Hesiod Financial, LLC
Monthly Report

June 2019

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Monthly Overview

Highlights

- In June, the S&P 500 Index returned 6.44%. The Dow Jones Industrial Average returned 7.19%. The NASDAQ 100 Index returned 7.62%.
- The unemployment rate has remained low at 3.7%. The Consumer Price Index rose 0.1% from April to May.
- The G-20 Summit was held in Tokyo from June 28 to June 29. At this summit, President Trump and President Xi Jinpeng agreed to a truce, with neither side increasing tariffs and China agreeing to purchase more U.S. goods. This sort of truce was also reached at the G-20 meeting at the end of 2018, so it is difficult to call this progress.
- The Federal Reserve held a Federal Open Market Committee meeting from June 18 to June 19, in which it was agreed to hold interest rates steady. The Fed made it clear that it stands ready to cut rates to combat economic headwinds. While the timing is unclear, eight of the seventeen Fed participants indicated that lower interest rates would be appropriate this year.
- Fear of the United Kingdom leaving the European Union without a Brexit deal has grown. 40% of people in the UK have started stockpiling goods in fear that there will be shortages in a no-deal Brexit scenario. Both candidates to replace Theresa May as prime minister have promised to leave the EU on October 31, with or without a deal.

Market Sentiment

The month of June proved to be yet another bullish month for the United States Market as a whole. The futures market is pricing a rate cut for the July 31st Federal Reserve meeting. The 10-year treasury note's yield has dropped to its lowest level since 2016, below 2%. On the global scale, European Central Bank's President, Mario Draghi, suggested that the ECB may begin printing more Euros in order to boost inflation and put more money into the economy. The S&P 500 closed near record highs to end the month of June.

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Sector Outlook

Communication Services / Information Technology

The CS/IT sector performed exceptionally for the month of June. Our sector was able to recover from some of the losses sustained by our ZUO position last month. While ZUO was down approximately 30% in May as a result of poor sales execution, our sector has held on to our shares because we still believe in the long-term profitability of the company. Strong returns from our position in the IPAY ETF were also vital to our success for the month. The CS/IT sector experienced a 10.75% return for the month outpacing the S&P 500.

As a sector, we were hesitant to open any new positions due to the global market uncertainty heading into the G20 summit. The summit resulted on a pause on the U.S. and China resuming trade talks, the U.S. agreeing to not impose any new tariffs for the duration of the talks, and China announcing that they will once again buy American goods, namely agricultural goods. President Trump also announced that American companies will no longer be blocked from selling to the Huawei, causing our sector to have a position market outlook as we head into the month of July.

Materials / Energy / Industrials

Looking into June and beyond, our sector seeks to further investigate and find value in the oil and aerospace industry; I will also briefly address recent defense news.

In terms of oil pricing, we believe futures in Brent and West Texas Intermediate (WTI) are trading exactly where they need to be. Certain events this month have applied pressure to both prices, but we see long-term market uncertainty to prevent large swings, up or down, for long periods of time.

Looking internationally, OPEC+ has recently announced it will continue output production near the agreed levels of November 2018; we do not see OPEC+ as having the same leverage as they did in decades past, yet their announcements will most certainly continue to shift market sentiment. Additionally, US-Iranian tensions continue to threaten the Strait of Hormuz; an Iranian blockade upon this straight will have dire short-term consequences towards emerging and developed Asian countries, specifically China, S. Korea, and Japan - contributing to already weakening economies, this could most certainly serve as a catalyst towards economic recession. Looking domestically, crude supply took a strong hit in June as the largest oil refinery on the East Coast in Philadelphia was forced to shut down due to a large fire followed by explosions. We do not see this as a strong long-term event, as other refineries have already delivered on the lost capacity, and market forces will continue to negate this tragic event.

With the recent announcement in Boeing's 8-K, we maintain our long-term bullish outlook on the company. It appears the 737 Max will stay grounded into September; conservatively, we see full 737 Max usage by the end of the year, though we do not believe this will affect company outlook past 2021. Currently, we will sit on the sidelines, for there are just too many hidden layers within this debacle, but we hope to jump into this undervalued company soon.

Finally, I will give my own input into the Raytheon – United Technologies merger. While I disagree with Third Point's analysis on the merger, I hold similar sentiments regarding the valuation of Raytheon and the strong shift in investment philosophy. With the foreseeable demise of Raytheon's AMRAAM program, at least for the DoD, and questionable future for the Patriot program, we believe the Raytheon valuation may be the product of financial engineering rather than a true long-term value, especially after Raytheon's CEO's pessimistic comments on the company as a stand-alone entity. Additionally, whereas buying the UTX-Aero was an attractive proposition a few months ago, this merger both hinders the traditional defense thesis for Raytheon and the bullish aero thesis for UTX.

