

<b>Market Outlook:</b>
------------------------

**Now what?**

The US elections, just ended, are no longer an excuse for waiting to review one's investment objectives. With some speed and trepidation, "New High" advocates have found themselves reworking their portfolios, trying to make sense out of a scenario I call "*parallel disconnect*"...the market decoupling from the economy....and how things suddenly went off the rails for their investments.

After gathering at historically high valuations for months, the averages recapitulated due to politics, earnings concerns, and the laws of physics.

Fundamentals which had sustained growth expectations....such as low interest rates...took a back seat to quantitative conditions depicted by high P/E ratios and stochastic measurements flying off the charts. Everyone is now wondering what happened to their piece of the pie and why it is so out of reach. One might conclude that either the raw data is flawed, or that traditional economic fundamentals no longer apply or if, in fact, they were simply ignored altogether.

Inflation, while dormant for so long, is now my root cause for concern about the global economy going forward. Nearly all capital expenditures will cost more as rates increase, wage push from "full" employment is accelerating, real estate prices are at a 5 year peak, commodities and other raw materials cost more, healthcare expenses are rising, media budgets are stretched thin....even the cost of a new set of golf clubs is rising. These are anecdotal and quantitatively measurable examples of price inflation already in the pipeline. Not to mention that the political rhetoric surrounding Asia (tariffs, trade wars, and regional threats) has exacerbated concerns regarding slow-downs in corporate margins and sustainable share price increases.

As a result, we are focusing our allocation shifts upon *consumer neutral* and *inflation-oriented* sectors such as metals, utilities, biotechnology, and energy. It is also highly probable that the wave of profit taking and repositioning into cash will continue at least until the market finds a technical floor. In the short run, the influence of the Fed's tightening policies should be negligible, but noticeable. The international economies are now the drivers of the globe's financial markets.

**Liquidity revolution**

The spillover effect of a decade of global austerity campaigns is now causing higher costs of doing business to seep slowly back into the vocabulary. "Free" money, alone, has inadvertently become the catalyst for the end of the current bull expansion. Sometimes the seeds of something happening are planted well before its presence is made known. Undoing a decade of accommodative monetary policies is sufficient to acknowledge those changes' potential impact.

Inflation's reemergence will impact the profit picture and indirectly set off a series of emotional and fundamental recalibrations regarding portfolio allocation. The market will no longer be what we had come to expect from the first half of this year. Despite what might be construed as negative, the group rotation that develops will cause us to look at the longer term, top-down scenario as an opportunity to capitalize upon new cycle emergence in the "back-end" of the realm. Each cycle phase is yet a new reminder of what worked, what failed, and what lies ahead.

The story must always be about how to stay current with, and in front of, factors that constantly change the probability ratios of making money. The Fed's quantitative tightening is virgin territory for the un-initiated. Following their script, we should expect to see golden fundamentals but perhaps a weaker stock market. This suggests that growth will be found elsewhere than stocks or, as mentioned above, in sectors which previously might have been out of favor or un-sexy to the go-go enthusiasts. Cash has always been an asset class of choice for me....not a default position.....which is one reason why short term bonds and cash alternatives are slowly finding their way back into our core allocation processes.

The bottom line is.....the bottom line. We will endeavor to stay the course while searching for capital gains opportunities and portfolio protection as our core theses.

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.

**Alexander Capital L.P., 17 State Street, 5<sup>th</sup> Floor, New York, New York 10004 646-564-2299**