



Stop Watching | Start Living

Our Mission

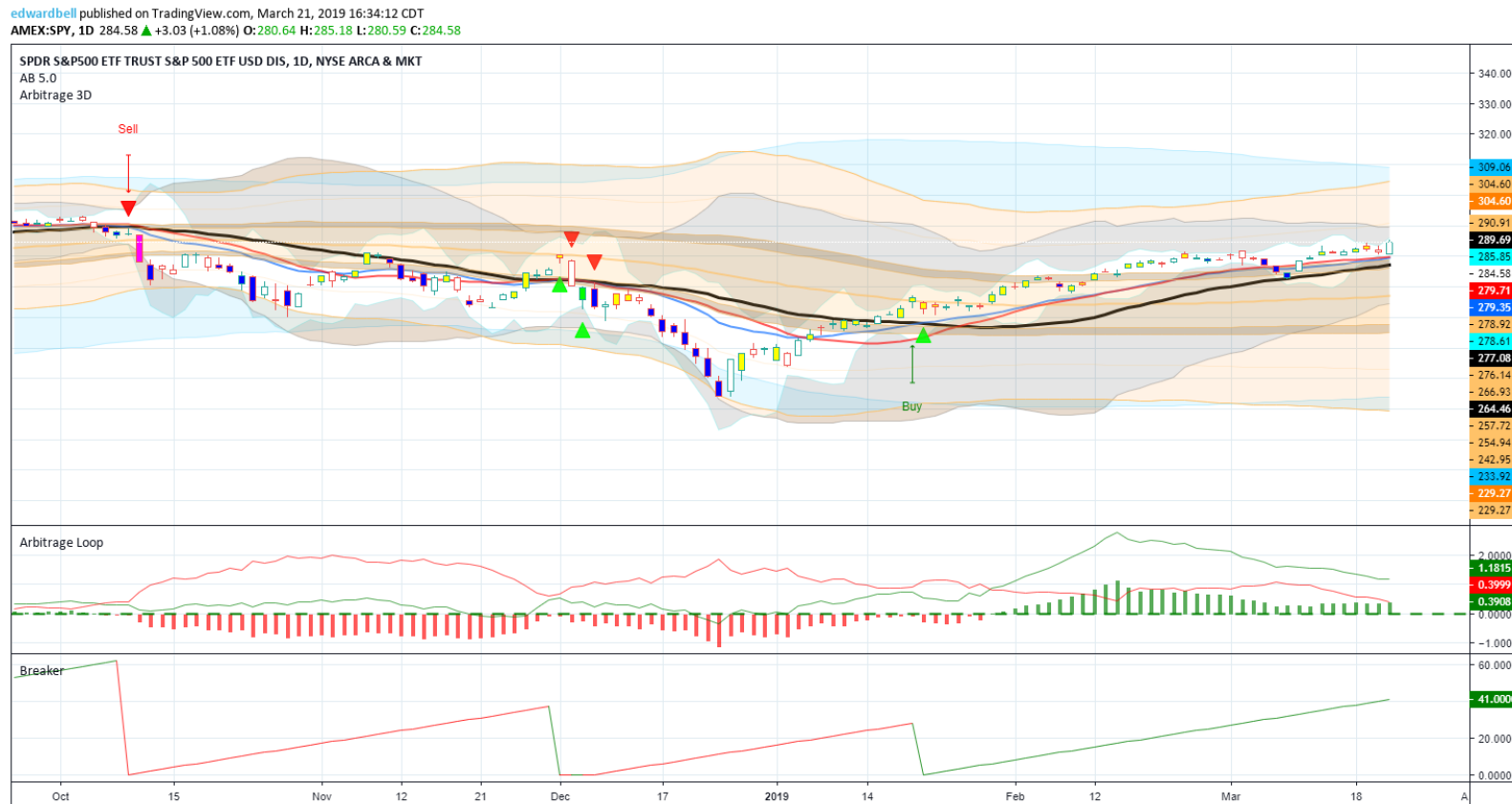
To provide educational and affordable tools that are easy to use and reduce the barriers to enter into any market so that every individual has the opportunity to pursue their personal and financial aspirations.

