

Quantitative Investment Decisions

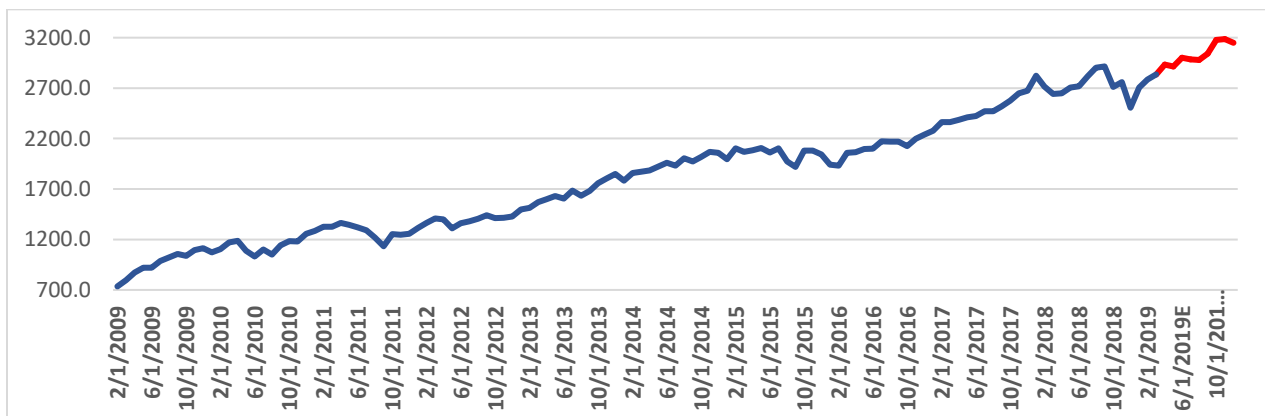
The Safety Net For Your Portfolio

Are We there Yet?

- We believe that the S&P 500's high for the year is around 3200, approximately 9% from current levels.
- Interest rates should remain favorable for the foreseeable future. Inflation's 12-month rate for March was 1.9%, although off its recent low of 1.5%, is still in Fed's acceptable band 1.8-2.2%. Our belief is that the Fed will pay much more attention to inflation going forward as the absence of inflation should keep interest rates muted. There are two caveats to our interest rate view: 1) Food and Energy costs have recently increased more than expected and 2) interbank lending rates are nearing the Fed's upper limit. That could cause the Fed to increase the range by 20-30 bps. The increase could put pressure on the 10 Year treasury rate by a similar amount.
- 2019 economic growth is expected to improve from early estimates. GDP growth for 1q2019 was initially estimated at 2.2%. More recently, estimates have started to increase to mid-2% range. Improved economic outlook also seems to be reinforced by above expected earnings of +5% and improving year-ahead outlooks. The indication is that GDP will be in 2.5% range for 2019, well within the Fed's ideal growth range of 2-3%.
- China's economy is also performing better than expected for 1q2019 1.4% vs. 1.2% initial estimate. The U.S. delay to trade tariffs seems to have decreased the negative impact to q1 growth. The prior two years first quarter grew at 1.5%. Improved trade negotiations will be critical to full year growth.

We believe the S&P 500 still has room to run in 2019. Based on our S&P 500 Market Estimator model, we believe the index will continue to rise into the 4th quarter. Currently our year high estimate is around 3200 or 9% higher from current levels. Therefore, we recommend investors stay fully invested in U.S equities. All sectors are "On" except healthcare.

