WEALTHSHIELD

November 12th, 2018

Markets rallied on the back of midterm election results, finishing the week higher in the US. The results of the elections were as the polls suggested. The Democratic party took control of the House and the Republicans maintained the Senate. President Trump took a victory lap on Wednesday, highlighting the important victories of the Republican Party. With a split Congress, it is now obvious to us that gridlock will be the outcome. A Democratic controlled House of Representatives makes further tax cuts a stretch of the imagination. However, it does appear that some sort of highway bill or infrastructure project could be passed with bipartisan support. We need more information to determine how impactful such a bill would be on the overall economy. Hopefully, any infrastructure spending will be directed towards projects this country needs instead of pork barrel spending commonly packed into these bills.

We feel like we can move on and focus on the business cycle now that the midterms are behind us. The Federal Reserve met last week and left its interest rate policy unchanged, however they seem intent on raising interest rates in December as well as several times next year. The economic data, such as Producer Prices (which increased 0.6% month over month) suggest inflationary pressures are still present and that the economy is still on a solid footing. This data is a bit lagged however, and the price of oil is suggesting that inflation is slowing. Unless the Fed starts to rely on price charts, we believe a data-dependent Fed will surely continue to raise interest rates and shrink their balance sheet in the face of this information. This is not a positive for the global stock markets in our opinion.

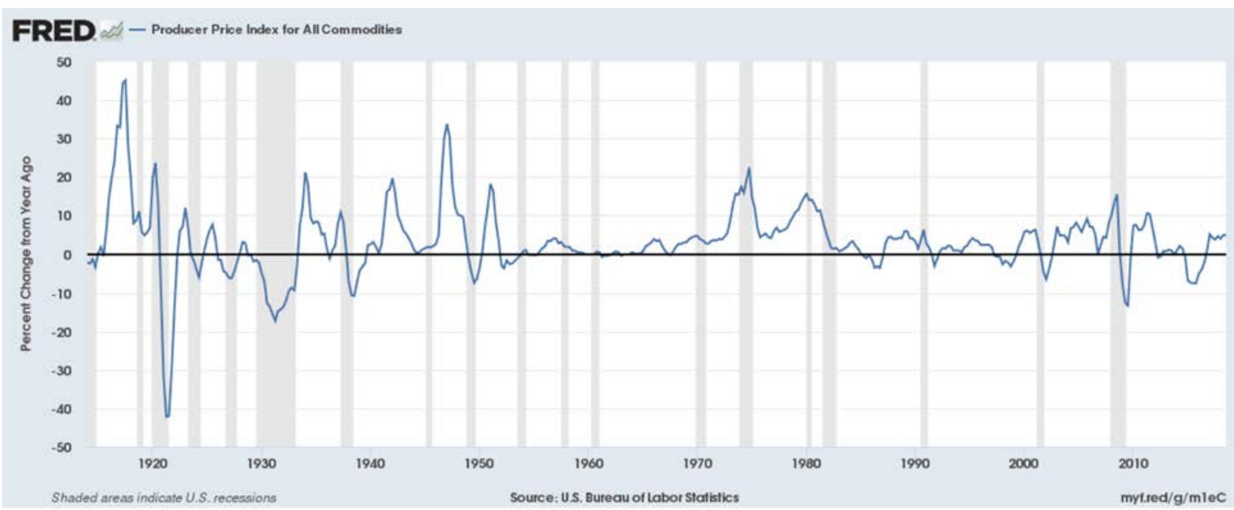


Chart 1: Producer Prices are up 5 percent year over year.

Chart 2: Oil prices are down considerably. This suggests that inflation is slowing.

With inflationary pressures coming through in last week's data, we expect pressure on corporate profits. If price increases on inputs cannot be adequately passed on to the consumer, margin compression will likely be the result. Goldman Sachs published a report suggesting that they expect profits to peak this year. They now expect S&P 500 sales and profit growth to drop dramatically to 4 percent by 2020. This is in line with our belief that economic growth and inflation are slowing. Corporate profits have surged this year on the back of tax cuts and the continued economic recovery in the US since the 2015-2016 decline.