Introduction

In this issue of State of the Bands™ we take a closer look at the global market over the last six months. A brief examination of world events occurring between 2018-Q4 and 2019-Q1 is included. This report concludes with a forward-looking analysis utilizing a variety of tools contained within the Arbitrage Bands™ trading system.

2018 Correction & 2019 Relief Rally - (2018-Q4—2019-Q1)

This is a daily chart of the ETF for the S&P 500 (SPY) from October 2018 to present using the Arbitrage Bands™ trading system. As you can see from initial sell signal received on October 8, 2018, there was an opportunity to avoid at least a 10 percent market correction before receiving our next buy signal in January 2019 allowing for an additional 10 percent gain. And notice that the RSI line is once again near the top of the Arbitrage Band™ indicating an overbought situation identical to the one recently seen in October.



2018 Correction & 2019 Relief Rally - (2018-Q4—2019-Q1)

In the weekly chart below all indicators suggest being out of the market since December 3. A long-term buy signal will trigger if and only if the blue Compass Line rises above the black RSI line. This type of scenario would require at least two more weeks of a strong uptrend.



Global Trade

China - US Trade Talks

President Trump is citing progress in the trade talks and has twice delayed imposing additional tariffs on Chinese goods that were initially scheduled to begin January 1 and March 1 2019. A new round of trade talks will begin next week in Beijing and will continue in Washington in early April. Signing of the trade agreement has been pushed back until the end of April, with some officials predicting a more realistic target date being sometime in June.

President Trump has indicated that existing tariffs will stay in place until not only a deal is reached but there is evidence that China is abiding by the agreement.

A new Chinese foreign investment law, scheduled to go into effect January 1, 2020, is designed to protect foreign intellectual property and threatens criminal prosecution for Chinese violators. The new law pledges to build a stable market based on fair competition. However, critics of the new law are citing that it is vague and lacks a specific implementation plan. Their primary concern is that many companies are being forced to share their intellectual property in exchange for the opportunity to transact business in China.



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Global Trade

EU-China Trade Tensions

Trade tensions are also heightening between the European Union and China. The EU is taking a more conservative stance on China-related trade. Following Washington's lead, the European Commission now considers China an "economic competitor" and "a systemic rival promoting alternative models of governance."



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- * China continues to restrict participation of foreign companies by failing to open markets
- * Aggressively pushing for dominance in technology and telecommunications
 - Huawei
 - significant player in building the 5G infrastructure in Europe.
 - facing a multiple charges from the US, including stealing of trade secrets and violations of economic sanctions

Global Trade

US - EU Trade Tensions

Negotiations on a Transatlantic Trade and Investment Partnership were postponed in December 2016. The two sides are making plans to resume trade talks but have yet to agree on details of upcoming talks.



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- * US seeking to reduce or eliminate agricultural tariffs imposed by the European Union
- * US looking for an easing of non-tariff barrier restrictions on agricultural products
- * US has threatened increased tariffs on automobiles citing national security concerns
- * The EU currently imposes 10% tariff on imports of passenger cars from the US
- * The US levies a tariff of 2.5% on EU passenger cars and a 25% duty on light trucks, which account for roughly 60% of the US passenger-vehicle market

Global Trade

Thus, we are on the verge of a three-way trade war.