Exhibit 1. S&P 500 Estimator



Source: Qidllc

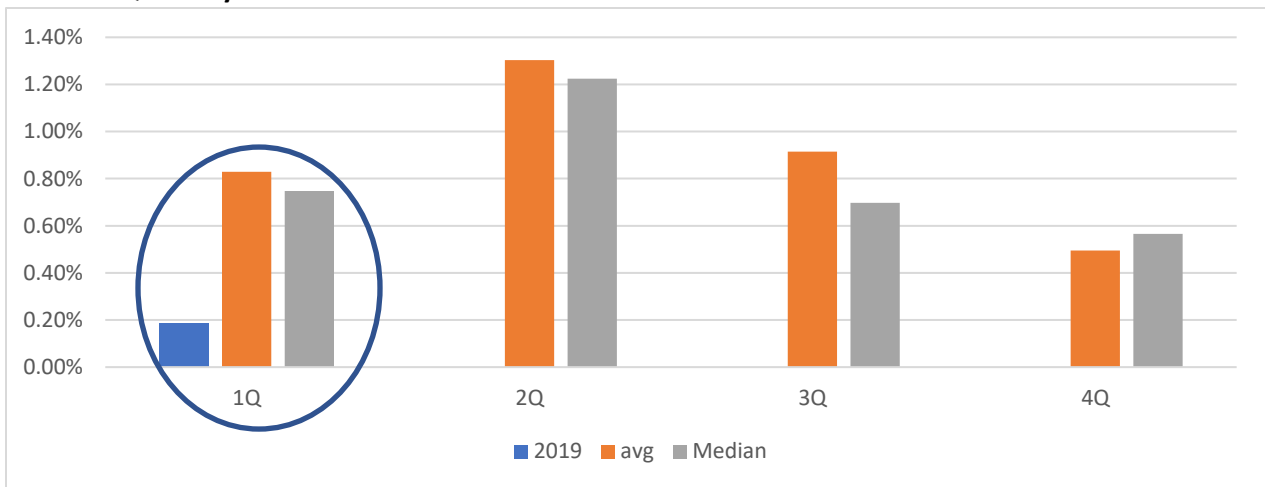
Projected path 

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Interest rates should remain favorable for the foreseeable future. Quarterly inflation appears to be below average. Our belief is that the Fed will pay much more attention to inflation going forward and less about GDP to manage interest rates. Quarterly inflation for 1q2019 Of 0.18% remains low versus historical average and median levels of 0.83% and 0.75% respectively, from 1974-2019 (see exhibit 2 below).

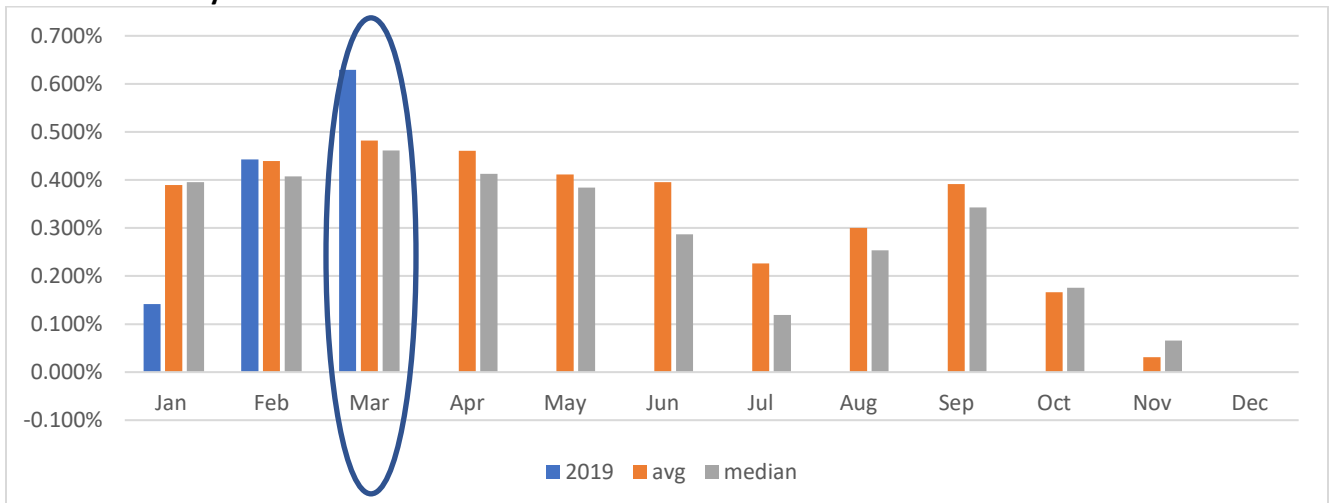
Exhibit 2 Quarterly Inflation 1974-2019



Source:BLS.Gov

However, the data point that we will have to watch closely is the monthly inflation rate, see exhibit 3. March was much higher than the average or median levels from 1974-2019 at 0.63% vs 0.48% and 0.41%, respectively (see exhibit 3).

