ELITE WEALTH MANAGEMENT

February 2018

Monthly U.S. and Global Market Outlook

I. Market Performance

The rapid market downturn on February 5th and the surrounding days triggered mass market uncertainty which translated into prolonged lows for several trading sessions to follow. This was the first taste of bearish activity since early 2016. After two weeks of market choppiness with significant intraday swings, the market recouped half its short-term losses and stabilized at a new level which is supported by strong macroeconomic data. Consumer sentiment continued to rise month over month, essentially shrugging off the market volatility. In aggregate, the stock market shed $1 trillion from its total market capitalization in February, wiping nearly 3-months of solid gains. Shortly after, the bullish sentiment returned towards the end of the month, quickly offsetting the losses and pushing all three major indices back into the positive for the year. As of March 15th, the S&P 500, Dow Jones and NASDAQ is up 2.76%, 0.62% and 6.78% YTD respectively.

For Q4, 99% of companies reported earnings and of those companies, 73% reported positive EPS and 77% reported positive sales surprises. In aggregate, companies' revenue is 1.5% higher and trending significantly above the 5-year estimate. At the sector level, all sectors reported year-over-year revenue growth with 4 sectors reporting substantial double-digit growth and positive outlooks. The blended earnings growth rate rose to 14.8%, primarily led by the bullish growth in the technology sector. Despite recent volatility shocks, the S&P 500 is still on a bullish trend and the forward 12-month P/E ratio is trending significantly above both the 5-year and 10-year averages at 17.0.

II. Economic Indicators

The U.S. economy continues to expand at record rates. The U.S. Economy added 313,000 jobs in February, significantly above prior months and above the consensus expectations of 205,000 jobs. The unemployment rate remains unchanged at 4.1% for the fifth consecutive month. The inflation rate remains relatively stable under the 2% Fed target. The GDP increased at an annual rate of 2.5% for the 4th Quarter of 2017. PMI manufacturing report for February set a 3-year high and prompted the robust consumer confidence. Despite major volatility shocks and recent turmoil, consumer confidence and sentiment reports remained unaffected, and in fact proved higher than January's data. As of March 15th, gold surged to $1,314.48 per ounce, oil rallied to $61.27 a barrel and natural gas rose to 2.61 MMBtu.[2]

III. Trumponomics

In February, the Trump Administration introduced their first formalized infrastructure plan which dove into the specifics on how the Administration plans to rebuild America's major transportation and structural systems including railroad, highways, airports and additional developmental projects. Shortly following this, President Trump announced the administration's plans for imposing steep import tariffs on steel and aluminum of 25% and 10% respectively. However, such tariffs will not apply to Canada or Mexico due to our preexisting relationship and based on how NAFTA negotiations pan out. President Trump indicated that the tariffs are designed to drive domestic growth. Tax reform benefits are already trickling down into company's earnings and increasing margins. According to OECD, tax cuts are expected to contribute 0.5% to 0.75% to the economic growth for 2018 and 2019. The U.S. economy is expected to grow near 2.9% this year, an improvement from last year.

IV. Monetary Policy

Interest rates are currently set at the target range of 1.25% to 1.50%. On February 27th, Jerome Powell took stage and led his first semiannual monetary policy meeting where he announced the committee's upgraded assessment of the U.S. economic outlook. Powell shined light on the Fed's plan to gradually raise interest rates throughout the year. The committee expects the economy will exceed their 2018 economic growth outlook and by gradually introducing more rate hikes this will balance inflation without shocking the economy and having a negative impact to continued economic growth. The next FOMC meeting is scheduled for next week, on March 20th – 21st. This meeting will be vital as it will provide market participants with insight as to how and when interest rates will occur and how this impacts the economic outlook for the next 2-3 years. The Fed Fund Futures surged to a 94.4% probability for a March rate hike, which would immediately push interest rates to the 1.50% - 1.75% target range with rates on track to reach 1.75% - 2.0% target range by the end of the year.

V. Global Outlook

The OECD raised their global growth forecast to 3.9%, marking the highest level of GDP growth since 2011. Inflation is set to slowly rise over the next two years but remain within a controllable range. With trade and investment growth accelerating at record rates, globalization is set to pick up. Macroeconomic indicators continue to enhance the overall economic outlook both domestically and internationally. Overall, our investment committee remains optimistic that there is a low chance of a bearish trend in the near term, but we will still maintain a comfortable cash level in a majority of our strategies in order to mitigate risk. We are repositioning our portfolios by increasing cash levels and closely monitoring our holdings as the earnings season approaches.

Portfolios Recap
Dynamic ETF Option Strategy (DEOS): 0.55% YTD

For the month of February, DEOS was down -0.27% net of fees. As markets continued to push to all-time highs in January we kept DEOS exposure levels in the forward months reduced with strike prices at conservative levels in order to mitigate against a pullback. This worked out well during the volatility shock of 02/05 as we were able to smoothly roll the exposure in the strategy to lower levels at a credit without having to lock in losses. This helped the strategy to soundly outperform the market during the pullback and for the month of February. As the market stabilized at its current levels, the strategy was able to recoup its losses and has shifted back into positive territory for the year. Due to the increase in volatility, yields have increased across the board which will be beneficial for the strategy in the near term. Given the Fed uncertainty, we're placing new exposure at reduced levels further out in time and further below the market in order to better mitigate against market volatility in the coming months.

Effective February 5th, we discontinued the Dynamic Futures Option Strategy and Dynamic Option Strategy due to the disproportionate volatility disconnect with the market move. We will not be placing future trades in the strategy and no longer accepting any additional allocations. DOS and DFOS will no longer be addressed in our Monthly U.S. and Global Market Outlook. Furthermore, we will be transitioning DOS into DEOS as our only core options strategy moving forward. For any strategy specific or performance related questions please contact us at the office.

Tactical Long/Short Strategy: <u>3.90% YTD</u>
Tactical ETF Strategy: <u>3.03% YTD</u>

In the wake of the market's volatility shock, the S&P 500 finished the month down -3.69%. Since this was news driven and there has been no pertinent fundamental change, we remained long in both of our strategies. The tactical strategies mitigated a majority of the losses due to our healthy allocation in leading sectors. For the month of February, the Tactical Long/Short Strategy was down -2.39% and the Tactical ETF Strategy was down -2.36%. We are closely analyzing the market movements in anticipation of next week's FOMC meeting in order to determine the best course of action for our tactical strategies.

Core Strategy: <u>6.15% YTD</u>
Equity Opportunity Strategy: <u>6.40% YTD</u>

The Core Strategy declined -2.24% net of fees for the month of February. The Equity Opportunity Strategy was down -2.28% net of fees for February. Both the Core and Equity Opportunity strategies are strategically designed to mitigate risk and positioned to opportunistically capture holdings at attractive valuation points. Throughout the month of February both strategies were able to minimize the downside risk and also participate in the upside after the market recouped its losses.

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

Fariba Ronnasi, *Principal*

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The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.

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References
1. Factset Earnings Insight March 2018.
2. Bloomberg.
3. International Monetary Fund, OECD.