ELITE WEALTH MANAGEMENT

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Market Performance

The January Effect was in full effect for the first month of 2019. After a sharp plunge in December, stocks have rebounded during the first few weeks of January as signs of progress continue in the U.S.-China trade war. The Federal Reserve adopted a more dovish tone on interest rates, and strong corporate earnings revealed that some companies and sectors have more positive outlooks than expected. The S&P 500 Total Return was up 8.01%, had its best January performance since 1987, and its biggest monthly gain since October 2015. The Dow Jones Industrial Average (DJIA) rose 7.17% in January, its largest one-month rise since 2015 and biggest January gain in 30 years. Crude oil prices also had their best month on record, surging more than 19% after three straight months of losses. Output cuts and the chaos in Venezuela contributed a lot with that performance. The U.S. added 304,000 jobs in January, blowing out expectations despite the shutdown.[1] While stocks have rebounded, notably for U.S. companies and indexes, risks still remain and many of them may become more apparent in February. While the rebound was a major feat by any measures, the starting point for January's rally was exceptionally low. These are the most notable risks and events coming up this month that our investment committee are aware of on the horizon. We are continuing to taking a cautious stance as new economic data and earnings guidance continue to roll out.

Monetary Policy

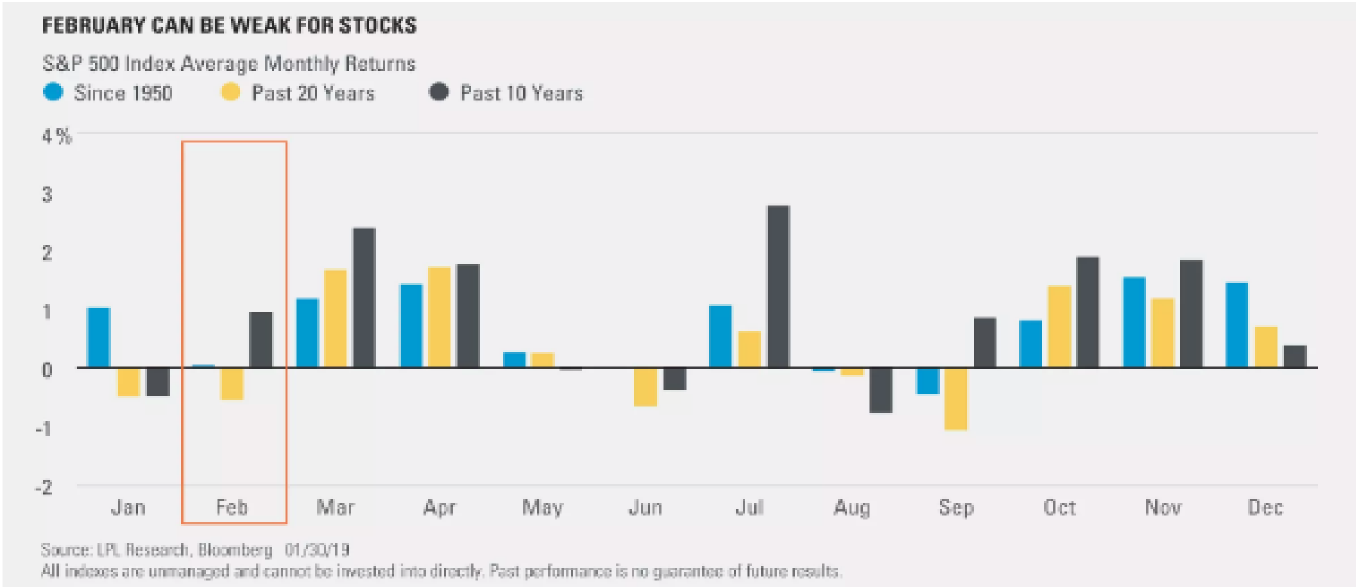
During the January FOMC meeting, the Fed raised the target range for its benchmark funds rate to 2.25% - 2.5% while softening its tone for further increases following the market reaction to its December meeting. However, the Fed continues to include in its statement that further "gradual" rate hikes would be appropriate. We continue to anticipate two rate hikes this year based on the Fed's language and dot plot data from the two most recent meetings. However, according to the Fed fund futures as of February 4th, market participants are expecting only a 6.6% chance of further hikes through the end of the year.

Economic Indicators

Most of January saw a lengthy government shutdown, which had some detrimental effects on the economy. However, despite the shutdown, the U.S. economy created 304,000 jobs and the unemployment rate increased to 4% for the month of January.

