Trend Report

11/2017

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Summary

The Good…

- Economic growth remains in a positive trend.
- Global stock markets are the strongest asset classes we track.
- Inflation is muted and defensive asset classes continue to weaken.

The Bad…

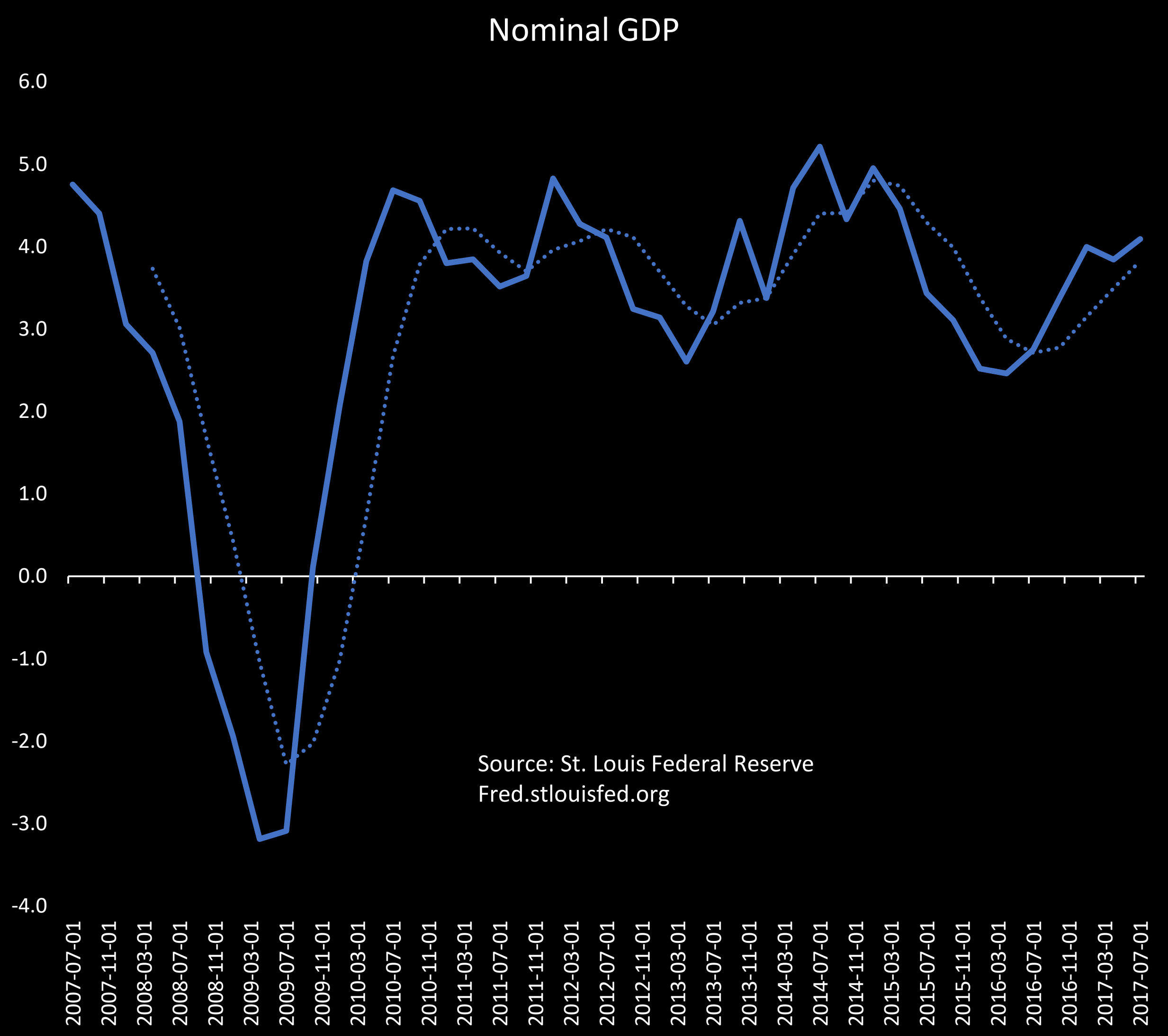
- The growth in the ECRI weekly leading index peaked in 2017 and has since declined.

