



HESIOD
FINANCIAL

Hesiod Financial, LLC

Monthly Report

February 2019



Monthly Overview

Highlights

- U.S. stocks surged during the month, with the S&P 500 Index gaining 7.9% for its best January performance since 1987.
- In an early January economic roundtable, current Fed Chair Jerome Powell indicated “patience” and “flexibility” for 2019 interest rate decisions. Later in the month, the Federal Open Market Committee (FOMC) statement eliminated references to future interest rate increases in a stark reversal from the Committee’s position just six weeks earlier.

U.S. Markets Rebound

The best January S&P 500 return in 30 years came on the heels of a 9.0% December decline that threatened to end the longest bull market in history. Key drivers to January’s rebound included the Fed’s reversal on monetary policy, positive headlines on trade negotiations with China and strong year-over-year earnings growth. The U.S. job market remained strong with a record 100th consecutive month of employment growth.

Slower Growth Ahead

Recent corporate earnings announcements have been strong. However, 2019 consensus expectations indicate a decline in corporate profit growth due to slower revenue growth, and fading effects of the 2017 U.S. tax cuts and fiscal spending. The International Monetary Fund (IMF) reduced its forecast for global economic growth in 2019 to 3.5% from its previous forecast of 3.7%. The IMF cited uncertainty around trade tariffs between the U.S. and China as one of the main drivers for the revision.



Trade of the Month

Apple Inc. (AAPL) - 03/22/19 Call 172.50

Sector of the Month

CS/IT - Communication Services / Information Technology

The CS/IT sector of Hesiod experienced large growth due to their position in Microchip Technology. The sector also recently opened a position on PagSeguro.

Sector Outlook

Communication Services / Information Technology

The technology sector has performed well since it's big drop at the end of last year. News of improved relations and trade deals between the United States and China has improved confidence in the future growth of CS/IT companies. The outlook for the CS/IT is positive, due in part to the recent announcement that President Trump will delay the tariff increases on China, which were scheduled for March 1st, until after he meets with the Chinese president. As long as the relations between the U.S. and China continue to improve, this sectors should expect continuing growth.

Materials / Energy / Industrials

The energy sector has been dominated by the rebound in oil prices lead by the supply withdraw of OPEC, Russia, and their affiliated countries. Light crude futures are at a monthly high of \$56.12 compared to a monthly low of around \$51. Another major driver of oil prices is the state of US stockpiles, which has fallen relatively dramatically in the past few weeks. Turmoil in Libya and Venezuela have also put oil prices in flux. In the next quarter, most indicators suggest that oil will continue to make a rather slow push towards the high \$50's. Supply cuts will continue to drive up the price, while a general market slowdown in international markets or continued uncertainty will drive down oil demand. It does appear that the volatility seen in December is unlikely to repeat in the near future.



Sector Outlook (continued)

Consumer D&S / Healthcare

The consumer sectors have looked relatively solid in the past month with consumer staples slightly outperforming the market, and consumer discretionary slightly underperforming. Despite this slight underperformance, the outlook for both of these sectors is strong. Consumer confidence grew significantly since January, largely in part to the end of the government shutdown and the Fed's pause in raising interest rates. Unemployment remains at a near-historical low, and wages have been modestly rising. Average hourly earnings rose 3.2% during the 12 months ended in January, and this growth should be expected to continue. While these fundamental factors are a positive sign, trade disputes could still have a significant impact on the performance of these sectors. The escalation of further trade conflicts between China and the US could increase costs for businesses and prices for consumers. Assuming stability in this area, we expect consumer discretionary to begin outpacing consumer staples.

The healthcare sector has maintained performance with the market in the past month and its outlook looks very strong. Demand appears to be on the rise for health care products and services, and balance sheets remain strong in this sector. Rising interest rates are another positive sign, as the healthcare sector has historically outperformed the market during Federal Reserve rate hiking cycles. Government interference and political rhetoric may cause slightly more volatility for this sector, but the outlook remains strong. Trump has recently emphasized the need to examine drug pricing, but legitimate legislative action is doubtful. There is concern over changes to the Affordable Care Act (ACA), but it is expected that the majority of the ACA remains in place.