Exhibit 3 Monthly Inflation 1974-2019



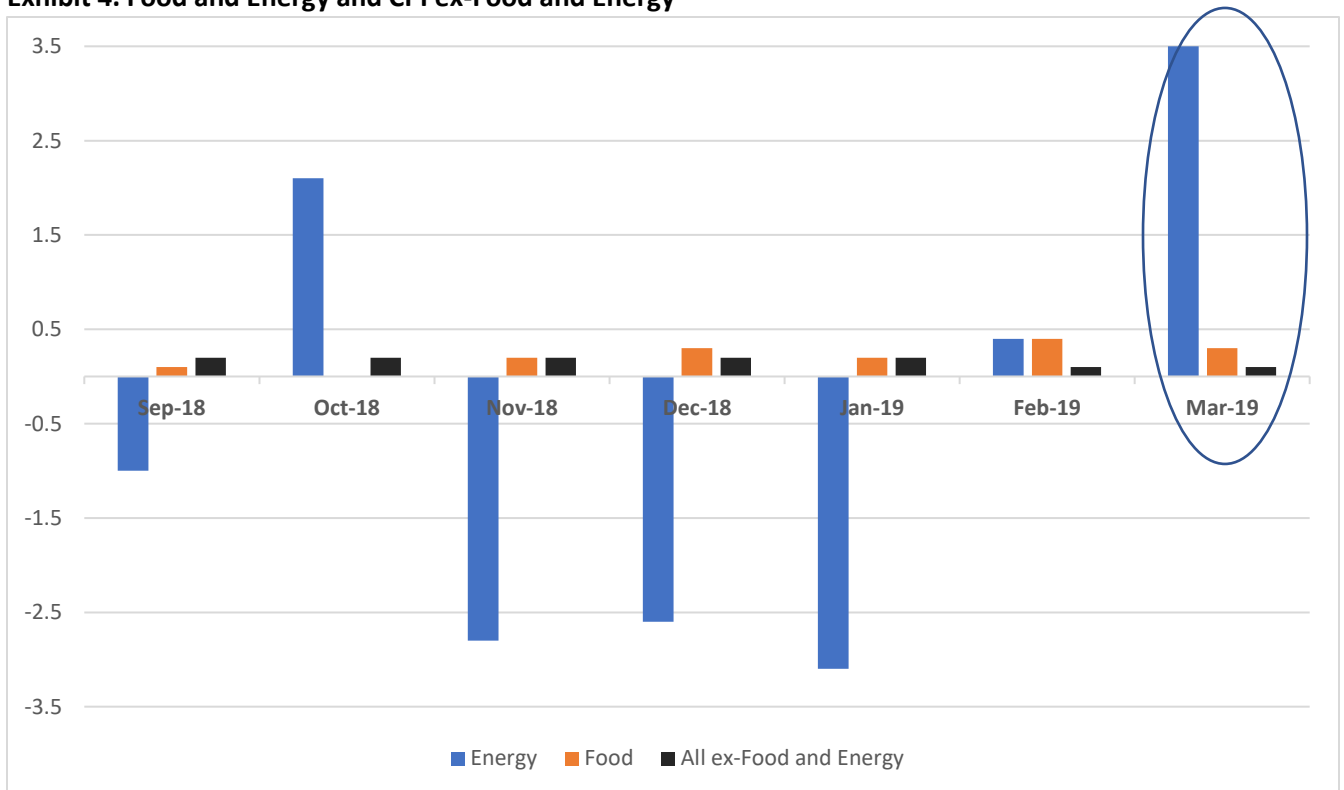
Source:BLS.Gov

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The March inflation increase appears to be driven by Food and Energy. In March energy rose 3.5% after several months of negative levels over Nov-Jan and a six-month average of -0.09%. Geopolitical issues surrounding Iran and Venezuela has caused a jump in oil prices near-term. Food prices were also up as bad weather has impacted harvest levels and Asian animal flu has impacted poultry and swine costs. Food costs were up 0.4% in January and 0.3% in March vs. a six-month average of 0.23%.

