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Hesiod Financial, LLC
Monthly Report

December 2019

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Monthly Overview

Highlights

- U.S. stock indices marked solid gains in December – DJIA increased 1.74%, S&P 500 Index rose 2.86% and the NASDAQ Composite led the three indices with 3.54%.
- President Trump stated that he was considering tariffs on Argentina and Brazil, as well as potentially pushing off a trade deal with China until after the 2020 elections.
- This news driven rally in December continued to march higher after official confirmation of a phase-one trade deal between the U.S. and China.
- The Federal Reserve reaffirmed its stance on maintaining short-term interest rates at their current level in their December FOMC meeting.

Market Sentiment

The market showed strength heading into the new year. The S&P 500 continued to reach new highs. The Federal Reserve kept the federal funds rate constant, as expected. US Treasury yields remained relatively flat for the month, signaling investors outlook as slightly cautionary looking into 2020.

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Sector Outlooks

Communication Services / Information Technology (CSIT)

The CS/IT sector outperformed the S&P 500 Index for the month of December. We failed to open any new positions but maintained our holdings of the iPAY ETF, as well as our stake in Disney. Holding our positions still gave us a 12% return for the month, compared to the 10% seen by the S&P 500. The sector has remained fairly bullish about the economy as a whole thanks to record-breaking shopping over the holidays.

Looking towards the future, our sector is currently looking for new positions to open as we believe that the tech sector as a whole will have significant growth entering 2020. We hope that easing trade war tensions will aide to stabilize the entire market in order for this bull run to continue.

Materials / Energy / Industrials (MEI)

As for our positions in the Materials, Energy and Industrials (MEI) sectors, Tesla (TSLA) has been a massive boon. The automotive manufacturer has seen massive growth in valuation these past months ($700+). They have announced a new pickup truck, the Cybertruck, and also introduced a factory in Shanghai that is expected to help meet growing demand. Tesla is benefiting from its dominant position in the electric vehicle industry, and while the ongoing coronavirus outbreak may cause a delay in Chinese production, the impact is expected to be limited.

The coronavirus outbreak is also expected to affect the airline industry too. Due to the reduced demand for air travel, it would not be surprising for the demand for airliners to fall, impacting aerospace firms such as Boeing (BA) and Airbus. The coronavirus is expected to impact the MEI sector to China's major role as a producer and consumer, but the trade war detente with China will hopefully alleviate some of the damage already done to the global economy. As the coronavirus is a short term event, it is not expected to impact the industry significantly in the long term.

Boeing on the other hand has posted its first annual loss in decades for the fourth fiscal quarter. The Boeing 757 MAX is still not cleared to fly as well. However, in the long term, due to Boeing's traditional dominance in the aerospace industry, it is expected to rebound back to its normal price target (estimated to be around $390.00 by Jefferies).

Consumer Goods & Healthcare (CGH)

December was a slower-moving month for the CGH group. We initially purchased the Invesco S&P 500 Equal Weight Consumer Staples ETF (RHS) in order to anchor our portfolio. The idea was that a sizable position of primarily non-cyclical, large cap companies would help dampen losses during down periods. However, the ETF has mainly moved in-line with the rest of the market since purchasing it and has not performed how we desired. We will likely consider closing our position in RHS soon and instead investing in individual stocks that we more confidently feel could bring better returns to our sector.

Most key developments in our segments this month have been related to China. With regards to consumer goods, the African swine fever has continued to ravage the pig population in China. About one quarter of the world's pigs have died and overall meat prices in international commodity markets have increased 20 percent in the past year as families seek alternatives to pork. This may lead us to potentially consider opportunities in US-based meat companies that can capitalize on China's lack of pork, such as Tyson Foods.

But the event primarily dominating headlines recently has been the outbreak of the coronavirus in China. Originating in Wuhan, the virus has spread to numerous other nations and already looks to be more lethal than the previous Chinese SARS outbreak in 2002. Millions of Chinese people are being quarantined at this time. As a firm, we believe that this will inevitably spread globally and will look to invest in companies that seek to gain from the spread of the virus. For example, we are currently looking to Lakeland Industries (LAKE) because of their protective clothing business and biotech companies that may help cure the virus. If the coronavirus situation worsens, they will surely increase their share prices. Looking ahead, the CGH group will focus on strong healthcare stocks that can benefit from the current global tailwind.

