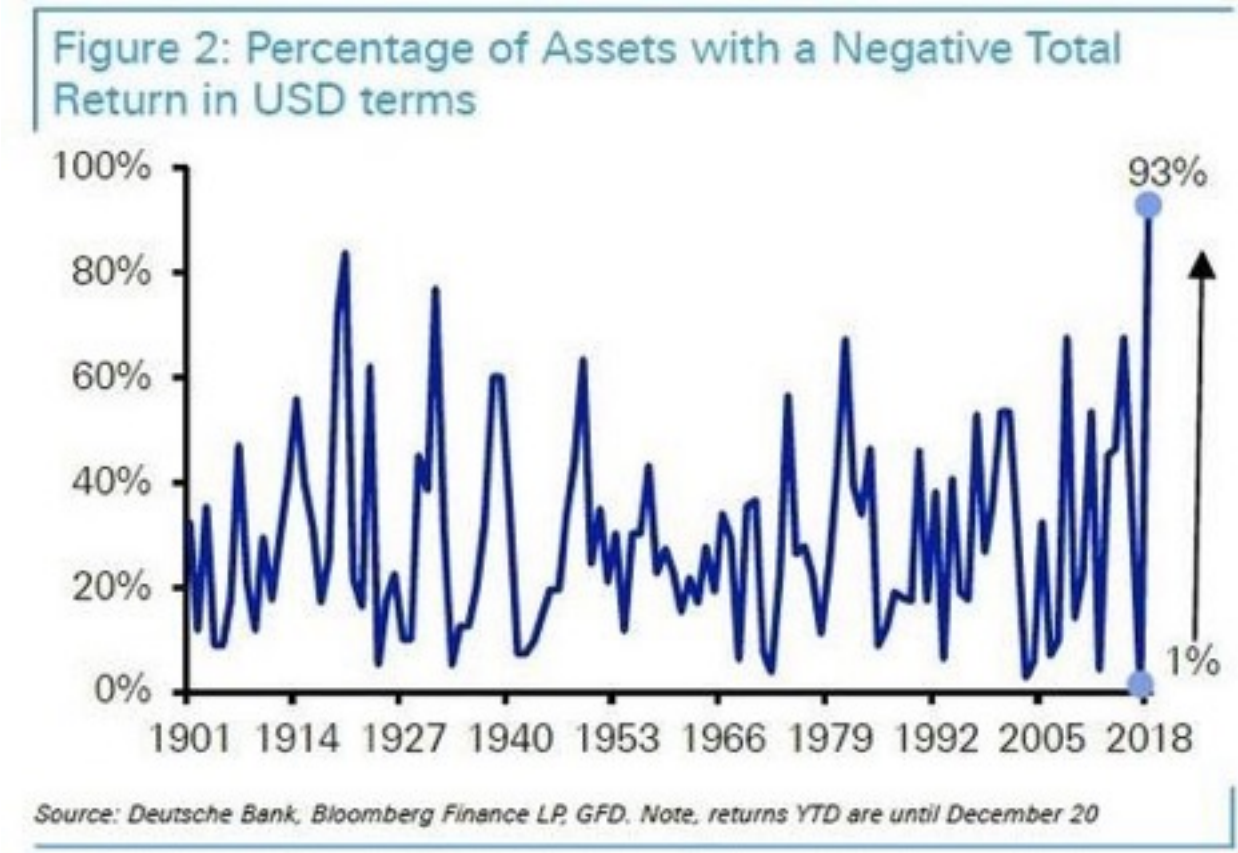
December 25, 2019

Monday's abbreviated trading day did not provide any holiday gifts for investors as most major indexes continued lower. One unique aspect of this market has been the universal nature of the downturn, with very few areas in the investable universe serving as a "safe haven" for investors. This is demonstrated in a recent study done by Deutsche Bank that looks at the percentage of asset classes around the world seeing negative returns at the end of the year. In the updated study depicted below, we can see that 93% of the investable asset classes around the world are set to end the year in negative territory. This is the highest reading that this study has found dating back to the early 1900s, which demonstrates the unique nature of our current market environment. It is also a stark difference from last year, which saw only 1% of all global asset classes end the year in the red, which is the lowest percentage in the study's history. (source: zerohedge.com)



This remains consistent with what we see on our end from a relative strength perspective. If you run a query for ETFs with over $1 billion in AUM, and exclude inverse and leveraged funds, you are left with an inventory of 354 funds. Out of these, only 18 are still posting positive year-to-date returns, or just over 5% the inventory. This sheds some light on why something like our broad asset class rankings in D.A.L.I. has not changed, even though Domestic Equities has seen significant drawdown over the past few weeks. The fact that only 5% of the ETFs we track on our platform are in positive territory for the year indicates there has been little divergence from the domestic equity market within the rest of the asset classes. In other words, if each asset class is declining, then the relative strength relationships between the asset classes are

not going to change. A relative strength change is only going to occur if we see a positive divergence from at least one of the asset classes. However, the good news is that the study above shows relatively wide swings from year-to-year. Years that are intensely negative typically show more positive readings in the year to follow. This is not necessarily a positive sign for domestic equities but rather indicates that there will likely be a divergence in the near future to indicate “stronger” areas. This is one of the benefits of using relative strength analysis - when this divergence occurs, we will be able to capture the asset class or classes that are outperforming the others.