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Hesiod Financial, LLC

Monthly Report

November 2019

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Monthly Overview

Highlights

- The U.S. stock market notched solid gains in November, thanks to healthy economic data, improving trade sentiment and positive earnings surprises.
- The DJIA picked up 3.7%, while the S&P 500 Index gained 3.4%. The NASDAQ Composite led the group with a gain of 4.5%. This was the best month since June for all three indices.
- October's momentum carried through November as the better-than-expected employment report boosted both the S&P 500 and NASDAQ to record highs on the first day of November.
- Stocks rose on continued positive trade news and solid corporate earnings, but quickly pulled back immediately following President Trump's comments that made it clear no trade deal with China had been reached.
- Fed Chair Jerome Powell's testimony in Congress reinforced the assumption that the Fed would maintain a pause on short-term rate cuts until economic data would suggest otherwise.
- November's momentum was lost when President Trump threatened to impose new tariffs if a "phase one" trade agreement could not be reached. However, stocks rebounded when there were positive comments from China detailing progress in the trade talks.

Market Sentiment

November was a month of strong gains for the broader global markets. With the Federal Funds rate on hold, and the Phase One deal with China being worked out, investors are optimistic for the remainder of 2020. Almost all asset classes, including the stock market, gold, and US Treasury bonds, have performed extremely well thus far into 2020.

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Sector Outlooks

Communication Services / Information Technology (CSIT)

As we look back on the month of November, we continue to maintain a bullish for the outlook of the CS/IT sector. Over the course of the month, our sector saw 15% returns, beating out the S&P. Due to the quickly approaching holidays, we believe that we will be able to expand upon these returns as we close out the year.

At the beginning of the month our sector opened a position in Disney as a “tech” play due to their release of Disney+. Month to date we have seen very promising returns and believe that these will continue to grow going into the holiday season. We have also decided to hold our position in the iPay ETF as see continued potential in the mobile payments industry. This month our team also decided to close our position in Palo Alto Networks thanks to the stock reaching our target price.

Materials / Energy / Industrials (MEI)

This month has been incredibly fruitful for MEI.

Going into this quarter, MEI has taken the stance that there’s a multitude of macro head winds against this sector including – but not limited to – the US-Chinese Trade War, slowdown in manufacturing in Europe, and US-Euro Tariffs. These headwinds together made a high-growth month unlikely for our sector. Instead of fighting against the markets, we decided to seek alternative investments that had low correlation with the market.

Our current driving position is Cosan Limited (CZZ) – the Brazilian basic materials company – which has seen unprecedented growth after a multitude of bulge bracketbanks has initiated coverage on (CZZ). Trading at $18.79, CZZ has appreciated ~15% since we entered our position earlier last month. Our initial thesis still stands,and we believe traditional, institutional investors are just starting to pay attention tothis mostly foreign company.

Our most exciting – albeit nerve-wracking – position is Tesla (TSLA) – the electric vehicle manufacturer lead by Elon Musk. After a series of debates and research, we decided to take a large position on the leader of the still budding EV industry. The key aspect to our thesis is the increasingly clear production schedule of the Model 3 and Model Y – the driving models for Tesla in the next 5-10 years. Additionally, with the new Gigafactory in Shanghai, Tesla is poised to take advantage of increasing EV demand. Other aspects that we believe Tesla has overcome are the higher debt levels. Therefore, even with a potential failure in its pentagon with wheels – also known as the CyberTruck – we believe Tesla is poised for the future.

Consumer Goods / Healthcare (CGH)

The CGH group temporarily closed all positions as it adapted to new market circumstances. The group sold all parts of its self-made Retail ETF in favor of RHS, a large cap, equal weight, consumer staples ETF. Healthcare has been surging since October, and the CGH group has been sifting through numerous biotech, pharmaceutical, and other healthcare firms to find a prudent investment. We expect the positive healthcare trend to continue. However, expect the 2020 presidential election to create plenty of volatility in this market. Candidates like Sanders and Warren that plan to redesign the drug pricing scheme and advocate for Medicare for All will create uncertainty among investors given the risk they are elected.