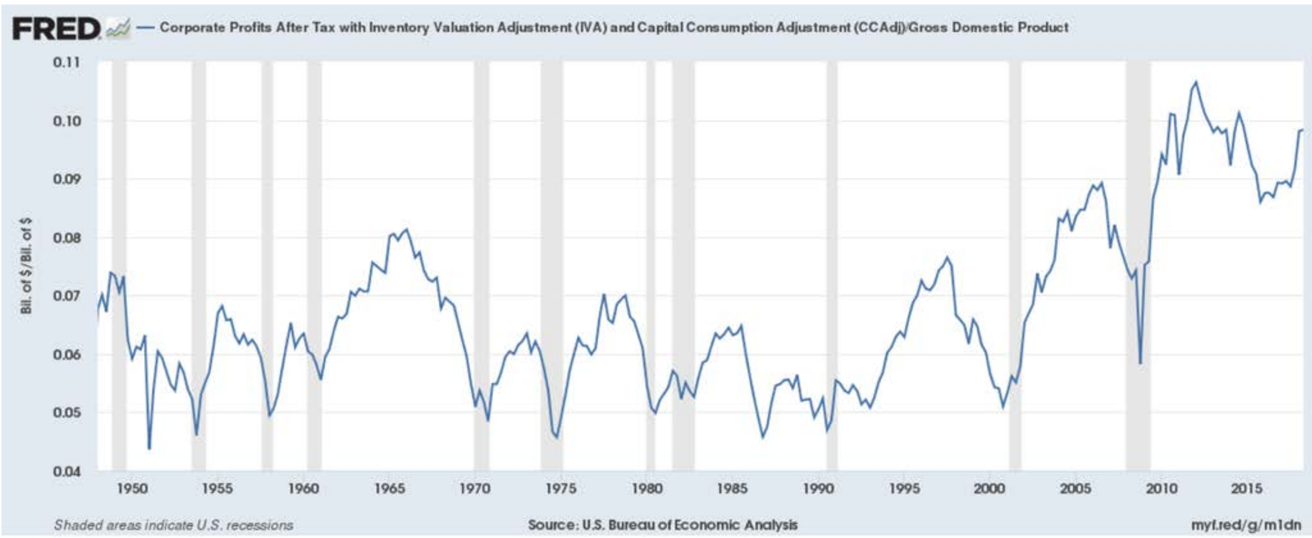
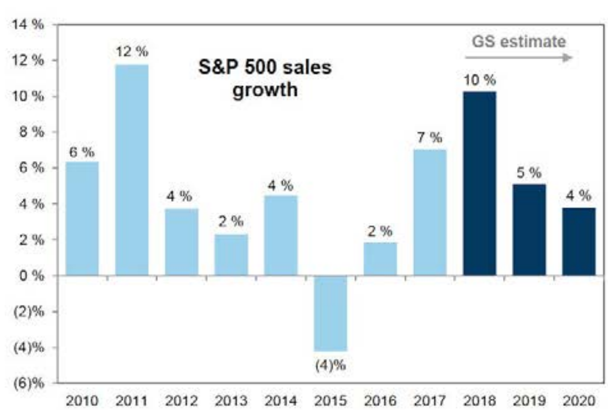


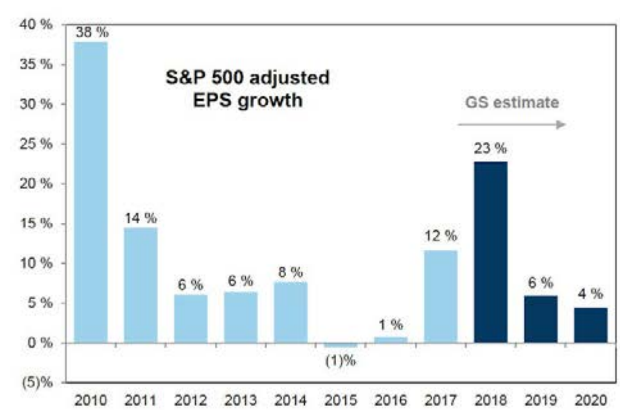
Chart 3: Corporate Profit margins. We expect profit margins to peak this year.

