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INSIGHT THAT MATTERS

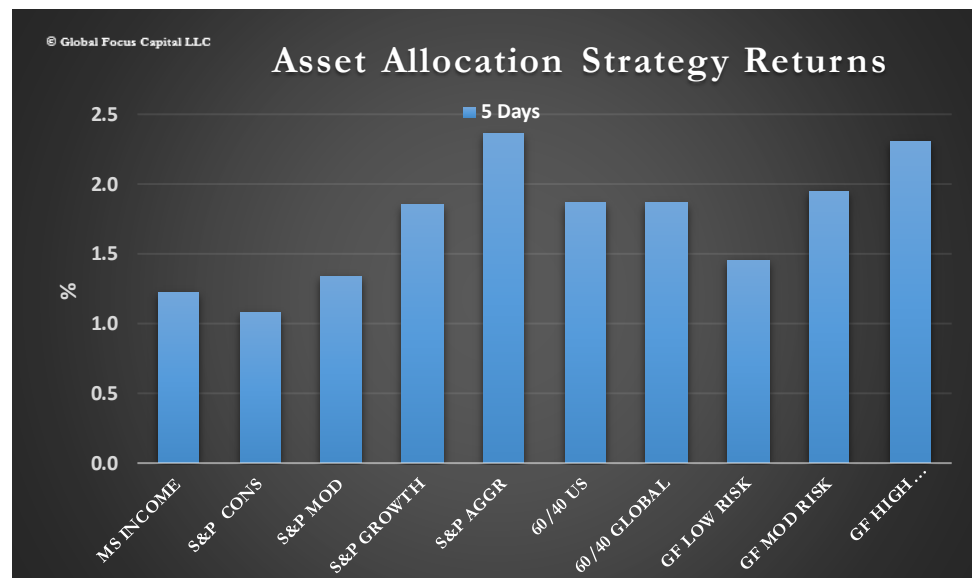
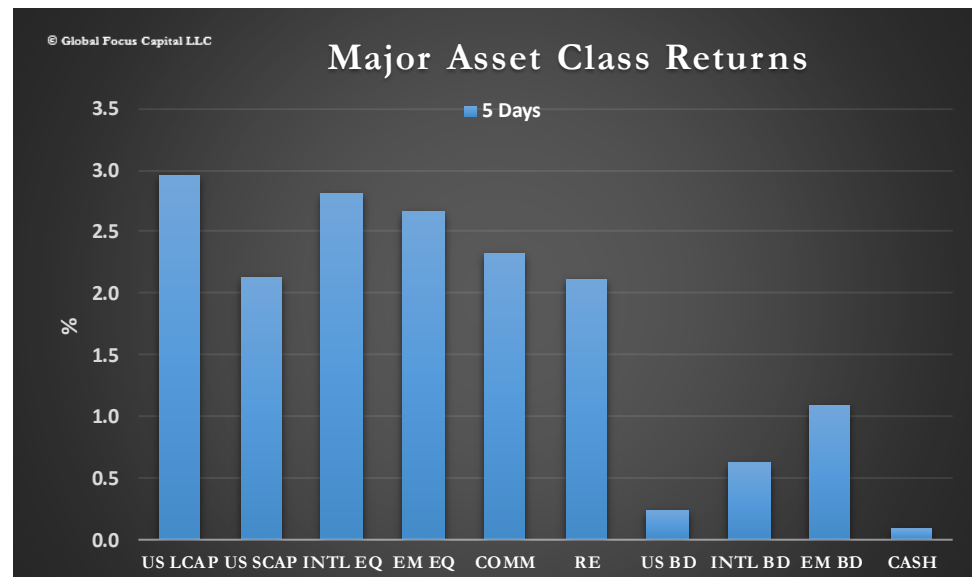
The Asset Allocation Advisor

Weekly Review – March 17, 2019

Eric J. Weigel

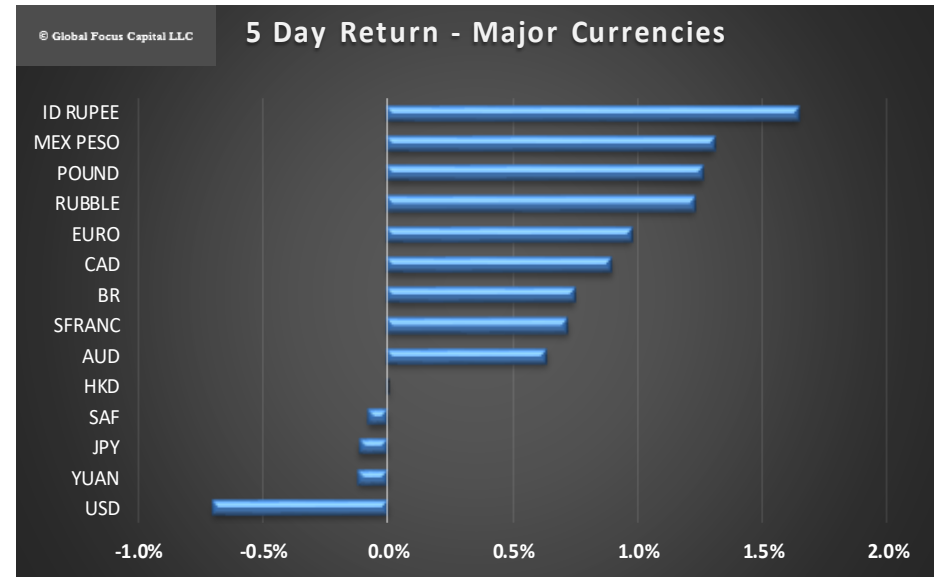
The Week in Review

- ▶ The seesaw continues with risk assets doing particularly well this past week
- ▶ US large caps performed best – up 2.9% for the week, but International Developed equities were only slightly
- ▶ Bond strategies delivered positive returns last week as well but significantly below those of more risky asset classes
- ▶ On a YTD basis US small caps lead the pack by a slight margin – up 15.5%
- ▶ In the context of balanced 60/40 strategies US strategies and international strategies performed in line with each other (both up 1.9%)
- ▶ Aggressive focused multi-asset class strategies out-performed less risky options
- ▶ Within equities, Growth has slightly out-performed Value in 2019 and over the last year Growth also remains solidly ahead
- ▶ Thus far in 2019 more aggressive multi-asset strategies have outperformed less risky portfolios