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Current Events In The US

- * **Politics:** The field for the 2020 Presidential Election is growing and includes Democrats Elizabeth Warren, Kirsten Gillibrand, Kamala Harris, Cory Booker, Amy Klobuchar, and Beto O'Rourke; Independent Bernie Sanders; and Republicans President Donald Trump and Bill Weld.
- * **Tariffs:** US has imposed \$250 billion of trade tariffs against China
- * **Transportation/Shipping:** The nation's two busiest ports, Los Angeles and Long Beach, reported significant declines in January and February 2019 in cargo handled.
- * **Oil Supply and Demand:** U.S. oil stockpiles decreased by 3.8 and 9.6 million barrels for the weeks reported March 8 and March 15, 2019.
- * **US Treasury Bond Yield Curve inversion:** the 3-month yield moved slightly above the 10-year yield.
- * **Trade Deficit:** The US trade deficit increased by 19.9 percent in December 2018.
- * **Federal Funds Rate—**The Federal Reserve announced that it would not change the target Federal Funds Rate and no rate increases would occur in 2019.



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Current Events In China

- * Central Bank Rate is 4.35%, unchanged since 2016
- * Downgrade of US Credit 1.16.18 to lowest rating ever issued to the US
- * China has imposed \$110 billion in tariffs against the US
- * GDP annual growth rate decreased by **54%** from almost 15% in 2007 to 6.6% in 2018
- * Established the Belt and Road Initiative also known as One Belt, One Road and the “New Silk Road in 2013
 - ◇ Massive trans-continental network designed to strengthen infrastructure, trade, and investment between China and Europe.
 - ◇ Largely funded by Chinese investment and constructed by Chinese companies
 - ◇ Successful completion of major infrastructure projects around the world.
 - ◇ Opens additional markets to Chinese goods
 - ◇ Italy became the first developed country to sign up for the program
 - ◇ Potential expansion to other economic corridors



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Current Events In The EU

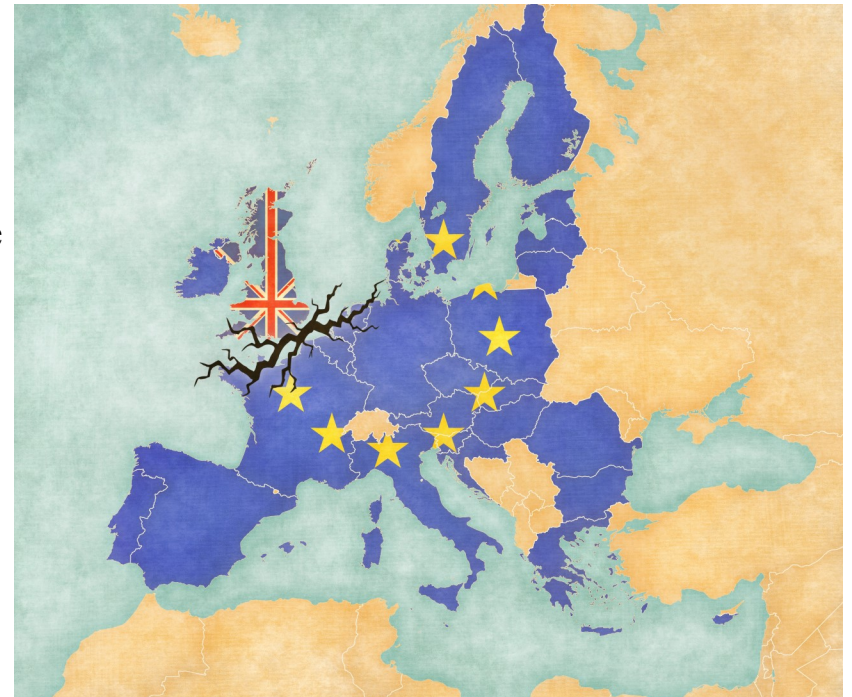
- * Elections—European Parliament Elections are scheduled for May 23-26, 2019. Assuming Brexit happens 505 Parliament seats will be available.
- * The new European Parliament is expected to be even more diverse with more political parties represented
- * Increased activity of anti-EU politicians has increased in Greece, France, Spain, and the Netherlands
- * High fuel taxes throughout the EU have resulted in yellow vest protests escalating in France and spilling over to Belgium
- * Italy signing on with the One Belt, One Road Initiative has potentially provoked other EU members as well as the US
- * The European Central Bank Rate charged to deposit institutions remains at **negative 0.4 percent**
- * A German study estimates the impact of a hard Brexit to the EU to be \$45 billion annually



