Monthly U.S. and Global Market Outlook

I. Market Performance

The markets bullish trend progressed into Q2 with the fifth consecutive month of gains this year for all three major U.S. indices. Markets continued to climb to record highs, as economic data tightened and geopolitical risk decreased. All three major U.S. indices recorded some of their longest winning streaks and record highs. The S&P 500, Dow Jones and NASDAQ rose to 8.94%, 6.31% and 15.15% YTD respectively. The Dow Jones traded above its historical high of 2100 throughout the entirety of the month, while the NASDAQ posted a 7-month winning streak, leading the pack up 15.15% YTD. The S&P 500 reported its highest blended earnings growth rate of 14.0% for Q1. Q1 earnings turned out better than expected as 75% of companies beat the mean EPS and 64% beat the mean sales estimate[1]. This month's top performing sectors included utilities, technology and consumer staples. Meanwhile energy, financials and materials lost some steam. Valuations remain slightly elevated as the forward 12-month price-to-earnings ratio climbed higher to 17.7, above both its 5 and 10-year averages. Entering Q2, a majority of companies issued negative earnings guidance. Due to this, we expect a slight pullback in the market as companies report weaker earnings.

II. Economic Indicators

The market has largely remained unfazed by the mixed data on jobs, unemployment rate and hourly wage earnings. April's job numbers rebounded, producing double the prior month's results with 211,000 jobs added. May's job numbers came in short with only 138,000 jobs added. Unemployment dropped to 4.3%, marking the lowest level in over a decade, indicating a fuller and healthier job market. The recent economic data is within a reasonable deviation for the Fed to stick to their plan and introduce a second rate hike this year. We expect the demand for jobs to increase and steer the Fed's decision for a June rate hike.

Aside from the labor market, GDP grew to 1.2%, up from 0.7% earlier this year[2]. Q2's GDP report will come later in June and we expect GDP to ramp up near the 2% range over the medium-term. Crude oil's slowdown continued, slipping 2.0% and closing at $48.48 a barrel on May 31st. Oil touched its lowest point in three weeks due to the concerns surrounding OPEC output cuts. Natural gas retreated to 3.08 MMBtu, down 4% for the month. Gold edged higher throughout the month, closing at $1,289.90 on May 31st, positive 10.24% YTD[3]. VIX, the "fear gauge" remains essentially flat, ending the month 10.41, getting closer to its all-time lows. The lack of movement in the VIX in the short term indicates a stable market with reduced market risk.

III. Trumponomics

After months of discussion for the repeal and replacement of the Affordable Care Act, the House passed Trump's American Health Care Act. In regards to Trump's proposed tax reform, no apparent progress has been made, but market participants hold hope for more plans to roll out later this quarter. Trump went on his first foreign tour where he successfully executed a $110 billion dollar weapons deal with Saudi Arabia, which propelled U.S. defensive stock prices higher.

On June 1st, Trump announced that the U.S. is withdrawing from the Paris Climate Accord, an agreement between 195 countries to help address and mitigate climate change. The decision left many global key players disappointed. Climate change is a pressing issue and controversial topic for many. Together, society has shifted more focus on individual impact and how to adapt certain environmental ideals in order to help sustain our planet.

IV. Monetary Policy

In May, the Fed kept rates unchanged but gave more subtle hints at a June rate hike. While economic data results temporarily disappoint, the overall economic condition remains steady and within a reasonable range for Fed to continue with their proposed plan of three rate hikes and trimming the balance sheet towards the tail end of the year. The next monetary policy meeting will take place on June 13th. Fed fund futures rates moved up to a 93.5% probability for a June rate hike. A third rate hike is also foreseeable in Q4.

V. Global Outlook

Europe's improved economic data and recent election outcomes reduced some political tension overseas. On June 8th, another election is expected to take place in the U.K. A majority is already planning to vote for the conservative party, but news building up to this event could rattle European markets. The ECB holds its next monetary policy meeting also on June 8th, where rates will likely remain unchanged, but talk of balance sheet reduction is expected to take place. Recently the BOJ kept their monetary policy steady, but in the next meeting on June 15th, policyholders should address Japan's vast amount of debt on their balance sheets and their plan of action on how to conserve their financial health.