Consumer discretionary and staples have seen relative stability, not particularly improving with the S&P 500 recently. We expect this trend to continue as consumer has little short-term upside. Retail especially has been competitive; however, large cap stocks still remain a safe bet for steady returns.

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REIT / FIG (REIT)

Labor markets firmed in November, with a 266,000 increase in nonfarm payroll employment, the largest gain since January. There is still slack in the labor force that will help the economy grow in the year ahead, and this robust report and strong job growth demonstrate that we are not in a "late cycle" world. 2020 is looking pretty good for the economy and real estate. REITs tend to perform well when there is moderate economic growth and low vacancy rates. This year has been no exception, with REITs delivering a total stock market return of 27.9% through the first 11 months of the year. This is the best stock market performance for the sector since 2014.

Investor appetite for risk generally appears to have returned to a level in the middle of its historical range but remains elevated for some important classes of assets. Debt loads of businesses are historically high. The core of the financial sector appears resilient, with leverage low and funding risk limited relative to the levels of recent decades. Asset prices remain high in several markets relative to income streams. The largest U.S. banks remain strongly capitalized, and the leverage of broker-dealers is at historically low levels. However, several large banks have announced plans to reduce their voluntary capital buffers. Leverage among life insurance companies is moderate, while hedge fund leverage remains elevated relative to the past five years. Stresses in Europe, such as those related to Brexit; stresses in emerging markets; and an unexpected and marked slowdown in U.S. economic growth are among the near-term risks that have the potential to interact with these vulnerabilities and pose risks to the financial system.

Foreign Exchange (FX)

<u>USD</u>

US Nonfarm Payrolls saw a surprise of a massive 43% and an increase of 70% MoM. Nonfarm payrolls measure the change in the number of individuals newly employed in industries other than the farming industry. Since job creation is the foremost indicator of consumer spending, which accounts for the majority of economic activity, this should be considered highly positive for USD. US unemployment rate dropped to 350bps from 360bps which is another bullish indicator for USD. Apart from these, manufacturing, construction and services PMIs including those issued by the Institute of Supply Management saw a surprise of between 100bps and 350bps. US Crude Oil inventories dropped to -4.856M barrels with a forecast of -1.734M. The previous release showed 1.572M barrels in the inventory. We recommend staying bullish on USD.

GBP 0.77 - 0.77

With the Brexit deal nowhere in sight, the GBP remains under a cloud.

UK Construction, Manufacturing, Services and Composite PMIs all saw a surprise of between 124 and 160bps but this was expected however as a byproduct of restabilization under the Conservative Party. Chancellor Sajid Javid was set to deliver the Budget on November 6. However, after Parliament voted to delay Brexit and Boris Johnson called for a General Election, Javid decided to not deliver it. The Bank of England released its Inflation Report and made no changes to the interest rates, opting to keep them stable at 0.75%. UK GDP growth met negative expectations of 0.1%. Although the announcement of a new Brexit Deal will mean a revaluation of positions, all these factors indicate that one should remain bearish on the GBP at least till the end of the year.

EUR 0.89 - 0.90

Newly appointed European Central Bank (ECB) President Christine Lagarde gave her first speech in her new role. Lagarde seemed stern to promote domestic trade among the nineteen countries that share the Euro. The economic engine of the Euro, Germany, is inching towards recession and the rest of the Eurozone has been performing sluggishly. Interest in emerging markets have waned investments in the region. A looming Brexit has also taken a toll on trade between the UK and Eurozone. German PMIs however, indicate a slight reversal in the downward trend of manufacturing and construction with a surprise of 10bps while still indicating contraction. In conclusion, we recommend staying neutral on the EUR due to the uncertainty in the economic environment of Germany and the appointment of a new ECB President.

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CAD 1.31 - 1.32

The Canadian economy saw a loss of 71,200 jobs in the month of November. Experts set a forecast of an increase of 10,000 having previously lost 1,800. With the unemployment rate increasing to 5.9%, the onus now lies on the Bank of Canada to justify its decision to hold interest rates steady. PMIs continue to deteriorate, indicating ongoing contraction in industries. Our recommendation is to remain very bearish on the CAD.

