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Hesiod Financial, LLC
Monthly Report

July 2019

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Monthly Overview

Highlights

- In July, the S&P 500 Index returned 1.51%. The Dow Jones Industrial Average returned 0.99%. The NASDAQ 100 Index returned 2.32%.
- The S&P 500 Index reached an all-time closing high and intraday high on July 26, at 3,025.86 and 3,027.98, respectively.
- The unemployment rate has remained low at 3.7%. The Consumer Price Index rose 0.1% from May to June.
- The US earnings season has been in full swing, with over 60% of S&P 500 Index companies having reported by the end of July.
- The Federal Reserve held a Federal Open Market Committee meeting from July 30 to July 31, in which it was agreed to cut interest rates by 0.25%. The Fed is hoping the rate cut will be the necessary injection to keep the economy healthy. This is the first interest rate cut in 11 years.
- President Trump announced on August 1 that he will add a new tariff on $300 billion of Chinese-made products on September 1, which would effectively put a tax on all Chinese goods coming into the US.
- Boris Johnson was elected to be the new Conservative leader and Prime Minister of the UK on July 23. A no-deal Brexit continues to be a worry as Johnson has made it clear the UK will leave the EU on October 31, with or without a deal.

Market Sentiment

As volatility continues to strike the market from all sides, it is important to step away from the stock market and look at the bond market. Shortly after President Trump announced an additional 10% tariffs on $300B worth of Chinese imports, the 10-year Treasury yield fell to its lowest level since 2016 to 1.88%. Fed Funds futures are pricing in two further 25 basis point rate cuts prior to the end of the year. One day prior to Trump's tariff announcement, the Federal Reserve cut rates by 25 basis points, and signaled that they would become data-dependent again. To close out July and begin August, the S&P 500 had its worst week of 2019. Currently, with no end in sight for the trade war with China, and with the Federal Reserve being, seemingly, on different pages with the bond market, we are overall bearish on the market in the short term.

Hesiod Performance

We outperformed the market in the month of July. The benchmark used to make this comparison is the S&P 500. We do not use this benchmark because it is an accurate representation of our portfolio; however, we use the S&P 500 because it is the most accurate telltale of the United States market. Furthermore, the S&P 500 is often what investors consider a safe and reliable investment. We believe we have positioned ourselves to beat this benchmark in the short-run and are further developing strategies to outperform this benchmark in the long-run. Our amazing performance this month is due to our solid, innovative research on the best way to position our portfolio for short-term correction and negative market sentiment. Through both options and stocks, we have taken bearish positions on the global markets, including Europe, Asia, and the United States. Our strong investing psychology allowed the fund to recognize gains this month that were previously unrecognized. We plan to stick with our investment thesis with the current available information on the global slowdown.

Sector Outlooks

Communication Services / Information Technology (CSIT)

As we enter the month of August, our sector expectantly awaits the release of Zuora's earnings. We feel confident that if the company can produce evidence of improved sales tactics, as well as progress with integrating RevPro, then their stock price will begin to recover from the damage done after ZUO's previous earnings. Over the past month, the CS/IT sector has increased our stake in Zuora. We have also opened a position in Palo Alto Networks, as we believe that the demand for cybersecurity will continue to rise, especially as we approach the next presidential election. We retained our equity in the iPay ETF as we continue to feel confident in the mobile payments industry.

Looking forward for the next month, we feel bearish for CS/IT as a sector. Due to rising trade tensions with China, many companies within our scope are likely to be negatively impacted from the imposition of new tariffs. This, coupled with general market uncertainty, causes us to be hesitant to open any new positions.

Materials / Energy / Industrials (MEI)

In looking back at this month and looking forward to the remainder of the year, I will address how current, macro-economic conditions shape my view of the MEI sectors. Oil has been a very closely observed commodity for MEI this month, leading to mixed results. We started this month with Hurricane Berry and US-Iranian tensions acting as two of the largest disrupters of crude (oh if only we knew). In both cases, MEI stood fast on a bullish position, predicting that supply pulls will drag crude prices up ~200bps. Moving now into the end of the month, we find the greatest disrupter is instead US-China trade tensions that could upset the seemingly everlasting bull market. It is our belief that crude is no longer a predictable nor tradable commodity given the current market conditions. The only feasible position we foresee into the near future is a bearish general-market play that exposes the investor to US-China trade tensions and whatever spills into greater Europe (most notably Germany). However, I personally see a myriad of alternative positions that provide higher upside with less exposure to other global events such as US-Iranian tensions.