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UK—Brexit

Although the British Parliament voted to reject the United Kingdom leaving the European Union without a withdrawal agreement the decision is not enforceable as law. British Prime Minister Theresa May plans to put forth the measure to Parliament for a third vote as early as March 25. EU President Donald Tusk announced that the EU has given an extension to May 22, contingent upon Parliament passing the withdrawal agreement. If the Brexit deal is not approved by Parliament the UK would have until April 12 to notify the EU how it wants to proceed with the Brexit process.



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What's Next for Brexit?

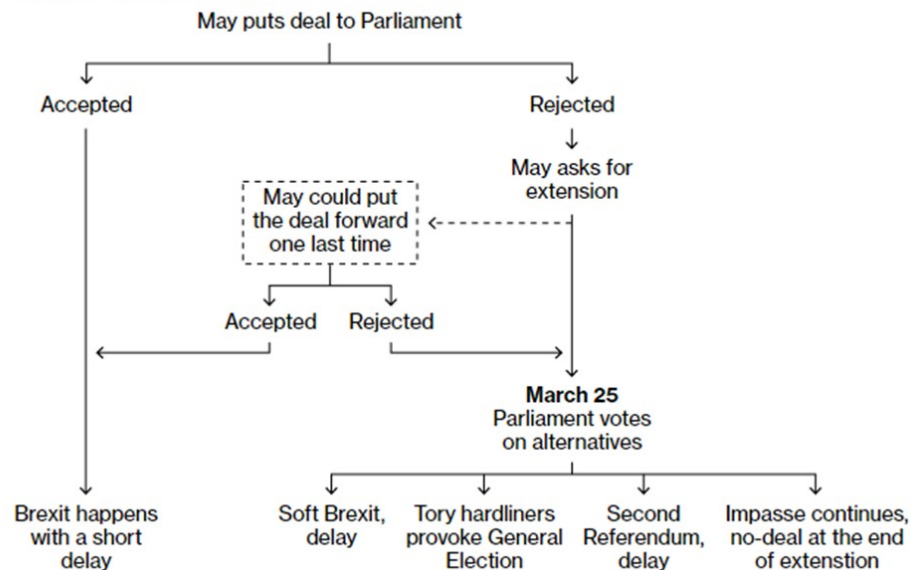


Image Source: Bloomberg

Prime Minister May is facing harsh criticism from not only the opposition party, but from a large contingent in her own party as well. Many are predicting that she will be forced out within a matter of weeks.

The Global Economy—

Indicators of a slowing Global Economy can be found if these factors are considered

* GDP

Gross Domestic Product is the monetary value of all the finished goods and services produced within a country during a specific time period. It is a broad measure of a nation's economic activity and includes:

- ◇ Private and public consumption
- ◇ Government outlays
- ◇ Private inventories
- ◇ Construction costs
- ◇ Balance of Trade

* Global Trade

Global Trade is simply the exchange of goods and services between countries. In 2017 the total world trade measured in exports exceeded \$17.5 trillion.

