



Market Outlook | May 28, 2019

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INVESTMENT FRAMEWORK

MARKET SENTIMENT



Are asset classes in positive or negative trends? How are asset classes trending relative to each other?



VALUATIONS

How expensive are assets? Where do they stand relative to historical prices?

FEDERAL RESERVE ACTIVITY

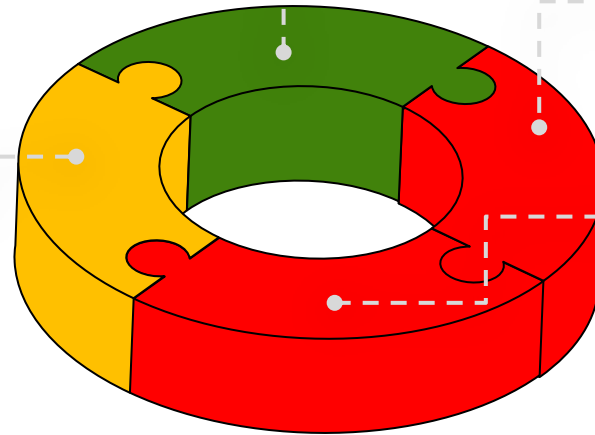


Expansionary or Restrictive?



ECONOMIC ACTIVITY

Is the economy growing or shrinking?



WEEKLY SUMMARY

Economic Activity

- The ECRI dropped 0.9 last week and the Year over Year growth rate is now negative (-0.04%). The four week moving average of the weekly leading index is down 1.73% year over year.
- The Markit PMI composite was down 50.9 from 53 previous,
- New home sales were down 6.9% month over month. The expectations were for a decline of 2.8% month over month.
- Durable good orders dropped -2.1% month over month from a previous gain of 1.7%.

Equity Markets

- The Vanguard Total World Market was down 0.81% last week.
- Developed International (EFA) was the top performing market last week, finishing up 0.02%. The worst performing segment of the market was Transports (IYT), which were down 3.39%.

Factors

- Low volatility was the strongest factor last week gaining 0.58%.

Sectors

- The Utilities sector was the strongest last week, gaining 1.79%.

Intermarket

- Lumber gained 0.15% against Gold last week.
- Copper dropped 2.53% against Gold last week.
- High Yield (JNK) lost 1.71% against long-term Treasuries (TLT).
- Stocks (VT) dropped against Gold (GLD) and Bonds (IEF), with VT at 1.34% and GLD at 1.40%.

Fixed Income, Commodities, Currencies

- The 10 year yield was down 7 basis points to 2.32%.
- Commodities (CRB index) were down 1.30% last week.
- The US Dollar was weaker against most major currencies except for the Pound.
- Bitcoin finished the week close to \$8000.
- Agriculture was the top performing commodity segment while Energy was the weakest.



Chart of the Week: Oil dropped 6.82% last week and closed below the 200 day moving average (red and green). Does this mean that stocks (black) will follow?