REITs / FIG (REIT)

2020 is still 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)

As more positive trade news comes out, investors' risk appetite has driven up most currencies up against the USD. Risk seem to be more balanced as European risks fell, global growth is expected to stabilize and a US-China trade ceasefire remains on the horizon. In regard to monetary policy, we see a pause in the easing cycle as rates seem to reached close to the bottom.

The EUR retraced more than half of its losses seen in November and temporarily broke above 1.11. The political risks surrounding the Brexit remain low as there have been little news on that front. On the trade side, Trump continues to send mixed signals, yet still seem to air on the positive side. In the medium term, the main drivers are set to favor the appreciation of the EUR, particularly against the USD as the USD appears overvalued compared to its fair value level.

The GBP fell below 0.85 in December as investors bet on a victory of the Conservative party. Boris Johnson promised an orderly departure from the EU in case of victory and this would be very positive for markets. Despite a potential successful deal, uncertainty may linger as negotiations on future trade relations between the UK and the EU could run past its expected deadline of December 31, 2020. In this situation, we may remain cautious as too much optimism seems to be currently priced in.

Trading Desk (Kratos)

Our sector continues to focus on selling premium using various spreads to create a portfolio of defined risk. These trades are still news-driven and often macro based. Recent success came from our trade on Disney, in which we profited from Disney’s solid performance after releasing their Disney+ streaming service.

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Portfolio Analysis

Performance

	Monthly (%)	Since 7/1/2019	Full Year (%)
Hesiod Financial	5.21%	9.26%	2.80%
S&P 500 Index	3.75%	8.99%	30.43%

Key Statistics

	November 2019	December 2019
Sharpe Ratio	0.46	0.11
Standard Deviation of Monthly Returns	4.50%	4.49%
Weighted Avg. Beta	0.95	1.01
Weighted Avg. Market Cap	54 B	55 B
Weighted Avg. P/E	57.44	52.33
Gross Exposure	76.56%	88.86%

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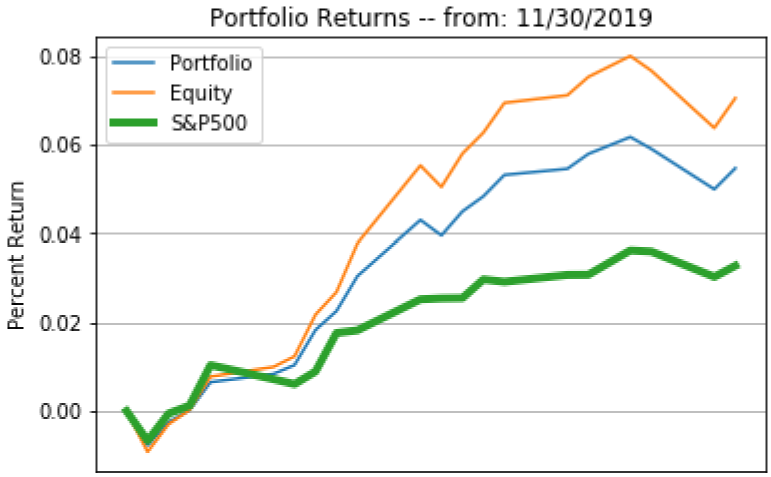
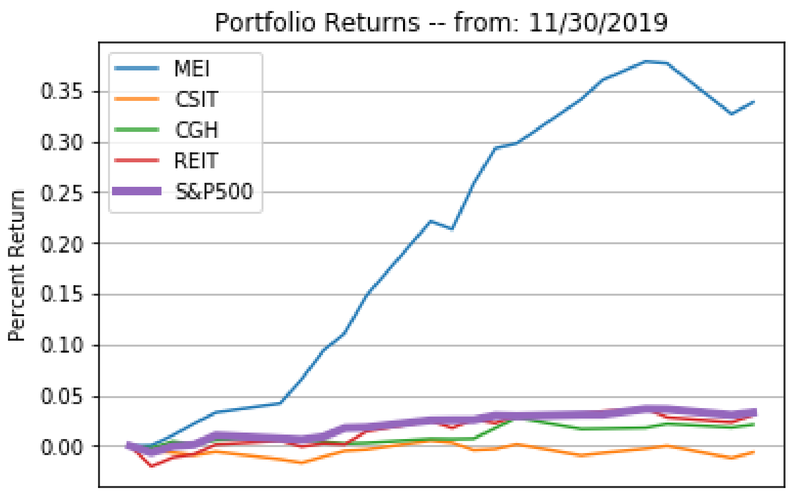
Return Visualizations





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