* Central Bank Rates

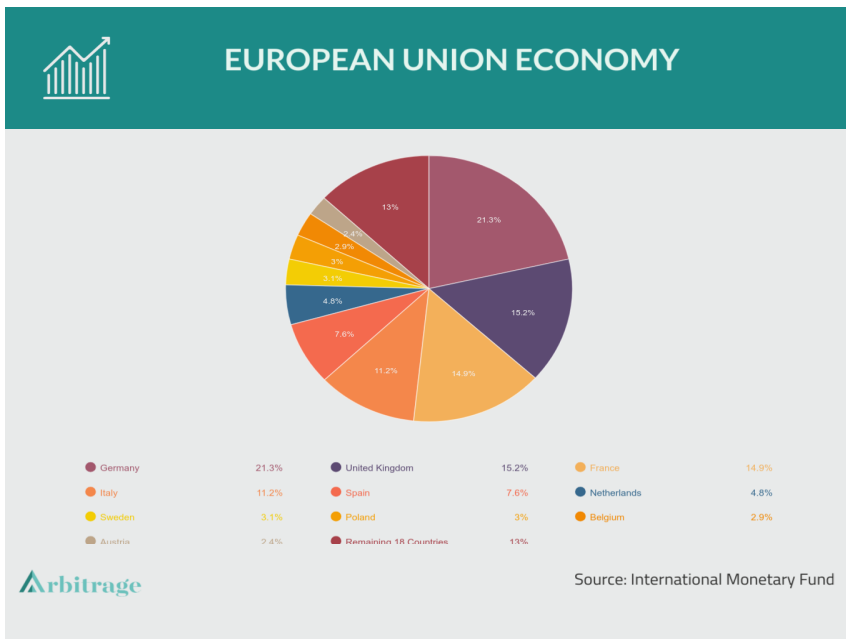
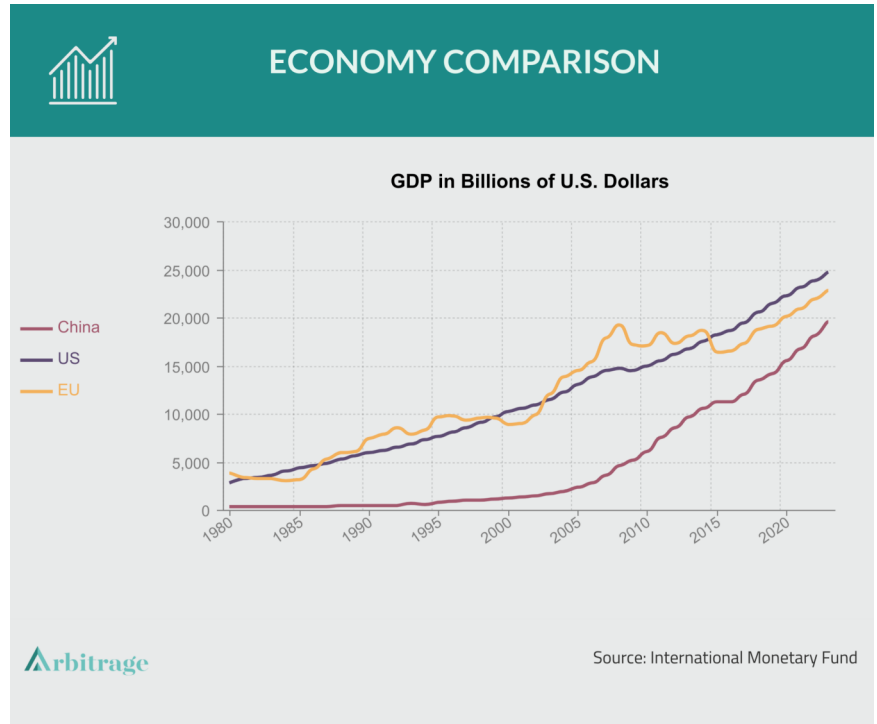
A central bank is a national bank that provides financial and banking services for the national government and commercial banking system, implements monetary policy, and issues currency.

* Oil Supply and Demand, Prices, Production Activity

Widely recognized as the most important commodity in the world, oil is the most important source of energy and is the lifeblood of industrialized nations.

The Global Economy—GDP

- * The EU growth rate is also slowing but is still moving in a positive direction.
- * The US economy has generally been expanding at a relatively consistent rate since 2008.
- * China’s economy has expanded at alarming rates since 2005. China is continuing to close the gap between itself and the two larger economies, even as its rate of growth is slowing.