Exhibit 3: S&P 500 annual sales growth
as of November 6, 2018; excludes Financials and Utilities



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 4: S&P 500 annual EPS growth
as of November 6, 2018



Source: FactSet, Goldman Sachs Global Investment Research

Chart 4: Drop in corporate profits expected. Chart by Goldman Sachs Global Investment Research.

The ECRI Weekly Leading Index dropped further into negative territory last week and is now down 2.6 percent on a year over year basis. This measure of leading economic indicators is suggestive of a further slowdown in US economic activity and reiterates our opinion that growth and inflation are slowing. Despite the headline numbers suggesting the economy in the US to be robust and inflation to be a concern, it appears that leading indicators are suggestive of the contrary.

If growth and inflation are slowing, as we expect they are, risk averse behavior may just be surfacing in the markets. We should hope that seasonality, or other historical patterns, should manifest and cause this to go away. Unfortunately, we believe the evidence is supportive of a defensive posture.

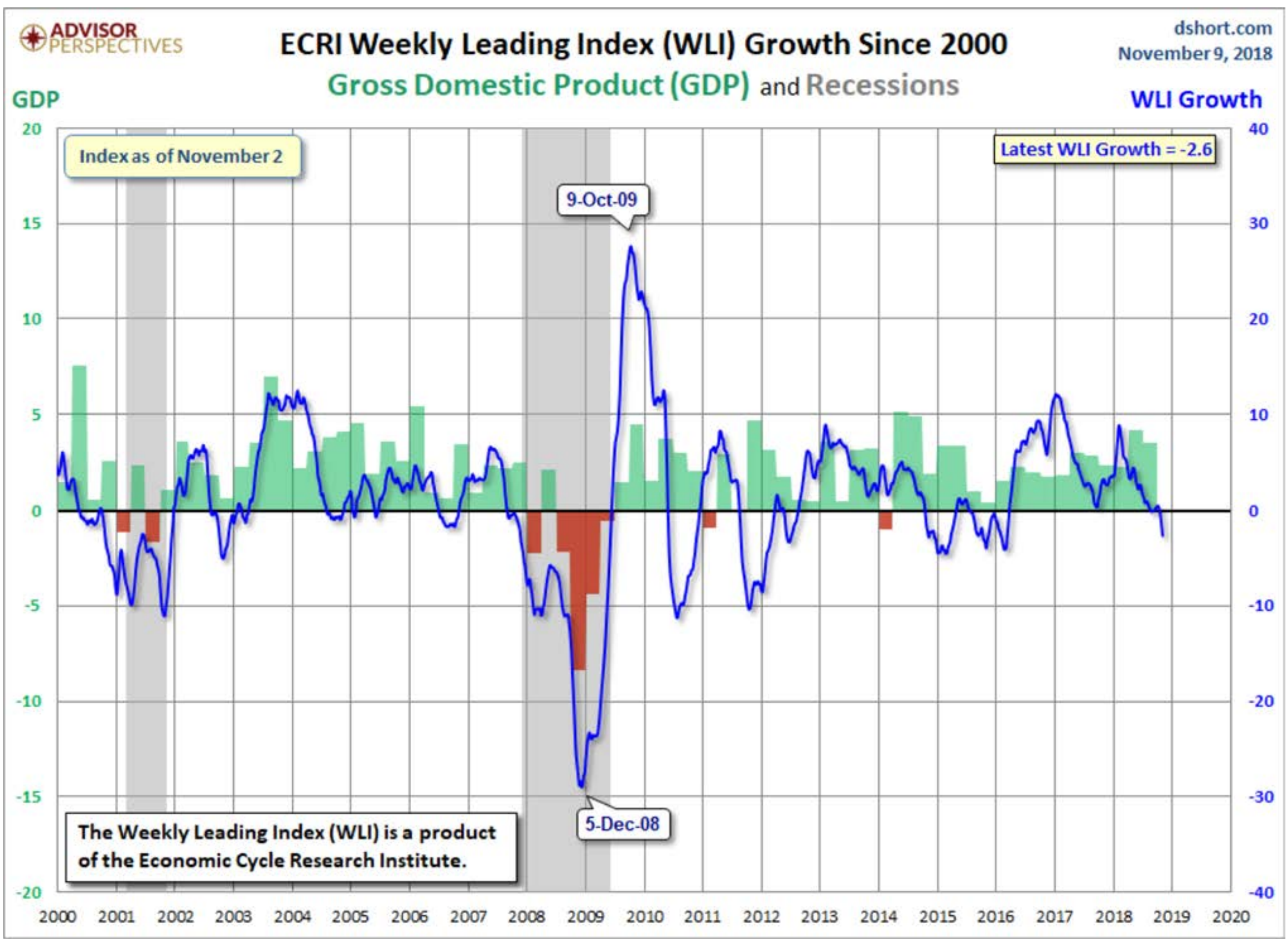


Chart 5: ECRI WLI down 2.6% year over year. Growth is slowing.

MARKET RECAP:

Equities:

WORLD MARKET PERFORMANCE

	Last	Change	% Chg.	YTD %
S&P 500	2,781.01	57.95	2.13%	4.02%
Dow Industrials	25,989.30	718.47	2.84%	5.14%
Nasdaq Composite	7,406.90	49.91	0.68%	7.29%
