HESIOD FINANCIAL

Hesiod Financial, LLC
Monthly Report

April 2019

Monthly Overview

Highlights

- The month opened with a dip in stock prices due to waning optimism on U.S. and China trade talks and a troubling employment report.
- Stock prices ended the month higher despite increasing volatility in the domestic bond market and several poor economic reports.
- The DJIA rose 0.05%, while the S&P 500 gained 1.79%. The NASDAQ led the major indices with an increase of 2.61%.

Market Sentiment

Overall market sentiment improved throughout April as hopes for a trade agreement rose. Chinese officials reassured negotiators that they would not use currency devaluation as leverage in the ongoing trade dispute. Technology companies help drive up the market higher, along with a rebound in retail sales. Investor optimism prevailed as major indices closed for a solid first-quarter performance.

The Federal Reserve

Most recently, the Fed decided to leave the federal funds rate unchanged and announced that it was slowing the drawdown of its $4 trillion balance sheet beginning in May and ending bond sales by September. The majority of voting members indicated that another rate hike this year would be unnecessary. Stocks slowly rose in the final week of the month as prices fluctuated in the midst of declining bond yields.

Sector of the Month

Communication Services / Information Technology

This month, CS/IT experienced significant gains through our position in Zuora Inc. We owe our success with the position to rising favor with SAAS businesses, as well as projected increases in revenue for ZUO.

Sector Outlook

Communication Services / Information Technology

Despite growing global economic uncertainty, CS/IT shows the most promising growth, specifically in offshore markets and cloud-based services. Offshore growth is expected primarily due to rises in outsourcing of IT services in an effort to reduce costs.

The sector should also expect growth with the expansion of new technologies such as 5G and IoT devices. To meet these technologies, increases in big data, cybersecurity, and cloud processing services will be required. The U.S. government has also increased their IT spending for this fiscal year by $5 billion.

Rising interest rates, as well as economic uncertainty caused by Brexit, could pose potential headwinds for the CS/IT sector, as companies attempt to reduce costs. The rising shortage of skilled labor for software is another issue that many of these companies may have to soon face. Yet, while a labor shortage threatens domestic companies, it encourages growth for the sector in less developed countries.

Materials / Energy / Industrials

MEI continues to provide a solid performance against an uncertain market. In general, this sector is seeing favorable tailwinds, as government spending in domestic infrastructure and the strong likelihood of a Chinese-American trade deal will strengthen our construction position for the near future.

An infrastructure bill will likely target projects at a broad scale, allowing our positions such as ACM to see an increased number of small-scale construction projects that will aggregate to higher revenues. It is yet to be seen how ACM can find higher margins in combination with these higher revenues.

Sector Outlook (continued)

Materials / Energy / Industrials (Continued)

With MEI, a key concern is the impact of a general, global economic slowdown. Key metrics that cause concern in this area is the rising price of oil and the dollar. Increasing oil prices is no longer as large a concern for the American economy as compared to a decade ago, as America edges into the territory of a net oil exporter; rather higher oil prices will boost American industry, though it does appear the petroleum industry is at over capacity. Onto the price of the dollar, American firms will see a greater difficulty in selling their products overseas, so we seek to avoid business' with over-exposed foreign revenue streams. With that said, mostly domestic companies still hold a strong near-term outlook.

Consumer D&S / Healthcare

The consumer discretionary sector outperformed the S&P 500 Index significantly this month, with XLF (SPDR Consumer Discretionary ETF) yielding 4.34% this month compared to the S&P 500 Index performance of 1.79%. The consumer staples sector has also outperformed the S&P 50 Index but by considerably less, with XLP (SPDR Consumer Staples ETF) yielding a return of 2.66% this month. The outlook for both of these industries is strong as the American economy remains steady. The Consumer Confidence Index rose from 124.1 in March to 129.2 in April. Business in the consumer sectors is strong, but continually increasing competition has been an issue for retail companies. The chance for a trade deal between the United States and China has been rising, and hopes are there will be one completed very soon - possibly in May, which would be a large boon for consumer companies that outsource labor and materials.

