Monthly U.S. and Global Market Outlook

I. Economic Indicators

The bullish market led all three major indices to their all-time highs. Overall, U.S. equities remain in a long upward trend and forecasts project even higher growth potential. As of October 9th, the S&P 500, Dow Jones and NASDAQ is up 13.66%, 15.17% and 22.33% YTD respectively. So far, 5% of the S&P 500 companies reported Q3 earnings. The Q3 blended earnings growth estimate dropped to 2.8% due to the recent downward revisions in the insurance industry. The insurance industry was severely impacted due to the high volume of natural disasters this past quarter. The insurance industry alone pulled the blended earnings growth rate down 2%. However, the information technology and energy sectors helped offset the decline in earnings and revenue growth. Despite this revision, S&P 500 valuation measures remain strong with the forward 12-month P/E ratio at 18.0. According to Factset, the S&P 500 is expected to climb 9% in the next 12-month period.[1] We expect a majority of the S&P 500 companies with global exposure to report substantially stronger earnings and carry the S&P 500 higher.

II. Economic Indicators

The September jobs report marked the first month of job losses this year, indicating a temporary slowdown in employment. The weakened job numbers can be attributed to the high volume of natural disasters. But on the upside, the unemployment rate hit a 16-year low of 4.2% and wages continued to increase. Altogether, the employment situation remains in line for the Fed to follow their 2017-2018 monetary plans. Q2 gross domestic product growth rate bumped up to 3.1%, with increased forecast of 3.5% by the end of the year. As of October 9th, Gold closed at $1,284.29 per ounce, oil buoyed at $50 a barrel and natural gas dropped to 2.84 MMBtu.[2]

III. Trumponomics

The long-awaited details in regard to the tax reform plan was finally released on September 27th. Trump's tax plan addressed the following four goals; to provide tax relief for the middle class, simplify the tax code, grow the American economy and reduce the deficit. The proposed tax plan would slash seven tax brackets into four brackets: 0%, 10%, 20% and 25%. In addition to this, Trump emphasized the importance of reducing the corporate tax rate to 15% in order to stimulate growth in the economy and support small business development.

IV. Monetary Policy

During the latest FOMC meeting, the Fed decided to maintain the interest rate at the target range of 1.00% to 1.25%. The Fed indicated they will begin to reduce the balance sheet in a gradual and predictable manner starting this month. Following this, the Fed Fund Futures rate jumped to an 86.7% probability for a December rate hike. Forward looking, market participants expect interest rates to land between 1.25% to 1.50% through Q1 of next year and a possible next rate hike going into the end of Q2. The next FOMC meeting is scheduled for October 31st. Although it has been announced that current Fed Chair Janet Yellen's replacement will be selected within a few weeks, we expect an increase in volatility if uncertainty increases and the process doesn't wrap up quickly.

V. Global Outlook

According to the most recent OECD Interim Economic Outlook, global gross domestic product is projected to ramp up to 3.5% by the end of 2017 and 3.7% in 2018.[3] Overall global economic conditions remain firm, employment and trade is steadily increasing and foreign markets are expanding. As the U.S. continues its moderate expansion, and economic data falls in line with expectations, there is a lessened likelihood of a recession in the near term. The ECB and the BOJ monetary policy meetings last month both turned out neutral. Both the ECB and BOJ held interest rates steady as they awaited the Fed's next move. The next ECB meeting is scheduled for October 26th and we expect to hear details on how the ECB plans to adjust its current asset purchasing plan. The next BOJ meeting is scheduled for October 30th.

Portfolios Recap

Dynamic Futures Option Strategy (DFOS): 14.73% YTD
Dynamic Option Strategy (DOS): 7.16% YTD
Dynamic ETF Option Strategy (DEOS): 6.78% YTD

For the month of September, DFOS returned 1.48% net of fees. DOS returned 0.83% net of fees. DEOS returned 0.75% net of fees.

Despite a brief uptick at the beginning of the month, the VIX index sidled lower through the end of the month as global tensions subsided and the markets took the North Korea rhetoric in stride. The options strategies were able to capitalize on the initial volatility spike allowing DFOS to continue pacing ahead of the broad market YTD. We do see mild forward event risk in the form of the Fed beginning to unwind its balance sheet and how that will be handled, and separately with volatility in the back-and-forth with North Korea, however, barring these getting out of hand we do not anticipate any other significant upcoming event risks unless the final earnings season for the year comes well under expectations. We've raised our options strikes a little month-over-month, but are still maintaining a significant buffer in anticipation of the eventual spike in volatility.

Tactical Long/Short Strategy: 11.55% YTD
Tactical ETF Strategy: 9.04% YTD
The Tactical Long/Short Strategy yielded 0.83% net of fees for the month of September. The Tactical ETF Strategy returned 0.35% net of fees for September.

Overall the tactical strategies performed in line with the broad market. Our Tactical ETF strategy now holds a versatile blend of ETFs ranging from health to financial. We increased our allocations in information technology as we expect the sector to continue to perform strongly and report year-over-year revenue and earnings growth this quarter. Information technology is expected to lead the earnings season due to its global exposure.

Core Strategy: 16.66% YTD
Equity Opportunity Strategy: 15.54% YTD
The Core Strategy returned 0.75% net of fees for the month of September. The Equity Opportunity Strategy gained 0.70% net of fees for September.

Both the Core and Equity Opportunity strategies significantly outperformed the S&P 500 for the third consecutive month and YTD. The increased allocations in technology and services played in the strategies favor. We expect both strategies to climb higher based off the growth forecasts and overall global exposure through the leading technology, services and consumer goods holdings within both portfolios.

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References

1. Factset Earnings Insight October 6, 2017
2. Trading Economics
3. International Monetary Fund & OECD