Russell Global	2,080.02	38.84	1.90%	-3.0%
Russell Global EM	3,101.38	-5.13	-0.17%	-14.9%
S&P/TSX (Canada)	15,274.44	155.16	1.03%	-5.77%
Mexico IPC	44,263.74	-1269.55	-2.79%	-10.49%
Brazil Bovespa	85,641.19	-2777.84	-3.14%	12.09%
Euro Stoxx 600	365.74	1.66	0.46%	-6.02%
FTSE 100	7,105.34	11.22	0.16%	-7.58%
IBEX 35 (Spain)	9,134.80	141.80	1.58%	-9.05%

	Last	Change	% Chg.	YTD %
Swiss Market Index	9,074.03	81.73	0.91%	-3.28%
CAC 40 Index (France)	5,106.75	4.62	0.09%	-3.87%
DAX Index (Germany)	11,529.16	10.17	0.09%	-10.75%
Irish Overall Index	6,172.13	-51.94	-0.83%	-12.31%
Nikkei 225	22,250.25	6.59	0.03%	-2.26%
Hang Seng Index	25,601.92	-884.43	-3.34%	-14.43%
Shanghai Composite	2,598.87	-77.60	-2.90%	-21.42%
Kospi Index (S. Korea)	2,086.09	-9.91	-0.47%	-15.46%
Taiwan Taiex Index	9,830.01	-76.58	-0.77%	-7.64%
Tel Aviv 25 Index	1,657.49	46.06	2.86%	9.78%
MOEX Index (Russia)	2,403.47	25.52	1.07%	13.92%

Source: Bloomberg; Index % change is based on price.

Table 1: Equity Market Returns as of November 9, 2018. Courtesy of Envestnet | PMC

Equities markets gained on the week as the oversold rally continued. The top performing market for the week was the Dow Jones Industrial Index, which gained 2.84 percent on the week. The worst performing market was the Hang Seng Index, which lost -3.34 percent on the week. The Russell Global gained 1.90 percent on the week. Large-cap value outpaced growth again for the week gaining 2.43 percent versus 1.97 percent respectively.

