



Market in a Minute
May 16, 2017

Index Performance: As of May 12, 2017

Index	Price	Last Week	YTD
Dow Jones 30	20897	-0.5%	5.7%
S&P 500	2391	-0.3%	6.8%
NASDAQ	6121	0.3%	13.7%
Russell 2000	6743	-1.0%	2.3%
Russell 2000 Growth	5808	-0.5%	6.8%
Russell 2000 Value	10567	-1.4%	-1.6%
Russell 1000 Growth	1125	0.0%	12.4%
Russell 1000 Value	1401	-0.7%	2.7%
Shanghai SE Index	3237	-0.4%	-0.4%
SPDR Gold Shares	116.83	-0.2%	6.6%
GS Crude Oil Total Return	5.18	4.6%	-18.2%
Powershares US \$ Index	25.61	0.7%	-3.2%
iShares EAFE Index	65.24	-0.5%	13.0%
iShares Barclays 20+ Yr Treasury Bond	121.39	0.1%	1.9%
Utilities Select Sector ETF	51.74	0.0%	6.5%
Vanguard REIT ETF	81.28	-1.3%	-1.5%
iShares Mortgage Real Estate	44.98	-2.2%	6.9%
Wells Fargo BDC	22.32	-2.8%	-1.6%
Alerian MLP ETF	12.24	-1.4%	-2.9%
iShares Global Telecom	59.38	0.3%	1.1%

Source: Bloomberg & MSN, Returns are appreciation only.

S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	952	1.1%	17.8%
Consumer Disc.	715	-0.3%	10.4%
Consumer Staples	564	-0.5%	6.1%

A Word on the Market by Pat Adams, CFA

We are finding a lot of very attractive securities in the value area of the market. What we mean as a value stock is one that has a high dividend yield, low price to book ratio and or a low price to earnings ratio relative to the market. A growth stock is one that has higher than market earnings growth, yet also higher than market valuation. We are in the part of the market cycle where growth stocks are trading at extremely high valuations relative to history versus value stocks. At the bottom of a bear market the premium for growth versus value is typically very low, and favoring growth makes sense. We believe, due to the extended bull market of over 8 years, the second longest in history, and with slow economic growth during this period, it has pushed growth stocks to an unsustainably high valuation level. Value toward the end of a bull market is generally more attractive and the place to move money to on a relative basis. Value should hold up much better when the market turns into a bear. As we have mentioned there are a lot of cheap stocks in the value sector of the market. The short sellers really took advantage of a lack of liquidity in the market during this earnings reporting season. We listen to as many earnings conference calls as possible, in many cases the decline in the shares of companies do not match the tone of the conference calls. Over the past 10 years growth measured by Russell 3000 Growth has outperformed Russell 3000 Value by 3 times. The year to date chart below is the Russell 3000 Growth, up 11.83%, versus Russell 3000 Value up only 2.13%.

Russell 3000 Growth (BLUE)
Russell 3000 Value (GREEN)



Health Care	869	-1.0%	9.1%
Financials	390	-1.3%	1.0%
Industrials	568	-1.2%	5.5%
Energy	497	0.4%	-10.3%
Telecommunications	157	-0.6%	-10.9%
Utilities	262	-0.2%	6.1%
Materials	330	-1.7%	5.7%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	0.75	5-Year	1.85
3-Month	0.88	10-Year	2.33
6-Month	1.03	30-Year	2.98
2-Year	1.29		

Source: Bloomberg.com

Economic Events This Week

16-May	Housing Starts	1255K	1215K
16-May	Building Permits	1270K	1260K
16-May	Industrial Production	0.3%	0.5%
16-May	Capacity Utilization	76.2%	76.1%
18-May	Initial Claims	240K	236K
18-May	Philadelphia Fed	18.5	22.0
18-May	Leading Indicators	0.4%	0.4%

Source: Briefing.com

Economic Events Last Week

Date	Event
9-May	Wholesale Inventories for Mar. rose 0.2% compared to expectations of -0.1%
11-May	PPI for Apr. rose 0.5% which was higher than estimates of 0.2%
11-May	Core PPI for Apr. came in at 0.4% vs. forecasts of 0.2%
11-May	Initial Claims for the week of 5/6 were reported at 236K,

From MKM Partners, the average decline from the 52-week high from 1960 for the S&P 500 has seen an average annual decline of -16.66 per year. The worst years were 2009 down-52.58%, and 2008 off -50.37%, the lowest decline was -3.55% in 1964 and this year so far of only -2.80%. In our opinion, to keep this volatility low, the market needs to rotate into the value stocks. The technology companies are so extended it is not likely that these stocks can hold their gains. If we do not see a rotation into the areas of the market that have underperformed, like energy, financials, and consumer cyclicals, the market will likely correct significantly.

The Federal Reserve has made it clear that they plan on raising rates again in June, and desire to do it again later this year. It seems Trump needs to get his stimulus passed before the Fed does much more. There is very little demand to push inflation. Auto sales are weak, retail sales have also been very weak, commercial construction appears to be peaking, and housing demand can very easily weaken if rates continue to rise. The Fed needs retail sales to pick up to see inflation. We would expect an improving trend in the second half of the year. The retail stocks are extremely cheap. Their valuations are similar to what you would see at the bottom of a bad recession. We expect this sector will begin to improve.

We think we should discuss politics a little as it could be a serious problem. It does not seem like there really is not much to this Russian/Trump investigation, it seems very politically driven. If there actually is something there that links Trump you could see a very sharp gap down in the stock market as the stimulus plan or anything else would be dead for quite some time. If the investigation is put to rest with nothing material, the democrats will lose credibility with voters. Under that scenario, Trump will push hard for his best case. At this point we believe the downside significantly outweighs the upside as the market appears to be making the assumption all is going to get passed by Congress in some manner.

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	which was slightly lower than estimates of 242K
12-May	CPI for Apr. rose 0.2% which was in line with expectations
12-May	Core CPI for Apr. came in at 0.1% which was lower than consensus forecasts of 0.2%
12-May	Retail Sales for Apr. was up 0.4% compared to estimates of 0.6%
12-May	Retail Sales ex-auto for Apr. came in at 0.3% vs. expectations of 0.5%
12-May	Business Inventories for Mar. came in at 0.2% compared to forecasts of 0.1%
12-May	The Michigan Sentiment-Prelim for May came in at 97.7 which was slightly higher than estimates of 96.5
Source: Briefing.com	



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