The Ugly…

- Transports and small capitalization stocks are weak relative to the broad equity market. The market has bad breadth! Market internals are weakening even as the broad market indices reach new highs.
- Credit markets suggest that market volatility should increase from here as high-yield spreads have recently crossed above the 200 day moving average.

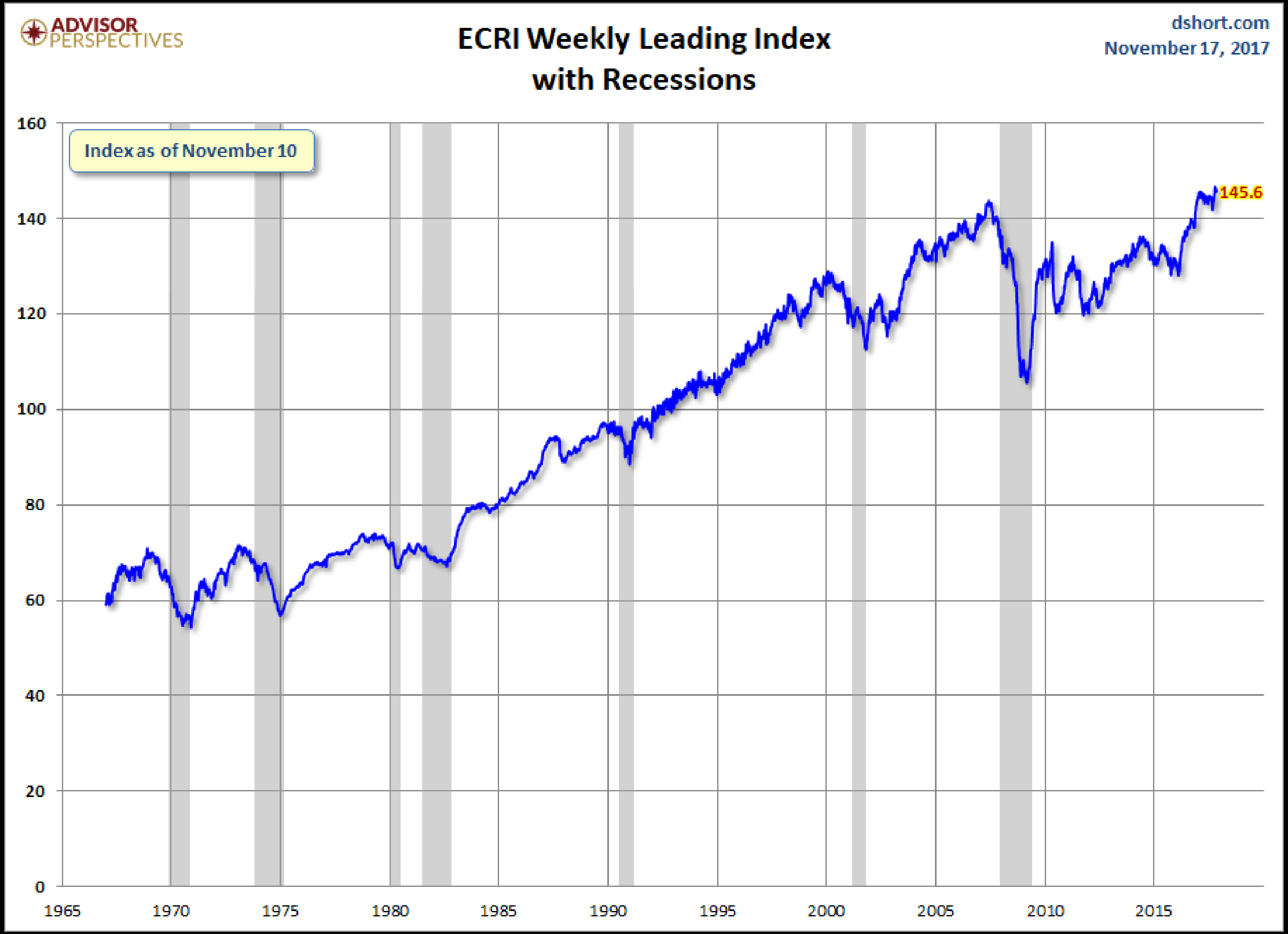
What Should We Do?...

- Consider moving a portion of portfolio assets to a defensive posture (the worst case is that you buy back in at higher levels).
- Look at asset classes that are typically negatively correlated with stocks during down markets (i.e. Managed Futures).
- Do not buy and hold. This may be one of the worst periods ever to buy and hold the overall US stock market.



