Continuum Global Asset Mgt., LLC

August 2019

Our June 2019 Newsletter concluded with the following inference:

<u>Conclusion: After a significant market correction at the end of 2018, we have now experienced an equally bullish Q1-Q2 2019. Market fundamentals are still reasonably strong, but a 10-year bull market is compelling us to be cautious. As mentioned above, we would not be fully invested at current market levels and would gradually raise cash. It is imperative that we understand the risks of being fully invested if our time horizon is short to medium term. We therefore would take the stance we were at during mid 2018; one of caution and be partially invested in the equity markets.</u>

As of the first week of August 2019, US market indexes have lost between -6% to -7%[1]. Markets attribute this decline primarily to the negative impact on the US and Global economy due to the US-China trade dispute, and the impact of the monetary and fiscal policy of the Federal government.

We are illustrating US leading economic indicators[2] which we believe will ultimately have a larger impact on the markets:

<u>US Economic Growth:</u> Even though GDP growth has slowed over the last two quarters, we are still at healthy levels.

[1] Data Source: www.finance.yahoo.com
[2] Source: https://ig.ft.com/sites/numbers/economies/us/

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Prediction for Q3

Predicted quarterly growth rate

Quarter-on-quarter growth rate, annualised

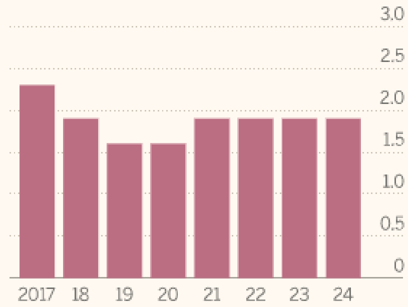
Source: Nowcasting.com, March 15

Data provided by

Economists' forecasts

Predicted US economic growth

Annual real GDP % change

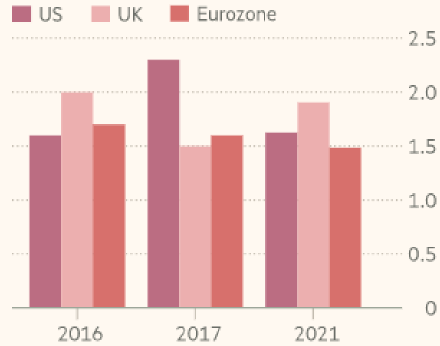


Source: Congressional Budget Office, Mar 14 2017

International context

Predicted economic growth

Annual % change



Source: International Monetary Fund, January 2017

Markets

Movements in the bond and currency markets are a barometer of investor expectations about a country's economic prospects.

Since the most recent US election, the bond market has reflected a consensus that the US economy faces an inauspicious future of lacklustre growth and muted inflationary pressures.

Bonds

10-year Treasury yield

%, adjusted for constant maturity

Source: Bloomberg. 05 Aug 2019
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Euro rate

Dollar vs euro

Price of 1 dollar in euros

Source: Bloomberg. 05 Aug 2019
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Interest Rates and the Yield Curve: The difference between the 10-year US Treasury rate and the 3-month Treasury has been a reasonably accurate indicator of a recession. Empirical evidence shows that there is approximately 14 month lag between an inverted yield curve and a recession. Currently, we are experiencing an invested yield curve that is a major worry in the capital markets.

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Interest rates

A stronger economy has given the Federal Reserve cover this year to accelerate its pace of interest rate increases. Prior to 2017, the Fed had increased rates only twice over the course of two years.

Federal funds target rate

2.25%

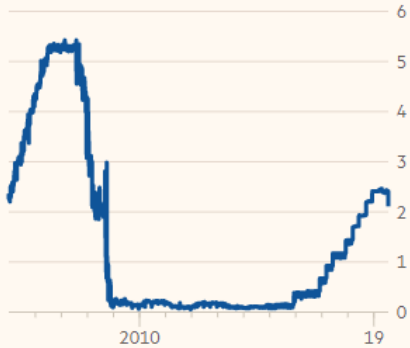
Average 30-yr prime mortgage rate

3.8%

Effective interest rates

Federal funds effective interest rate

%



Source: Federal Reserve/Bloomberg. 01 Aug 2019
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Mortgage costs

30-yr fixed mortgage rate

Average prime offer, %

Source: Bloomberg. 05 Aug 2019
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Yield Curve: Despite an invested yield curve, overall interest rates are at favorable levels for business and retail consumers. This includes small business growth and mortgage markets.

Inflation

The Federal Reserve looks closely at its inflation target of 2 per cent, using it as a metric policymakers must feel 'reasonably confident' about before raising interest rates.

Consumer inflation in June

1.6%

Core inflation in June

1.6%

Consumer price inflation

US consumer inflation

Annual % change

Source: Bloomberg. 30 Jun 2019
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Core inflation

US core inflation

Annual % change

Source: BLS/Bloomberg. 30 Jun 2019
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Inflation: Inflation is at benign levels relative to the Federal Reserve's target and historic levels. We believe that the primary reason for benign inflation is the introduction of a broader global labor force and commodities.

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Labour market

The strengthening jobs market has been core to the Federal Reserve's debates on whether to raise interest rates.
As the economy approaches full employment, officials believe wage growth will start getting driven up and that inflation could accelerate above the central bank's 2 per cent target, arguing for rates to be lifted further.

