Monthly U.S. and Global Market Outlook

After dropping in October, all three major indices rallied in November: the S&P 500 rose 3.42%, the Dow surged 5.43%, and the NASDAQ gained 2.59%. As of November 25, 2016, 98% of S&P companies have reported Q3 2016 earnings. 72% of these companies have reported earnings above the mean estimate and 54% have reported sales above the mean estimate. The S&P 500 blended earnings growth rate for Q3 2016 is 3.2%, the first quarter that the index has reported year-over-year earnings growth since Q1 2015. Eight of the eleven sectors tracked by FactSet are reporting or have reported year-over-year earnings growth, led by the Real Estate and Utilities sectors which reported 35% and 16.4% in year-over-year earnings growth, respectively. Three sectors have reported a year-over-year earnings decline, with the largest drop in the Energy sector at -62.9%. Out of the 105 S&P 500 companies that have provided guidance for Q4 2016, 68% have issued negative EPS guidance and 32% have issued positive EPS guidance. The Shiller PE Ratio is currently at 25.30, still well above the mean of 15.63 and median of 14.64, and near 2007 highs.

The biggest event of the month was of course the Presidential Election. Despite nearly every poll predicting that Hillary Clinton would win, Donald Trump managed to secure a victory for the White House on November 8, 2016. That night, S&P 500 Futures dropped to the 5% overnight limit, but the next day the market rallied and continued the bull market crossing into all-time highs, with significant strength particularly in the financial sector, defense and other industries that would benefit from Trump's domestic growth oriented policies. Investors are hoping for a faster growing economy through Trump's plans to cut taxes and increase infrastructure spending. Financials have rallied 12.3%, more than half of the S&P 500's gains since the election, due to Trump's plans to loosen regulatory restrictions and the expected rise in interest rates which enhances banks' potential earnings.

Neither the European Central Bank (ECB) or the Bank of Japan (BOJ) had meetings in November, but the Federal Reserve did have a meeting on November 2, 2016. As expected, given how close this decision was to the 2016 Presidential Election, the Fed did not raise interest rates. The Fed's next decision is on December 14, 2016 and is the last meeting of the year and the last opportunity for the Fed to raise interest rates this year. This, coupled with the fact that earnings have been mostly positive, U.S. economic growth has rebounded above 3%, unemployment rate is below 5%, and inflation has been ticking higher since July, gives the Fed plenty of justification to raise rates. Currently, the market is pricing in a 94.9% probability of an interest rate hike at the December meeting.

On November 30, 2016, OPEC reached an agreement to reduce production, the first time in eight years, by 1.2 million barrels a day. Oil jumped 8.87% has a result. However, investors should be cautious as some OPEC members have not followed through in the past. The reduction may also not be large enough to significantly boost oil prices, while higher prices may encourage non-OPEC members such as the U.S. to further boost supply, which would only exacerbate the supply glut. Natural gas soared 10.77% in November due to forecasts predicting cooler weather, which raises demand for natural gas for heating. About half of U.S. homes use natural gas for heat, causing prices to rise in the winter.

The U.S. Dollar was up 3.17% in November due to investors' expectations that the Fed will raise rates more quickly under a Trump Presidency. Increased rates combined with economic growth from more government spending into areas such as defense and infrastructure, which Trump is planning to do, are great for the dollar. The price of gold dropped 7.92% in November as the dollar gained; the precious metal is more expensive to foreign investors when the dollar is higher. Gold is also under pressure from the more than likely Fed rate hike in December, as it does not offer interest and struggles to compete with yield bearing assets when interest rates are increased. The 10-year treasury yield soared 30.96% in November, reaching new highs since July. The jump in oil prices will likely increase inflation, which causes bond investors to demand higher treasury yields.

The last major domestic event for this year is the Fed decision on December 14, 2016. We may see some volatility surrounding the event, but given the near certainty that interest rates will be raised, it is unlikely to drastically move the market. The ECB has a meeting on December 8, 2016, and the market may react depending on their decision, although we do not foresee them to change their current policy. We also expect to see the "Santa Claus Rally", a rise in stock prices in December, particularly during the last week between Christmas and New Year's, due to the January effect and investors making trades before the end of the year for tax purposes. Housing starts data will be released December 16, 2016 and GDP data on December 22, 2016. The outcome of these reports may influence the market's psyche going into January, and we will adjust and hedge our portfolios accordingly.

Portfolios Recap

Dynamic Futures Option Strategy (DFOS): 25.37% YTD
Dynamic Option Strategy (DOS): 11.84% YTD
Dynamic ETF Option Strategy (DEOS): 9.14% YTD

For the month of November, DFOS returned 1.41% net of fees, bringing the YTD net performance to 25.37%. DOS returned 1.20% net of fees, bringing the YTD net performance to 11.84%. DEOS returned 0.68% net of fees, bringing the YTD net performance to 9.14%.