Currencies

- ▶ A rare down week for the USD as expectations for growth in the US slow down and the Fed remains on hold
- ▶ 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
- ▶ Interestingly, the pound has held up admirably during this period of uncertainty and is now in a Break Out phase
- ▶ The Yen is now in a Break Down phase as investors have regained their desire for risk
- ▶ In general, FX volatility has increased substantially in the last couple of months



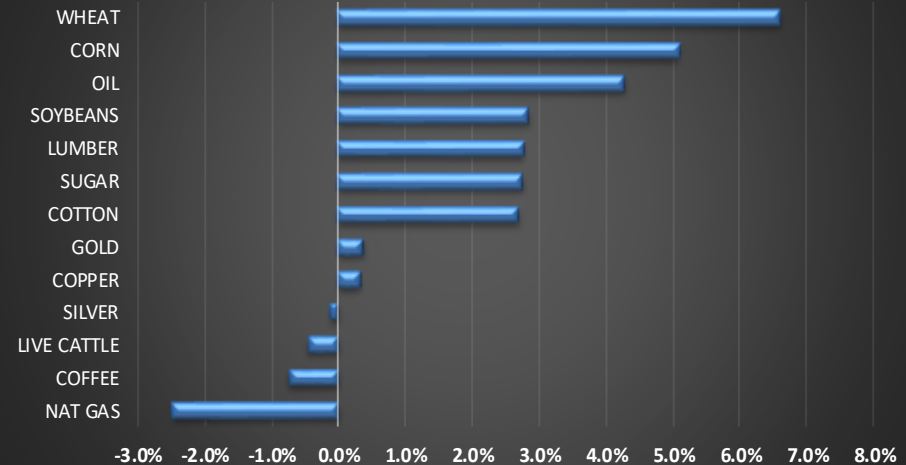
CURRENCY	TECHNICAL STAGE
AUD	DOWN TREND
ID RUPEE	UP TREND
CAD	DOWN TREND
EURO	DOWN TREND
HKD	DOWN TREND
SAF	BREAK DOWN
BR	BREAK DOWN
SFRANC	DOWN TREND
YUAN	UP TREND
USD	UP TREND
POUND	BREAK OUT
JPY	BREAK DOWN
RUBBLE	BREAK OUT
MEX PESO	DETERIORATING

Commodities

- ▶ After a bad prior week, ag commodities rebounded strongly with wheat, the most beaten down of the group, up over 6%
- ▶ The tension in the grain complex is mostly supply driven but soybeans also are being affected by trade negotiations with China
- ▶ Commodity indices have moved into an Improving phase as oil markets have found some stability
- ▶ Gas was down slightly last week and remains in a Down Trend magnified by weak seasonality
- ▶ Copper kept its gains from the previous week as global growth only slows down slightly
- ▶ Gold and Silver were flat last week and are showing divergent patterns – gold being stronger than silver
- ▶ While inflationary expectations remain low, commodity prices are an excellent hedge should things change

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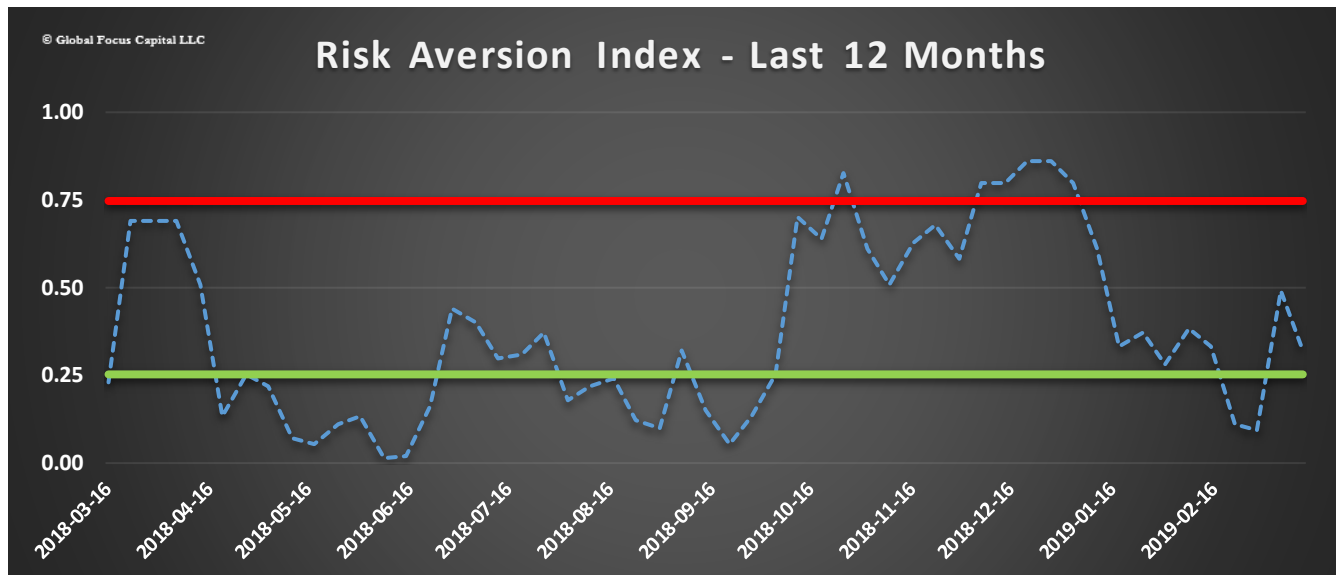
5 Day Return - Major Commodities



