OVERVALUED

Who would have thought that US yields would be making new lows along with US equity indices making new highs, all the while the FED is raising rates? Also, the Dollar and Crude continue to falter as the latter is down some 24% YTD. Crude seemingly poised to test the $40 threshold, an area in which we think may finally see some weaker hands finally toss in the towel. This should prove to be pretty decent support but considering the bickering going on in the Middle East, we can't help but think lower oil might be here to stay. If all the Sheik's are arguing, then something is definitely off. Seems like the Middle East knows oil use is waning and so too does the energy investment community. We haven't heard one iota of Peak Oil in quite some time, have you? Perhaps the electronic engine is proving too much for the old trusty combustible engine.

Some of the other themes we have heard lately, and what seemingly has the investing public kind of in a disarray are the divergence in global macro indicators and the direction of FED monetary policy. We often hear that investors are fearful of jumping into the equity markets, that things don't make fundamental sense, that things are for all intents and purposes **OVERVALUED!** Well we can't say we blame them, they are correct to be fearful, yet complacency is one thing, while cautiousness is another. In both instances, the human psyche will force its host to hold off in one sense and in the other continue on a path that will surely one day catch up with them. It's a sort of double edged sword. We know many are thinking like this: **"we have been under allocating to equities, thus underperforming, yet we can't possibly get in now and buy new highs."** While there is nothing wrong with that logic the markets and the FED for the last 8 years have said we have your back, we ain't letting this ship sink, so go ahead and **RISK ON**.

It always seems as if the loudest chatter comes near the end of trends and even worse, by the time everyone catches onto the trend its already done and about to reverse. Now we aren't advocating that equities should plummet from here, nor are we saying you should revamp and retool your fundamental thought processes, but rather how bout you look at the markets as we do, see them for what they truly are. We know for certain what **they certainly are not** and that is they are not a market designed as a pricing discount mechanism. What we do know for certain is that the information asset prices convey to us are built upon one and one thing only, **CENTRAL BANK QE**.

Anyone involved in the markets knows that equities have been a straight moon shot since that March 2009 Low and Bonds haven't fared to badly either. Just to put this

Reflation trade as we call it into perspective, here is the chart we like to follow of the combined SP500 and US Bond Future:

Now the proverbial question becomes if the FED and the global central banks and their balance sheet expansion were the main drivers behind asset prices reflating, then where will asset prices go if they reverse their course?

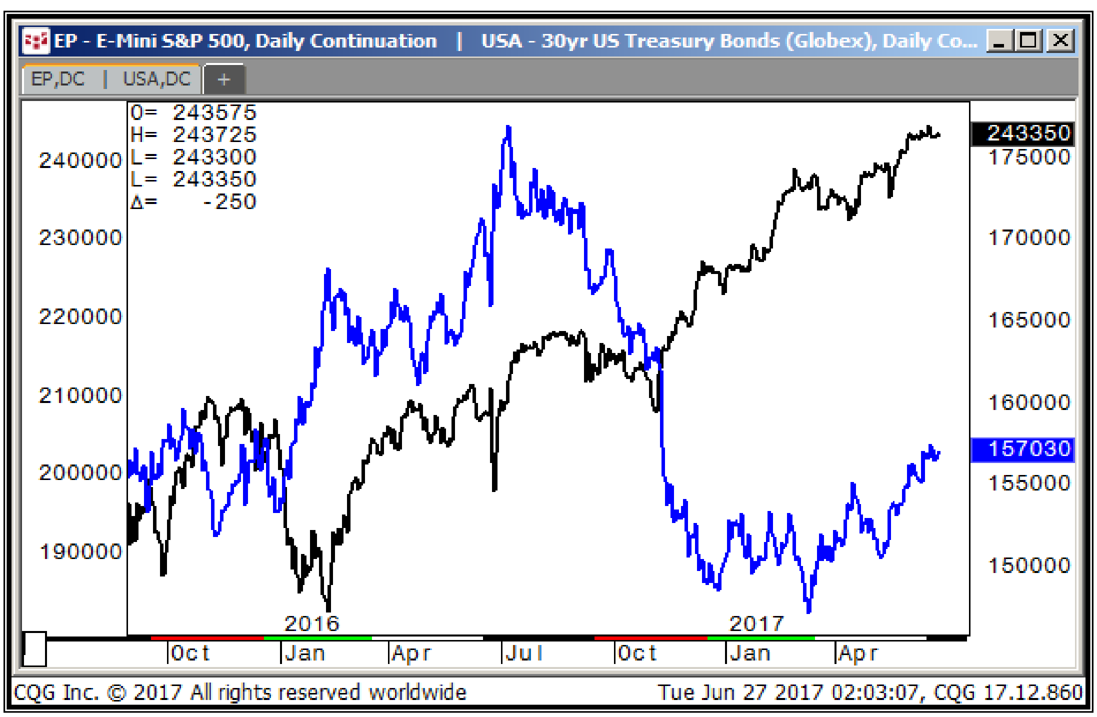
The FED is now raising rates, contemplating balance sheet reduction and even the BOJ and ECB are going to eventually have to pull back the reins. Now it doesn't take too much thought to think that asset prices should be adversely effected from their current policy moves. Considering our chart, one might heed a word of caution that the winds of change may be upon us and some caution should be warranted. It is certainly justified, that we are sure of.

