP DAY % (LAST 20)	60%	70%	50%	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	1.8%	2.4%	2.5%	2.4%	2.3%
CORR TO US STOCKS	-0.15	-0.38	-0.42	-0.06	0.14
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	0.12	0.00	-0.04	-0.06	-0.06
CORR TO USD	0.33	0.23	0.06	-0.32	0.36
UP BETA	-0.04	-0.06	-0.04	0.06	0.06
DOWN BETA	-0.03	-0.05	-0.04	-0.17	-0.04
ST TECHNICALS	UP TREND	UP TREND	DETERIORATING	DOWN TREND	DOWN TREND
IT TECHNICALS	UP TREND	BREAK OUT	BREAK OUT	DOWN TREND	DOWN TREND
RSI	64.3	50.0	50.0	50.0	46.2
UP DAY % (LAST 20)	60%	60%	60%	40%	45%

International Developed Bonds

▶ Outlook:

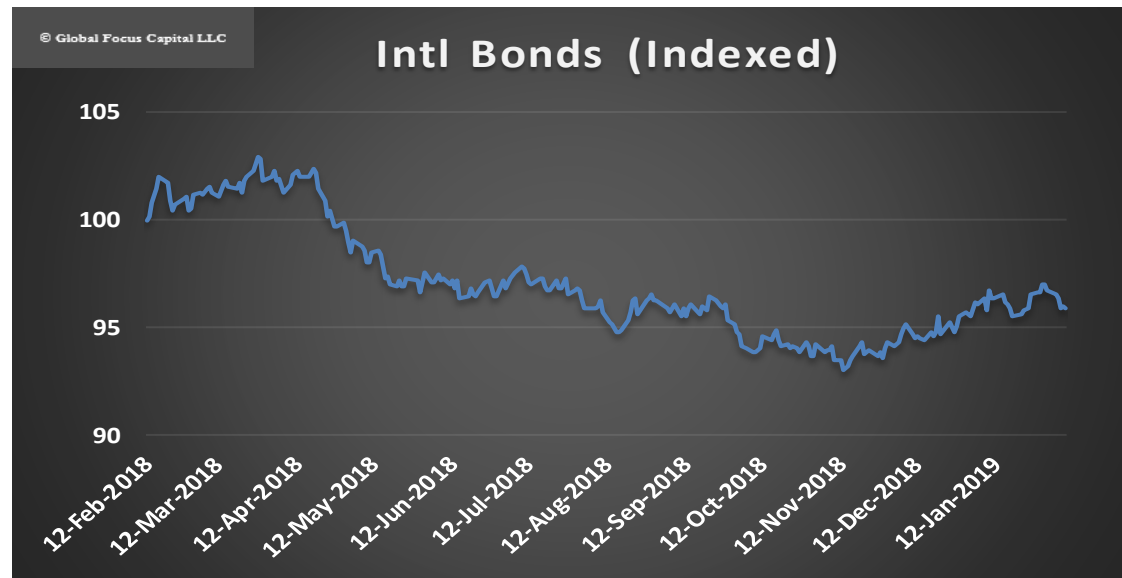
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

▶ 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	5.6%	5.8%	5.0%	5.9%	5.0%
CORR TO US STOCKS	0.24	0.15	-0.19	0.21	-0.10
CORR TO US BONDS	0.54	0.36	0.47	0.32	0.42
CORR TO COMM	0.50	0.39	0.32	0.27	0.32
CORR TO USD	0.05	0.14	-0.10	0.07	-0.16
UP BETA	-0.03	-0.06	-0.03	0.09	0.18
DOWN BETA	-0.07	-0.05	-0.06	-0.05	0.04
ST TECHNICALS	BREAK DOWN	UP TREND	UP TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	IMPROVING	DOWN TREND	BREAK DOWN
RSI	58.3	53.9	57.2	41.7	43.0
UP DAY % (LAST 20)	40%	55%	55%	40%	35%

International Emerging Bonds

▶ Outlook:

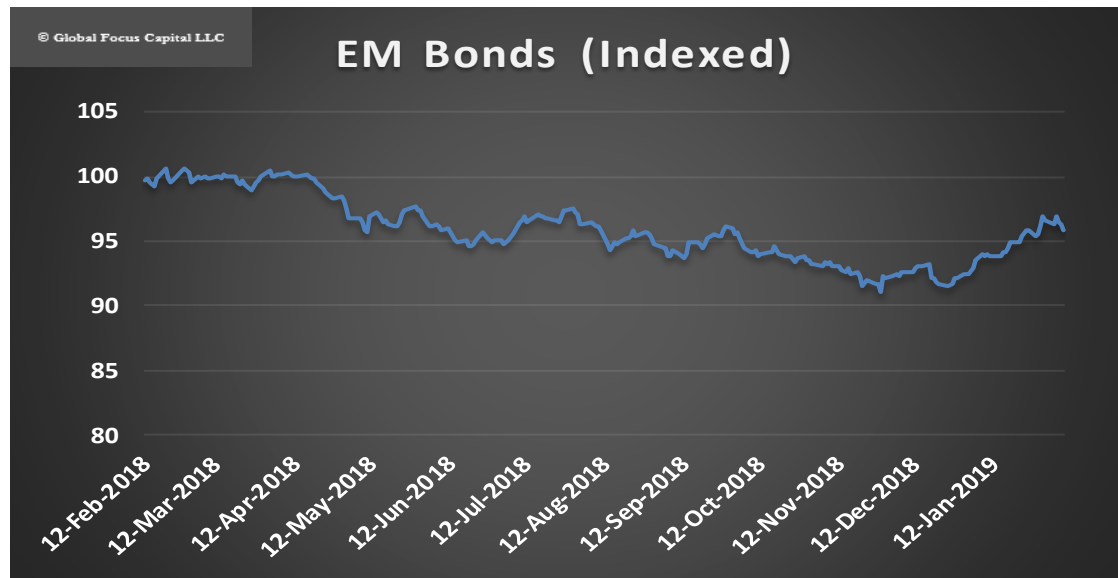
- ▶ Short-Term: Neutral
- ▶ Long-Term: Neutral

▶ 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	4.0%	4.5%	5.5%	7.4%	7.9%
CORR TO US STOCKS	0.48	0.45	0.40	0.60	0.00
CORR TO US BONDS	0.14	0.53	0.74	0.02	0.00
CORR TO COMM	0.43	0.33	0.22	0.64	0.00
CORR TO USD	0.47	0.15	0.17	0.21	0.00
UP BETA	0.13	0.10	0.14	0.18	0.24
DOWN BETA	-0.02	0.00	0.02	0.18	0.21
ST TECHNICALS	DETERIORATING	UP TREND	UP TREND	DOWN TREND	IMPROVING
IT TECHNICALS	BREAK OUT	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND
RSI	50.0	71.5	61.6	57.2	43.0
UP DAY % (LAST 20)	60%	75%	60%	50%	40%

Commodities

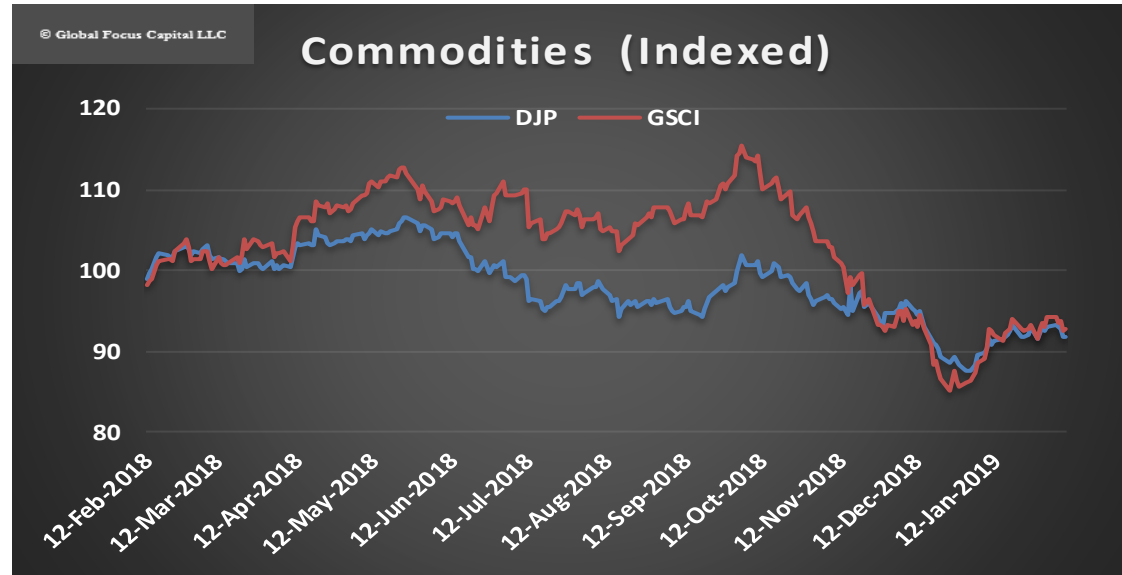
▶ Outlook:

- ▶ 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	15.4%	24.1%	23.1%	11.2%	11.2%
CORR TO US STOCKS	0.40	-0.07	-0.07	0.23	0.56
CORR TO US BONDS	0.04	0.16	0.12	0.01	0.05
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	0.44	-0.07	-0.15	0.13	-0.06
UP BETA	0.22	0.19	0.23	-0.21	0.05
DOWN BETA	0.04	-0.01	0.13	1.22	0.23
ST TECHNICALS	BREAK DOWN	UP TREND	BREAK OUT	DOWN TREND	UP TREND
IT TECHNICALS	DOWN TREND	DOWN TREND	DOWN TREND	DOWN TREND	UP TREND
RSI	43.0	78.6	50.1	28.7	78.7
UP DAY % (LAST 20)	60%	70%	40%	30%	70%

Real Estate

▶ Outlook:

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

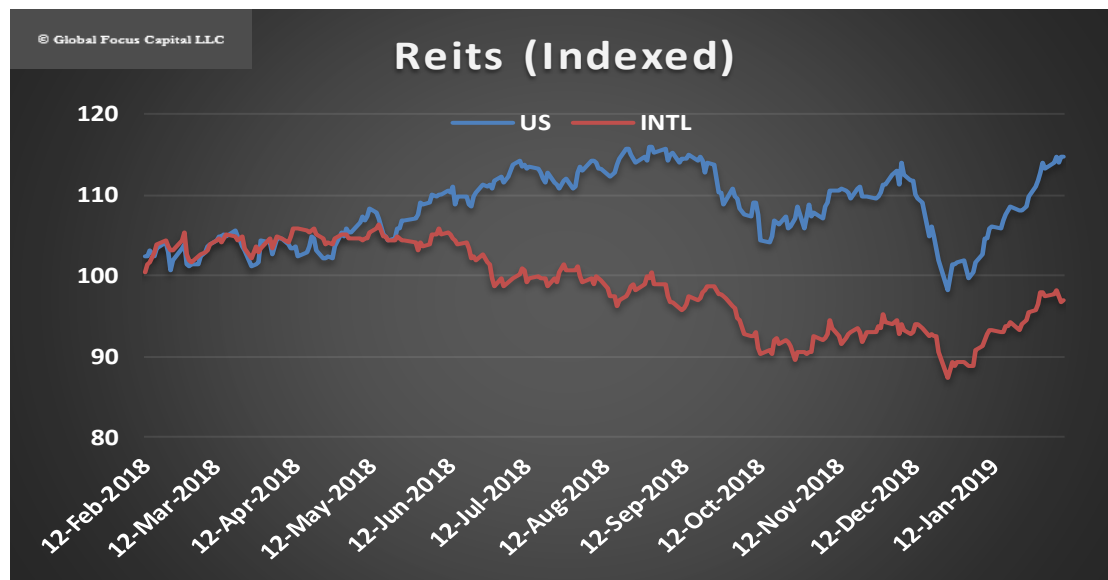
▶ Valuation: Stretched

▶ 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	26.9%	15.1%	11.9%	15.8%	14.7%
CORR TO US STOCKS	0.76	0.45	0.35	0.29	0.44
CORR TO US BONDS	-0.20	0.10	-0.13	0.37	0.17
CORR TO COMM	0.19	0.14	0.08	0.04	-0.01
CORR TO USD	0.09	-0.15	0.19	-0.48	-0.21
UP BETA	0.57	0.56	0.64	0.62	0.24
DOWN BETA	0.78	0.64	0.68	-0.43	0.54
ST TECHNICALS	UP TREND	UP TREND	BREAK OUT	UP TREND	DETERIORATING
IT TECHNICALS	BREAK OUT	BREAK OUT	DOWN TREND	DETERIORATING	IMPROVING
RSI	77.0	78.7	57.4	71.6	50.1
UP DAY % (LAST 20)	75%	75%	45%	65%	50%

