

DATA DOES NOT LIE; PEOPLE DO

As the Fed embarks on the next stage of this eight year experiment, we have been extremely focused on U.S. economic data. It is very easy to pick 1-2 data points to tell a biased story, which is why we try to focus on a holistic set of data points across the key economic pillars. The demand data has been slightly weaker recently driven by slowing retail and auto sales. Production data has been stronger driven by durable goods orders and ISM Manufacturing. The employment data has been mixed with Nonfarm payrolls and unit labor costs weakening with headline unemployment and underemployment data strengthening. Housing has started to become a concern with all leading indicators showing significant declines despite steady house price data, while inflation remains stagnant despite forecasts of a move higher. We think there is an increasing probability the Fed will continue tightening despite weakening U.S. economic conditions.

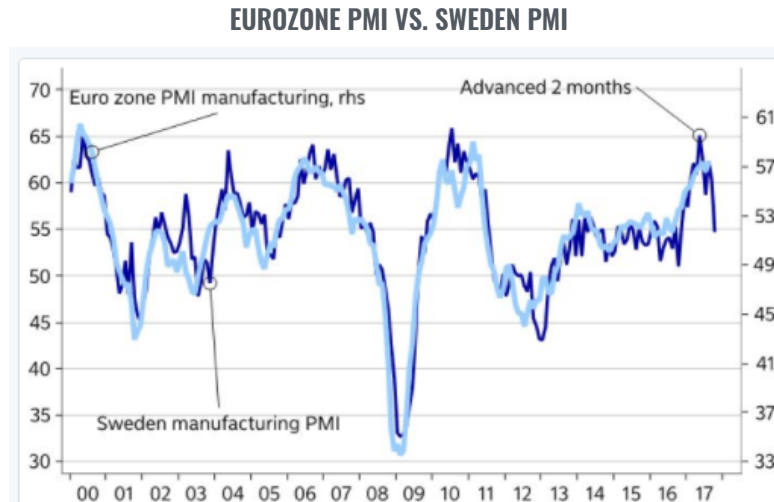
Recent US Growth Data			
Demand	Current	1-Year Average	Current vs. 1-Year Average
Retail Sales Change YoY	3.20	3.97	Weaker
Total Vehicle Sales	16.03	17.21	Weaker
Consumer Confidence	122.90	112.98	Stronger
Bloomberg Consumer Comfort	51.90	47.65	Stronger
Production			
Industrial Production	104.74	104.01	Stronger
Durable Goods Orders YoY	4.40	1.88	Stronger
ISM Manufacturing	58.80	54.65	Stronger
ISM Non-Manufacturing Index	55.30	55.89	Weaker
Employment			
Nonfarm Payrolls	156.0	176.4	Weaker
Unemployment Rate	4.4	4.6	Stronger
Underemployment Rate	8.6	9.1	Stronger
Unit Labor Costs YoY	-0.2	0.9	Weaker
Housing			
Housing Starts	1155.0	1200.3	Weaker
New Home Sales	571.0	596.5	Weaker
Pending Home Sales	-0.8	0.0	Weaker
Home Prices	5.7	5.4	Stronger
Government and External			
Budget Balance	-3.70	-2.98	Weaker
Total Debt (\$TN)	19.84	19.83	Weaker
Current Account Balance	4.90	3.31	Stronger
Exports YoY	-2.36	-2.40	Stronger
Inflation			
Consumer Price Index	1.90	1.92	Weaker
PCE Price Index	1.40	1.64	Weaker

Source: Infinity Q Research

Disclosure:

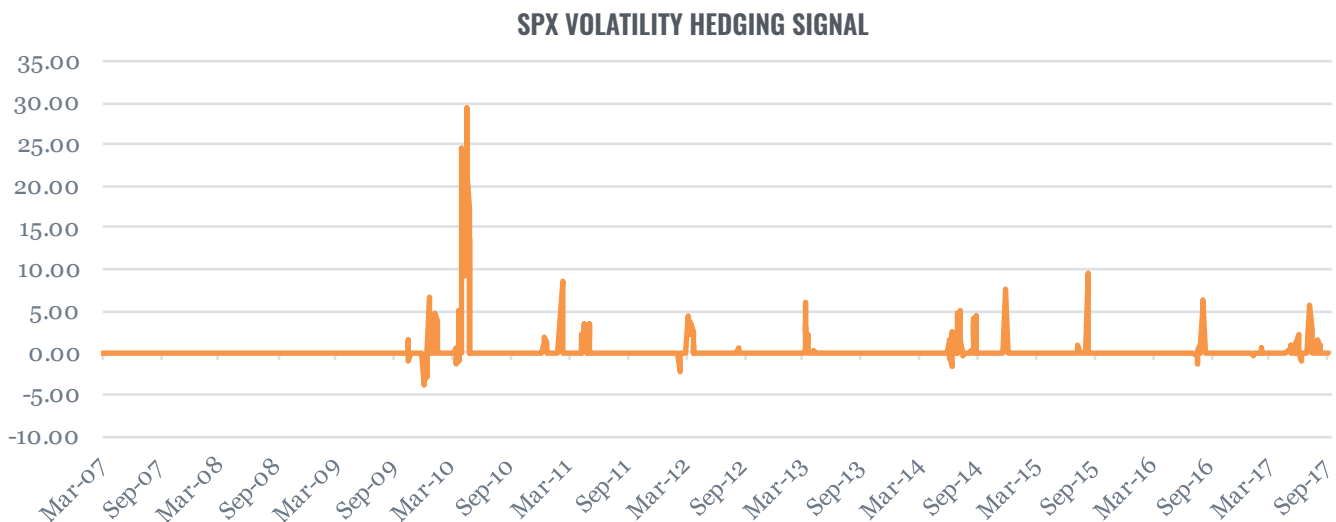
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We expect the ECB to announce plans to start tapering asset purchases. The Eurozone data has slightly softened recently and we identified an interesting leading indicator for Eurozone PMI. Historically, Sweden PMI has been a leading indicator for Eurozone PMI and the Euro Stoxx 600 Index. Since 2000, a decline of this magnitude in Sweden PMI has caused a decline in the Euro Stoxx 600 Index 67% of the time.