Exhibit 4. Food and Energy and CPI ex-Food and Energy



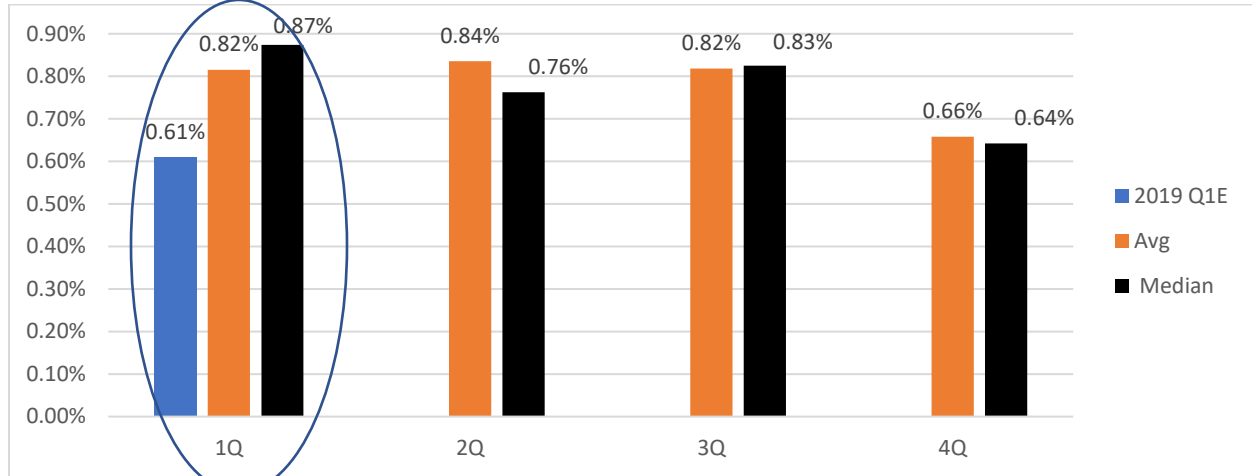
Source: BLS.Gov

2019 economic growth is expected to improve from early estimates, a potential positive for corporate earnings. Although, first quarter GDP is expected to be below the historical average and median as the U.S. government shutdown as well as the China Tariff was effected growth. Historically, first quarter growth has been on average 0.82% and median growth of 0.87%, see exhibit 5 below. The estimate for 1Q2019 is 0.61% (2.5% annual pace). Interestingly, GDP growth has been constant for the first three quarters of each year, on average at 0.827%. It appears that 4q has typically been 16 basis points lower at 0.66%. It will be interesting to see if growth can accelerate enough in 2019 in the last three quarters for GDP growth to be above average. Corporate 1Q earnings releases to date have been running 5% over expectations and forward guidance has also been increasing providing some positive thoughts about the U.S. economy and corporate earnings for 2019 versus initial expectations.