This Coming Week

- ▶ While risky assets have recovered 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 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 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
- ▶ Earnings season in the US is in full swing

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
2/11/2019	Gross Domestic Product (YoY)	United Kingdom	2	0	1.5	1.4
2/11/2019	Gross Domestic Product (QoQ)	United Kingdom	3	0	0.6	0.2
2/11/2019	Manufacturing Production (YoY)	United Kingdom	2	0	-1.1	-0.7
2/11/2019	Industrial Production (MoM)	United Kingdom	2	0	-0.4	0.2
2/10/2019	Chinese New Year	China	2	0	0	0.1
2/11/2019	Gross Domestic Product (MoM)	United Kingdom	2	0	0.2	0
2/11/2019	Unit Labor Costs	United States	2	0	0.9	1.7
2/12/2019	FDI - Foreign Direct Investment (YTD) (YoY)	China	2	0	0.9	0
2/12/2019	Fed's Chair Powell speech	United States	3	0	0	0
2/12/2019	Fed's Mester speech	United States	2	0	0	0
2/13/2019	Retail Price Index (MoM)	United Kingdom	2	0	0.4	0.5
2/13/2019	Retail Price Index (YoY)	United Kingdom	2	0	2.7	2.7
2/13/2019	PPI Core Output (YoY) n.s.a	United Kingdom	2	0	2.5	2.4
2/13/2019	Producer Price Index - Input (YoY) n.s.a	United Kingdom	2	0	3.7	3.8
2/13/2019	Core Consumer Price Index (YoY)	United Kingdom	2	0	1.9	1.9
2/13/2019	Consumer Price Index (YoY)	United Kingdom	3	0	2.1	2
2/13/2019	Consumer Price Index (MoM)	United Kingdom	2	0	0.2	0
2/13/2019	Consumer Price Index Core s.a	United States	2	0	260.03	0
2/13/2019	Consumer Price Index Ex Food & Energy (MoM)	United States	3	0	0.2	0.2
2/13/2019	Consumer Price Index (MoM)	United States	2	0	-0.1	-0.1
2/13/2019	Consumer Price Index (YoY)	United States	2	0	1.9	1.6
2/13/2019	Consumer Price Index Ex Food & Energy (YoY)	United States	3	0	2.2	2.1
2/13/2019	Monthly Budget Statement	United States	2	0	-205	-12
2/13/2019	Gross Domestic Product (QoQ)	Japan	2	0	-0.6	0.4
2/14/2019	Exports (YoY) CNY	China	2	0	0.2	0
2/14/2019	Imports (YoY) CNY	China	2	0	-3.1	0
2/14/2019	Trade Balance USD	China	2	0	57.06	33.5
2/14/2019	Exports (YoY)	China	2	0	-4.4	-3.3
2/14/2019	Imports (YoY)	China	2	0	-7.6	-9
2/14/2019	Gross Domestic Product (YoY)	Germany	2	0	1.1	0.8
2/14/2019	Gross Domestic Product (QoQ)	Germany	3	0	-0.2	0.1
2/14/2019	Gross Domestic Product w.d.a (YoY)	Germany	2	0	1.1	0.9
2/14/2019	Retail Sales ex Autos (MoM)	United States	3	0	0.2	0
2/14/2019	Retail Sales control group	United States	3	0	0.9	0.4
2/14/2019	Retail Sales (MoM)	United States	2	0	0.2	0.1
2/14/2019	Producer Price Index ex Food & Energy (YoY)	United States	2	0	2.7	2.5
2/14/2019	Continuing Jobless Claims	United States	2	0	1.736	0
2/14/2019	Initial Jobless Claims	United States	2	0	234	228
2/14/2019	Foreign investment in Japan stocks	Japan	2	0	-123.8	0
2/14/2019	Foreign bond investment	Japan	2	0	915.3	0
2/15/2019	Consumer Price Index (MoM)	China	2	0	0	0.5
2/15/2019	Producer Price Index (YoY)	China	2	0	0.9	0.3
2/15/2019	Consumer Price Index (YoY)	China	3	0	1.9	2
2/15/2019	Industrial Production (YoY)	Japan	2	0	-1.9	0

Contact & Subscription Information

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