Healthcare has increasingly been the center of attention for many politicians, including 2020 presidential candidates. Most, if not all, Democratic candidates have been pushing for lower health care costs. This appears to have contributed to recent heavy selling in this sector, with XLY (SPDR Healthcare ETF) falling 1.92% this month. "Medicare for all" has also been a growing fear for investors if a Democratic candidate is to be elected in 2020. However, it is unlikely that major legislation will come to fruition in the near future, and balance sheets of companies in this sector are solid. Expect volatility in this sector in the coming months.

Sector Outlook (Continued)

Crypto & Digital Assets

As April comes to a close, the crypto market is seemingly on the brink of taking off. Bitcoin is at a new 2019 high and looks to continue its track with uncanny steady, consistent growth that it has not seen since late 2017. Many of the other coins are rallying behind the bitcoin news and it will be interesting to see the next spike to occur. Most likely it will spike to around 6,500 and then recede back to its current state, hopefully finding some resistance, but the crypto sector is looking into being on the tip of that wave. Originally, the plan was to mine coins using mining hardware, but since we have decided to go in a different direction, however, now might be the time to get ahead of the crypto jumps with some timely purchased coins such as Ethereum Classic or Bitcoin Cash.

REITs / FIGs

We have seen REITs rally in late 2018 when the 10-year yield settled above 3%, suggesting that there is support for stock prices in a rising interest rate environment. Therefore, we believe that REITs can perform well even if the Federal Reserve extends rate rises throughout the rest of 2019. Conversely, if the 10-year yield does fall, REITs stand to benefit as well due to their yield-sensitive nature. Weakness in the retail and healthcare segments offset another strong month from industrial REITs. REIT shares were boosted by a decline in the 10-year yield during Q1 2019, but soon after hurt in April after a slight reversal. The Federal Reserve's indication of no further 2019 rate hikes is a short-term tailwind for REIT shares. However, if the bond market signals an economic slowdown on the horizon, we may be seeing it as a driving force for the decline of REIT share prices. Five of the nine worst performing REITs in April were from the retail segment with renewed fears over the state of brick-and-mortar retail properties. The primary driver of demand for most segments of commercial real estate is employment. Job creation and rising wages drive up demand for office space and apartments and they lead to higher consumer spending that can indirectly drive up demand for retail space.

Sector Outlook (Continued)

REITs / FIGs (Continued)

For FIGs, we want to focus on the credit card and payment space. Card- and auto-loan gains are likely to keep slowing as banks tighten lending and consumer demand slows due to rising leverage. Although the unemployment rate remains near an all-time low, the market has been pricing in the possibility of a recession, causing card lenders to extremely low valuations. We see card-network revenue maintaining its double-digit growth as payments continue to shift away from cash and checks. First Data and Worldpay were the best performing stocks in the payment space as they are both being acquired by Fiserve and Fidelity National, respectively. Card-processor mergers are likely to continue as players seek to scale up and enable payments across borders and sales channels. Card-loan growth is slowing as card-lenders have become more cautious in extending credit. This will particularly affect the largest U.S. credit-card lenders like JPMorgan Chase, Bank of America, Citigroup, American Express, Discover, and Capital One.

Options

We are proud to announce the inception of Kratos, the fund's new and official Day and Swing Trading Desk. The goal of Kratos is using our day trading and short-term investing talent to capitalize on short-term volatility. Combined with the fund's maco investing philosophy, Kratos will focus on SPY and QQQ ETF swing trades, and stock-specific day trades.

Hesiod Labs (hLabs)

Project Luca

The Luca team has made significant additions to the new codebase which is now integrated with Django. Again, the goal of this new codebase is to be a more web-friendly version of the platform to be able to deploy this on the web more easily.

HYPAR

The HYPAR team has steadily create more features to the current repository including various graphing functions and multiple technical indicators. At the moment, many of these functions are available on our jupyter notebook. The team is looking to make significant progress throughout the summer and is going to closely follow agile methodologies in order to develop as much as possible.

