



## Monthly U.S. and Global Market Outlook

### I. Market Performance

The macro economic environment continues to support the bullish market sentiment. All three major U.S. indices continue to climb higher with positive momentum. Overall, U.S. equities remain in a long upward trend and we anticipate this to progress in the near term. As of November 6th, the S&P 500, Dow Jones and NASDAQ are up 15.74%, 19.16% and 26.07% YTD respectively. So far, 81% of the S&P 500 companies reported Q3 earnings. In aggregate, 74% beat the mean EPS and 66% beat the mean sales estimates. Technology, financials, and materials pushed the Q3 blended earnings growth estimate to 5.9%. A majority of the S&P 500 companies with global exposure are reporting year-over-year sales growth and helping carry the S&P 500 to all-time highs.

### II. Economic Indicators

The October jobs report showed 261,000 jobs created, making up for September's job loss. The Bureau of Labor's report also stated that the unemployment rate fell to 4.1%, its lowest point since 2001. The rosy employment situation improves the probability for this year's third rate hike in December. Both PMI and CPI data came out stronger last month indicating improved consumer confidence and economic expansion. Q3 GDP expanded 3% and based off recent economic trends, could reach 4% in 2018. Oil prices surged, breaking their highest price point since 2015. As of November 6<sup>th</sup>, Gold closed at \$1,278.20 per ounce, oil climbed to \$57.00 per barrel and natural gas jumped to 3.14 MMBtu.<sup>2</sup>

### III. Trumponomics

The original tax reform outline that Trump released late September addressed four primary goals; to provide tax relief for the middle class, simplify the tax code into four brackets, grow the American economy and reduce the deficit. Following this, on Thursday, November 2nd, the Trump Administration released the first material bill "Tax Cuts and Jobs Act" for market participants to dig into. This bill dove deeper into the specifics of how the administration plans to effectively and efficiently alter the tax code. Trump remains optimistic that the administration will be able to make significant progress before year end.

### IV. Monetary Policy

On November 1st, President Trump nominated Jerome Powell as the next Fed Chair. Powell will replace Janet Yellen's position in February of 2018. Although Powell's selection was widely anticipated leading into the announcement, this was met with market approval as Powell is an existing Fed member and believed to likely continue Yellen's path in normalizing rates and strategically reducing the Fed's balance sheet. During the latest FOMC meeting ending on November 1st, the Fed decided to maintain the interest rate at the target range of 1.00% to

1.25%. Shortly following this, the Fed Fund futures edged higher to a 96.7% probability for the next rate hike in December.

## V. Global Outlook

As the overall global economic picture strengthens, the likelihood of a near-term recession diminishes. Both developed and emerging markets edged higher last month. In aggregate, developed market equities gained 16% YTD, while emerging market equities advanced 30% YTD. Specific regions have been advancing more rapidly than others. Regions such as China, Australia, Japan and India have experienced 2.3%, 3.2%, 5.7% and 7.3% growth last month respectively. The ECB left rates unchanged but extended their quantitative easing program through the end of 2018. The BOJ also left rates unchanged.

### Portfolios Recap

**Dynamic Futures Option Strategy (DFOS): 15.94% YTD**

**Dynamic Option Strategy (DOS): 7.76% YTD**

**Dynamic ETF Option Strategy (DEOS): 7.64% YTD**

For the month of October, DFOS returned 1.05% net of fees. DOS returned 0.56% net of fees. DEOS returned 0.80% net of fees.

With markets trading at all-time highs and the VIX subsequently trading at all-time lows, we started strategically reducing the average carried options exposure and shifting it to a more defensive posture to better mitigate forward market volatility. Although this incurs a small net reduction in yield, this will also position the options strategies to capitalize on opportunities as volatility inevitably picks up. As the markets enter the more bullish holiday segment of the year, we anticipate the markets to continue to remain relatively calm since there are no expected macro event risks through the end of the year. However, as we begin to position the strategies for the first quarter of 2018, we are cautiously monitoring economic conditions along with how the Fed executes its plan to unwind its balance sheet and continues to tighten monetary policy.

**Tactical Long/Short Strategy: 15.14% YTD**

**Tactical ETF Strategy: 11.92% YTD**

The Tactical Long/Short Strategy returned 3.22% net of fees for the month of October. The Tactical ETF Strategy gained 2.64% net of fees for October.

For the month of October, both our tactical strategies outperformed the broad market. The information technology sector led the S&P 500 earnings growth rate this quarter. A majority of companies are posting year-over-year revenue and EPS growth for Q3. As always, we continuously seek out value-added ETFs that meet our investment criteria in order to enhance our portfolio quality and overall return.

**Core Strategy: 22.52% YTD**

**Equity Opportunity Strategy: 20.30% YTD**

The Core Strategy yielded 5.02% net of fees for the month of October. The Equity Opportunity Strategy gained 4.12% net of fees for October.

Both the Core and Equity Opportunity strategies significantly outperformed the S&P 500 for the fourth consecutive month and YTD. The S&P 500 yielded 2.33% for the month, while EO and Core produced roughly double the return. We recently increased our allocation in both technology and financials expecting stronger earnings from both sectors and a better interest rate environment for banks. We expect our equity strategies to positively benefit as additional tax reform details are released along with the potential next rate hike in December.

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 November 7<sup>th</sup>, 2017
2. Trading Economics
3. Yahoo Finance