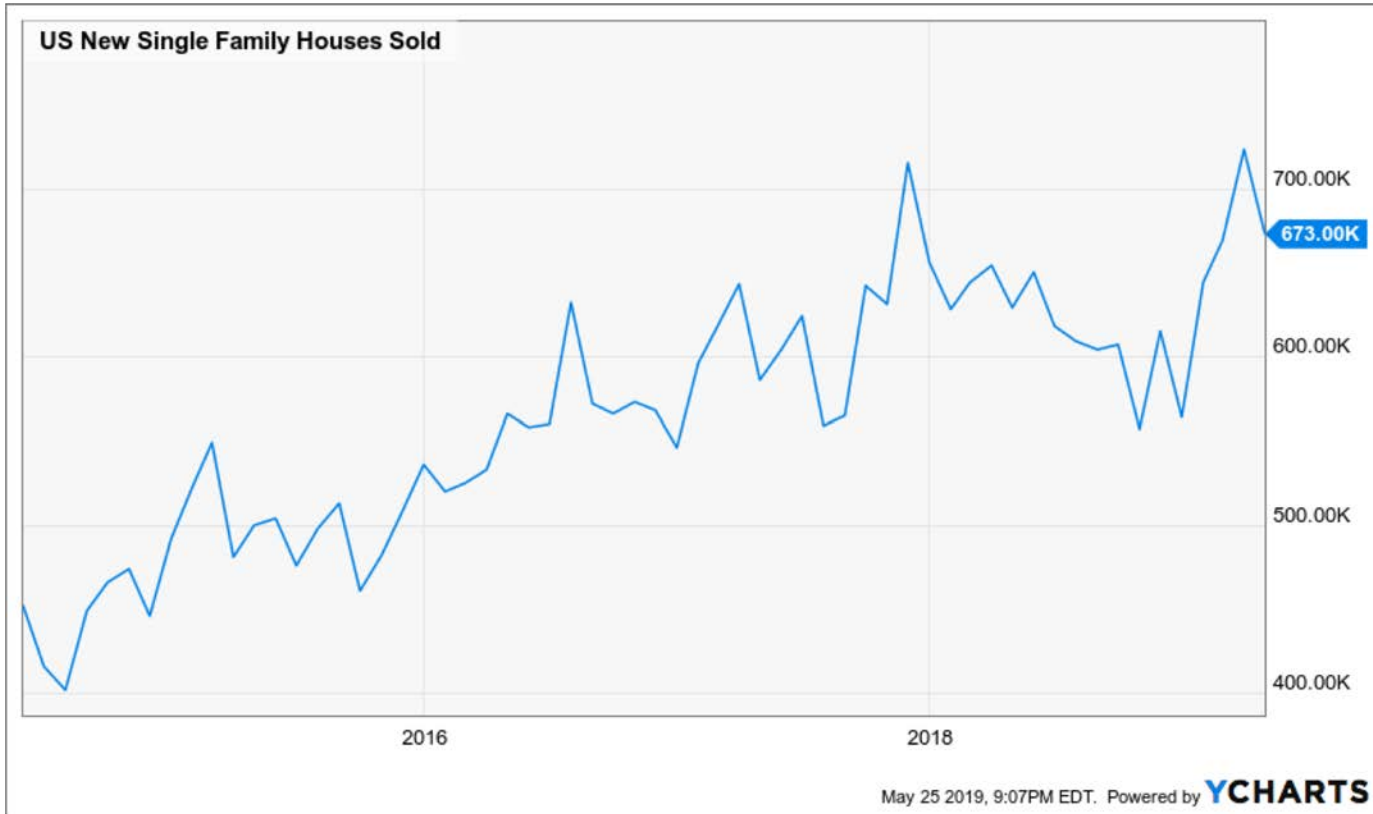


Chart 2: New Single Family Homes Sold dropped 6.9% month over month.



Chart 3: Durable Goods New Orders are now down year over year (-0.69%).

ECRI Weekly Leading Index Year-over-Year of the Four-Week Moving Average



Chart 4: The ECRI Weekly Leading Index fell 0.9 last week. The four week moving average of the WLI is down -1.73% year over year.