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

Investor Risk Aversion Environment

- ▶ Fear from the markets seems to have abated – our index now stands in our low end of the Normal Zone – pretty amazing given where we stood a couple of months back
- ▶ Investors don't seem that concerned about geopolitical issues affecting global growth as well the continued stand-off in DC
- ▶ At some point, investors will want to see some tangible progress on tariffs between the US and China. For now, the mere whiff of a meeting is met with glee
- ▶ 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 investors become less averse to risk (current environment)
- ▶ 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	0.81	0.70	0.51	0.09	0.59	-0.02	-0.06	0.32	-0.11
US SCAP	0.81	1	0.59	0.46	0.13	0.59	-0.05	-0.11	0.25	-0.07
INTL	0.70	0.59	1	0.74	0.32	0.45	0.09	0.25	0.42	-0.06
EM EQ	0.51	0.46	0.74	1	0.34	0.36	0.06	0.16	0.47	0.08
COMM	0.09	0.13	0.32	0.34	1	0.06	0.05	0.25	0.18	0.07
RE	0.59	0.59	0.45	0.36	0.06	1	0.17	0.08	0.35	-0.01
US BD	-0.02	-0.05	0.09	0.06	0.05	0.17	1	0.50	0.56	0.05
INTL BD	-0.06	-0.11	0.25	0.16	0.25	0.08	0.50	1	0.31	0.07
EM BD	0.32	0.25	0.42	0.47	0.18	0.35	0.56	0.31	1	0.01
CASH	-0.11	-0.07	-0.06	0.08	0.07	-0.01	0.05	0.07	0.01	1

US Large Cap Equities

► Outlook:

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

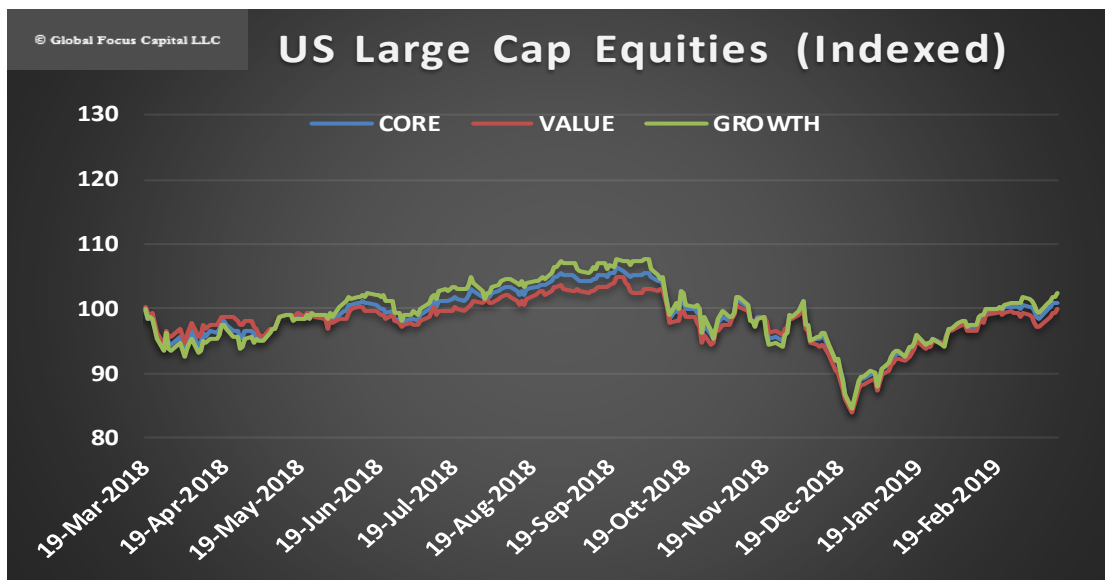
► Valuation: Slightly Stretched

► Growth: Average, at risk

► Income: Minimal

► Risk Profile: Increasing

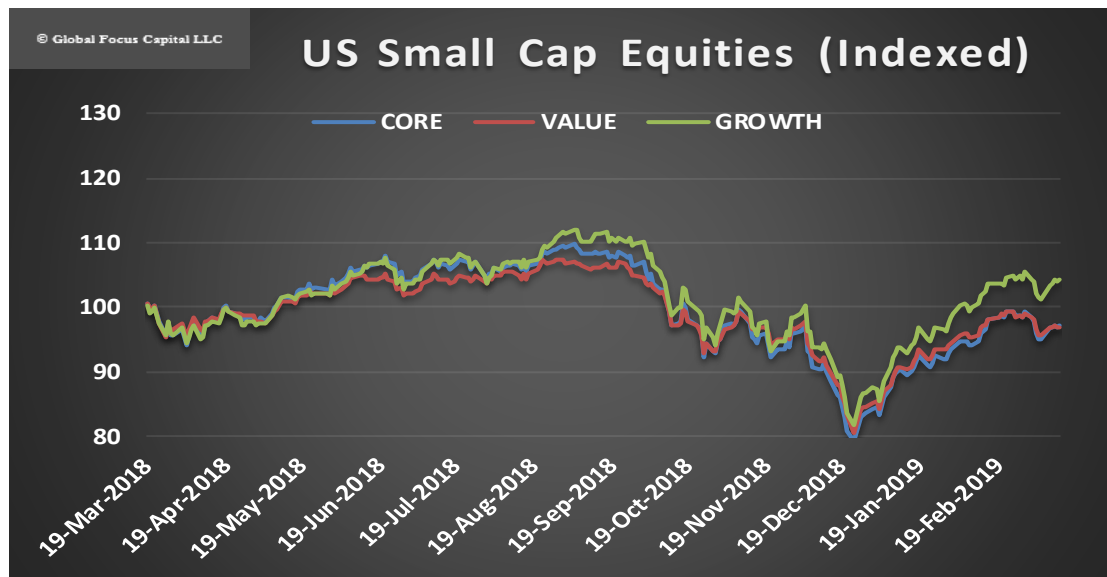
► Of Note: Sector rotation is starting to take hold, Quality seems to be winning, almost back to fall peaks