The United Kingdom is preparing to leave the European Union (Brexit) within the next few months. The UK is the world’s fifth largest economy and represents over 15% of the EU’s GDP.

What will be the impact on the EU’s GDP?

The Global Economy—Trade

The World Trade Organization (WTO)

- * International Trade Organization
- * Charged with ensuring smooth global trade via international trade rules
- * Settles trade disputes among its 164 member nations covering over 98% of the world's trade
- * Strives to eliminate unfair trade advantages and supports the needs of developing countries



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If the UK leaves the EU without an agreement the World Trade Organization (WTO) trade laws would go into effect. If countries lack free trade agreements with each other then WTO rules apply. The UK is currently covered by more favorable EU single market rules of trade with EU members and existing EU Trade Agreements with other countries. A full 44% of the UK's exports are with EU member nations and the free trade between the UK and EU member nations could be replaced by border checks and higher WTO tariffs.

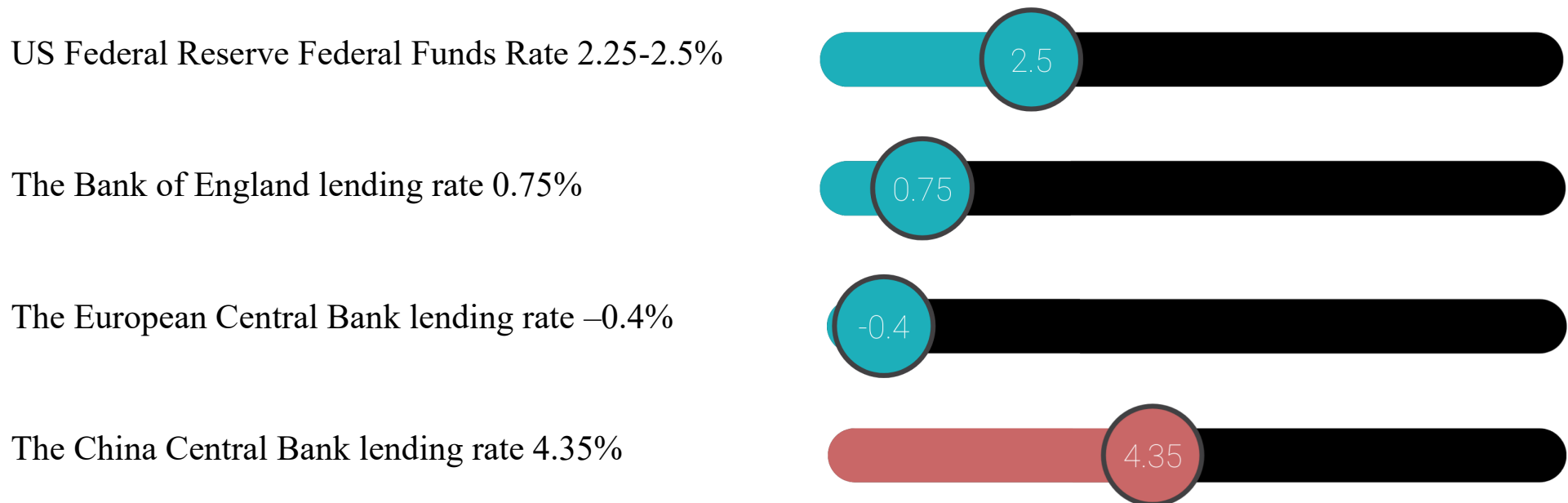
A hard Brexit would allow the UK to negotiate new bilateral trade agreements with each potential trading partner but those trade negotiations take time and would expose the UK to tariffs and restrictions in the short-term similar to those present in a no deal Brexit. A soft Brexit scenario could allow the UK to retain the benefits of the existing EU customs union or single market rules. The current Withdrawal Agreement negotiated between Prime Minister May and the EU allows for a transition period whereby the UK will maintain benefits of EU membership before at least through December 2020.