MARKET SUMMARY

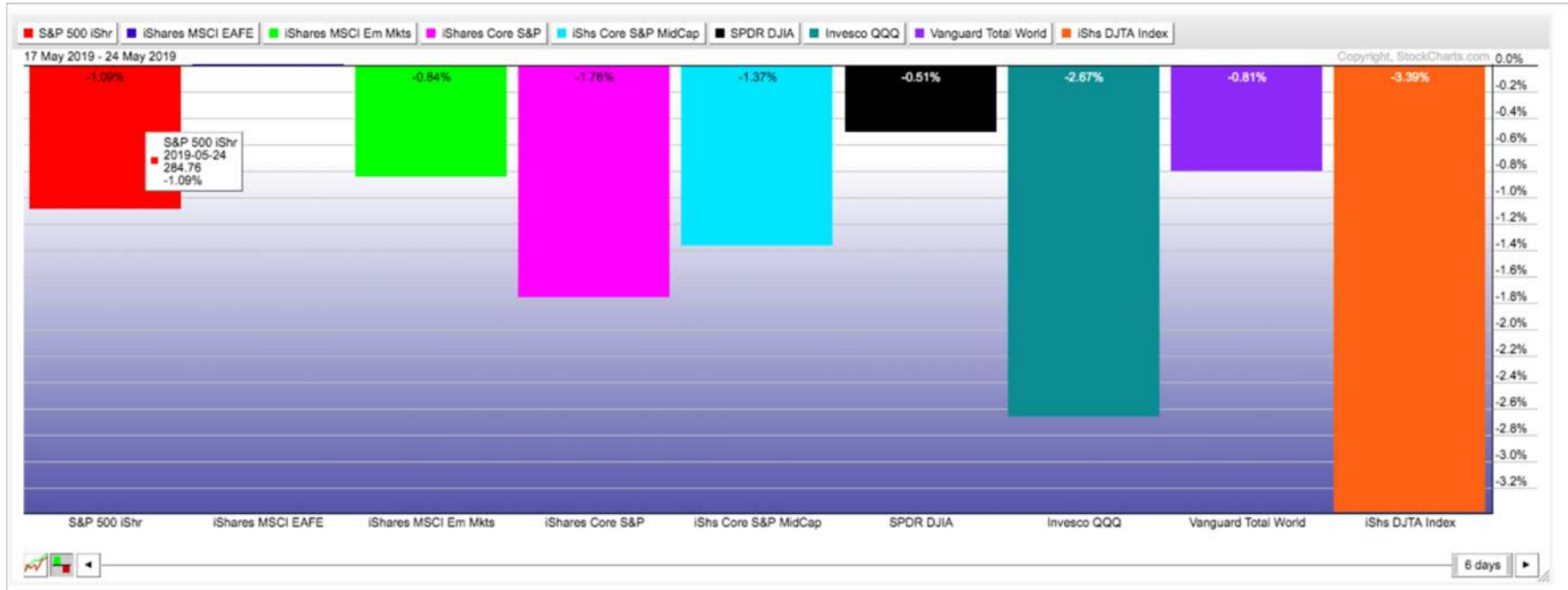


Chart 5: The Vanguard Total World Market (VT) was down 0.81% for the week. The worst performing equity market was the Dow Jones Transports (IYT) which finished the week down 3.39%. The top performing segment was the EAFE (EFA) which closed higher by 0.02%.