US LARGE CAP (SPY)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	8.6%	8.2%	11.7%	22.6%	10.4%
CORR TO US STOCKS	1.00	1.00	1.00	1.00	1.00
CORR TO US BONDS	-0.18	0.29	0.11	-0.20	-0.69
CORR TO COMM	0.36	0.58	0.67	-0.07	0.44
CORR TO USD	-0.09	0.22	0.14	-0.01	0.23
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	UP TREND	UP TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	BREAK OUT	DOWN TREND	UP TREND
RSI	35.9	64.2	64.5	50.4	50.1
UP DAY % (LAST 20)	50%	65%	70%	50%	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:** On a risk-adjusted basis go with large caps



US SMALL CAP (IWM)	LATEST	10 DAYS AGO	20 DAYS AGO	60 DAYS AGO	180 DAYS AGO
20 DAY VOL	13.4%	10.1%	12.0%	26.0%	11.4%
CORR TO US STOCKS	0.90	0.86	0.89	0.93	0.81
CORR TO US BONDS	-0.23	0.15	0.01	-0.21	-0.42
CORR TO COMM	0.31	0.51	0.58	-0.09	0.25
CORR TO USD	-0.11	0.05	0.01	-0.03	0.16
UP BETA	0.94	0.96	0.95	1.13	0.88
DOWN BETA	0.82	0.97	1.00	0.97	0.98
ST TECHNICALS	IMPROVING	UP TREND	UP TREND	DOWN TREND	BREAK DOWN
IT TECHNICALS	IMPROVING	BREAK OUT	IMPROVING	DOWN TREND	UP TREND
RSI	43.0	78.5	71.8	29.4	64.4
UP DAY % (LAST 20)	55%	75%	70%	35%	70%

International Developed Markets

▶ Outlook:

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

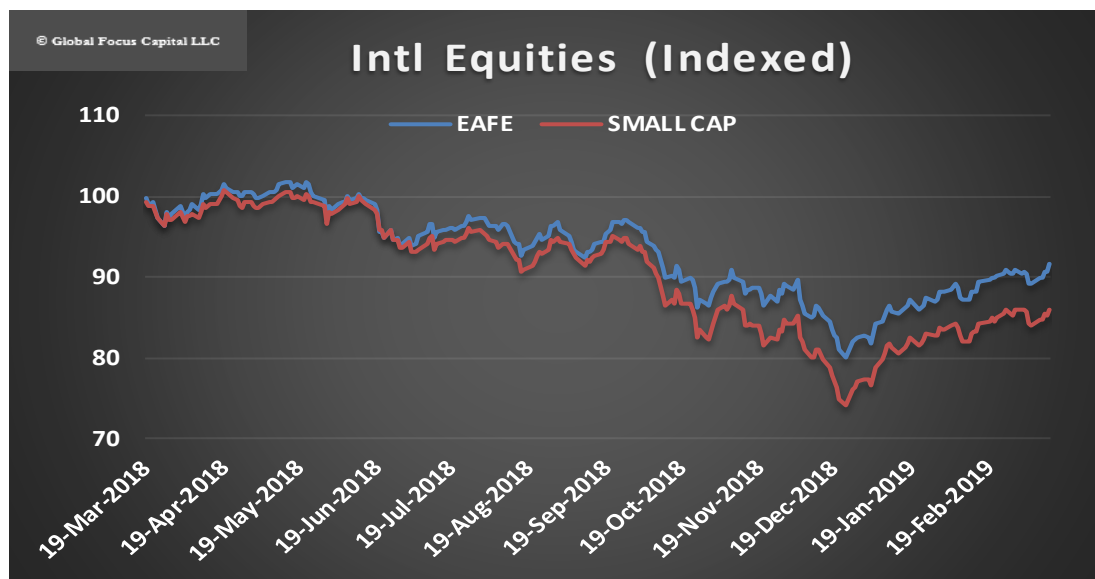
▶ Valuation: Neutral

▶ 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	10.4%	11.6%	15.8%	15.4%	12.3%
CORR TO US STOCKS	0.86	0.86	0.89	0.87	0.86
CORR TO US BONDS	0.20	0.08	-0.45	-0.39	-0.59
CORR TO COMM	0.80	0.67	0.67	0.12	0.52
CORR TO USD	0.15	0.16	0.04	-0.05	-0.02
UP BETA	0.58	0.63	0.63	0.80	0.66
DOWN BETA	0.52	0.52	0.56	0.70	0.61
ST TECHNICALS	UP TREND	UP TREND	UP TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	IMPROVING	IMPROVING	DOWN TREND	BREAK DOWN
RSI	50.1	71.5	57.3	28.8	42.9
UP DAY % (LAST 20)	60%	60%	65%	35%	50%

International Emerging Markets

► Outlook:

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

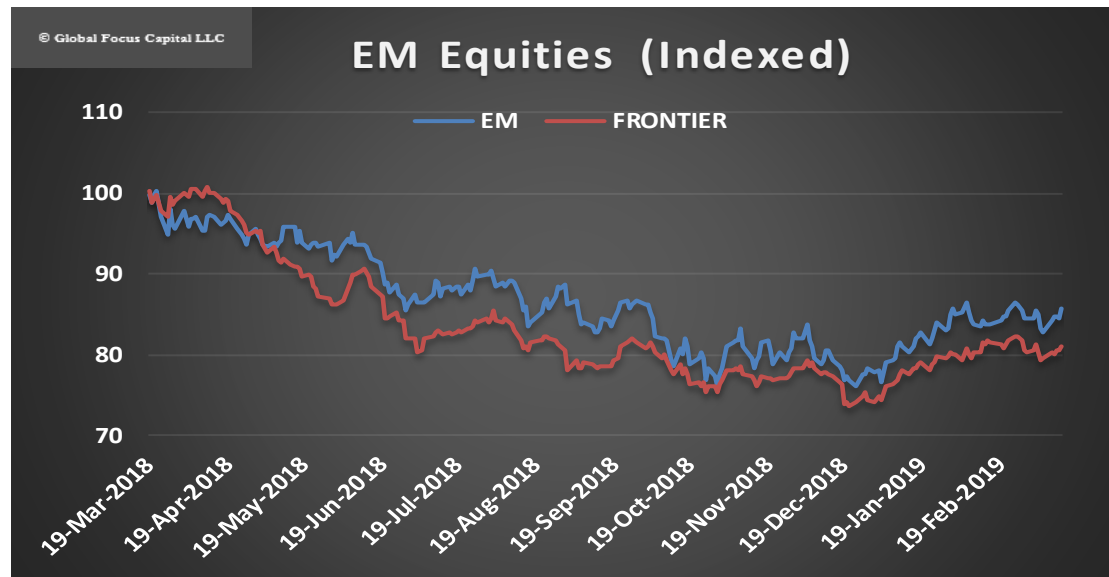
► Valuation: Inexpensive

► 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	15.0%	16.7%	18.6%	26.8%	18.4%
CORR TO US STOCKS	0.69	0.77	0.77	0.77	0.73
CORR TO US BONDS	0.51	0.43	-0.46	-0.31	-0.24
CORR TO COMM	0.49	0.51	0.55	0.09	0.37
CORR TO USD	0.05	0.13	0.14	-0.12	0.16
UP BETA	0.49	0.57	0.60	1.23	1.02
DOWN BETA	0.37	0.38	0.54	0.75	0.96
ST TECHNICALS	BREAK OUT	BREAK DOWN	BREAK DOWN	DOWN TREND	DOWN TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	IMPROVING	DOWN TREND	DOWN TREND
RSI	50.1	50.1	50.2	36.0	15.1
UP DAY % (LAST 20)	55%	45%	60%	40%	30%

US Bonds

▶ Outlook:

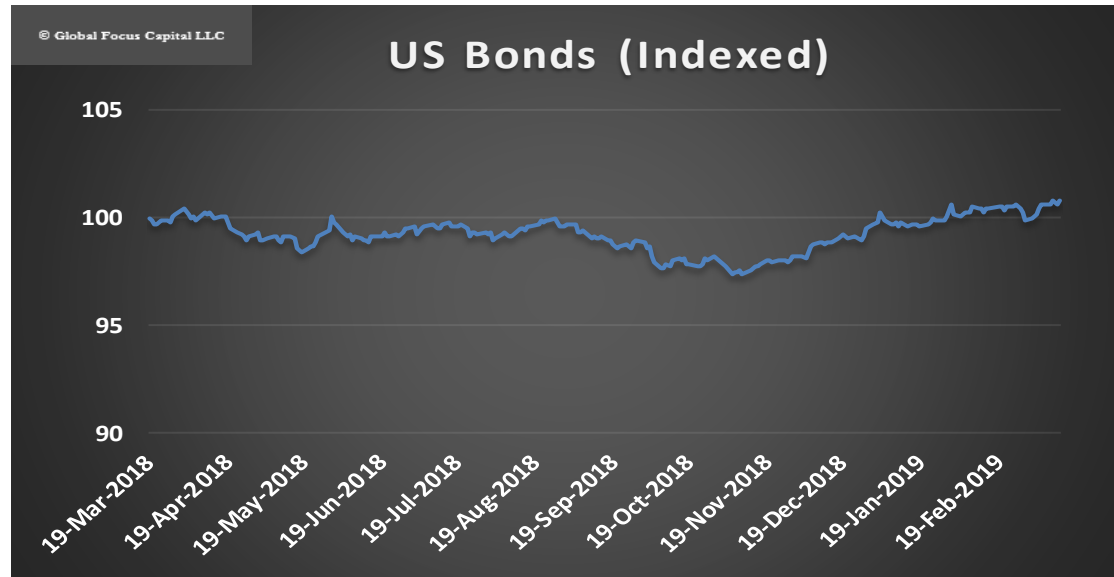
- ▶ Short-Term: Positive
- ▶ Long-Term: Negative

▶ 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	2.9%	2.1%	1.6%	3.0%	2.7%
CORR TO US STOCKS	-0.48	-0.40	-0.25	-0.18	0.01
CORR TO US BONDS	1.00	1.00	1.00	1.00	1.00
CORR TO COMM	-0.27	0.23	0.18	-0.21	0.05
CORR TO USD	-0.07	0.10	0.16	0.43	-0.37
UP BETA	-0.05	-0.04	-0.04	0.07	0.00
DOWN BETA	-0.03	-0.04	-0.01	-0.05	-0.05
ST TECHNICALS	UP TREND	BREAK DOWN	UP TREND	UP TREND	BREAK OUT
IT TECHNICALS	UP TREND	UP TREND	UP TREND	IMPROVING	IMPROVING
RSI	64.3	50.1	57.2	78.6	64.3
UP DAY % (LAST 20)	65%	50%	55%	65%	50%