All three strategies performed well in a period of heightened volatility at the beginning of the month as the Volatility (VIX) Index briefly popped above 20 due to the U.S. election. The strategies continue to strongly outperform the S&P 500 which is currently up 7.58% YTD. We broadly scaled back yield in the weeks prior to the election to better mitigate volatility. As the markets quickly digested and reacted to the election results, we legged back into the market and normalized the yields. This allowed minimal negative impact to the strategies during the election cycle and enabled the strategies to continue to participate in consistent month-over-month yield. Although we have a couple macro events in December with the Italian Referendum and the December Fed meeting, we don't anticipate extreme volatility around either event as markets have mostly priced in a No vote in the Italian Referendum and a rate hike in December. The alternative result to either event would be considered bullish outcomes for the market. We'll continue to carefully watch these developments and the macro picture as we aim to strategically position the portfolios for a strong ending in the last leg of the year.

Tactical Long/Short Strategy: 4.78% YTD

The Tactical Long/Short Strategy yielded 3.11% for the month of November. We maintained our allocation of 85% SPDR S&P 500 ETF (SPY) and 15% cash given the uncertainty over the election outcome and the subsequent market reaction. There were no ECB or BOJ decisions in December, and the November Fed decision was essentially a lame duck meeting. SPY rallied in

November due to positive company earnings as well as expectations of economic growth from a Trump Presidency and Republican controlled government that is focused on tax reductions, domestic growth, and infrastructure investment. Because of the cash buffer, the strategy slightly underperformed the SPY, which finished the month up 3.42%.

Core Strategy: -1.15% YTD

In November, our Core Strategy returned -0.20% net of fees. The best performers in the portfolio were The Kroger Co. (KR) at 4.65% and Merck & Co Inc. (MRK) at 4.21%. Kroger followed the retail sector up post-election on the expectations that a GOP sweep would spur renewed consumer spending. Merck mostly trended higher post-election on the back of sector bullishness. It also experienced a string of positive drug news regarding its pipeline which provided an additional tailwind to the stock. The worst performing stocks in the strategy were Visa Inc. Class A (V) at -6.09% and Amazon.com Inc. (AMZN) at -4.97%. Although there was no significant catalyst to Visa's move lower, news on its new U.S. debit routing policies and the potential impact to EPS seems to be weighing on the stock. News this month for Amazon has mostly been positive across the breadth of its business lines, but the stock has trended lower due to the entire tech sector dropping after the election.

Equity Opportunity Strategy: -2.04% YTD

The Equity Opportunity Strategy returned -0.15% in the month of November. The top performer, SPDR S&P Biotech ETF (XBI) at 11.62%, soared due to the biotech sector experiencing some of the largest gains post-election on the back of more lenient views and legislation regarding drug pricing within a Republican controlled government. The second strongest position, Lockheed Martin Corporation (LMT) at 8.40%, experienced its largest daily gain for the month the day after the election due to expectations that Trump will boost defense spending. It also brought in new global contracts for its new F-35 fighters including a $7.19 billion order, the largest yet, from the Pentagon. Stifel has raised Lockheed's price target from $260 to $290.

The worst performer in the portfolio was Hormel Foods Corporation (HRL) at -11.06%. Hormel Food sold off immediately following the election on no specific catalyst. Earnings released on November 22nd had forecasted Q4 EPS of $0.45, in-line with estimates. Revenues of $2.63B (+9.6% year over year) missed very nominally by $10 million. The second worst performer was Facebook, Inc. (FB) at -9.60%. Initially, Facebook had its worst daily loss during the month following its earnings which were mostly positive. Revenues of $7.01 billion (+55.8% year over year) beat by $90 million; EPS of $1.09 beat by $0.12; and net income of $2.379 billion was up 166% year-over-year. The selling pressure in the stock was mostly attributed to management commentary and outlook that revenue growth rates are expected to decline. Facebook further declined alongside the tech sector following the election due to uncertainty over post-election policies especially with regards to overseas sales. The company was also hit negatively by reports on miscalculated ad metrics and trending fake news reports.

Tactical ETF Strategy: 1.70% YTD

The Tactical ETF Strategy returned 1.50% in November. SPDR S&P 500 ETF (SPY) gained the most in the strategy at 3.68% for the month. S&P 500 mostly bucked the negative expectations of a Trump presidency/Clinton loss and the markets warmed up to a pro-business environment of a Republican controlled government. Economic news and mostly positive Q3 earnings has provided general market support. PowerShares QQQ ETF (QQQ) was the weakest performer at 0.44%, due to the overall tech sector underperforming other sectors post-election over concerns regarding the uncertainty of new policies that the incoming office will enact.

Alternative Sector Rotation Strategy: -7.92% YTD

The Alternative Sector Rotation Strategy returned 0.13% in November. We sold our holdings in the iShares Silver Trust (SLV) and United States Oil (USO) and raised cash in the portfolio. The model also signaled to invest in the PowerShares DB Agriculture ETF (DBA), so we allocated 25% to DBA. DBA was down 2.83% for the month due to the stronger dollar, which is inversely correlated with commodity prices. When strength of the dollar increases, the prices of commodities in other currencies increases and encourages selling by producers and inhibits consumer buying, leading to higher prices.

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

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