SECTORS

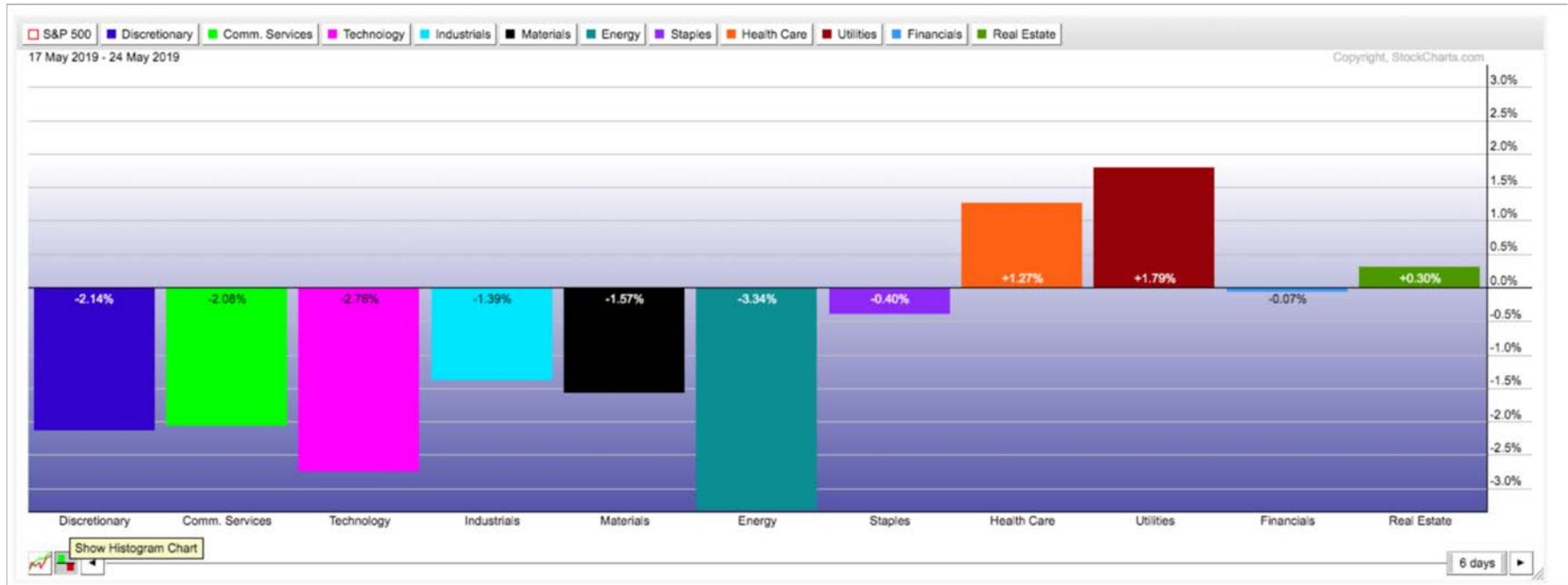


Chart 6: Utilities were up 1.79% last week and the top performing sector. Energy was the worst performing sector, down 3.34%.

FACTORS

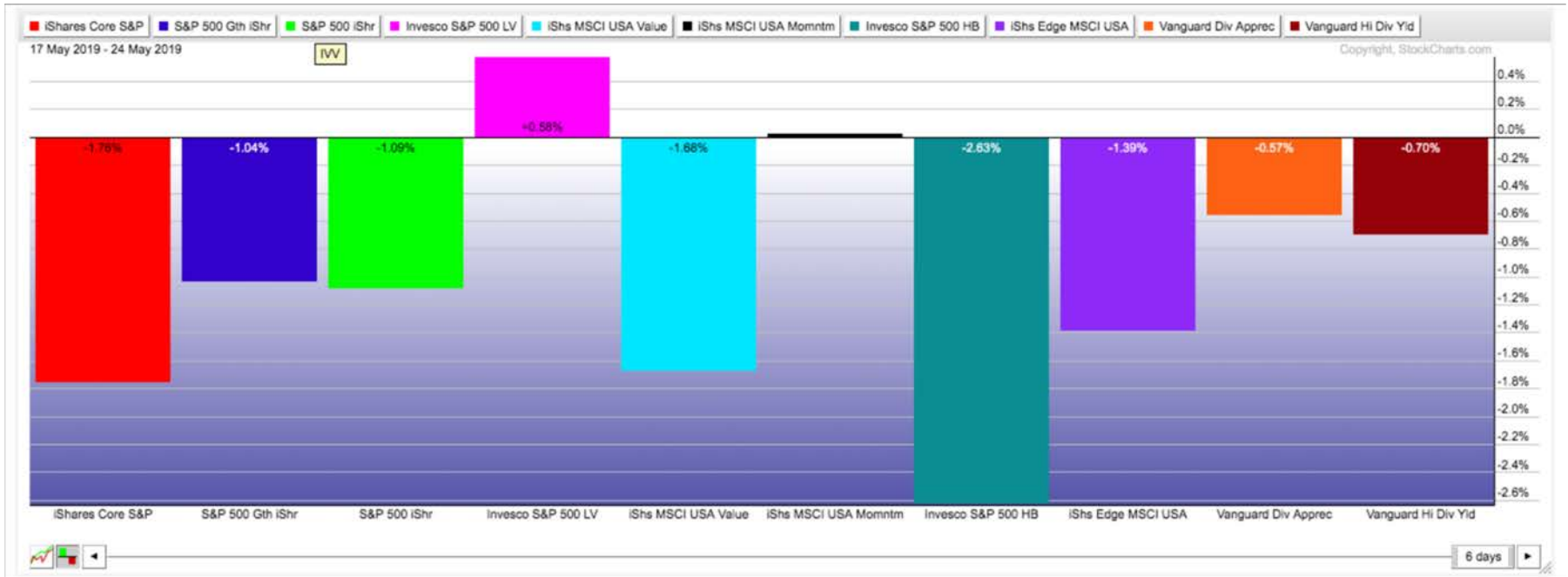


Chart 7: The best performing factor was the low volatility factor (SPLV), closing the week higher by 0.58%. Momentum (MTUM), dividend growth (VIG), high dividend (VYM), and growth (IVW) all outperformed the S&P 500 (IVW).