INR 71.06 - 71.74

Indian GDP saw a growth of 4.5% in 2Q19 indicating a slowdown. This came as quite a surprise as it set a new low in economic growth in an emerging market such as India. The Reserve Bank of India intends to release a revision on the repo rates in the month of December. This may affect corporate banks adversely. We recommend a bearish stance on the INR.

Trading Desk (Kratos)

Our sector has benefited from the implementation of new strategies that focus on collecting premium for high probability trades with limited upside potential. Using fundamental distribution models, we are collecting premium on credit spreads one standard deviation out of the money. This strategy has allowed our portfolio to become more diversified, and continue to profit in any type of market condition.

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Portfolio Analysis

Performance

	Monthly (%)	Since 7/1/2019	YTD (%)
Hesiod Financial	5.11%	9.26%	3.99%
S&P 500 Index	3.62%	7.83%	25.63%

Key Statistics

	October 2019	November 2019
Sharpe Ratio	-0.94	0.46
Standard Deviation of Monthly Returns	4.35%	4.50%
Weighted Avg. Beta	0.99	0.95
Weighted Avg. Market Cap	50 B	54 B
Weighted Avg. P/E	44.22	57.44
Gross Exposure	94.23%	76.56%

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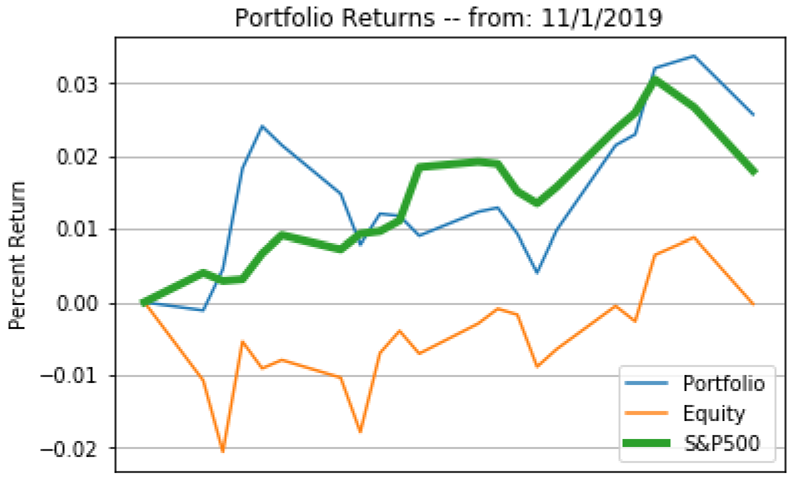
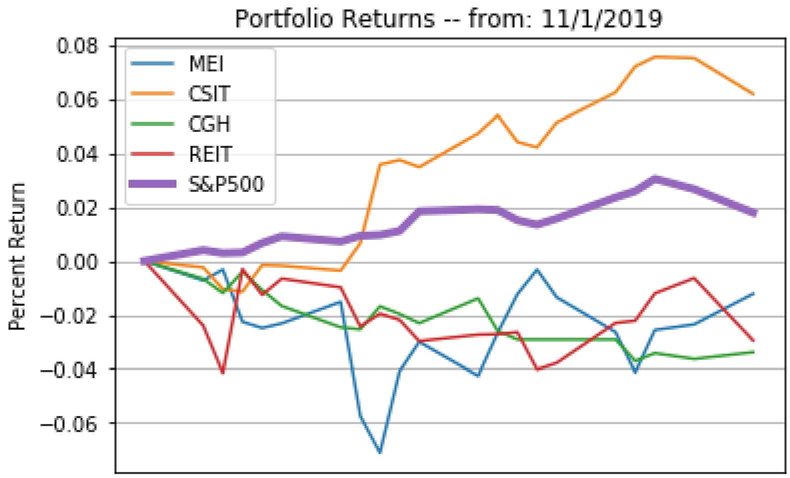
Return Visualizations





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