Interest Rates:

SELECTED INTEREST RATES

	Last	Change	% Chg.	YTD %
2-Yr. U.S. Treasury	2.93%	0 bps	NM	NM
5-Yr. U.S. Treasury	3.04%	1 bps	NM	NM
10-Yr. U.S. Treasury	3.19%	-3 bps	NM	NM
30-Yr. U.S. Treasury	3.39%	-6 bps	NM	NM
German 10-Yr. Govt.	0.41%	2 bps	NM	NM
France 10-Yr.	0.78%	0 bps	NM	NM
Italy 10-Yr.	3.40%	-7 bps	NM	NM
Fed 5-Yr Fwd BE Inf.	2.07%	1 bps	NM	NM

	Last	Change	% Chg.	YTD %
Prime Rate	5.25%	0.00	NM	NM
Fed Funds Rate	2.25%	0.00	NM	NM
Discount Rate	2.75%	0.00	NM	NM
LIBOR (3 Mo.)	2.61%	2 bps	NM	NM
Bond Buyer 40 Muni	4.57%	-5 bps	NM	NM
Bond Buyer 40 G.O.	4.36%	NA	NM	NM
Bond Buyer 40 Rev.	4.85%	NA	NM	NM

Source: Bloomberg

Table 2: Interest rates as of November 9, 2018. Courtesy of Envestnet | PMC

Bond markets were pretty quiet last week. Interest rates on the long-end of the curve in the US dropped slightly for the week. The 10 year Treasury rate was down 3 basis points, while the 30 year Treasury yield was down 6 basis points. The 2 year US Treasury rate held steady and the 5 year Treasury rate increased one basis point on the week.

Chart 6: The 2 year yield minus the 10 year yield sits at 0.25%. The yield curve is pretty flat and is close to inverting.

Currencies:

SELECTED CURRENCY PERFORMANCE

	Last	Change	% Chg.	YTD %
Dollar Index	96.89	0.349	0.36%	5.17%
Euro	1.13	-0.005	-0.45%	-5.56%
Japanese Yen	113.79	0.590	-0.52%	-0.97%
British Pound	1.30	0.000	0.02%	-4.00%
Canadian Dollar	1.32	0.009	-0.65%	-4.74%

	Last	Change	% Chg.	YTD %
Chinese Yuan	6.96	0.066	-0.95%	-6.47%
Swiss Franc	1.01	0.002	-0.21%	-3.11%
New Zealand Dollar	0.67	0.008	1.17%	-5.06%
Brazilian Real	3.73	0.031	-0.82%	-11.31%
Mexican Peso	20.09	0.088	-0.44%	-2.20%

Source: Bloomberg

Table 3: Currency Performance as of November 9, 2018. Courtesy of Envestnet | PMC

The Dollar gained against other major currencies on the week. The dollar is now up 5.17 percent for the year. The strength in the Dollar should also serve as a force of margin compression for US multinational companies in the coming months. It is also deflationary, suggesting we have seen the highs in inflation on an intermediate term basis. The weakest currency last week was the Chinese Yuan, which dropped almost a percent against the dollar.

Chart 7: The US dollar is in a positive trend, positioned above its 50, 100, and 200 day moving averages.

Commodities:

SELECTED COMMODITY MARKET PERFORMANCE

	Last	Change	% Chg.	YTD %
Bloomberg Comm. Idx.	82.89	-0.99	-1.18%	-5.98%
Crude Oil	$59.80	-$3.28	-5.19%	3.08%
Natural Gas	$3.72	$0.43	13.19%	24.02%
Gasoline ($/Gal.)	$2.72	-$0.05	-1.84%	9.49%
Heating Oil	215.67	-1.52	-0.70%	10.38%
Gold Spot	$1,209.51	-$23.22	-1.88%	-7.15%
Silver Spot	$14.16	-$0.55	-3.75%	-16.38%

Source: Bloomberg; % change is based on price.