Unemployment rate in July

3.7%

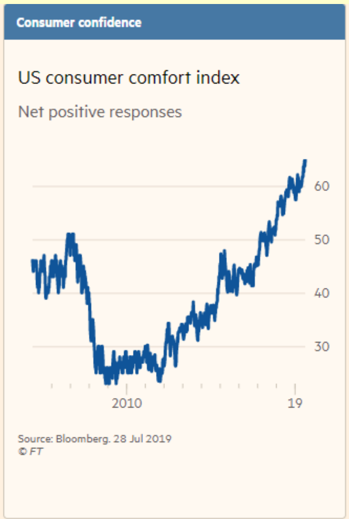
<u>Labor Market:</u> The employment aspect of the US economy is rather strong. Unemployment is at it's low with hourly wages improving gradually but consistently.

Consumers

As the labour market has strengthened, so has US consumer spending. Wage growth has remained subdued, however. There are few signs of runaway spending growth, with consumers staying in a cautious mood.

Annual change in retail sales in June

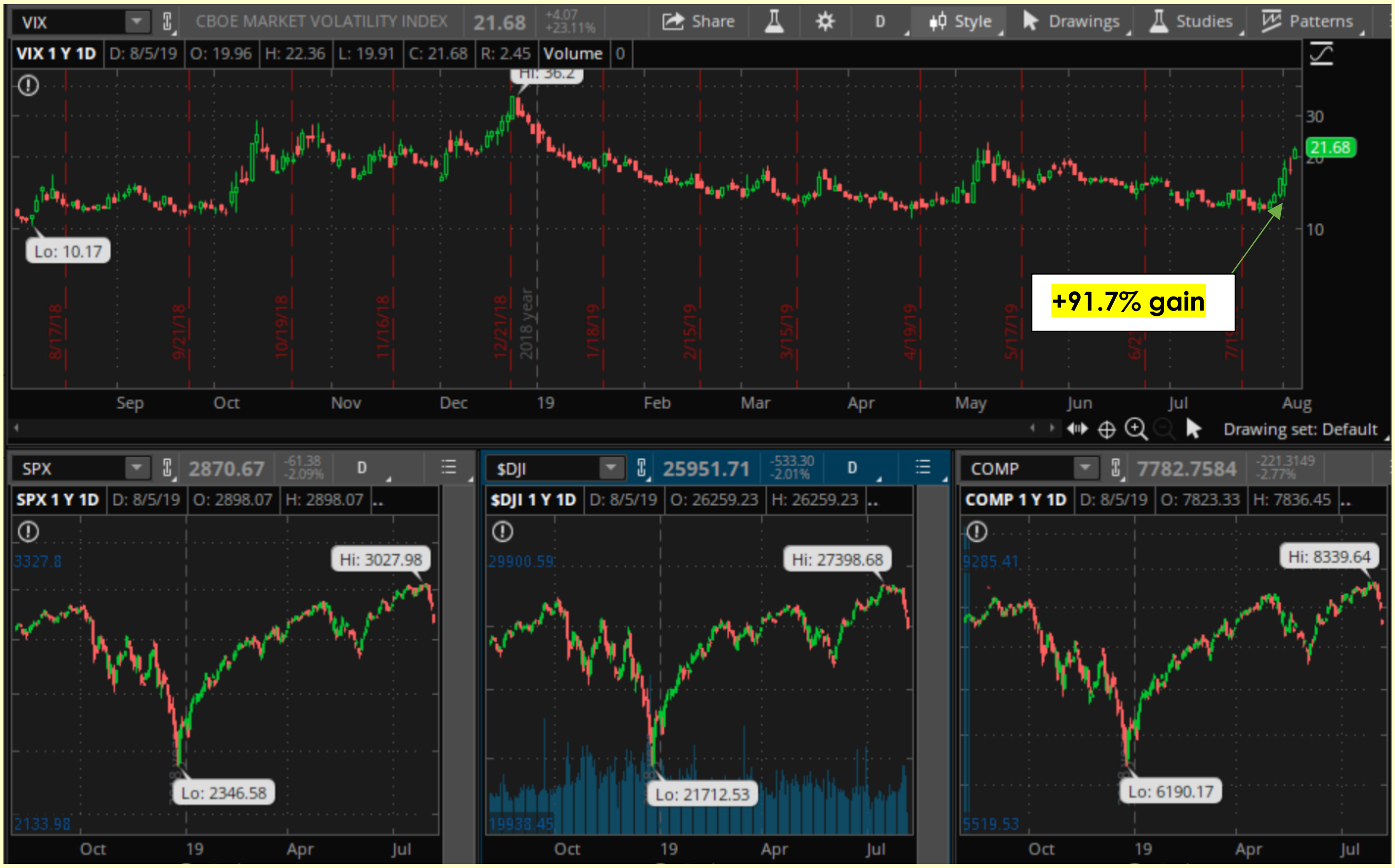
3.4%



<u>US Consumer:</u> The US Consumer is exhibiting strong sentiment based on retail sales, consumer confidence and a relatively stable housing market.

Volatility Index[3]: The volatility index (VIX), for a lack of better definition, is the FEAR gauge in the average investor sentiment. It can be observed that there is a negative correlation between the VIX and major indexes in the chart below. Empirical evidence shows that it has been buying opportunities when VIX has been in the region of 20-25.

Currently, the VIX has gained over 90% (shown below) in the span of a week. Simultaneously, market indexes have lost between 6-7% for the same time frame. The question is whether this is a technical correction or influenced by deterioration in the economic fundamentals.



Conclusion: **We believe that this market correction is an opportunity we have been waiting for. We believe that the US economic fundmentals do not indicate an imminent recession or a prolonged period of economic deceleration. Again, a technical correction is a natural market phenomenon and it would be prudent to gradually add to current positions in the area or Technology, Financial and Healthcare for growth oriented investors.**

PLEASE REMEMBER: Each investor is unique and should invest to complement their respective financial conditions and objectives.

[3] Source: www.thinkorswim.com

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