The Consumer Price Index declined roughly 0.1% in December to 252.73 from 252.88 in November. The Consumer Sentiment Index declined -7.2% between January and December. It was the weakest sentiment since President Trump was elected. The end of the shutdown caused only a modest boost in the Sentiment Index. The Consumer Confidence Index continued to decline by 5.1% in January, following a decline in December. According to the Bureau of Economic Analysis, Gross Domestic Product for Q3 2018 advanced at an annual rate of +3.4%. The next GDP release is expected on January 30th.

After two consecutive months of increases, existing-home sales declined in the month of December by -6.4%, according to the National Association of Realtors.® As of February 3rd, the 3-month U.S. treasury yields 2.40%, while the 1-year yields 2.56% and 10-year yields at 2.70%. Gold increased to $1,319.80 per ounce, oil increased to $55.38 per barrel and natural gas at 2.73 MMBtu.[3]



LPL Financial.

Earnings Season

As of February 1st, 46% of the companies in the S&P 500 have reported actual results for Q4 2018. The blended year-over-year earnings growth rate (combines actual results for companies that have reported and estimated results for companies that have yet to report) for the fourth quarter is 12.4%. Positive earnings surprises reported by companies in multiple sectors (led by the Energy sector) were responsible for the increase in the earnings growth rate from 10.9% the previous week. As of February 1st, the blended year-over-year Q4 revenue growth rate is 6.6%. Positive revenue surprises reported by companies in multiple sectors (led by the Health Care sector) were responsible for the increase in the revenue growth rate from 6.2% the previous week. If 12.4% is the actual growth rate for the quarter, it will mark the first time the index has not reported earnings growth above 20% since Q4 2017. In terms of earnings, the percentage of companies reporting actual EPS above estimates (70%) is below the five-year average according to FactSet.

Global Outlook

China and Brexit maintained the global spotlight in January. Growth in China is continuing to slow as Q4 GDP was reported at 6.4%, missing estimates and falling below the 6.5% government target. The PBOC proceeded with stimulating measures, cutting its Reserve Requirement Ratio by 1% which helped stem volatility. On a positive note, trade rhetoric between the U.S. and China has been trending more positively as it appears a deal is nearing with a meeting between Trump and Xi potentially slated for end of February. Our investment committee is continuing to monitor the Brexit uncertainty as Theresa May's originally negotiated EU deal failed a parliamentary vote in January. A no-deal Brexit scenario is picking up steam as May, after surviving a confidence vote, attempts to put forth a revised deal in February. According to the IMF's latest update, the global economy is expected to grow by 3.5% and 3.6% in 2019 and 2020 respectively. This is reduced by 0.2% and 0.1% respectively from its previous projection last quarter.

Portfolios Recap

Tactical Long/Short Strategy: +7.97% YTD 2019

The Tactical Long/Short Strategy gained +7.97% net of fees for the month of January. The S&P 500 Total Return gained 8.01% for the month. The Tactical Long Short Strategy underperformed on the rebound for the month. The investment committee maintains the long market positions as we anticipate strong Q1 earnings, however, we plan to reduce exposure over this quarter and increase cash levels in order to best position for the year.

Core Strategy: +8.25% YTD 2019
Equity Opportunity Strategy: +8.38% YTD 2019
Global Strategy: +8.79% YTD 2019

For the month of January, the Core Strategy and Equity Opportunity Strategy 8.25% and 8.38% respectively net of fees. The S&P 500 Total Return gained 8.01% for the month. The equity strategies were able to outperform the broad market due to the technology exposure as the sector rebounded strongly on the back of positive trade rhetoric and mean reversion from severely oversold levels.

The Global Strategy gained 8.79% net of fees, outperformed on the downside for December and followed with outperformance on the upside in January in relation to the MSCI ACWI Global Benchmark. The MSCI ACWI Global Index gained 7.80% for the month of January.

For the equity strategies, the investment committee is planning on reducing single-equity exposure in a timely manner as the market pushes higher and increase exposure in short-term US treasuries. The investment committee will continue to focus closely on market valuations, market movements and macroeconomic indicators during the first quarter. The Core Strategy, Equity Opportunity Strategy and Global Strategy invest excess cash into short-term 3-month U.S. treasuries which currently have an annualized yield of approximately 2.35%.

Dynamic ETF Option Strategy (DEOS): +2.03% YTD 2019

For the month of January, DEOS gained 2.03% net of fees. The benchmark CBOE S&P 500 PutWrite Index (PUT) gained 2.77% for the month. The strategy performed in-line with expectations as we continue to go risk off in the strategy and target a more defensible yield. Despite the market rebound we've seen in the short term, we anticipate volatility to remain elevated throughout 2019 due to several macro headwinds. In light of this, we are rolling out hedged options spreads as exposure continues to reduce in Q1 and Q2 of 2019. We'll be continuing to keep the strategy in a very defensive stance as we monitor the market and macro conditions.

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References

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2. ACA Aponix
3. Bloomberg