

Cumberland Advisors Market Commentary – 3Q2019 Review – Market Volatility ETF

Although the S&P 500 made new highs after the Federal Reserve cut interest rates in 2018 for the first time since the Great Recession, the hawkish rate cut was not enough to sustain the market rally, which was derailed by additional tariffs that President Trump announced on August 1st on \$300 billion of Chinese imports.



The Dow saw a 600-point swing on August 1st and ended up dropping 2.6% for that week. The broad market benchmark S&P 500 decreased 3.1% for the week as well, marking its worst week of 2019. We took advantage of the rising volatility and became fully invested at the end of August. But we remain cautiously bullish in the short term, as there are still uncertainties with the trade tension between the US and China.

Interestingly, the CBOE Volatility Index (VIX) has fallen to the 14-15 range after briefly topping 20 during the sell-off in August. In our opinion, VIX had been suppressed by the relentless market rally until the latest tariff announcement this year. To put everything in perspective, the historical average of VIX is approximately 19, meaning the VIX in August was only slightly above the center of the spectrum. Therefore, 2019 has been a year of low VIX so far. Even though October tends to experience some rising volatility historically, we may not witness as much action if there is any improvement in the trade deal.

It was in August, when trade-war tensions were especially high, that we launched a new Sector Alpha Portfolio. The new strategy uses the same quantitative analysis as the Market Volatility Portfolio does, but Sector Alpha rotates between defensive and cyclical sectors per market trends. If you would like any information on the new strategy, please feel free to reach out to me.

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