The Global Economy— Monetary Policy and Central Bank Rates

Central Banks control money supply in order to meet inflation rate expectations. By purchasing government debt they increase money supply. The purpose is to steer short-term interest rates, which in turn influence longer term rates and economic activity.

A central bank will try to boost economic activity in the short-term by decreasing its lending rate to banks. If the economy is increasing at a pace faster than desired then they will increase these lending rates. A policy of lower rates is referred to as “dovish” while higher rates are considered “hawkish.”

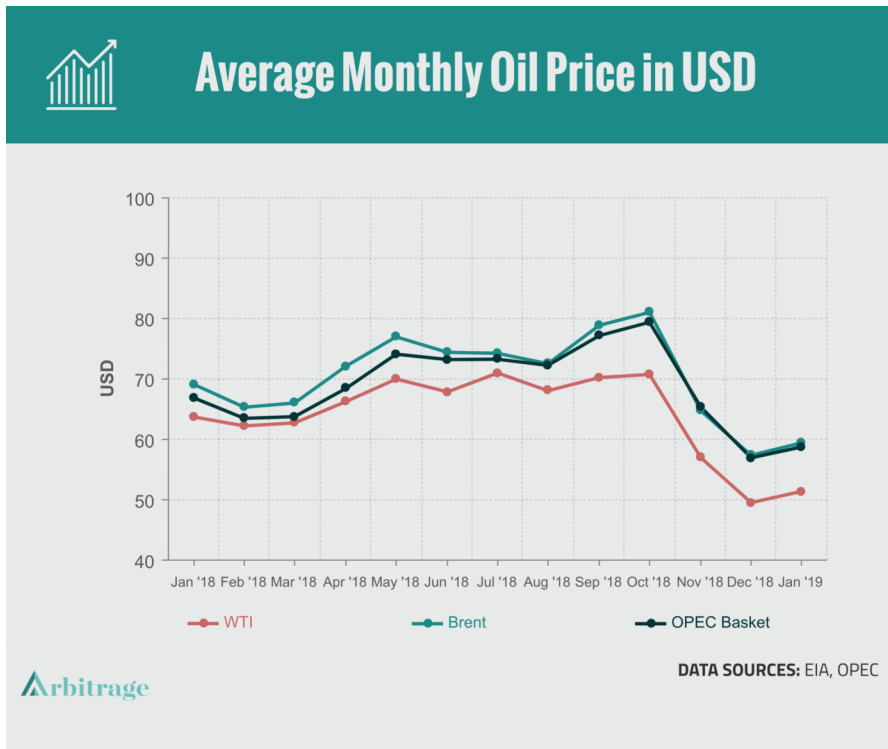
CENTRAL BANK LENDING RATES



The Global Economy—Oil Supply and Demand

OPEC+ Alliance vs US “supply war”

The worldwide oil market is receiving support from a supply-management deal with OPEC and allied nations (including Russia and Mexico) extending planned oil production cuts at least through June of 2019. The global supply is further restricted by US sanctions on Iran, drastic drop in Venezuela production and a reduction in US stockpiles. As a result, the price of WTI Crude Oil climbed above \$60 per bbl (US Liquid Barrel) in intraday trading for the first time since the December correction. Continued oil production cuts could push the market into a state of undersupply and fuel the rising market prices over the next few months.