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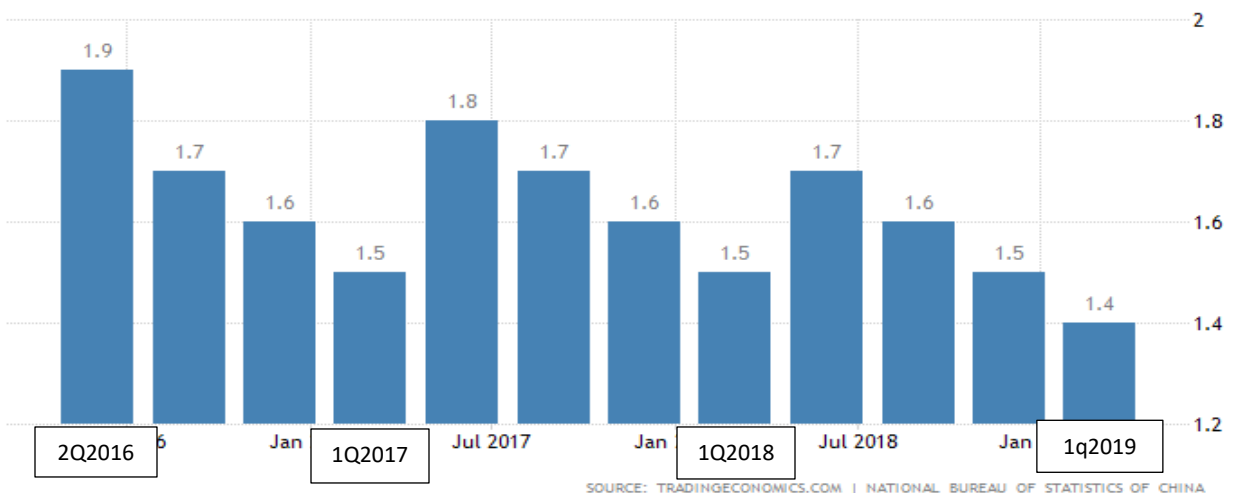
Exhibit 5. U.S. Historical Quarterly Growth Rates – 1q1947 to 1q2019



Source: BEA

China's economy should also help lift world growth as 1q2019 growth was also better than expected at 1.4% and only slightly below the prior two years first quarter growth of 1.5%, respectively (see exhibit 6 below). The delays in the tariffs may mute concerns of decreasing economic growth if trade talks continue to be productive. China's economy typically starts slow based on prior three years quarterly growth and accelerates 2q and 3q before moderating in 4q.

Exhibit 6 China's Quarterly GDP Growth – 2Q16 to 1Q19



Source: Trading Economics – National Bureau of Statistics China

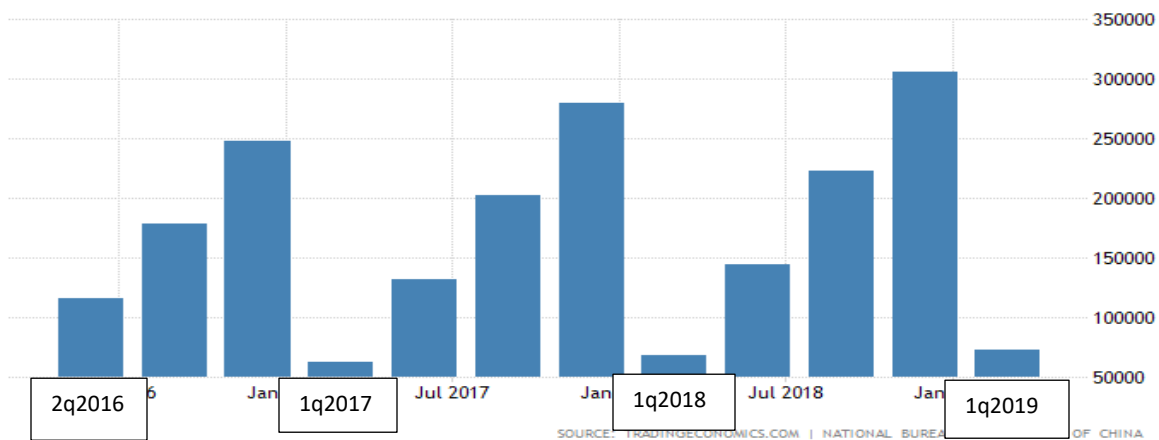
China's increasing quarterly GDP growth throughout the year appears to be a function of changes in manufacturing growth. In exhibit 7 below, Manufacturing growth accelerates historically over the last

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three years from Q1 to Q4. Therefore, the U.S. tariffs do not seem to have effected China much, 1.4% vs. 1.5% GDP growth for 1q2018 and 1q2017. The concern about China's 1q19 growth seemed to ease as the U.S. administration announced a delay in the tariffs. Therefore, the implications have not impacted China and only a slight indication of the potential impact the U.S. could have if it fully implemented its tariffs