BONDS

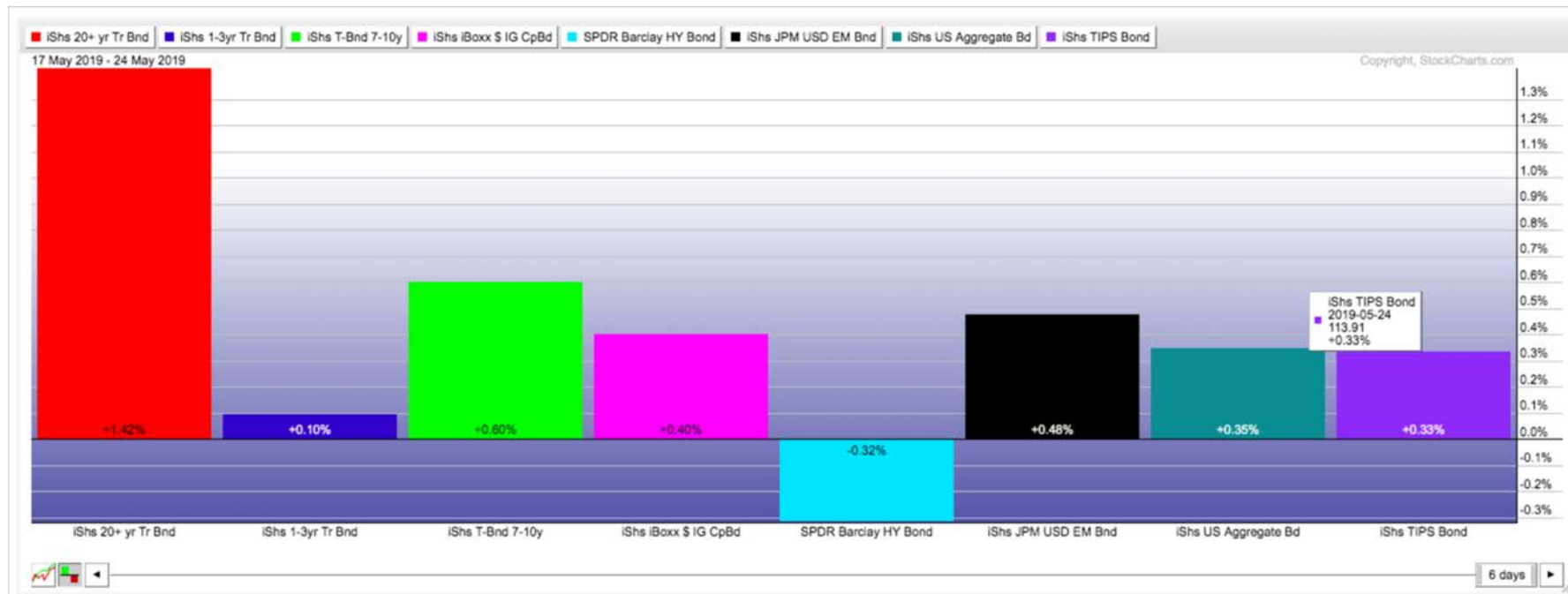


Chart 8: Long-term Treasuries (TLT) were the top performing fixed income segment, up 1.42% last week. High yield bonds (JNK) were down 0.32% for the week.

