



Market in a Minute

July 18, 2017

Index Performance: As of July 14, 2017

Index	Price	Last Week	YTD
Dow Jones 30	21638	1.0%	9.5%
S&P 500	2459	1.4%	9.8%
NASDAQ	6312	2.6%	17.3%
Russell 2000	6986	0.9%	6.0%
Russell 2000 Growth	6072	1.3%	11.6%
Russell 2000 Value	10849	0.5%	1.0%
Russell 1000 Growth	1167	2.1%	16.7%
Russell 1000 Value	1438	0.8%	5.4%
Shanghai SE Index	3375	0.1%	3.9%
SPDR Gold Shares	116.79	1.3%	6.6%
GS Crude Oil Total Return	4.88	6.3%	-22.9%
Powershares US \$ Index	24.62	-0.9%	-7.0%
Ishares EAFE Index	66.32	2.3%	14.9%
iShares Barclays 20+ Yr Treasury Bond	123.33	0.5%	3.5%
Utilities Select Sector ETF	51.92	0.8%	6.9%
Vanguard REIT ETF	83.08	1.3%	0.7%
iShares Mortgage Real Estate	46.61	0.9%	10.8%
Wells Fargo BDC	22.21	-2.2%	-2.1%
Alerian MLP ETF	12.05	0.9%	-4.4%
iShares Global Telecom	58.65	1.1%	-0.1%

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

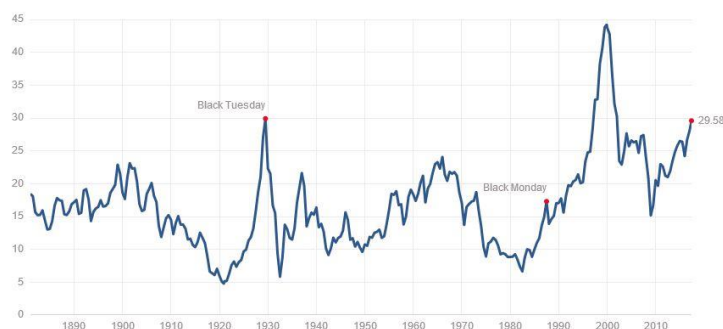
S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	981	3.8%	21.4%
Consumer Disc.	718	1.1%	10.8%
Consumer Staples	564	0.3%	6.1%

A Word on the Market by Pat Adams, CFA

We are entering the first big week of earnings reports this week. Last week the banks reported much better than expected earnings, but the stocks traded down. Technology, as a group, has been extremely strong this year. Microsoft (MSFT) is the first “real” technology company to report on Thursday. The consensus calls for just 3% earnings growth for MSFT and the stock has a P/E multiple of 23.4x 2017 earnings. We believe MSFT will be a good barometer for the market. We are starting to hear a lot of chatter about valuation and the lack of growth. If you take the easy comparisons of the energy sector out, earnings growth is about 4.8% in the second quarter for the S&P 500. For 2017, the S&P 500 is now valued at 18.7x earnings. This is very high historically. We like Shiller P/E as it takes out the noise and makes the chart smoother, but essentially all the P/E charts look very similar. This is the second highest valuation for the market except for 1999/2000.

Shiller P/E



The chart above has many market cycles showing the highs and lows for the valuations. What we point out is in most cycles you have enormous swings in investor sentiment. We believe we are seeing it in this cycle as well. This is the second longest market cycle in history, at almost 8.5 years. The chart below shows the greed and fear over a typical cycle. We are somewhere in the upper part of the chart. The FANG stocks sure reflect the “New Paradigm” sentiment. You have to ask yourself, where are we in this market cycle? It’s not an exact science unfortunately, but an art in terms of timing. The VIX, a measurement of

Health Care	926	1.0%	16.2%
Financials	413	-0.6%	6.8%
Industrials	594	1.2%	10.3%
Energy	482	2.1%	-13.1%
Telecommunications	149	-1.0%	-15.6%
Utilities	264	0.8%	6.8%
Materials	346	2.0%	10.9%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	1.25	5-Year	1.87
3-Month	1.04	10-Year	2.33
6-Month	1.12	30-Year	2.91
2-Year	1.35		

Source: Bloomberg.com

Economic Events This Week

19-Jul	Housing Starts	1160K	1092K
19-Jul	Building Permits	1196K	1168K
20-Jul	Philadelphia Fed	22.0	27.6
20-Jul	Initial Claims	245K	247K
20-Jul	Leading Indicators	0.4%	0.3%

Source: Briefing.com

Economic Events Last Week

Date	Event
11-Jul	Wholesale Inventories for May rose 0.4% which was slightly better than expectations of 0.3%
13-Jul	PPI for Jun. came in at 0.1% compared to consensus forecasts of -0.1%
13-Jul	Core PPI for Jun. was 0.1% vs. estimates of 0.2%
13-Jul	Initial Claims for the week of 7/8 came in at 247K which was slightly higher vs. estimates of 245K
14-Jul	Retail Sales for Jun. declined -0.2% vs. expectations of 0.1%
14-Jul	Retail Sales ex-autor for Jun. was down -0.2% compared to forecasts of 0.2%

sentiment, is near an all-time low, which leads us to believe a significant pullback is coming soon.

Market Cycles and Investor Greed and Fear



The area of the market that looks attractive and that could move considerably higher is the value stocks. Growth has outperformed value by 3x this cycle which is not sustainable. If Trump's stimulus plan ever gets approved the value stocks have a long way to go and could cause the market to go to new highs. The retail stocks look like they have been through a bear market. It looks like this sector has bottomed. Macy's real estate is worth far more than their stock, we don't see much downside in M and considerable upside, especially with a 6.8% yield. The banks are value stocks and they had great quarters, so far, but if they cannot go up on great earnings it concerns us for the entire market. If MSFT falls on good earnings, then it will be increasingly likely a correction may begin.

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14-Jul	CPI for Jun. was flat which was in line with estimates
14-Jul	Core CPI for Jun. came in at 0.1% vs. expectations of 0.2%
14-Jul	Industrial Production for Jun. was reported at 0.4% which was in line with forecasts
14-Jul	Capacity Utilization for Jun. came in at 76.6% vs. estimates of 76.8%
14-Jul	Business Inventories for May was 0.3% which was in line with expectations
14-Jul	The Prel. Michigan Sentiment for Jul. came in at 93.1 which was lighter than forecasts of 95.1
Source: Briefing.com	

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