Then the other question becomes, why now? Why now does the FED feel that it can raise rates and reduce balance sheets? The macroeconomic indicators and even the bond market is stating otherwise. So, what are we missing? We will give the FED the due credit in achieving maximum employment and stable prices, even if the data is somewhat manipulated. However, upon that success, the FED has decided to move forward with increasing rates, the why maybe more of a shot in the dark, but as always, we are willing to take a stab at it. We know the FED doesn't come out and say that they target asset prices, but by default isn't QE designed just for that cause? We also know the FED itself denies that its policies cause boom and bust cycles, but we know they do. It has to, when you control the monetary spigot you control to certain extents access to capital and thus access to leverage. So, we know the truth even if they don't come out to say it.

So why raise now? We think it has more to do with the loftiness of the markets, but more importantly the **overall costs to maintaining such lofty levels**. It takes more resources and more capital to continue to buy new highs, right? Now if you pull back the throttle, well then, that resource doesn't become so formidable and speculators have to work a bit harder to come up with the leverage and credit to keep the process going. All in all, it takes more credit creation, more debt creation to sustain higher and higher prices. Well there are limits and when limits are reached, the tell-tale sign becomes distortion. Most notably **distortion in income inequality**. We view that as the single largest indicator and we are quite sure that distortion here in the US is at historical highs. The masses cannot keep up with daily expenses and the ultra wealthy can only buy so many homes, jets, cars and jewelry. Like all things there are limits.

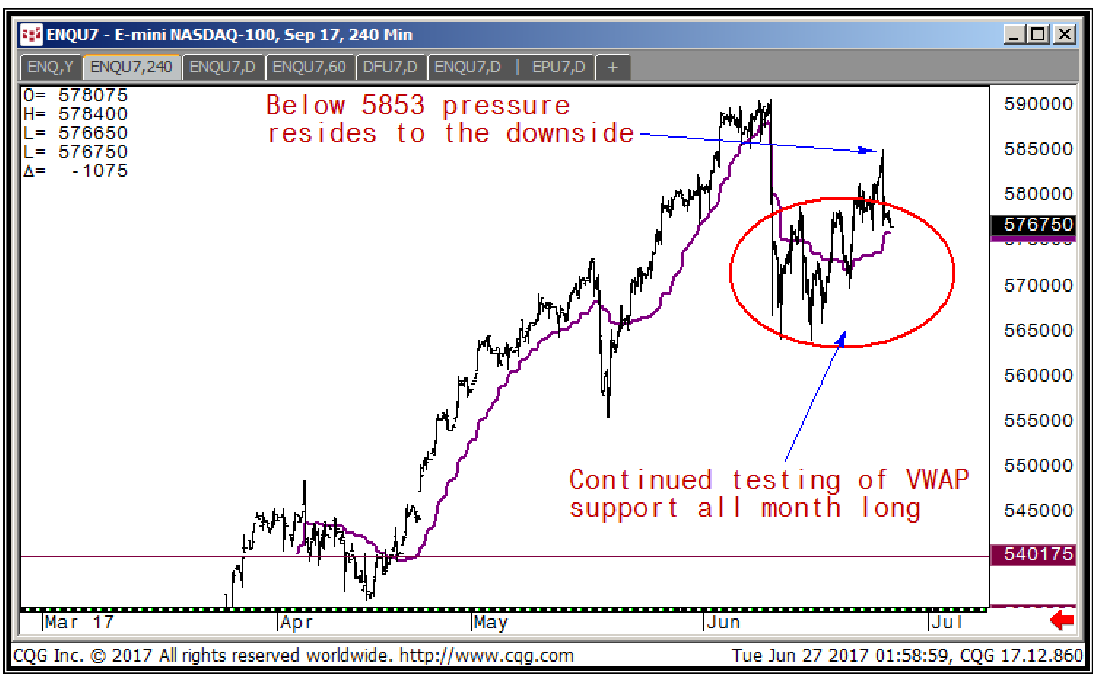
So the FED recognizes the expensiveness if you will and it also knows full well that after every expansion comes a recession and we believe it is in this inevitability that the FED is going to embark on its credit tightening path. Hey just on the pure mathematics side, we don 't think it's appropriate, but the FED has an agenda and if it knows it can't stop what's coming, then continuing the rate hike path shouldn't change much of the outcome. What it does change is it greater enhances the FED's ability to provide stimulus when that day of reckoning comes and it will come. **So, let's just say the FED is buying itself some latitude**.

