Monthly U.S. and Global Market Outlook

I. Market Performance

For the month of April, all three major indices finished in the positive recouping the previous month's losses. As of May 15th, the S&P 500 Total Return, Dow Jones and NASDAQ are up 2.12%, -0.05% and 6.49% YTD respectively.[1] Strong fundamentals have carried the market through a quick recovery of losses as well as extended record highs for many companies.

Overall, Q1 earnings results were positive. As of May 15th, 91% of companies have reported earnings. Of that 91%, 78% reported positive EPS surprises and 77% reported positive sales surprises. All eleven sectors are expected to report year-over-year growth in earnings and nine sectors are reporting double-digit earnings growth. At this rate, Q1 2018 might record one of the strongest earning periods since 2008.

Fundamentals remain firm and we anticipate that the strong corporate earnings will continue to drive positive market growth throughout the remainder of the year. In aggregate, sales and earnings rose substantially higher than the previous quarter. To complement this, profit margins edged towards all-time highs of 12%. The blended earnings growth rate stands at approximately 24.9%, which also marks the highest growth rate in nearly a decade. According to FactSet Geographic Revenue Exposure Data,[3] the influx of strong earnings and sales growth can be primarily attributed to these three sectors: Information Technology, Materials and Energy. Combined, these three sectors carry the highest global exposure which has in all carried Q1 earnings season.

According to Factset, analysts are projecting earnings growth to reach 19% this year, a steep but achievable growth rate given the recent market expansion. We anticipate market volatility to pick up during summer months, but we don't expect this to hinder 2018's growth.

II. Economic Indicators

For the month of April, 164,000 jobs were added to the U.S. economy. This was the 91st consecutive month of continued job growth, the longest period in history.[3] The unemployment rate declined further to 3.9%, breaking the six-month record low of 4.1%. Inflation remains just under 2%. As of May 15th, gold declined to $1,290.24 per ounce, oil climbed to $71.31 per barrel and natural gas rose to 2.84 MMBtu.[2]

III. Trumponomics

Trade war rhetoric continued throughout the month of May with little change. The world's largest economies have been dragging out the tariffs debate since early April. A majority of the market uncertainty surrounding this matter faded due to the lack of progress.

IV. Monetary Policy

The latest FOMC meeting indicated that the labor market continues to expand and strengthen at a moderate rate and is roughly balanced. On May 2nd, the Fed decided to maintain the target rate range of 1.50%-1.75% with anticipation of another one to two rate hikes in 2018. The next FOMC meeting is scheduled to take place from June 12th to June 13th. As of May 15th, the Fed Fund Futures target rates for June rose to a 95% probability for a rate hike to the 1.75%-2.0% target range.

V. Global Outlook

According to the OECD Interim Economic Outlook, the world economy is expected to strengthen over the course of the next two years. In addition, the global GDP growth rate is expected to climb to approximately 4% in both 2018 and 2019. While a recession in 2018 appears unlikely, there are still a handful of tangible issues on our radar including potential economic slowdown, inflation rates, and present policy and geopolitical tensions.

Portfolios Recap

Dynamic ETF Option Strategy (DEOS): 1.30% YTD

For the month of April, DEOS produced 0.55% net of fees. As we organically close out of the older options exposure and as market volatility has generally been declining since the vol shock in February, we're taking things cautiously to defend against future shocks. Yields in the strategy is being pushed further out in time to create a larger buffer underneath the present market levels. We plan to continue this process and strategically sell yield as we gauge market direction over the next several months.

Tactical Long/Short Strategy: 0.95% YTD

The Tactical Long/Short Strategy was down -0.17% for the month of April. We increased our exposure in QQQ and SPY in order to better participate in Q1 earnings upside. Our cash level has been reduced to 5% and we plan to maintain this level given the positive momentum and high volume of earnings surprises.

Core Strategy: 4.00% YTD
Equity Opportunity Strategy: 3.27% YTD
Global Portfolio: 2.85% YTD

The Core Strategy, Equity Opportunity Strategy and Global Portfolio declined -0.61%, -0.88% and -0.83% respectively net of fees for the month of April. Despite short-term losses, all three equity strategies continue to significantly outperform the S&P 500 Total Return YTD. As the earnings season is unfolding, we are noticing a majority of companies continue to post strong earnings and exceed expectations setting the bar even higher for the following quarters. Our investment committee continues to closely analyze our positions while balancing cash levels to better mitigate against volatility.

As always, we welcome you to reach out to us any time to discuss your portfolio and any questions.

Fariba Ronnasi, *Principal*

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References

1. Yahoo Finance
2. Factset Earnings Insight May 2018.
3. Bloomberg