Consumer D&S / Healthcare

Our consumer positions have performed below expectations for the month of June. Our sole consumer position in June was LKQ which rose slightly. Consumer fundamentals remain strong and point towards better future performance. Unemployment remains low at 3.7% and CPI has risen 0.1%. Trade feuds and tariffs between China and the US remain worrisome. Tariffs on China will yield increased costs for most consumer companies. While President Trump and President Xi Jinpeng reached an agreement at the G-20 summit in Tokyo, this is no guarantee of cooperation between the two countries as a similar agreement was met at the previous G-20 summit. Looking forward, if trade talks between China and the US continue to progress and a trade deal is reached, consumer companies would benefit greatly from lower costs.

Our healthcare portfolio has developed over the month of June as we opened a new position in BioMarin Pharmaceutical (BMRN). Similar to what has been said in previous monthly reports, healthcare is a volatile industry. While this sector is relatively safe from trade disputes, healthcare is an easy target for political reform. As we near the 2020 presidential election, more Democratic candidates have discussed lower drug prices and universal healthcare programs. In the event that these changes take place, the healthcare sector would be negatively impacted. Otherwise, healthcare companies appear to remain strong and should perform well looking forward.

We aim to open more positions in the consumer sector and close our LKQ position in July.

REITs / Financials

Equinix (EQIX) announced a joint venture with Singapore's sovereign wealth fund, GIC, to develop and operate hyperscale data centers in Europe. This joint venture with GIC was done for EQIX to have access to funding and capital for future expansion projects. CareTrust recently acquired a newly-constructed skilled nursing facility in Nampa, Idaho for $12.8 million. Fitch upgraded PLD to A- from BBB+, and changed the rating outlook from stable to positive. The reason for this upgrade was because Fitch believes PLD’s pro-rata leverage will sustain below 5.5x, which is consistent with an A- rating.

The latest FOMC meeting reaffirmed investor’s beliefs that the labor markets were faltering, and the Fed will begin to cut rates later this year. REITs have been hot this year, and with the Fed now signaling that it may lower rates, the sector has gained more attention. The SPDR Real Estate Select Sector ETF (XLRE) has gained 18.2% YTD. REITs will now have access to cheaper capital if the Federal Reserve eventually cuts rates. However, when interest rates are falling, this usually means that there is less demand for credit which can negatively impact REIT earnings. Data on single-home sales through May 2019 confirm that housing markets in all regions of the United States are in a slowdown, and this could hurt the REIT industry. In Europe, Brexit uncertainty has depressed housing values in London, and house price appreciation has slowed in Ireland. Moscow’s retail development will grow by an estimated 72% in 2019. Dubai home prices have continued to decrease, with prices already down 12% in 2019, while the demand for Hong Kong and Chinese logistics and industrials properties has not slowed despite the uncertainty of the U.S.-China trade war. REITs will continue to perform with the market, despite concerns of an economic slowdown and falling rates.

The financial sector continues to track the slope of the yield curve. Financials have underperformed the general market while the yield curve has been flattening. Corporate cash balances in many areas, such as technology, are high, but there is a concern that the increased trade tensions will negatively affect corporate confidence and result in delays in merger-and-acquisition activity, as well as depress loan demand. There is also a record-high amount of debt held by non-financial corporations that could impact the credit risk of banks lending to these corporations and could pose a risk to the financial sector in the future. However, with low interest rates and strong cash balances at these corporations, there is not an immediate need for concern. Trade concerns pose risks to corporate confidence which could decrease the demand for credit and hurt the interest revenue of banks. With the Democrats in charge of the House of

Representatives, there is also talk of adding regulation to the financial industry which would hurt the bottom line of many financial institutions. There is a consensus rating of 'market-perform' for the financial sector in the immediate future.

Foreign Exchange

The USD declined in value all across the board (1.2% per Bloomberg Dollar Spot Index). Potential explanations include signs of slow economic activity such as contraction in long-term spending and a dovish Fed caused the EUR to rise by 1.0% relative to the USD. In the United Kingdom, the heated campaign continues for a Tory U.K. Prime Minister keeps the GBP in check. However, a "no-deal" Brexit becomes increasingly more likely as there is further support from Parliament. We believe the occurrence of this particular event would exacerbate GBP losses even further.