- Nominal GDP remains in a positive trend.
- The chart illustrates GDP plotted as a year over year percentage growth rate.
- The dotted line illustrates a one year moving average of GDP growth.
- The direction of the dotted line illustrates that economic growth continues to be a positive tailwind for equities.

- The ECRI Weekly Leading Index growth rate peaked in early 2017 and is currently growing at 2.7% over last 12 months.
- The growth rate is up from last month where it was only 0.5%
- The fact that leading economic indicators are improving on a month over month basis is encouraging.
- However, it is concerning that the growth rate has declined from over 5%.



Stocks continue to outperform bonds.

Stocks remain stronger than gold.

High Yield bonds are threatening to return to a negative trend against long-term Treasuries. This change could bring on a correction in stock prices.

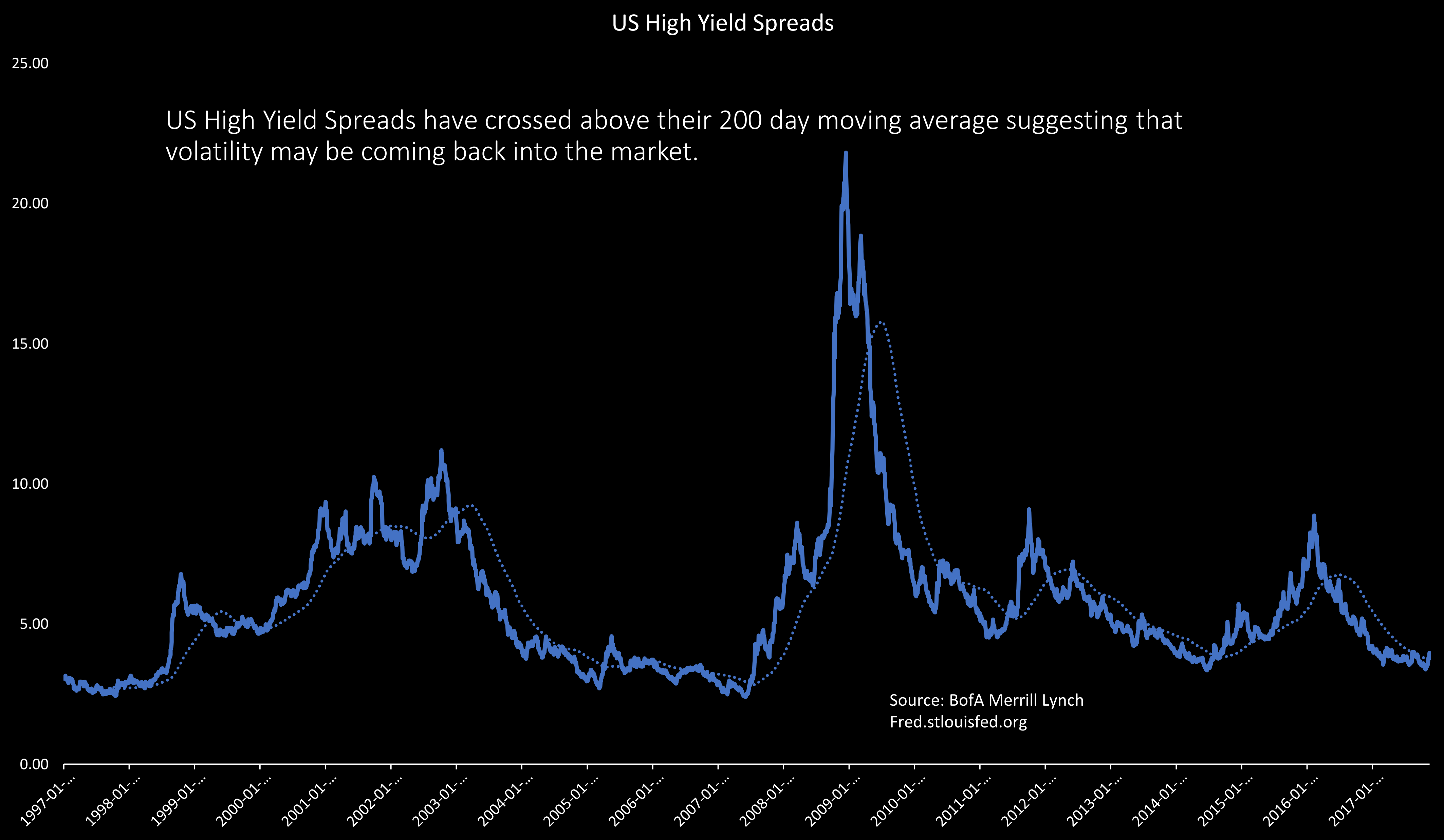
Inflation-sensitive bonds continue to show that inflation is aloof.