Consumer D&S / Healthcare (CGH)

The Consumer D&S/Healthcare sector greatly outperformed the market in July. With an interest rate cut decided on by the Federal Reserve, we can hope for a slight rebound for Consumer and Healthcare equities. The American consumer remains strong, with the Consumer Confidence Index rising from 124.3 to 135.7. However, trade-related issues are still apparent, with Trump announcing new tariffs on $300 million of Chinese goods, to be initiated on September 1.

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Healthcare remains volatile with increasing political risk. Nothing has changed on our outlook since last month. We can continue to expect volatility as discussions about drug pricing and Medicare-for-all still between presidential candidates. The population continues to favor Healthcare as people age, requiring more and more services.

Our sector holds four open equity positions as we enter August. We currently own three Consumer positions and one Healthcare position. Because of Healthcare's volatility it has been difficult to find strong potential investments. We will continue to work through the volatility to bring innovative Healthcare companies into our portfolio.

REITs / FIG (REIT)

The month of July was a solid one for the REIT/FIG group, with the portfolio returning ~6% compared to the S&P 500's ~-1% return. The CTRE position was closed after a -5.34% return due to our belief that our investment thesis for the stock did not apply anymore. However, both EQIX and PLD have provided steady, positive returns in a month that has provided the worst week for the S&P 500 since early May. PLD returned 0.7% to bring its return since inception to 6.47%. PLD announced earlier this month that they would buy Black Creek Group's Industrial Property Trust Inc (IPT), a portfolio of U.S. industrial properties, in a deal valued at $3.99 billion in cash. This deal is expected to close, at the latest, by the beginning of 2020. EQIX returned 3.8% for the month to bring its return since inception to 6.07%. They also had a strong Q2 earnings report, with the company beating consensus estimates on EBITDA, FFO, and Revenue. Several research analysts have raised their price target for EQIX this month as well.
FIGs had the most attractive valuations at the end of the month based on the sectors' historical range. The outlook for global manufacturing tends to affect the relative performance of financials stocks. In the last year the outlook has deteriorated, as measured by the global purchasing managers index (PMI), depressing the sector's valuations. Historically, financials stocks have had strong odds of beating the market when trading at low price-to-earnings (P/E) ratios following a global PMI downturn. Rising home rents has led us to believe that home rental

companies will perform well, while the decline in home sales during this month will put pressure on home building and other real estate companies. Overall, the REIT/FIG group believes that the financials and real estate sectors will outperform the market in the near term.

Foreign Exchange (FX)

USD: After the Fed cut rates by 25bps citing trade tensions and global growth uncertainties, alongside waning domestic fundamentals, we expect to see the USD weakening into 2020. Even though the Fed looks to rein in the rate cuts, this typically bullish sentiment is offset by stronger fundamentals behind other countries' currencies. We believe the USD will give back some ground against most other major currencies.

CAD: On the other hand, the CAD looks to be strengthening into 2020 as the Bank of Canada (BoC) is holding rates with domestic data proving to still be resilient. Alongside the Fed, these divergent central bank policies will play in favor of the CAD. Although the Fed's easing cycle will fall short of market expectations, until the BoC expresses concern over the CAD appreciation, we expect to see the CAD strengthen against the USD.

EUR: We expect to see additional rate cuts prior to Draghi's departure, but no further rounds of QE. Recently, the ECB has had a much bigger impact on EUR/USD than the Fed, so we are expecting the Euro to strengthen against the USD with current EUR levels already capturing the generally dovish guidance that Draghi has extended into 2020.

GBP: As Boris Johnson ascends to Prime Minister, concerns over a no-deal Brexit continues to weigh on the GBP. We believe the GBP will continue to weaken as with domestic data starting to look lackluster. It is interesting to note that there has been a very aggressive rebuild in GBP shorts with a higher re-pricing of no-deal Brexit risks. If we were to see an easing in hard Brexit fears, GBP could trend up over a long-run horizon.

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FX Asia: While repercussions are still being felt across the Chinese and US economies, reduced trade tensions will see CNY strengthen against the USD in the near- to medium-term. Meanwhile, we are constructive on the INR as the new Indian government has been well-received by markets.

Trading Desk (Kratos)

Our successful month was due in part to heightened global volatility and uncertainty. President Trump's additional 10% tariffs on $300B worth of Chinese goods pushed the global markets downward. We recognized strong gains from our S&P500 and South Korean Mutual Fund bearish positions. Our analysts are anticipating a short-term correction and will adjust our positions accordingly.