International Developed Bonds

▶ Outlook:

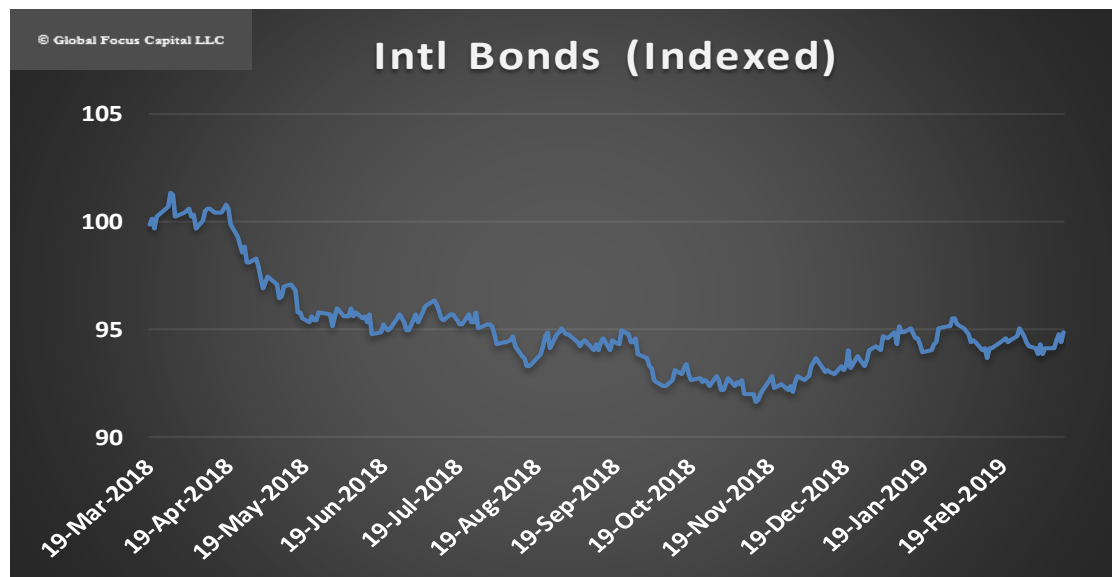
- ▶ Short-Term: Negative
- ▶ Long-Term: Negative

▶ 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	7.4%	6.6%	5.0%	5.4%	6.8%
CORR TO US STOCKS	-0.30	-0.24	0.19	-0.32	-0.07
CORR TO US BONDS	0.46	0.37	0.39	0.60	0.32
CORR TO COMM	0.11	0.30	0.53	-0.30	0.27
CORR TO USD	-0.28	-0.10	0.23	0.09	0.13
UP BETA	-0.08	-0.02	-0.01	0.22	0.14
DOWN BETA	-0.11	-0.08	-0.02	-0.14	-0.07
ST TECHNICALS	BREAK OUT	BREAK DOWN	DOWN TREND	UP TREND	IMPROVING
IT TECHNICALS	UP TREND	UP TREND	IMPROVING	IMPROVING	DOWN TREND
RSI	46.3	57.2	41.7	57.2	57.2
UP DAY % (LAST 20)	55%	45%	45%	60%	60%

International Emerging Bonds

► Outlook:

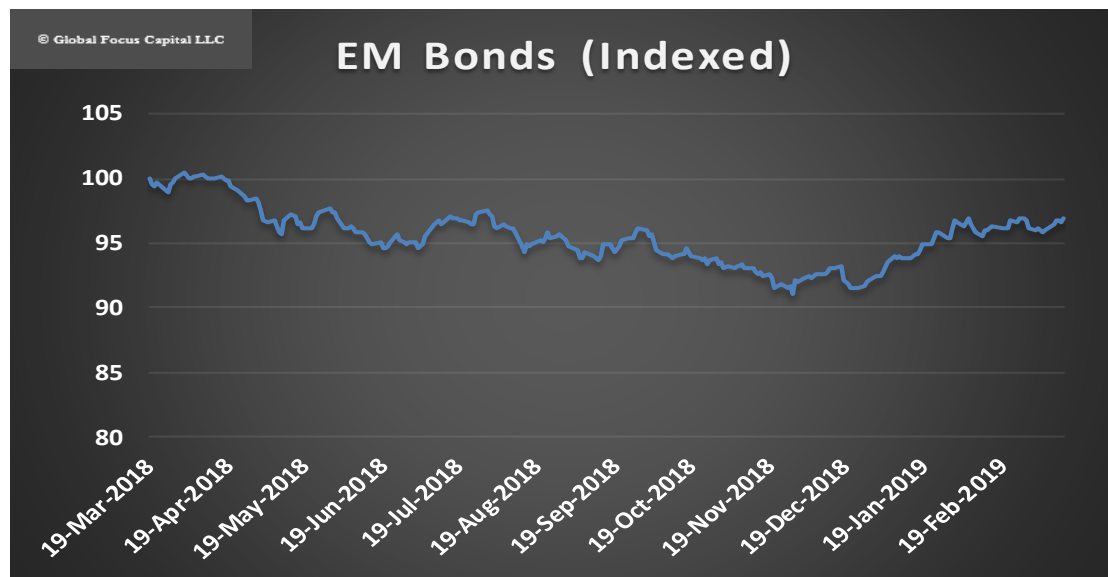
- Short-Term: Neutral
- Long-Term: Neutral