International equities are stronger than US stocks. This may be the beginning of years of outperformance.

Transports are threatening to take out their 2017 lows against the industrials.

The Nasdaq (QQQ) is now testing the highs set in May of this year versus the S&P 500 (SPY). Will this lead to a breakout?

Small caps remain relatively weak compared to the S&P 500. This is indicative of weak underlying market internals.


US High Yield Spreads
US High Yield Spreads have crossed above their 200 day moving average suggesting that volatility may be coming back into the market.
25.00
20.00
15.00
10.00
5.00
0.00
1997-01-...
1998-01-...
1999-01-...
2000-01-...
2001-01-...
2002-01-...
2003-01-...
2004-01-...
2005-01-...
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2009-01-...
2010-01-...
2011-01-...
2012-01-...
2013-01-...
2014-01-...
2015-01-...
2016-01-...
2017-01-...
Source: BofA Merrill Lynch
Fred.stlouisfed.org

Asset Class-Relative Strength

Symbol	Description	Ranking
VWO	Emerging Markets	1
VEA	International Developed	2
DBC	Commodities	3
VV	Large-Cap US Stocks	4
VTI	Total US Stock Market	5
VB	Small-Cap Stocks	6
VO	Mid-Cap Stocks	7
LQD	Corporate Bonds	8
HYG	High-Yield Bonds	9
GLD	Gold	10
IEF	7-10 Year US Treasury Bonds	11
TIP	Inflation-protected Bonds	12

Disclosure

The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request. Past performance cannot guarantee future results.

All Charts were derived from the following data sources: www.econ.yale.edu/~shiller, Global Financial Data, Standard and Poors, St Louis Federal Reserve, and Stockcharts.com

Technical analysis is only one form of analysis. Investors should also consider the merits of Fundamental and Quantitative analysis when making investment decisions. The S&P 500 is not an investable index and is a product of Standard and Poors, a McGraw-Hill Company.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high-yield bonds, which have lower ratings and are subject to volatility. All fixed income investments may be worth less than original cost upon redemption or maturity.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of risks associated with common stocks, including market fluctuations. While stocks generally have a greater potential return than government bonds and treasury bills, they involve a higher degree of risk. Government bonds and treasury bills, unlike stocks, are guaranteed as to payment of principal and interest by the US Government if held to maturity.

Dividends are not guaranteed and are subject to change or elimination

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

Asset-backed securities: Generally, when interest rates decline, prepayments accelerate beyond initial pricing assumptions which could cause the average life and expected maturity of the securities to shorten. Conversely when interest rates rise, prepayments slow down beyond the initial pricing assumptions and cause the average life and expected maturity of the securities to extend and the market value.

Hypothetical Performance Results Have Many Inherent Limitations, Some Of Which Are Described Below. No Representation Is Being Made That Any Account Will Or Is Likely To Achieve Profits Or Losses Similar To Those Shown. In Fact, There Are Frequently Sharp Differences Between Hypothetical Performance Results And The Actual Results Subsequently Achieved By Any Particular Trading Program.

One Of The Limitations Of Hypothetical Performance Results Is That They Are Generally Prepared With The Benefit Of Hindsight. In Addition, Hypothetical Trading Does Not Involve Financial Risk, And No Hypothetical Trading Record Can Completely Account For The Impact Of Financial Risk In Actual Trading. For Example, The Ability To Withstand Losses Or Adhere To A Particular Trading Program In Spite Of Trading Losses Are Material Points Which Can Also Adversely Affect Actual Trading Results. There Are Numerous Other Factors Related To The Markets In General Or To The Implementation Of Any Specific Trading Program Which Cannot Be Fully Accounted For In The Preparation Of Hypothetical Performance Results And All Of Which Can Adversely Affect Actual Trading Results. Past Results Do Not Guarantee Future Returns Hypothetical Performance For Illustration Purposes Only.