COMMODITIES

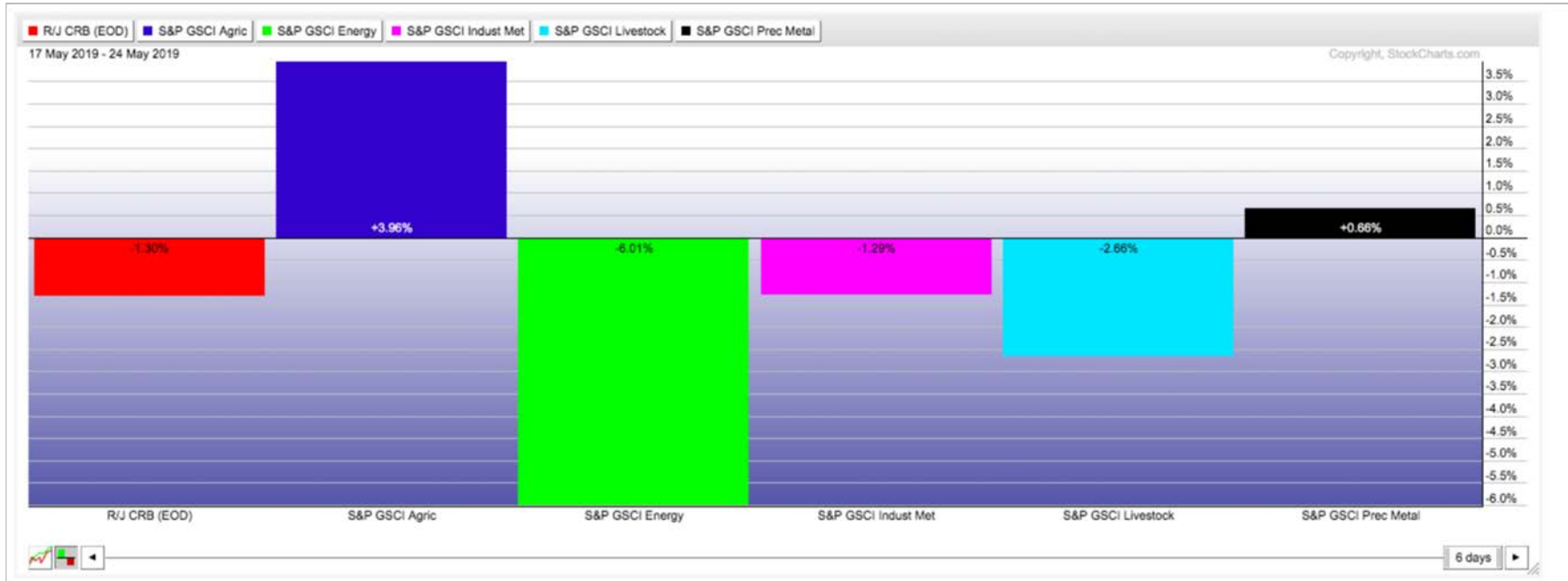


Chart 9: The CRB index was down 1.30% last week. Agriculture was the top performing commodity segment last week, up 3.96%. Energy was the worst performing segment, falling more than 6%.