Exhibit 7 China's Manufacturing Quarterly Growth – 2q16 to 1q19



Source: Trading Economics – National Bureau of Statistics of China

Interestingly since the World economic recovery started in 2009, China's GDP growth has also been below trend, see exhibit 8 below yellow line. This may not be unexpected as the size of its economy is making it more challenging to continue the double-digit growth. However, at 6.5% it's still more than twice the level of the U.S. at 2.5%. China's biggest challenge is keeping its economy growing at a high enough level to absorb its labor growth to keep civil unrest in check. In 2018, employment increased over 13 million. For 2019 the labor increase is expected to be only around 11 million. To try and reinvigorate growth to absorb more labor the Central government is encouraging banks to increase loans to small businesses by 30%. In addition, China has announced a 2 Trillion Yuan (\$298B) package of cuts to taxes and fees. The expectation is for a flat 2019 growth of 6.5%.

According to China, the contribution to real GDP growth (exhibit 9 below) mainly comes from internal consumption and capital formation, they note that net exports have had a minimal contribution. We all question China's numbers and the real impact of trade may be hidden in capital formation. Investment in plant, equipment and infrastructure has been tremendous over the years, although decreasing as a percentage of total GDP as personal consumption accelerates. China would not be so concerned with trade tariffs if net exports were not of major importance. We continue to believe that trade differences will narrow into the summer and that an agreement is paramount for the long-term growth of both our economies.

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Exhibit 8. China's Annual Growth Rate