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. The team has been concurrently working on implementing a database A beta product is available to all analysts to use through the Jupyter notebook. The team is in the planning stages for accelerated development starting in September where they will be looking to spend more time with front-end development and data management

Portfolio Analysis

Performance

	Monthly (%)	YTD (%)
Hesiod Financial	0.11%	-4.94%
S&P 500 Index	-0.13%	16.96%

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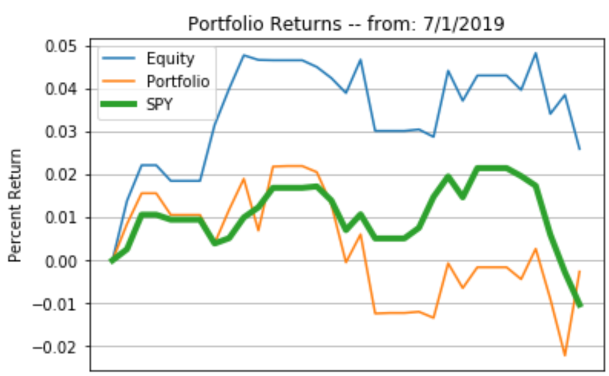
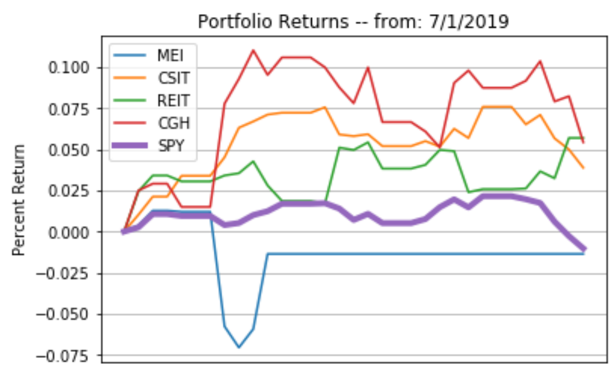
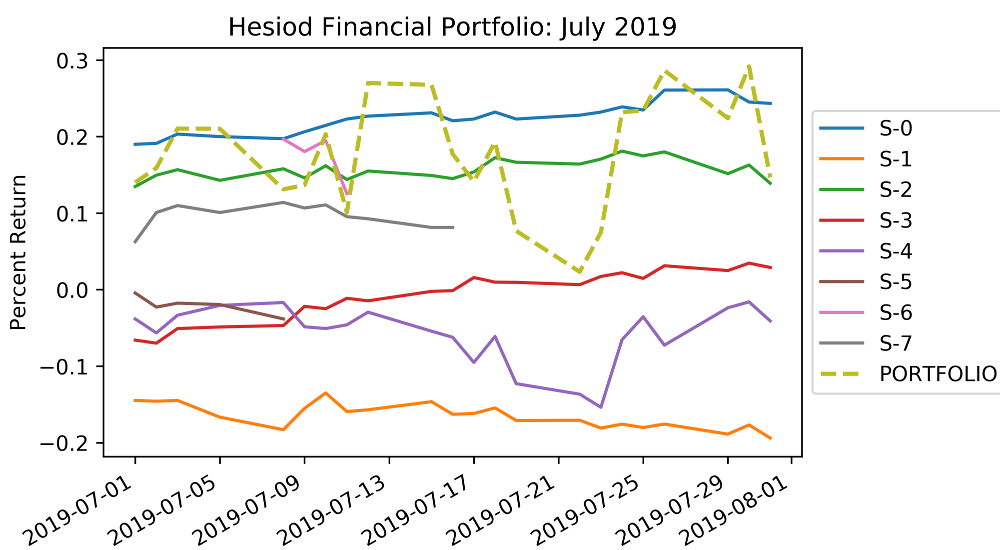
Key Statistics

Sharpe Ratio	-0.55
Standard Deviation of Monthly Returns	5.03%
Weighted Avg. Beta	0.86
Weighted Avg. Market Cap	22 B
Weighted Avg. P/E	42.32
Gross Exposure	93.36%

Portfolio Visualizations







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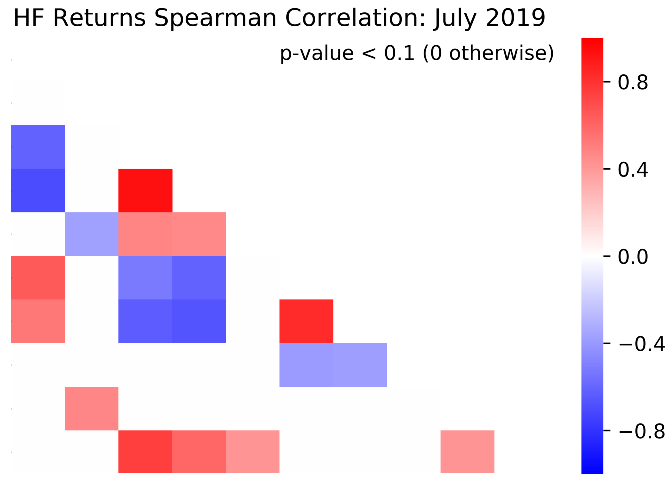

Commentary Credits

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