Portfolio Analysis

Performance

	Monthly (%)	YTD (%)	Inception[1] (%)
Hesiod Financial	-0.61%	1.66%	1.66%
S&P 500 Index	1.79%	17.53%	14.51%

Key Statistics

Sharpe Ratio	-1.48
Standard Deviation of Monthly Returns	1.34%
Weighted Avg. Beta	1.28
Weighted Avg. Market Cap	36 B
Weighted Avg. P/E	32.06
Gross Exposure	98.19%

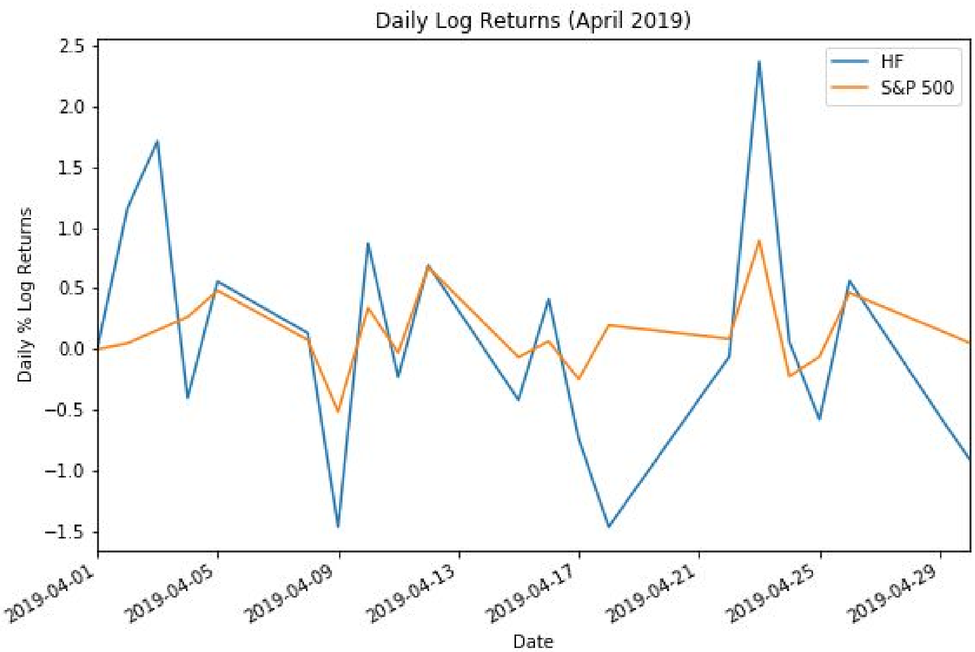
[1]Inception at 1/8/19

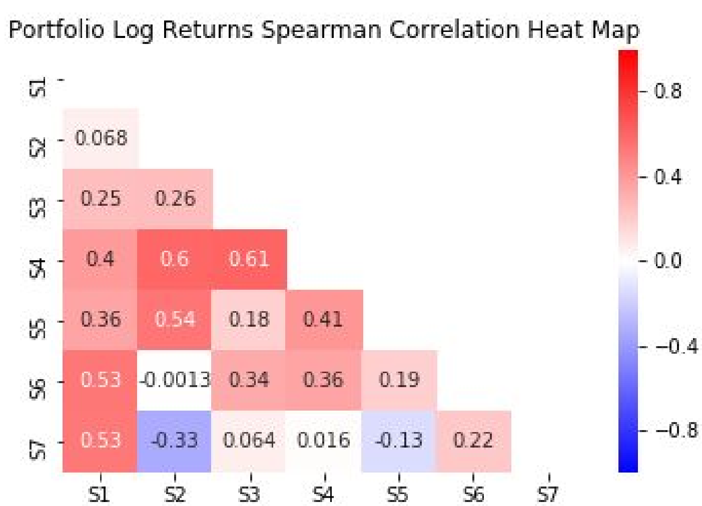
Asset Correlations

	S1	S2	S3	S4	S5	S6	S7
Avg	0.356	0.291	0.290	0.316	0.301	0.287	0.243
Unweighted Portfolio Correlation[1]						0.576 ± 0.04	
Weighted Portfolio Correlation[2]						0.574 ± 0.05	

[1]Average of each asset correlation without regard to volume of shares owned by Hesiod Financial.
[2]Weighted by the volume of shares owned at the end of the month of April.

Portfolio Visualizations





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