

1Q 2019 Rebalance – ETF Global® Dynamic Model Portfolios

Tuesday, January 8, 2019

We joked in our last trade update that “investors who heeded that sage advice to sell in May and go away” were once again disappointed.” Equities continued to push higher and that early chill, that we talked about as equities closed out weak in late September, turned into a full-blown epidemic. The long-awaited correction finally sent domestic indexes briefly into bear market territory. The tech stocks that had long dominated the market weren’t the only ones to feel the pain as Cyclical, Industrials and even long-depressed Energy stocks felt the sting as investors turned to Treasuries and Gold. Return on capital is out, return OF capital is in!

That tech pain and the weak Christmas recovery, that helped pull the markets out of bear market territory, explain why the **ETFG Dynamic Model Portfolios** favor larger names with more of a growth or at least balanced orientation in the most recent reallocation that was completed on January 2nd. All 4 of the Base Portfolios and the 8 “tilts” were updated with the domestic sleeve of the portfolio seeing a major shakeup as the two dedicated value funds, the SPDR S&P 400 Mid Cap Value ETF (MDYV) and the SPDR S&P 600 Small Cap Value ETF (SLYV), were replaced by the iShares Russell Midcap ETF (IWR) and the SPDR Portfolio S&P 500 Growth ETF. Those two additions, along with the retention of the Direxion NASDAQ 100 Equal Weighted Fund (QQQE) and the SPDR S&P 600 Small Cap ETF (SLY) gives the domestic allocation a large core feel by reducing the allocation to Financials while simultaneously raising the average market capitalization of the portfolio substantially.

Another factor that made the fourth quarter so challenging was that there was nowhere to turn. Equity volatility spread abroad with most international ETFs suffering just as badly as domestic funds over the last three months to close out the year down substantially. While there were opportunities in the third quarter for investors willing to do their homework and buy funds for specific nations, the broad equity sell-off led many to seek shelter in fixed income, leaving the international fund space a sea of red.

The turnover in our international basket reflects that with two of the four funds leaving the international allocation for the first quarter.

The international sleeve retains its decidedly European flavor thanks to the retention of the SPDR STOXX Europe 50 ETF (FEU) along with the introduction of the WisdomTree Europe Hedged Equity Fund (HEDJ), while the iShares MSCI Italy ETF (EWI) is replaced by another troubled member of the EU (for now), the iShares MSCI United Kingdom Fund (EWU.) For all the “Sturm und Drang” over the failure of the May government to deliver an acceptable Brexit deal, raising the risk the UK might endure a painful sendoff, EWU has performed in-line with the broader EU markets. EWU also retained a substantially higher fundamental score as investors remain wary of going long in such a troubled situation. Could even a modest improvement in the sentiment surrounding Brexit lead to big gains for EWU?

One place where investors seem to be finding confidence is in Latin America. Our emerging markets allocation saw a noticeable change as the iShares Latin America 40 (ILF) was replaced by the iShares Mexico ETF (EWW). Investors were well served by ILF as the fund strongly outperformed not just broader EM funds but domestic stocks as well, thanks in large part to a strong showing by its Brazilian holdings. Yet, ILF’s Quant score has dropped as Brazilian stocks have become more overpriced. Fundamentals are only one factor as Mexican stocks have begun to outperform thanks in part to investors reevaluating President Obrador’s business stance, giving EWW the opportunity to catch-up to its peers.

To learn more about our ETFG Model Portfolio strategy, please email us at sales@etfg.com or call us at (212) 223-ETFG (3834).

You can find an overview and performance information for the ETF Global Dynamic Model Portfolios at <http://www.etfg.com/about-model-portfolios>

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