Monthly U.S. and Global Market Outlook

I. Market Performance

In wake of the tax reform news, all three major U.S. indices rallied to new all-time highs. The extended trend of persistent growth in the economy is expected to push equities higher as we enter 2018. The current market rally is the second longest and third strongest rally since 1936.[1] As of December 5th, the S&P 500, Dow Jones and NASDAQ are up 17.45%, 21.59% and 23.22% YTD respectively. To date, all S&P 500 companies have reported Q3 earnings with broadly positive results, in which 74% of companies beat the mean EPS and 67% beat the mean sales estimates. Together, the estimated earnings growth rate for Q4 is 10.5%.[2] As we enter a historically bullish time of the year, we anticipate continued growth through December.

II. Economic Indicators

November employment data is expected to release Friday, December 8th. We anticipate to see additional employment growth to top off the year. The unemployment rate remains at its lowest point of 4.1% since early 2000. Macroeconomic indicators such as the consumer and producer price indices continue to rise, hinting at improved market confidence. Real GDP has steadily improved throughout the year, growing 3.3% in Q3. As of December 5th, Gold closed at $1,268.80 per ounce, oil climbed to $57.67 per barrel and natural gas dropped to 2.91 MMBtu.[3]

III. Trumponomics

After several long nights of debate, the Senate passed the first material bill “Tax Cuts and Jobs Act”. This checks off one of President Trump’s key pledges. The reform is likely to have an overall positive effect for markets due to the benefits of the bill. With respect to individuals, the bill consolidates seven existing tax brackets to four. For businesses, the corporate tax rate is slashed from 35% to 20%. This bill is designed to pave the way for sustainable economic prosperity and enhance employment. Despite this, there is still concern surrounding the repercussions of such tax amendments and how this will impact the U.S. deficit. The administration is optimistic that the bill will be finalized by both the House and Senate before the end of the year.

IV. Monetary Policy

Last month, President Trump nominated Jerome Powell to replace Fed Chair Janet Yellen in February of 2018. Currently, interest rates remain at the target range of 1.00% to 1.25%. The Fed Fund Futures moved to a 90.2% probability for a December rate hike. The next FOMC meeting will be held on December 12-13th.

V. Global Outlook

Global market volatility remains subdued while emerging and developed markets continue to maintain strong performance. According to the IMF, regions such as South Asia, Asia-Pacific and Africa are set to outpace others. South Asia GDP alone is expected to grow 6.6%, and is expected to climb 7.1% in 2018, significantly increasing global GDP.[4] In addition to this, the Euro area has reported further expansion and stability. The ECB released their financial stability report late November which reinforced the resilience of the European markets and recent economic developments. The next ECB monetary policy meeting is scheduled for December 14th. The BOJ interest rates remain unchanged and their next monetary policy meeting is scheduled for December 20th.

Portfolios Recap

Dynamic Futures Option Strategy (DFOS): 16.25% YTD
Dynamic Option Strategy (DOS): 9.00% YTD
Dynamic ETF Option Strategy (DEOS): 8.58% YTD

For the month of November, DFOS returned 0.27% net of fees. DOS returned 1.15% net of fees. DEOS returned 0.87% net of fees.

DOS and DEOS continued their upward trend on the back of lower volatility and a very bullish end to the month for the broad markets. DFOS underperformed due to expansion of yield on the call side positioned above the market. DFOS seeks to generate a more absolute value high yield return and in doing so we strategically position put yield well below the market and a much lower amount of call yield above the market. With markets continuing to push record highs, the end of month bull run caused the call yield to outpace the collapsing put yield resulting in the underperformance. Historically this results in an eventual mean reversion which the strategy attempts to recapture in the forward or later months. With VIX continuing to trade at all-time lows, we're continuing to position all three strategies defensively.

Tactical Long/Short Strategy: 17.96% YTD
Tactical ETF Strategy: 14.67% YTD

For the month of November, both our tactical strategies closely followed the broad market. The S&P 500 yielded 3.07% for the month while Tactical Long/Short returned 2.45% and Tactical ETF gained 2.46% net of fees. This is the fifth consecutive month of gains for both strategies. As always, we continuously seek out value-oriented ETFs that meet our investment criteria in order to enhance our portfolio quality and overall return.

Core Strategy: 22.87% YTD
Equity Opportunity Strategy: 21.14% YTD

The Core Strategy yielded 0.29% net of fees for the month of November. The Equity Opportunity Strategy gained 0.70% net of fees for November.

Due to a major sector rotation from technology to financials, both strategy performances lagged. Overall both Core and Equity Opportunity have outperformed the S&P500 by more than 3% YTD. A majority of our holdings have reported positive earnings guidance for Q4. We expect that the positive guidances and the tax reform benefits will continue to push our selected equities even higher as we enter 2018.

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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. Morningstar
2. Factset Earnings Insight December 2nd, 2017
3. Investing.com
4. International Monetary Fund