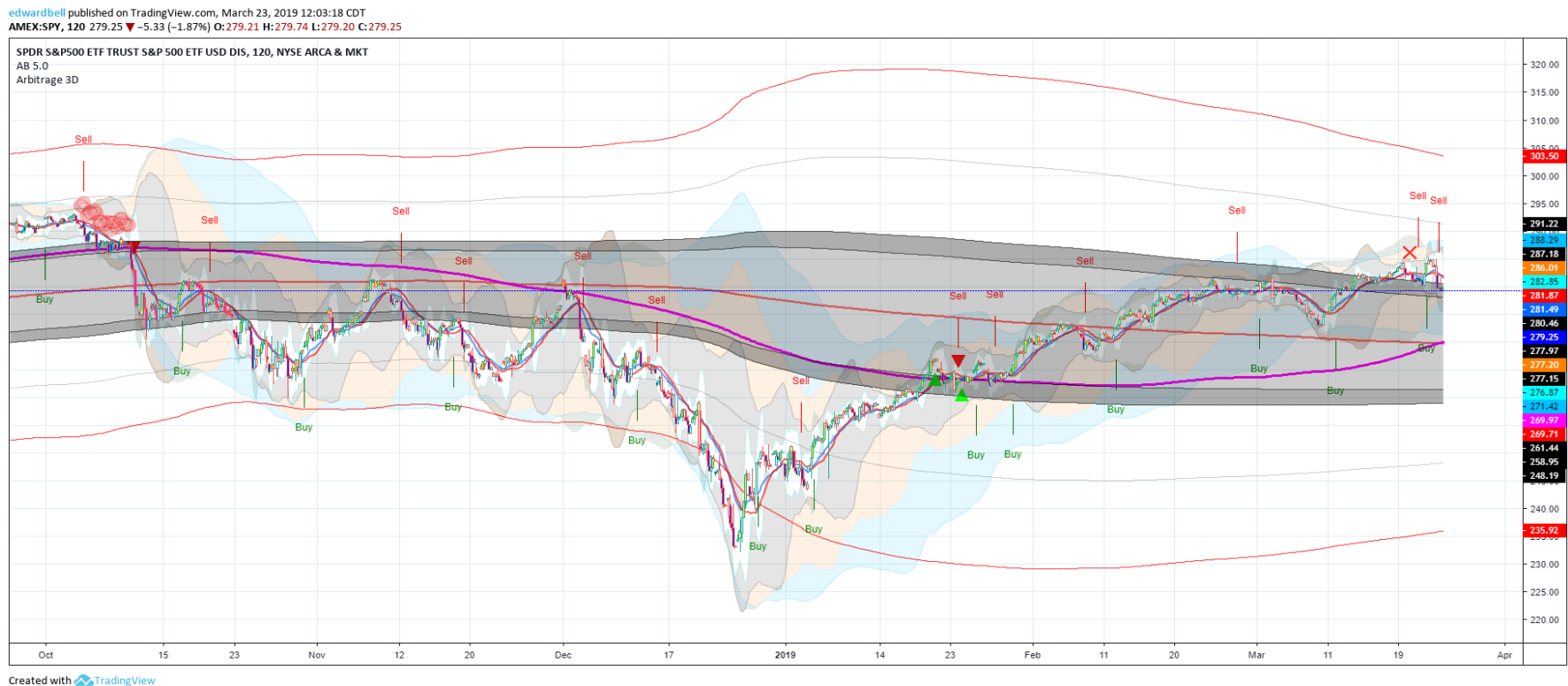
Possible contributing factors to keep an eye on over the next few months include:

- Continued planned oil production cuts by OPEC+ Alliance extend beyond June
- Continued significant US stockpiles reduction
- A further reduction of US imports from Venezuela due to increased sanctions
- Continued sanctions on Iran

Analysis and Upgrades to Arbitrage Bands™

The 2H chart below shows SPY from October 2018 through March 22, 2019. The Arbitrage Bands™ trading system has gotten smarter—with the use of AI, the system can now pinpoint the exact moment a trend change is occurring and reflect that change in direction across all bands as seen in the chart below.

So, no matter what the defined timeframe is or which chart is in use, there is an immediate ability respond to changes in the market. Look for more updates to Arbitrage Bands™, including additional news about our weekly podcasts, in the next edition of *State Of The Bands*.™



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