Source: Nordea Markets and Macrobond

The impact of heightening geopolitical tensions with North Korea can no longer be observed in equity volatility. The initial reaction in August immediately dissipated. We are now at a cross roads where the Fed and ECB will be tightening monetary policy into weakening economic conditions. Additionally, our SPX volatility indicator triggered to hedge exposure in early September. This indicator has generated an 86% hit ratio with an average increase of 4.2 vol points over the following month.



Source: Infinity Q Research

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TOP HEDGING IDEAS

In the current market environment, investors should consider hedging for the following reasons:

- High macroeconomic and geopolitical uncertainty
- Hedges currently have a low cost
- Hedges generates cash in a stressful market environment
- Hedges provide additional flexibility for the remainder of your portfolio

SPX Hedges					
Ticker	Contracts	Price	Premium	Max Gain	Max Payoff
High Cost (Put Spread)			\$ 176,000	\$ 2,800,000	15.9
SPX US 10/20/17 P2430 Index	400	9.5	\$ 380,000		
SPX US 10/20/17 P2360 Index	-400	5.1	\$ (204,000)		
Low Cost (Put Fly)			\$ 95,000	\$ 2,800,000	29.5
SPX US 10/20/17 P2430 Index	400	9.5	\$ 380,000		
SPX US 10/20/17 P2360 Index	-800	5.1	\$ (408,000)		
SPX US 10/20/17 P2290 Index	400	3.08	\$ 123,000		

VIX Hedges					
Ticker	Contracts	Price	Premium	Max Gain	Max Payoff
High Cost (Call Spread)			\$ 150,000	\$ 2,000,000	13.3
VIX US 10/18/17 C16 Index	5000	0.7	\$ 350,000		
VIX US 10/18/17 C20 Index	-5000	0.4	\$ (200,000)		
Low Cost (1x1.5 Call Spread)			\$ 50,000	\$ 2,000,000	40.0
VIX US 10/18/17 C16 Index	5000	0.7	\$ 350,000		
VIX US 10/18/17 C20 Index	-7500	0.4	\$ (300,000)		

EFA Hedges					
Ticker	Contracts	Price	Premium	Max Gain	Max Payoff
High Cost (Put Spread)			\$ 144,000	\$ 2,400,000	16.7
EFA US 10/20/17 P66 Index	12000	0.235	\$ 282,000		
EFA US 10/20/17 P64 Index	-12000	0.115	\$ (138,000)		
Low Cost (Put Fly)			\$ 84,000	\$ 2,400,000	28.6
EFA US 10/20/17 P66 Index	12000	0.235	\$ 282,000		
EFA US 10/20/17 P64 Index	-24000	0.115	\$ (276,000)		
EFA US 10/20/17 P62 Index	12000	0.07	\$ 78,000		

Source: Infinity Q Research

The above charts depict various hypothetical hedging positions assuming a \$100 million equity portfolio. Actual prices, gains and payoff may differ substantially from the values shown in these examples based upon stock price movements, implied volatility levels and changes to additional market factors.

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Purchasing Managers Indexes are economic indicators derived from monthly surveys of private sector companies, and are intended to show the economic health of the manufacturing sector. A PMI of more than 50 indicates expansion in the manufacturing sector, a reading below 50 indicates contraction, and a reading of 50 indicates no change. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the U.S.

The **U.S. Institute for Supply Managers (ISM)** manufacturing index is an economic indicator derived from monthly surveys of private sector companies, and is intended to show the economic health of the U.S. manufacturing sector.

The **STOXX Europe 600 Index** has a fixed number of 600 components and represents large, mid and small capitalization companies across 17 countries of the European region.

The **S&P 500 Index (“SPX”)** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market’s expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

EFA is the ticker symbol for iShares MSCI EAFE Index Fund is an exchange-traded fund of non-US stocks that tracks the MSCI EAFE index.

Investment involves risk, including possible loss of principal. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Past performance is no indication of future results.

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