



Monthly U.S. and Global Market Outlook

I. Market Performance

The month of September marked the sixth month of consecutive growth in equities. The S&P 500 Total Return, NASDAQ and Dow Jones produced 10.56%, 16.56% and 7.04% for the year as of month-end. According to Factset Earnings Insight, all eleven sectors are expected to report year-over-year earnings growth for Q3, while seven sectors are projected to report double-digit earnings growth. For Q3, analysts are expecting earnings growth of 19.3% and revenue growth of 6.9%. Of the 98 companies that have reported, 76% of the companies have issued negative EPS guidance which is above the 5-year average of 71%. Due to the abnormally high negative EPS guidance, the estimated year-over-year revenue growth for the third quarter has declined from 7.3% to 6.9%.

For Q4 2019, analysts are projecting 17.2% earnings growth and 5.7% revenue growth. Forward estimates and valuations project 2018 earnings growth to reach 20.3% with 7.6% revenue growth, slightly lower than previous forecasts.

II. Economic Indicators

The U.S. economy added 134,000 jobs for the month of September. The unemployment rate dropped to 3.7% and remains at its lowest point since 1969. Both U.S. Consumer Spending and Personal Consumption Expenditures have slowly declined this year, -0.3% and -2.2% respectively. The non-manufacturing ISM index surged 61.6, up from 58.5 the previous month signaling a strengthening in the service sector across business activity, employment and new orders. The Producer Price Index and Consumer Price Index strengthened for the month of August, September data is expected to release October 10th and October 11th respectively.

U.S. GDP growth rate advanced at 4.2%, in line with market expectations. GDP growth forecast for Q4 2018 is 2.8% and projected to slowly decline throughout 2019 and 2020. Overall unemployment rate is anticipated to stick around the 3.8% - 3.9% range over the next 12-months. Rising debt levels and debt projections for fiscal years 2019 and 2020 remain a prominent risk. Trade war tension remains a significant threat to both the U.S. and global economy. Last month, the Trump Administration imposed tariffs on \$200 billion worth of Chinese exports to the U.S. and continues to threaten additional tariffs on another \$267 billion of Chinese imported goods if they retaliate, we anticipate a trickle down effect into emerging markets which will impact global trade levels. As of October 3rd, the 3-month U.S. treasury yield is 2.19%, while the 1-year yield is 2.62% and 10-year yield is 3.18%, all treasury yields touching multi-year highs. Gold decreased to \$1,196.92 per ounce, oil surged to \$76.41 per barrel, its highest level since 2014, and natural gas closed at 2.44 MMBtu as of October 4th.²

III. Monetary Policy

On September 26th, the Fed raised interest rates by 25 basis points, marking the third hike this year, bringing the target range of the federal funds rate to 2.00% - 2.25%. The Fed raised their economic outlook with supportive language for one more rate hike this December and three hikes in 2019. The Fed anticipates gross domestic product to rise 3.1% in 2018, and 2.5% in 2019. The Federal Funds Futures forecasts 2.25% - 2.5% by the end of this year and 3.0% - 3.25% by the end of 2019. The Fed will be focused on a variety of factors these next few months that can impact the monetary policy including the employment situation, GDP, trade frictions, and yield-curve movements. The next Fed meeting is scheduled to take place November 7th – 8th followed by a live meeting December 18th - December 19th where we anticipate the federal funds rate to increase to the 2.25% - 2.50% target range.

Both the ECB and BOJ left rates unchanged. The ECB and BOJ are expected to meet next on October 25th and October 31st respectively. Since July 2018, there has been a strong trend for central banks, 10 out of 22 increased interest rates following the Fed's decision. The People's Bank of China, Bank of Japan and the European Central Bank continue to carry loose monetary policies.

IV. Global Outlook

The most prominent risk to the global economy is the rising trade tensions between the two largest economies. Our investment committee recognizes that the current market conditions are abnormally bullish and the equity market is becoming increasingly overheated. The strong corporate earnings momentum will eventually come to end as tax reform benefits fade and wages and debt become more expensive. GDP growth is already forecasted to substantially decline for 2019 and 2020. Global PMI, which measures manufacturing expansion around the world, has steadily declined month after month since December 2017, signaling weakened consumer and investment growth. Additional risks include currency fluctuations, tightening global monetary policy and macroeconomic imbalances. As we approach the end of the year, our investment committee will analyze the pace of central bank policy changes, equity valuations and trade tensions.

Portfolios Recap

Tactical Long/Short Strategy: 13.30% YTD

The Tactical Long/Short Strategy declined -0.36% net of fees for the month of September, bringing the year-to-date net return to 13.30%. The S&P 500 produced 0.56% for the month and closed the month up 10.56% for the year. We maintained our allocations in SPY and QQQ with a low cash weight in order to participate on the earnings upside. We have maintained our bullish stance on the technology sector and anticipate robust earnings for Q3. Our investment

committee is closely analyzing earnings and market movements in order to properly position the portfolio and increase cash levels by year-end.

Core Strategy: 13.79% YTD

Equity Opportunity Strategy: 12.48% YTD

Global Strategy: 10.80% YTD

For the month of September, the Core Strategy, Equity Opportunity Strategy and Global Strategy declined -0.35%, -0.47% and -0.88% respectively net of fees. All three equity strategies maintained their lead over the S&P 500 Total Return for the year. The S&P 500 Total Return produced 0.57% for the month, bringing its YTD to 10.56%. The performance is primarily attributed to semiconductor underperformance last month and enhanced regulation and scrutiny regarding Technology companies. Semiconductors and Semiconductor Equipment was down 1.22% following Software and Services which was down -0.50% for the month of September.² All three equity strategies invested excess cash into short-term 3-month U.S. treasuries which currently have an annualized yield of 2.1 – 2.2%.

Dynamic ETF Option Strategy (DEOS): 2.89% YTD

For the month of September, DEOS posted a 0.45% gain net of fees. The broad market pushed to new highs this past month while volatility continued to remain range bound. This enabled the strategy to continue to churn out consistent yield month-over-month during this past quarter. As the expectations for a pullback increase, we're reducing target exposure as we continue to weigh a tightening monetary environment. We're positioning the strategy with the anticipation that volatility will increase and will accordingly place any new strikes deeper out of the money to enhance the buffer within the strategy.

As we approach the end of the year, our investment committee maintains its conservative approach in order to protect our portfolios. Our team is closely analyzing macroeconomic indicators, fiscal policies and trade tensions as well as broad market valuations in order to best position the portfolios into the last leg of this year.

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. FactSet Earnings Insight September 2018
2. Bloomberg
3. International Monetary Fund