We feel that the FED will probably have to drop rates to zero again in the future, whether it has the ability to or not remains to be seen, but that's a story for when the time comes. **Right now, the FED has decoupled itself from the markets** and is stating fully and distinctly the path will continue whether you believe it or not.   This next chart shows the US Bond Future (Blue line) vs the EMini SP500 you can see they have been both moving higher. equity markets which have stagnated somewhat here while the bonds continue to advance:



When we look at the equity market particularly the SP500, the 2425 area becomes very important from a technical standpoint as it may open the door to further downside if further probes into it continue. We could see the start of a move toward 2375:

The Nasdaq market has come under attack recently and even BofA has confirmed in its equity flows analysis that its seen better selling in the FAANGs over the last 3 weeks. As for the futures chart, we drew a big red ellipse around our area we view as highly significant if it breaks:



The US Government 10 year note in yield has sought out lower yields for the better part of the last 2 months. It now resides within its range, which is encapsiulated between 2.30% and 1.91%. We should expect it to range around in here as it awaits further confirmation or disappointment from the FED:

We will finish the charts with the Crude contract, everyone is looking at $40, its important both on a fundamental basis and a technical basis. We agree that it is in sight, but buyers most likely parked in and near that level. The Fibs are backing this level up and we would expect a decent fight on any attempt. The down move should be settling in here and we would be more inclined to back stop ourselves against this level for a potential rebound:

As always, we hope you enjoy our analysis and we hope that it adds some thought provoking concepts to your day. We know summer is in full swing but we will do our best to keep you involved and engaged in hopes that we capture market moves and break them down so that you can make sense of it all. We often talk about subjects that the main street media often leaves out. We hope to uncover potential market moves via alternative style thought processes which are continually on the lookout for new and exciting developments. In the past, our readers were some of the first to get exposed to the Blockchain Technology and Bitcoin, far before anyone else picked them up. We are excited to continue to bring our readers the type of quality and quantity that you can't find every day. **<u>We hope you stay the course and even send us your input as we are all in this together and by sharing collectively our inputs and ideas, we can better align your interests with ours.</u>** Below you will find the weekly settlements of some of the markets we keep a close eye on. Crude is the standout loser so far on the year, Bitcoin the big winner and the Nasdaq holding strong…for now! Cheers

23-Jun		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	Change
US 30yr Govt	2.71%	-7 bp	2.5%	11.1%
US 10yr Govt	2.14%	-2 bp	0.7%	12.0%
US 5yr Govt	1.76%	1 bp	-0.7%	8.8%
SEP Bond	156-20	1'00	0.6%	5.8%
SEP Ten Yr	126-23+	-0'00+	0.0%	2.7%
SEP Five Yr	118-11+	-0'01	0.0%	1.6%
SEP SP500	2435.00	4.00	0.2%	9.2%
SEP DOW	21339	6.00	0.0%	8.6%
SEP Nasdaq	5812.25	128.25	2.3%	19.5%
SEP Nikkei	20130	155.00	0.8%	5.7%
SEP Dax	12725.5	(8.50)	-0.1%	10.8%
Shanghai Comp	3157.87	34.71	1.1%	1.7%
AUG WTI Crude	$43.01	(1.96)	-4.4%	-24.6%
AUG Gold	$1,256.40	(0.10)	0.0%	8.3%
JUL Silver	$16.65	(0.01)	-0.1%	3.8%
SEP Dollar Index	$96.94	0.07	0.1%	-5.0%
SEP EURO	112.49	0.00	0.0%	5.8%
SEP YEN	90.220	(0.37)	-0.4%	4.5%
Bitcoin (BTC)	$2,708.00	$256.53	10.5%	184.0%

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

Capital Trading Group, LLLP ("CTG") is an investment firm that believes safety and trust are the two most sought after attributes among investors and money managers alike. For over 30 years we have built our business and reputation in efforts to mitigate risk through diversification. We forge long-term relationships with both investors and money managers otherwise known as Commodity Trading Advisors (CTAs).

We are a firm with an important distinction: It is our belief that building strong relationships require more than offering a well-rounded set of investment vehicles; a first-hand understanding of the instruments and the organization behind those instruments is needed as well.