Both emerging markets and advanced economies continue their pro-growth trend. Internationally, markets are expanding to record high levels. We believe global financial stability will continue to strengthen over the next few years. Additionally, as major elections across the world conclude, overall market conditions will stabilize. In comparison to last year, there is minimal event risk in the markets. As always, we will continue to diligently monitor economic conditions and market movements to determine where best to allocate our clients' assets and if we need to hedge our portfolios against any possible downturns.

Portfolios Recap

Dynamic Futures Option Strategy (DFOS): 8.05% YTD
Dynamic Option Strategy (DOS): 3.95% YTD
Dynamic ETF Option Strategy (DEOS): 4.00% YTD

For the month of May, DFOS returned 1.35% net of fees. DOS returned 0.85% net of fees. DEOS returned 0.68% net of fees.

May was a very stable month as the "sell-in-May" did not come to fruition and the markets continued to trend higher bringing the VIX down to multi-decade lows. Although option yields in general remain lower as a result, with fear premium also subsequently low, it also helps to create very low variance as the strategies continue to leg higher. We're continuing to strategically raise the average strike price of the options as we compensate for the broad market's movement higher, but we also continue to position very cautiously for the inevitable rise in volatility. As we all know, the markets rarely remain at such depressed volatility levels for long. Forward-looking there are a couple moderately key events for the remainder of the year, including global elections and central bank moves, but we are currently anticipating stable outcomes for them as we continue to closely observe the back and forth with domestic policy and its impact to the overall market.

Tactical Long/Short Strategy: 8.91% YTD

The Tactical Long/Short Strategy returned 1.46% net of fees for the month of May. We maintained our 95% allocation in the SPDR S&P 500 ETF (SPY). Q1's strong earnings attributed to the strategy's solid returns. The negative earnings guidance for Q2 could slow down the return of the strategy, but we believe some of the components have room to expand.

Core Strategy: 9.31% YTD

The Core Strategy advanced 1.93% net of fees for the month of May. The top performing positions included Zillow Group, Inc. (Z), Yum! Brands, Inc. (YUM) and Amazon.com, Inc. (AMZN) producing 11.59%, 10.48% and 7.57% MTD respectively. Our strategic balance of consumer goods, technology and services within the portfolio drove Core's returns to advance pass the S&P 500 for the year.

Our increased allocation in Zillow played to our advantage as Zillow shot up nearly 12% for the month, and is up 23.55% YTD. Zillow's stellar price performance is attributed to its recent quarterly earnings which reported very strong earnings and 32% year-over-year revenue growth. Zillow's continuous innovation in its mobile and web platform enhanced their user base and aids to their overall longevity and success. Zillow's monthly users have increased 7% year-over-year. Yum reported remarkable Q1 earnings of 39% profit growth and 43% EPS growth which fueled the stock's price movement this month. Yum is up 16.83% YTD and we expect it to climb and surpass its peers this next quarter. Amazon broke the $1,000.00 per share mark on Wednesday, March 31st, closing above that level for the first time on Friday, June 2nd, and is up 35% YTD. Amazon is expected to report their next quarterly earnings in late July.

The weakest holdings were both major financial holdings, The Goldman Sachs Group, Inc. (GS) and JPMorgan Chase & Co. (JPM). Goldman Sachs missed both earnings and revenue estimates last quarter which drove the shares down significantly. Goldman was down -5.27% and JPMorgan dropped -5.57%.

Equity Opportunity Strategy: 9.50% YTD

The Equity Opportunity Strategy produced 1.89% net of fees for the month of May, also up 9.50% YTD compared to the S&P 500 at 8.94% YTD. The top performing holdings were Zillow Group, Inc. (Z) and Amazon.com, Inc. (AMZN) up 11.59% and 7.53% YTD respectively. Both holdings carry tremendous growth potential for our portfolio, with their industry leadership and growing user base. The biggest loser was the SPDR S&P Oil & Gas ETF (XOP) down -6.81% MTD.

Tactical ETF Strategy: 6.99% YTD

The Tactical ETF Strategy generated 1.51% net of fees in May. The top performing ETF in the portfolio was the PowerShares QQQ Trust (QQQ) up 3.90% MTD and 21.08% YTD. The QQQ's top holdings in Apple, Microsoft and Amazon drove the ETF to new highs. The weakest holding was the Financial Select Sector SPDR ETF (XLF), down -1.19%.

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Fariba Ronnasi, *Principal*

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[1] FactSet Earnings Insight 6/2/2017.

[2] Investing.com.

[3] Bloomberg Markets.