



## Monthly U.S. and Global Market Outlook

### I. Market Performance

Volatility picked up in the wake of North Korea's nuclear testing and Hurricane Harvey. Despite the increased tension, the S&P 500, Dow Jones and NASDAQ rebounded by month end. As of September 6<sup>th</sup>, the S&P 500, Dow Jones and NASDAQ is up 10.13%, 10.35% and 18.77% YTD respectively. To date, nearly all S&P 500 companies reported Q2 earnings. In aggregate, 73% of the companies reported above their mean EPS and revenue estimates.<sup>1</sup> This quarter's earnings growth rate grew to a new high of 10.3%. This marks the second consecutive quarter of double digit growth and one of the strongest earnings seasons since 2008. We expect a majority of these companies to carry the earnings growth rate higher as we transition into the Q3 reporting period.

### II. Economic Indicators

Employment growth slows further with only 156,000 jobs added in August. Thus far, the U.S. has averaged adding around 175,000 jobs per month. The most recent employment data is trending downward, but overall employment conditions remain stable and acceptable for Fed to maintain their 2017-2018 plan. Q2 gross domestic product growth increased to a solid 3.0% which remains in line with forecasts. As of September 6<sup>th</sup>, Gold closed at \$1,338.60 per ounce, up 6.80% YTD. Oil settled at \$49.05 a barrel, while natural gas neared 3.0MMBtu.<sup>2</sup> Both commodities took a hit following the effects of Hurricane Harvey. VIX surged on August 10<sup>th</sup> and again shortly after, signaling increased market risk and tension.

### III. Trumponomics

On August 30<sup>th</sup>, President Trump delivered a speech to promote his proposed tax reform. So far, the plan is still lacking major details and we expect the administration to release a more structured plan later this year.

### IV. Monetary Policy

The next FOMC meeting is scheduled for September 19<sup>th</sup>. At this time, we do not have any expectations for another rate hike this year, but we do expect the Fed to reveal additional details regarding the normalization of its balance sheet. While economic data remains firm, the probability for a third rate hike this year is fading as the Fed Fund Futures dropped to a 37.1% probability for a December rate hike.

### V. Global Outlook

Macro data continues to support positive growth. Both advanced and emerging markets continue to grow steadily. The IMF's most recent outlook raised its growth rate for China to 6.7%. Looking forward, both the ECB and the BOJ monetary policy meetings are scheduled for next week. While both domestic and global markets are steadily advancing, several medium-term

risks remain on our radar including administrative policy uncertainty and global financial risks. With a majority of macro data supporting the pro-growth trend, there is a lessened likelihood of a recession in the near term. Our investment committee is focusing on a handful of rapidly evolving technologies in order to capitalize on growth opportunities for our global portfolio.

### **Portfolios Recap**

**Dynamic Futures Option Strategy (DFOS): 13.06% YTD**

**Dynamic Option Strategy (DOS): 6.27% YTD**

**Dynamic ETF Option Strategy (DEOS): 5.99% YTD**

For the month of August, DFOS returned 1.91% net of fees. DOS returned 1.06% net of fees. DEOS returned 0.67% net of fees.

The options strategies capitalized on the spike in volatility resulting from global tensions, specifically with North Korea, which in turn caused option yields to remain elevated throughout the month. This enabled DFOS to pull ahead of the market YTD. On the back of elevated risk and increasing yields, we also started pushing the average distance of the contracts carried in the strategies further out of the money to increase the buffer between the strike prices and the current market levels. This will help better position the strategies as we head towards the final quarter of the year. Forward looking, we expect yields to remain elevated as the market continues to weigh the global tensions and we approach the final Fed meetings of the year where we should receive more color regarding forward interest rates and how the Fed plans to unwind its massive balance sheet.

### **Tactical Long/Short Strategy: 10.63% YTD**

The Tactical Long/Short Strategy yielded 0.71% net of fees for the month of August. The strong earnings season fueled prices of both the SPDR S&P 500 ETF (SPY) and the PowerShares QQQ Trust (QQQ).

### **Core Strategy: 15.79% YTD**

The Core Strategy returned 1.89% net of fees for the month of August. Core significantly outperformed the S&P 500 both MTD and YTD. The top performers in Core included Sociedad Química y Minera de Chile (SQM), Alibaba Group Holdings (BABA) and Apple, Inc. (AAPL) yielding 14.16%, 10.84% and 10.70% MTD respectively. SQM exceeded both revenue and earnings expectations with \$1.6 billion in revenues, a 16% year-over-year increase and \$0.78 EPS. The company continues to innovate and expand its lithium projects to new regions. Alibaba exceeded market expectations with a robust \$7.4 billion in revenue, a 56% year-over-year increase. Alibaba continues to attract new users through its innovation and market leadership. Last quarter they increased their active user base by 12 million which pushed them to a record high of 466 million users. Alibaba continues to climb higher and is up 93.51% YTD. Apple reported 7% revenue growth and 17% EPS growth for Q3. This is the third consecutive quarter of accelerating growth and record services revenue. Apple is releasing the iPhone 8 this fall in addition to advancements to their leading operating systems iOS and macOS.

The weakest holdings included Momo Inc. (MOMO) and Zillow (Z) down -12.29% and -12.27% MTD respectively. Both Momo and Zillow reported firm earnings, but pulled back due to

increased competition. Momo's user growth, specifically paying users, became stagnant. Zillow's revenue increased 28% year-over-year but still faces heat from the recent IPO of rival Redfin (RDFN).

**Equity Opportunity Strategy: 14.74% YTD**

The Equity Opportunity Strategy gained 2.06% net of fees for August. The top performers included Weibo Corp. (WB), Sociedad Química y Minera de Chile (SQM) and Alibaba (BABA) returning 31.38%, 14.16% and 10.84% for August. Weibo surged another 31.38% for the month of August and is up 153.45% YTD. Weibo's revenue grew to \$253.4 million, a 72% year-over-year increase. Weibo also reported a 28% increase in active users. The weakest holdings were Momo Inc. (MOMO) and Zillow Inc. (Z) down -12.29% and -12.27% for the month respectively.

**Tactical ETF Strategy: 8.66% YTD**

The Tactical ETF Strategy returned 1.09% net of fees for August. The top performing ETFs included the Utilities Select Sector SPDR (XLU) and the PowerShares QQQ Trust (QQQ) yielding 3.29% and 2.07% for the month. The weakest performing ETF was the SPDR S&P Health Care Services (XHS), down -1.70% for the month.

As always, we welcome you to reach out to us anytime to discuss your portfolio.



**Fariba Ronnasi, *Principal***

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#### References

1. Factset Earnings Insight September 1<sup>st</sup> 2017
2. Investing.com
3. International Monetary Fund