CURRENCIES

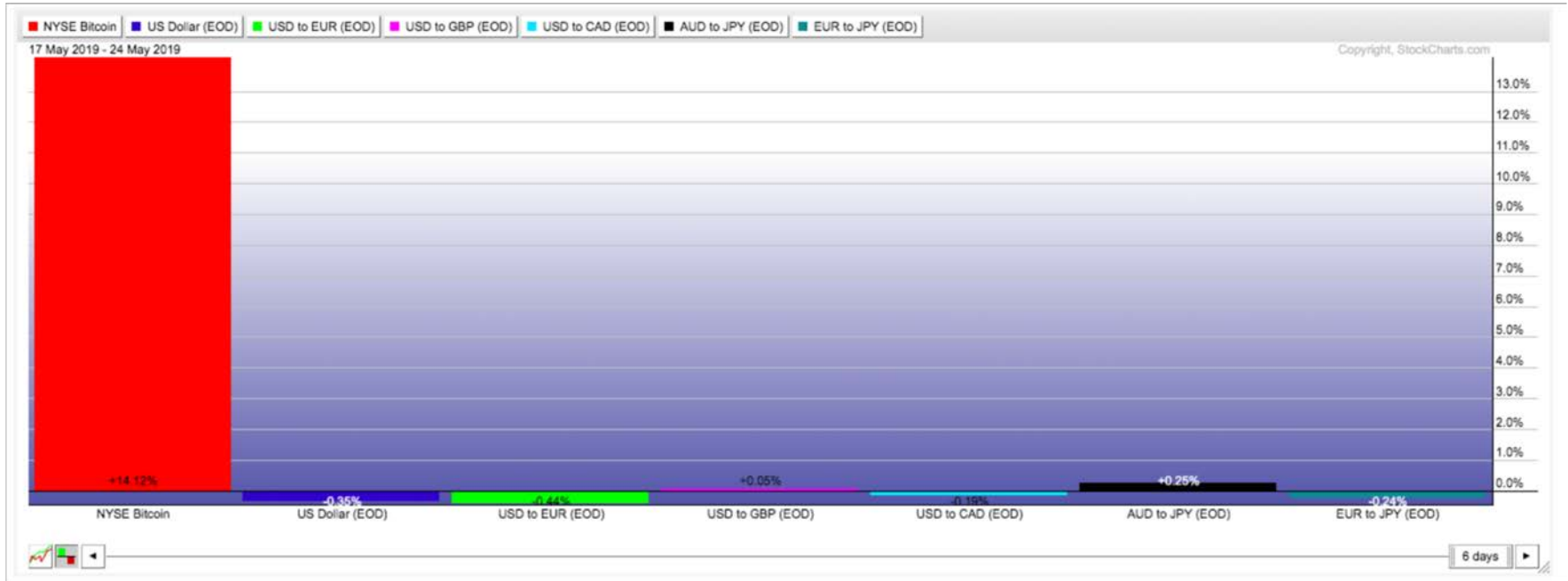


Chart 10: The NYSE Bitcoin Index was up 14% last week. The Dollar was down 0.35% last week against a trade weighted basket. The Australian Dollar was up 0.25% against the Yen, while the Yen was stronger against the Euro.



Chart 11: The EAFE index (EFA) was the top performing equity segment last week, finishing flat on the week. This index has lost momentum but remains in a positive price trend.



Chart 12: Small caps (IJR) dropped 1.76% last week and are close to breaking important support. Momentum has already broken down and small caps are in a negative trend.



Chart 13: Low volatility gained 1.67% against large caps last week. This was a break out above the 2018 high. Defensive factors are dominant.



Chart 14: If there ever was a subsector that showed the bipolar nature of Mr. Market, it would be semiconductors. After staging an incredible rally against the SPY from the end of 2018 through April, semiconductors have broken to a negative trend relative to the broad market, crashing over the last several weeks.



Chart 15: Risk sentiment has shifted significantly. Stocks broke down against bonds last week.



Chart 16: Lumber remains weak relative to Gold, implying potentially higher equity market volatility in the future.



Chart 17: High Yield spreads bounced to new short-term highs last week, spiking back to 4.22%.



Chart 18: Copper is at an important point of support here. Copper is in a negative trend and a breakdown could have spillover effects in risky assets.



Chart 19: The Euro dropped against the Yen last week, breaking below important support.

SUMMARY & PLAYBOOK

Confirming Evidence of a continued rally:

- US stocks are in a positive trend relative to Gold (intermediate).
- Global stocks (FTSE all World with US) are in a positive trend relative to the risk free asset.
- Growth continues to be a strong factor and is positively trending relative to the S&P 500.
- Economic growth remains above trend (although decelerating)

Non-Confirming evidence of a continued rally:

- The ECRI weekly leading index is down year over year.
- Copper is in a negative trend.
- Lumber is close to a new low against Gold.
- Small caps remain weak.
- The Yen remains strong.
- High yield spreads are widening.
- Short, intermediate, and long-term measures of market internals are negative.

Overweights:

Treasuries, Low Volatility, Utilities, REITS, Technology, Dividend Growth, High Quality, EM

Underweights:

Credit, Momentum, Cyclicals, Small Caps, Developed

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