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## Monthly U.S. and Global Market Outlook

### I. Overview

We expect to see higher volatility for the remainder of the year which may mute YTD returns. The 9-year bull market continues to thrive as the economy inches near its full capacity. Inflation is perking up and the Fed is on track to raise rates up to two more times this year. Several risks remain present including trade war and geo-political tensions, as any acceleration in the wrong direction could severely impact both domestic and international markets.

### II. Earnings & Market Performance

For the month of May, markets advanced, posting gains for the second month in a row. All three major indices finished the month in the positive. As of June 11<sup>th</sup>, the S&P 500 Total Return, Dow Jones and NASDAQ are up 4.96%, 2.27% and 9.47% YTD respectively. <sup>1</sup> In summary, 77% of S&P 500 companies reported positive EPS while separately, 77% reported positive sales surprises for Q1. Q2 earnings growth rate was revised from 18.6% to 19.0%. The forward 12-month P/E ratio remains in range and above 5-year and 10-year averages. Q2 earnings might mark the second strongest earnings season since 2011 with revenue growth expected to be above 8.0%.

Forward looking, analysts are projecting double digit earnings growth throughout the remainder of the year. Q3 earnings are expected to ramp up, with projected earnings growth of 21.2% and revenue growth just under 8.0%. Q4 earnings are expected to reach 17.0% with 5.8% revenue growth. According to FactSet, analysts are projecting earnings growth to reach 19.7% and revenue growth of 7.6% for 2018. According to FactSet, analysts are projecting the S&P 500 to see an additional 12% increase over the next 12 months.

### III. Economic Indicators

For the month of May, the economy expanded at a solid pace. 223,000 jobs were added to the U.S. economy. This was the 92<sup>nd</sup> consecutive month of continued job growth, the longest job growth period in history.<sup>3</sup> The unemployment rate edged down even lower to 3.8%. As of June 11<sup>th</sup>, gold closed at \$1,298.71 per ounce, oil declined to \$65.74 per barrel and natural gas climbed to 2.89 MMBtu.<sup>2</sup>

### IV. Monetary Policy

Overall, economic activity expanded at a moderate rate with little deviation from expectations. Employment, wages and prices rose moderately across most districts over the course of April and May. During the May FOMC meeting, the Fed left rates unchanged and in line with expectations at the 1.50% to 1.75% range. The next FOMC meeting is scheduled to take place

this week from June 12<sup>th</sup> to June 13<sup>th</sup>. The Fed Fund Futures implies a 96.3% probability for a June rate hike to the 1.75%-2.0% target range.

## **V. Global Outlook**

The OECD anticipates global growth of 4% for 2018 and 2019. As we reach the mid-year mark, we anticipate continued growth throughout the remainder of the year but risks remain present, some of which include trade and geopolitical tensions as well as financial market volatility. The Fed, ECB and BOJ monetary policy meetings are all scheduled this week. Discussions surrounding inflation and interest rate increases will be vital in order to paint a better global economic picture.

### **Portfolios Recap**

#### **Dynamic ETF Option Strategy (DEOS): 1.35% YTD**

For the month of May, DEOS produced 0.05% net of fees. During May, we completed transitioning the strategy to better mitigate against the volatility the market experienced in February. Moving forward, the strategy will continue to carry longer term contracts strategically placed further under the market to improve the buffer between the market and the selected strikes while reducing the general variance within the strategy. We'll strategically adjust the target levels as we gauge the market direction and macro events going into the latter half of 2018.

#### **Tactical Long/Short Strategy: 5.02% YTD**

The Tactical Long/Short Strategy has significantly outperformed the S&P 500 by a large margin this past month and YTD. The S&P500 Total Return returned 2.41% for the month of May and is up 2.02% YTD. The Tactical Long/Short Strategy produced 4.03% for the month of May and is up 5.02% YTD. We have slowly decreased our SPY allocation and increased QQQ allocation in order to capture more technology exposure given recent technology earnings revisions and growth prospects. We maintain a cash level of 5% which may be further increased depending on market conditions as we enter the next earnings season.

#### **Core Strategy: 8.67% YTD**

#### **Equity Opportunity Strategy: 8.28% YTD**

#### **Global Strategy: 7.73% YTD**

The Core Strategy, Equity Opportunity Strategy and Global Strategy returned 4.49%, 4.85% and 5.00% respectively net of fees for the month of May. The S&P 500 Total Return returned 2.41% for the month of May and is up 2.02% YTD. All equity strategies yielded solid returns for the month of May and continued to maintain a significant lead over the S&P 500 both MTD and YTD. Our investment committee is heavily focused on the technology and services sectors due to upward revisions and growth outlooks. We see further upside potential in technology companies focused on Artificial Intelligence, Machine Learning and Big Data. Our team continues to monitor our holdings and the economic environment to better position our portfolios and mitigate against volatility.

### About Us:

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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. Yahoo Finance
2. Factset Earnings Insight May 2018.
3. Bloomberg.