July could be a troubling month for the USD as the Fed looks to cut rates, as well as Trump applying downward pressure. A deal between China and the U.S. is not imminent, but additional poor economic data from both sides could force a resolution sooner rather than later. In the face of all of this the USD may have a weaker future ahead. Interestingly, both the Mexican Peso (MXN) and Canadian Dollar (CAD) were the top performers in June (up over 2.5%). The CAD rallied as a result of oil price dynamics as well as ongoing economic growth. Sanctions on Iran, low barrel inventories, and possible USMCA passing will prove to further aid the CAD and MXN.

Trading Desk (Kratos)

The newly redesigned Kratos has focused on taking advantage of earnings and macroeconomics. After one of the fund's technology holdings took a hit during earnings, Kratos worked with the technology sector to conduct further research on the upside potential, and effectively increased the fund's position. Kratos is currently conducting research in order to position the fund to best capitalize from the recently heightened trade tensions between Japan and South Korea.

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Hesiod Labs (hLabs)

The HYPAR team has continued to make solid progress on the current code base for HYPAR and has experimented with a variety of tools using the new API for accessing various technical indicators. In addition, the team has been working on implementing a database using SQL and is looking to integrate that with Firebase in the upcoming weeks. A beta product is available to all analysts to use through the Jupyter notebook.

Portfolio Analysis

Performance

	Monthly (%)	YTD (%)	Inception[1] (%)
Hesiod Financial	5.29%	-4.94%	-4.94%
S&P 500 Index	6.44%	17.11%	13.58%

[1]Inception at 1/8/2019

Key Statistics

Sharpe Ratio	-2.38
Standard Deviation of Monthly Returns	5.78%
Weighted Avg. Beta	1.00
Weighted Avg. Market Cap	19 B
Weighted Avg. P/E	59.14
Gross Exposure	73.20%

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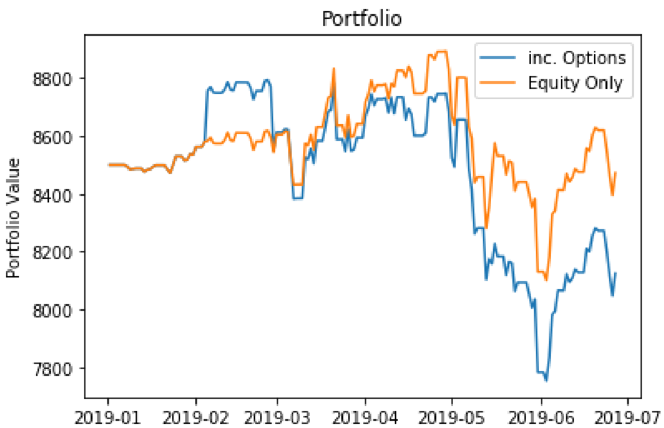

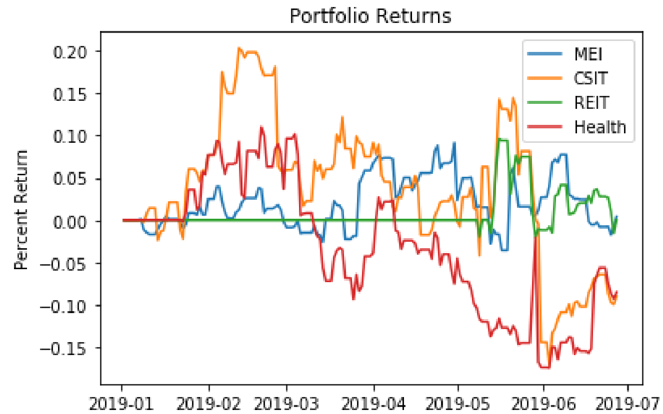

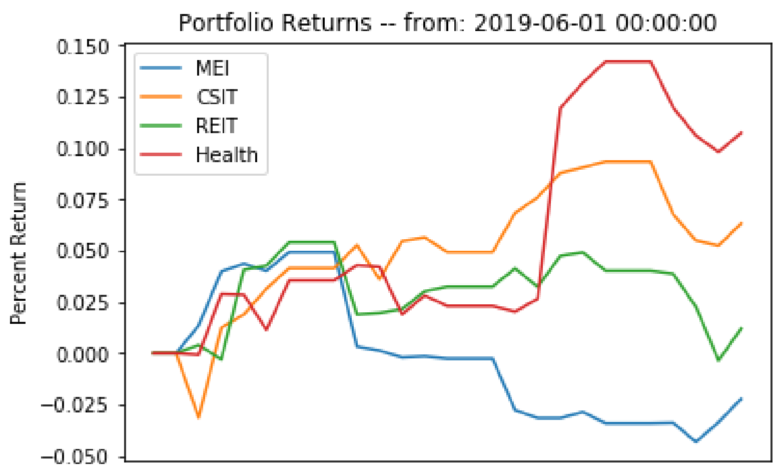

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