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## Monthly U.S. and Global Market Outlook

### I. Market Performance

All three major U.S. indices pushed higher in July following the technology sector's pullback in June, and finished with another record high month. The domestic market's price momentum remains relatively steady this year. As of August 3<sup>rd</sup>, the Dow Jones, S&P 500, and NASDAQ were up 11.45%, 10.42% and 17.78% YTD respectively. The S&P 500 and NASDAQ continue to rally off the better than expected earnings season. Strong technology earnings pushed the Dow Jones past the 22,000 milestone on August 2<sup>nd</sup>, posting its 7<sup>th</sup> straight record close on August 3<sup>rd</sup> and continuing to edge higher.

Just over half of S&P 500 companies have reported Q2 earnings. To date, 73% of companies beat their mean EPS and mean sales estimates. Companies are reporting 6.4% higher than estimates and moving above their 5-year averages. Q2 upside earnings surprises have driven the blended S&P 500 earnings growth rate to 9.1%. Energy, Information Technology and Utilities sectors reported significantly higher revenues to date versus previous quarters. If the remaining companies report positive earnings, Q2 will book one of the strongest earnings seasons since 2008.<sup>1</sup>

### II. Economic Indicators

The U.S. economy produced 209,000 jobs in July, significantly above the forecasted 183,000 jobs. The recent monthly job numbers, GDP and CPI data support the continued pro-growth trend. As of August 3<sup>rd</sup>, Gold closed at \$1,267.61 per ounce, up 10.13% YTD. Oil climbed higher, settling just under \$50 a barrel, up 6.23% for the month. Natural gas retreated to 2.79MMBtu.<sup>2</sup>

### III. Trumponomics

Market participants still anticipate additional details on Trump's tax reform to surface later this year. No additional comments have been made by Trump or his administration. For the second time now, the repeal and replacement of Obamacare has been rejected by the Senate. Trump remains confident that his administration will build a better solution in the near term.

### IV. Monetary Policy

In the latest monetary policy meeting, the Fed left rates unchanged. The Fed reinforced that they will stay on track and reduce their balance sheet later this year, however no specific dates have been targeted. The next Fed meeting is scheduled for September 19<sup>th</sup>. We do not expect any rate hikes at this time. The Fed Fund Futures indicate a 42.2% probability for a December rate hike, also implying a chance for the third rate hike being pushed to early 2018.

## V. Global Outlook

In the most recent monetary policy meetings, both the Bank of Japan and the European Central Bank held rates steady. On the upside, BOJ increased their GDP forecast for 2017 and 2018. All three major central banks have meetings scheduled in September. We are optimistic that global economic forecasts will continue down its path of steady global growth and rising inflation over the next two years. In the latest *Global Economic Outlook* update, the International Monetary Fund raised the world's GDP outlook to 3.5% in 2017 and 3.6% in 2018.<sup>3</sup> This is significantly higher than previous global forecasts. While both domestic and global markets are steadily advancing, several medium-term risks remain on our radar. Some of these risks include administrative policy uncertainty, weak wage growth and global financial risks.

## VI. What We're Focusing On

We continue to focus our research in the technology sector. We strongly believe the wave of the future will revolve around advanced technologies such as artificial intelligence, virtual and augmented reality, and machine learning. These technologies are already drastically changing the way the world operates. Our global strategies launch this month.

### **Portfolios Recap**

**Dynamic Futures Option Strategy (DFOS): 10.94% YTD**

**Dynamic Option Strategy (DOS): 5.16% YTD**

**Dynamic ETF Option Strategy (DEOS): 5.28% YTD**

For the month of July, DFOS returned 1.35% net of fees. DOS returned 0.73% net of fees. DEOS returned 0.98% net of fees.

Option yields continue to remain lower as the broad market pushes to new highs on the back of a low-volatility market. This is tied to broadly stable earnings, a healthy M&A environment and minimal macro event risk globally. As the VIX drops to new lows, we become increasingly wary of tail risks and potential volatility shocks in the market, especially as we see an increase in institutional buying of protective hedging positions within the options market. As such, we've continued to place our options positions strategically and well out of the money, sacrificing higher yields for a more defensive approach. However, the strategies are still churning out competitive yields and consistent cash flow despite the more cautious positioning. Forward looking, we continue to see limited event risk for the remainder of the year, but we anticipate volatility to inevitably pick up as the Federal Reserve begins to unwind its massive balance sheet and sellers start to become trigger happy on the back of ever higher market valuations.

### **Tactical Long/Short Strategy: 9.85% YTD**

The Tactical Long/Short Strategy yielded 2.61% net of fees for the month of July. Our increased allocation in the Powershares QQQ Trust (QQQ) greatly benefited the strategy. QQQ is up 21.47% YTD primarily due to its heavy allocations in technology. Technology rebounded quickly after strong earnings reports from Facebook, Google and Amazon.

### **Core Strategy: 13.64% YTD**

The Core Strategy returned 5.26% net of fees for the month of July. The top performers included Baidu, Inc. (BIDU), Sociedad Química y Minera de Chile (SQM) and Momo Inc. (MOMO) returning 26.55%, 24.50% and 18.86% MTD respectively. The leading Chinese internet search engine Baidu reported better than expected Q2 earnings which drove the stock up 26.55% in July. Baidu's net income increased 83% year-over-year, with expectations for another 30% increase in total revenues in Q3. The Chinese social media platform Momo climbed another 18.18% for the month, up 139% YTD. Momo has had tremendous recent price performance, rallying more than 270% over the past 12 months. Momo is expected to report earnings later this month. Sociedad Química y Minera de Chile rebounded from last month's technology pullback and surged 24.50% this month.

The weakest holdings were Merck & Co., Inc. (MRK) and Zillow (Z) down -0.33% and -7.86% MTD respectively. Zillow pulled back in reaction to the IPO announcement of rival Redfin (RDFN) earlier this month.

### **Equity Opportunity Strategy: 12.42% YTD**

The Equity Opportunity Strategy gained 3.63% net of fees for July. The top performers included Sociedad Química y Minera de Chile (SQM), Netflix, Inc. (NFLX), and Momo, Inc. (MOMO) returning 24.50%, 21.58% and 18.86% for July. Netflix advanced 21.58% in July after it reported a healthy 5.2 million subscribers for the quarter. Revenue increased 32.3% year-over-year and is expected to climb higher in Q3. The weakest holdings were Zillow, Inc. (Z), FedEx Corporation (FDX) and 3M Company (MMM) down -7.89%, -4.28% and -3.37% for the month respectively.

### **Tactical ETF Strategy: 7.49% YTD**

The Tactical ETF Strategy was up 2.09% net of fees for July. The top performing ETFs were the Powershares QQQ Trust (QQQ) and iShares MSCI USA Minimum Volatility (USMV) yielding 4.06% and 2.02% for the month. The weakest performing ETF was the SPDR S&P Health Care Services (XHS) down -4.90%.

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**Fariba Ronnasi, Principal**

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**References**

1. Factset Earnings Insight July 27, 2017
2. Investing.com
3. International Monetary Fund