Cryptocurrency

In what is still considered to be the crypto-winter, promising news continues to emerge and indicate some kind of positive movement for cryptocurrencies by the end of the year. Bitcoin has seen a period of consecutive growth and broke the \$4,000 barrier towards the end of February. Many altcoins tend to mirror bitcoin in some fashion, so it will be interesting to keep tabs on how the entire market fluctuates as well as see coins find their niches such as Litecoin and UFC betting.



Sector Outlook (Continued)

REITs / FIGs

The real estate sector becomes more attractive with low interest rates. If the Federal Reserve reverses their current stance and continues to hike up interest rates, we would expect the cost of financing to go up and see a lower yield from this sector. One particular headwind in this sector comes from various demographic factors, resulting in a rising demand for apartments. This trend has been occurring ever since the housing crash, so we may soon be at an inflection point, where supply starts to exceed demand when millennials start to be more attracted to houses. Certain mall-related real estate investments have been hurt by a consumer move towards online shopping and away from brick-and-mortar stores.

The financial sector has rebounded over the past month, as some of the worst economic fears appear to be lessening. Although longer-term rates seem to be capped and the Federal Reserve taking a more dovish stance, we expect this sector to perform in line with the market. A couple positive factors that will push the financial sector higher are moderately rising interest rates and improved consumer finances. However, we will need to continue to keep an eye on further flattening of the yield curve, trade concerns, and a potential undoing of financial deregulation.

Options

Options have been an especially important investment tool since our recent inception. Our sector had both the highest percent-return and highest dollar-return trade of the month. We base our trades on technical analysis and market sentiment, and focus on relatively short-term options trading. The options team tested, on paper, strategies during earnings season that can be executed in the future. We suffered a loss during earnings season due to an implied volatility crush. However, the options team is net positive in its returns for the month.



Portfolio Analysis

Performance¹

	Monthly (%)	YTD (%)	Inception ² (%)
Hesiod Financial	2.24	8.59	8.59
S&P 500 Index	2.88	10.93	8.16

Key Statistics

Sharpe Ratio	N/A
Sortino Ratio	N/A
Standard Deviation	N/A
Weighted Avg. Beta	1.03
Weighted Avg. Market Cap	51 B
Weighted Avg. P/E	32.13
Gross Exposure	96.8%

¹Only includes positions held for at least 1 month

²Inception at 1/8/19



Hesiod Labs (hLabs)

Project Luca

Throughout the last three months, the team has been working on developing an accounting platform for internal use that recognizes all of the inflows and outflows of cash throughout all of Hesiod's portfolio. Luca is the solution for the potential issues that can arise from recording all of the portfolio's transactions on a series of spreadsheets. This infrastructure will facilitate a fast, secure, and transparent system that records all transactions while also providing partners with a way to request for certain amounts of funding to be re-allocated to different investment portfolios and miscellaneous operating expenses.

This month, we were able to complete our 3rd Sprint which had to do with integrations, most notably LASER (Luca Auditing Secure Enterprise Repository) which features a blockchain-based protocol for creating a transparent, immutable, and distributed ledger for effectively tracking each and every transaction that occurs. In addition, a wireframe visualization of the UI for Luca has been created and added to the website. The team competed at HackCWRU 6 on February 16th-18th to showcase Luca to the general public for the first time. Members of KeyBank helped judge the Fintech track and provided positive feedback for the platform while also taking two copies of the Luca documentation. The final steps for the Luca project include linking the back-end to both the front-end as well as a web services platform. The team is aiming for a release of version 1.0 in either late March or early April so that they can transition directly into algorithmic trading and development.



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