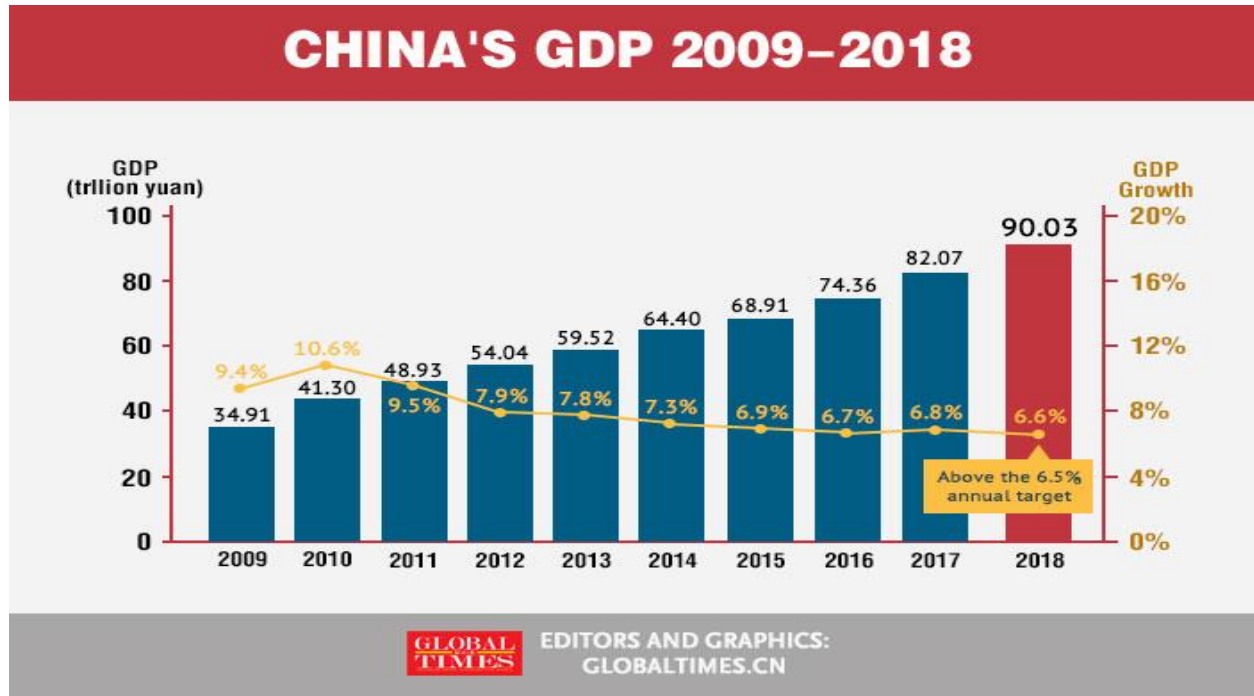
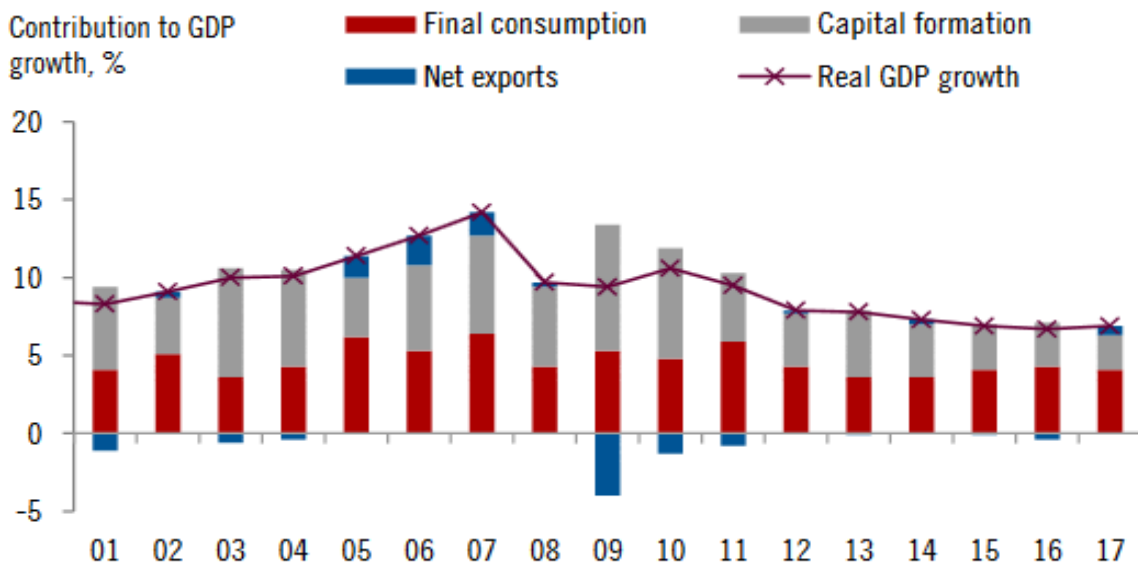


Exhibit 9. Contribution to Chinese real GDP growth by source of demand



Source: Pictet WM - AA&MR, National Bureau of Statistics of China

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Disclosures

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Firm Definition

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QID reviews a total firm AUM report broken out by account on a quarterly basis to ensure that only actual assets managed, or sub-advised, by QID are included. All accounts deemed to be advisory only, hypothetical, or model in nature are excluded from total firm AUM. Total firm assets are all discretionary (whether fee-paying or not) for which QID has investment management responsibility, including assets managed by sub-advisors that QID has authority to select.

Obtaining a Compliant Presentation and the Firm's List of Composite Descriptions

A compliant presentation, including the performance data for the composite, may be obtained by contacting QID at 239.631.8912 or by emailing info@qidllc.com.

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Benchmarks are used for comparison purposes to correlate to each portfolio. The returns for the indexes shown include dividend reinvestment. Individual client accounts may have experienced investment results during the corresponding time periods that were materially different from those of the composite returns. **Performance data shown is past performance. Past performance is no guarantee of future results. Investments are subject to risk, and any of QID's investment strategies may lose money. QID's actively managed portfolios may underperform in bull or bear markets. The investment strategy presented is not appropriate for every investor and individual clients should review the terms, conditions and risk involved with specific products or services. The portfolio is constructed with Exchange Traded Funds that seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no guarantee that the price and yield performance of the index can be fully matched. ETFs are subject to risks similar to those of stocks.**

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