



Market in a Minute

October 3, 2017

Index Performance: As of Sep. 29, 2017

Index	Price	Last Week	YTD
Dow Jones 30	22405	0.2%	13.4%
S&P 500	2519	0.7%	12.5%
NASDAQ	6496	1.1%	20.7%
Russell 2000	7310	2.8%	10.9%
Russell 2000 Growth	6353	2.6%	16.8%
Russell 2000 Value	11354	3.0%	5.7%
Russell 1000 Growth	1208	0.7%	20.7%
Russell 1000 Value	1473	0.8%	7.9%
Shanghai SE Index	3507	-0.1%	7.9%
SPDR Gold Shares	121.58	-1.3%	10.9%
GS Crude Oil Total Return	5.38	1.9%	-15.0%
Powershares US \$ Index	24.18	1.0%	-8.6%
iShares EAFE Index	68.48	0.1%	18.6%
iShares Barclays 20+ Yr Treasury Bond	124.76	-1.1%	4.7%
Utilities Select Sector ETF	53.05	-0.3%	9.2%
Vanguard REIT ETF	83.09	0.7%	0.7%
iShares Mortgage Real Estate	46.84	-1.2%	11.4%
Wells Fargo BDC	21.98	2.4%	-3.1%
Alerian MLP ETF	11.22	1.0%	-11.0%
iShares Global Telecom	60.38	-0.1%	2.8%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	1018	1.0%	26.0%
Consumer Disc.	717	0.6%	10.8%

A Word on the Market by Pat Adams, CFA

The proposed tax overhaul was as we expected with the most important part being the corporate rate dropping to 20%. We believe if things are passed the way they are proposed it will be very stimulative. Some of the issues are the non-deductibility of state income tax and property tax, which puts high cost states like California and New York at a big disadvantage. The impact to earnings for the S&P 500 is about a 7% increase in earnings. For international companies, it is much less as their earnings would now be taxed, and for domestic companies it improves earnings by as much as 20%. The benefit favors smaller companies versus larger, and value stocks more than growth. With the overall market at 19 x earnings, before the benefit of the tax bill, much of the positive impact has likely been discounted into the valuation, in the short term. The U.S. Senate has some odd ball members on the fringes of both parties, it is hard to figure out the likelihood of passage. At this point, we would make the assumption it passes.

If the tax bill passes as it currently is, the Federal Reserve's policies of raising rates and letting \$2 trillion of their balance sheet roll off seem likely to occur. Interest rates are very likely headed higher, and perhaps significantly over time into the normal range of 4%-6% for the 10-year Treasury. We estimate the lower taxes could add about 1% in additional GDP growth and pressure inflation higher. As a result, nominal GDP will likely increase from around 3%-3.5% to 4%-5%. That type of growth is not in the bond market. There is not a lot of excess capacity in many industries so inflation may be surprisingly higher than expected if growth picks up.

We are now entering October, the month when bear markets have occurred suddenly. We got through September a lot better than we thought. We have high stock valuations, yields on bonds that do not resemble the stimulus to come out of Washington, a Federal Reserve that is taking an incredible amount of stimulus out of the system (maybe this completely offsets the benefits of the tax cuts), geopolitical issues with N. Korea, and the VIX at historically very low levels. On the other hand, earnings during the next several quarters should be strong, global growth is accelerating, there are no signs of a recession coming soon, and value stocks are cheap (so there are sectors in the market that can play catch up). A valuation

Consumer Staples	555	-0.1%	4.4%
Health Care	946	0.1%	18.7%
Financials	429	1.5%	11.0%
Industrials	604	0.2%	12.3%
Energy	507	1.9%	-8.6%
Telecommunications	162	0.5%	-8.1%
Utilities	269	-0.5%	9.0%
Materials	356	0.4%	14.1%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	1.25	5-Year	1.92
3-Month	1.06	10-Year	2.33
6-Month	1.20	30-Year	2.86
2-Year	1.47		

Source: Bloomberg.com

Economic Events This Week

2-Oct	ISM Index	57.8	58.8
2-Oct	Construction Spending	0.2%	-0.6%
5-Oct	Initial Claims	265K	272K
5-Oct	Factory Orders	1.0%	-3.3%
6-Oct	Nonfarm Payrolls	75K	156K
6-Oct	Nonfarm Private Payrolls	98K	165K
6-Oct	Unemployment Rate	4.4%	4.4%
6-Oct	Hourly Earnings	0.2%	0.1%
6-Oct	Wholesale Inventories	1.0%	0.6%

Source: Briefing.com

Economic Events Last Week

Date	Event
26-Sep	The Consumer Confidence for Sep. came in at 119.8 compared to expectations of 119.4

correction is likely to come soon, perhaps with the market falling 10%-15%, especially in the technology sector.

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26-Sep	New Home Sales for Aug. was reported at 560K which was lower than estimates of 577K
27-Sep	Durable Orders for Aug. was up 1.7% vs. consensus forecasts of 0.7%
27-Sep	Durable Orders ex-transportation for Aug. came in at 0.2% which was in line with expectations
28-Sep	GDP-Third Est. for Q2 was reported at 3.1% compared to forecasts of 3.0%
28-Sep	GDP Deflator-Third Est. for Q2 came in at 1.0% which was in line with estimates
28-Sep	Initial Claims for the week of 9/23 was reported at 272K compared to expectations of 275K
29-Sep	Personal Income for Aug. rose 0.2% which was in line with forecasts
29-Sep	Personal Spending for Aug. was up 0.1% vs. expectations of 0.1%
29-Sep	The Chicago PMI for Sep. came in at 65.2 compared to estimates of 58.0
29-Sep	The Final Michigan Sentiment for Sep. was reported at 95.1 vs. forecasts of 95.4
Source: Briefing.com	

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