► 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	7.4%	7.2%	5.2%	6.5%	4.7%
CORR TO US STOCKS	0.45	0.59	0.48	0.33	0.00
CORR TO US BONDS	0.20	0.26	0.04	0.50	0.00
CORR TO COMM	0.45	0.58	0.54	0.16	0.00
CORR TO USD	-0.06	-0.01	-0.05	-0.14	0.00
UP BETA	0.11	0.17	0.15	0.27	0.05
DOWN BETA	-0.02	-0.01	0.00	0.22	0.18
ST TECHNICALS	BREAK OUT	BREAK DOWN	UP TREND	UP TREND	IMPROVING
IT TECHNICALS	UP TREND	BREAK OUT	BREAK OUT	DOWN TREND	DOWN TREND
RSI	57.2	57.2	50.0	77.1	35.8
UP DAY % (LAST 20)	55%	45%	60%	65%	30%

Commodities

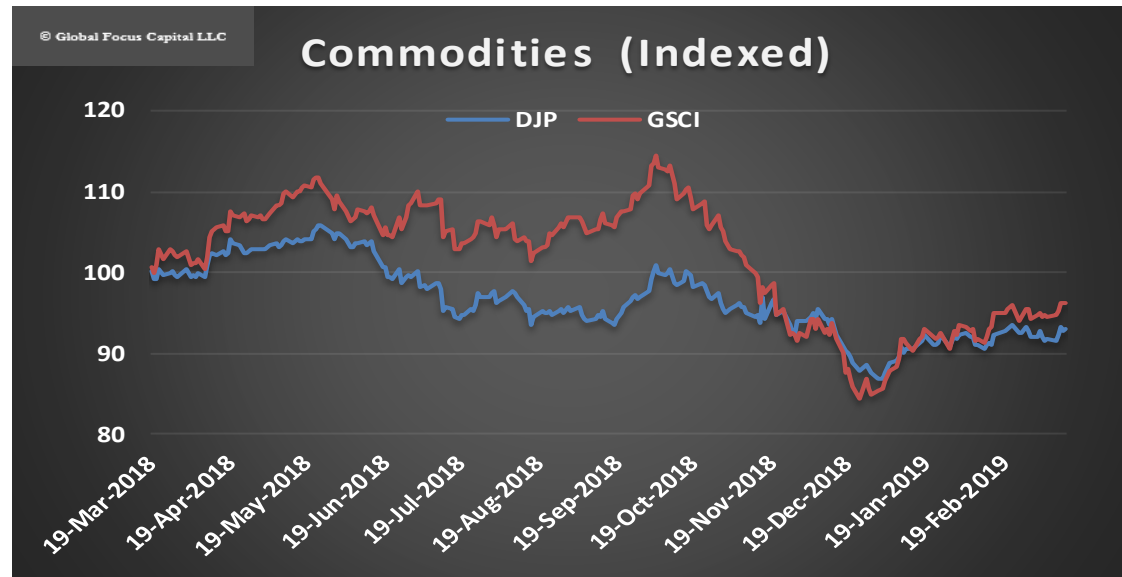
► Outlook:

- 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	12.2%	11.4%	14.8%	11.7%	9.1%
CORR TO US STOCKS	0.43	0.52	0.18	0.31	0.22
CORR TO US BONDS	-0.02	-0.30	-0.19	0.15	-0.09
CORR TO COMM	1.00	1.00	1.00	1.00	1.00
CORR TO USD	-0.01	0.23	0.02	-0.31	-0.24
UP BETA	0.25	0.37	0.25	-0.14	0.22
DOWN BETA	0.42	0.09	0.06	0.29	0.17
ST TECHNICALS	BREAK OUT	BREAK DOWN	DOWN TREND	DOWN TREND	DOWN TREND
IT TECHNICALS	IMPROVING	IMPROVING	DOWN TREND	DOWN TREND	BREAK DOWN
RSI	57.3	64.5	43.0	43.2	42.0
UP DAY % (LAST 20)	65%	55%	50%	45%	40%

Real Estate

► Outlook:

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

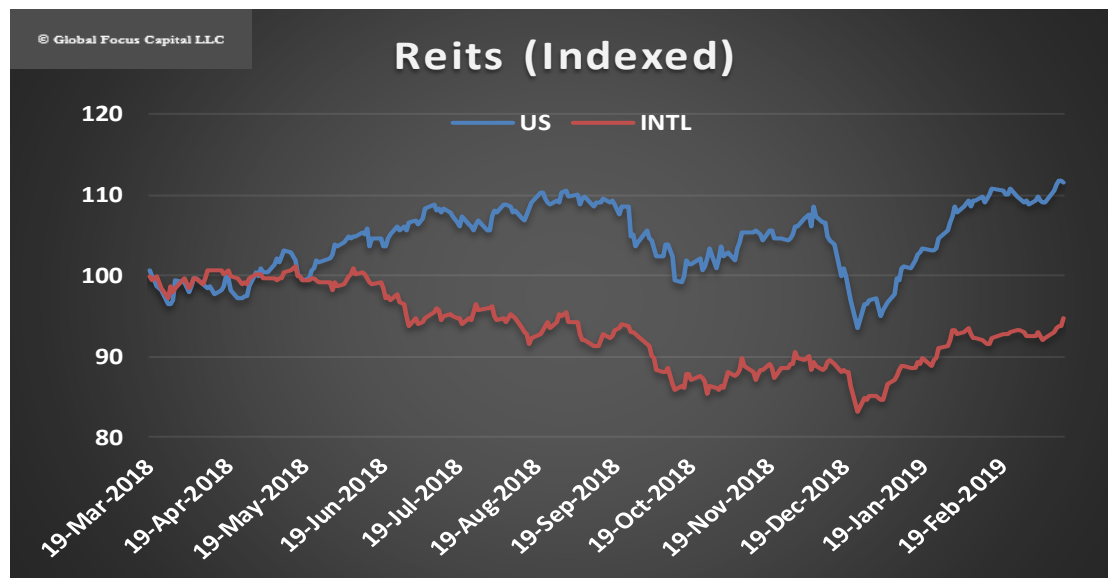
► Valuation: Stretched

► 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	10.3%	23.8%	27.5%	21.5%	14.0%
CORR TO US STOCKS	0.38	0.74	0.65	0.52	0.64
CORR TO US BONDS	-0.16	-0.26	-0.10	-0.29	0.51
CORR TO COMM	0.14	0.51	0.26	-0.02	0.11
CORR TO USD	0.05	0.06	0.15	0.29	-0.08
UP BETA	0.65	0.61	0.54	0.61	0.28
DOWN BETA	0.81	0.79	0.79	0.30	0.52
ST TECHNICALS	UP TREND	BREAK DOWN	UP TREND	BREAK DOWN	UP TREND
IT TECHNICALS	BREAK OUT	BREAK OUT	BREAK OUT	BREAK DOWN	BREAK OUT
RSI	57.3	50.1	76.9	50.5	54.1
UP DAY % (LAST 20)	55%	50%	75%	55%	55%

This Coming Week

- ▶ While risky assets have recovered we still think that risk is being shunned at the moment – investors seem uncomfortable making bold bets
- ▶ While not comfortable, US investors should consider allocating more money to non-US stocks due to their lower valuations and potentially 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

Date/Time	Name	Country	Volatility	Actual	Previous	Consensus
3/17/2019	Adjusted Merchandise Trade Balance	Japan	2	0	-370	-254.4
3/17/2019	Merchandise Trade Balance Total	Japan	2	0	-1415.2	310.2
3/17/2019	Imports (YoY)	Japan	2	0	-0.6	-5.8
3/17/2019	Exports (YoY)	Japan	2	0	-8.4	-0.9
3/18/2019	Industrial Production (YoY)	Japan	2	0	0	0
3/19/2019	Average Earnings Excluding Bonus (3Mo/Yr)	United Kingdom	3	0	3.4	3.4
3/19/2019	ILO Unemployment Rate (3M)	United Kingdom	3	0	4	4
3/19/2019	Average Earnings Including Bonus (3Mo/Yr)	United Kingdom	2	0	3.4	3.3
3/19/2019	Claimant Count Change	United Kingdom	2	0	14.2	2.7
3/19/2019	ZEW Survey - Economic Sentiment	Germany	3	0	-13.4	-11.3
3/19/2019	ZEW Survey - Current Situation	Germany	2	0	15	10
3/19/2019	Factory Orders (MoM)	United States	2	0	0.1	-0.5
3/19/2019	BoJ Monetary Policy Meeting Minutes	Japan	3	0	0	0
3/20/2019	Leading Economic Index	Japan	2	0	95.9	0
3/20/2019	Producer Price Index (MoM)	Germany	2	0	0.4	0.1
3/20/2019	Retail Price Index (YoY)	United Kingdom	2	0	2.5	2.5
3/20/2019	Retail Price Index (MoM)	United Kingdom	2	0	-0.9	0.7
3/20/2019	Producer Price Index - Input (YoY) n.s.a	United Kingdom	2	0	2.9	4.3
3/20/2019	PPI Core Output (YoY) n.s.a	United Kingdom	2	0	2.4	2.3
3/20/2019	Consumer Price Index (MoM)	United Kingdom	2	0	-0.8	0.4
3/20/2019	Core Consumer Price Index (YoY)	United Kingdom	2	0	1.9	1.9
3/20/2019	Consumer Price Index (YoY)	United Kingdom	3	0	1.8	1.8
3/20/2019	FOMC Economic Projections	United States	3	0	0	0
3/20/2019	Fed's Monetary Policy Statement	United States	3	0	0	0
3/20/2019	Fed Interest Rate Decision	United States	3	0	2.5	2.5
3/20/2019	FOMC Press Conference	United States	3	0	0	0
3/20/2019	UK Parliamentary Vote on Brexit	United Kingdom	3	0	0	0
3/21/2019	Retail Sales ex-Fuel (YoY)	United Kingdom	2	0	4.1	3
3/21/2019	Retail Sales (YoY)	United Kingdom	2	0	4.2	3.4
3/21/2019	Retail Sales (MoM)	United Kingdom	2	0	1	0.2
3/21/2019	Retail Sales ex-Fuel (MoM)	United Kingdom	2	0	1.2	0.2
3/21/2019	BoE Asset Purchase Facility	United Kingdom	3	0	435	435
3/21/2019	BoE Interest Rate Decision	United Kingdom	3	0	0.75	0.75
3/21/2019	BoE MPC Vote Unchanged	United Kingdom	3	0	9	9
3/21/2019	BoE MPC Vote Cut	United Kingdom	3	0	0	0
3/21/2019	Bank of England Minutes	United Kingdom	3	0	0	0
3/21/2019	BoE MPC Vote Hike	United Kingdom	3	0	0	0
3/21/2019	Initial Jobless Claims	United States	2	0	229	225
3/21/2019	Continuing Jobless Claims	United States	2	0	1,776	0
3/21/2019	Philadelphia Fed Manufacturing Survey	United States	2	0	-4.1	3.2
3/21/2019	National CPI ex Food, Energy (YoY)	Japan	2	0	0.4	0.3
3/21/2019	National Consumer Price Index (YoY)	Japan	2	0	0.2	0.3
3/21/2019	National CPI ex-Fresh Food (YoY)	Japan	2	0	0.8	0.6
3/21/2019	Foreign Investment in Japan Stocks	Japan	2	0	-1158.6	0
3/22/2019	Markit PMI Composite	Germany	2	0	52.8	52.7
3/22/2019	Markit Services PMI	Germany	2	0	55.3	54.8
3/22/2019	Markit Manufacturing PMI	Germany	3	0	47.6	48.1
3/22/2019	Public Sector Net Borrowing	United Kingdom	2	0	-15,759	-0.3

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