	Last	Change	% Chg.	YTD %
Platinum Spot	$853.31	-$14.75	-1.70%	-8.06%
Corn	369.75	-1.50	-0.40%	-3.71%
Wheat	502.00	-6.75	-1.33%	4.15%
Soybeans	886.75	-1.00	-0.11%	-9.79%
Sugar	12.73	-0.71	-5.28%	-18.87%
Orange Juice	136.15	-2.00	-1.45%	-4.99%
Aluminum	1,990.00	17.00	0.86%	-12.26%
Copper	6,155.00	-128.00	-2.04%	-15.07%

Table 4: Commodities Prices as of November 9, 2018. Courtesy of Envestnet | PMC

The Bloomberg Commodity Index dropped 1.18 percent this past week. Year to date, the index is down almost 6 percent. Crude oil and sugar were the biggest losers last week, dropping -5.19 percent and -5.28 percent respectively. The biggest gainer on the week was Natural Gas, which increased 13.19 percent on the week.

INTERMARKET RELATIONSHIPS:

Intermarket relationships snapped back in favor of risk assets over the last couple of weeks. We would be further encouraged if risk assets could break above old highs, indicative of a continued positive trend. Large cap is leading small cap, dividend growth stocks are breaking above the broader market, and the copper/gold ratio remains in a strong negative trend. These relationships all suggest that markets are undergoing a rotation that is risk averse in nature.

US stocks are stronger than international equities and international developed is stronger than emerging markets at the moment. These relationships are also suggestive of further defensiveness in the market. We would expect higher volatility markets to lead during periods supportive of risk taking. That is not what we are witnessing today. It is our opinion that the defense should be on the field.

Chart 8: Stocks versus Bonds. Stocks gained against bonds over the last two weeks and have reclaimed the 200 day moving average. We would like to see this relationship break to new highs to confirm a trend supportive of risk assets.

Chart 9: Stocks versus Gold. This relationship rebounded in favor of stocks over the last two weeks. We would like to see this relationship break out to new highs to support continued upside in risk assets.

Chart 10: US stocks continue to dominate international markets.

Chart 11: Developed versus Emerging Markets. Developed markets remain in a positive trend against emerging markets.

Chart 12: Large cap US stocks are stronger than US small cap stocks at the moment. This relationship has surged since September, demonstrating a risk averse rotation in the market.

Chart 13: High Yield bonds (IShares High Yield ETF, HYG) is currently stronger than the long-term Treasury ETF (iShares 20 year Treasury ETF, TLT). This index has remained in a positive trend (supportive of risk assets) despite the risk off move we saw in the markets in October.

Chart 14: Copper versus Gold. The Copper/Gold ratio is still in a negative trend, which is suggestive of a deflationary pulse in the markets. This ratio has historically correlated strongly with interest rates and could mean lower interest rates over the intermediate-term.

Chart 15: Dividend Growth ETF (VIG) versus Total US Stock Market (VTI). This relationship shows a risk-averse rotation into higher quality, value, and lower volatility names versus the broader market. This rotation is typically seen during a risk-off move in the overall markets. This is also indicative of a shift in the growth versus value relationship. We think value may be starting to make a run against growth.

DISCLOSURE:

Past performance is no guarantee of future returns. This is WealthShield's current assessment of the market and may be changed without notice. The visuals shown are for illustrative purposes only and do not guarantee success or certain level of performance. This material contains projections, forecasts, estimates, beliefs and similar information ("forward looking information"). Forward looking information is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified herein.

This information may be taken, in part, from external sources. We believe these external sources to be reliable, but no warranty is made as to accuracy. This material is not financial advice or an offer to sell any product. There is no guarantee of the future performance of any WealthShield portfolio. The investment strategies discussed may not be suitable for all investors. Before investing, consider your investment objectives and WealthShield's charges and expenses. All investment strategies have the potential for profit or loss.

Benchmarks: The index / indices used by WealthShield have not been selected to represent an appropriate benchmark to compare an investor's performance, but rather are disclosed for informational purposes. Detailed information regarding the indices is available upon request. The volatility of the indices may be materially different than that of the portfolio.

WealthShield is a registered investment adviser. Registration does not imply a certain level of skill or training. More information about WealthShield including its advisory services and fee schedule can be found in Form ADV Part 2 which is available upon request.