



## Market in a Minute

January 3, 2018

### Index Performance: As of December 29, 2017

Index	Price	Last Week	YTD
Dow Jones 30	24719	-0.1%	25.1%
S&P 500	2674	-0.4%	19.4%
NASDAQ	6903	-0.8%	28.2%
Russell 2000	7554	-0.4%	14.6%
Russell 2000 Growth	6645	-0.3%	22.2%
Russell 2000 Value	11586	-0.5%	7.8%
Russell 1000 Growth	1303	-0.4%	30.2%
Russell 1000 Value	1551	-0.2%	13.7%
Shanghai SE Index	3463	0.3%	6.6%
SPDR Gold Shares	123.65	2.2%	12.8%
GS Crude Oil Total Return	6.54	4.1%	3.3%
Powershares US \$ Index	24.03	-1.0%	-9.2%
Ishares EAFE Index	70.31	0.3%	21.8%
iShares Barclays 20+ Yr Treasury Bond	126.86	1.7%	6.5%
Utilities Select Sector ETF	52.68	0.4%	8.5%
Vanguard REIT ETF	82.98	1.4%	0.5%
iShares Mortgage Real Estate	45.20	0.4%	7.5%
Wells Fargo BDC	20.76	-0.8%	-8.5%
Alerian MLP ETF	10.79	-0.5%	-14.4%
iShares Global Telecom	60.53	0.0%	3.1%

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

### S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	1106	-1.0%	36.9%
Consumer Disc.	785	-0.4%	21.2%
Consumer Staples	587	0.0%	10.5%

### A Word on the Market by Pat Adams, CFA

The S&P 500 is currently valued at 20.6x 2017 earnings, and 18.4x 2018 earnings. Obviously, after almost 9 years of a strong bull market, valuations are stretched. Putting on our rose colored glasses, you could make a case, (although the Federal Reserve is taking away the punch bowl), that the forward P/E multiple is fine at 18.4, and better than expected earnings will drive the market higher. It is very difficult to argue the multiple if the market goes higher. Under this still optimistic view, stocks can go up with strong earnings, but are volatile around or after earnings season.

A more realistic view on the market, interest rates will likely rise, therefore any surprise in earnings will be offset by a lower P/E multiple for the market. Thus, the market is essentially flat as earnings rise and P/E multiples fall. We believe, within the market itself a significant rotation is likely with value or yield oriented stocks. Value stocks have underperformed the market significantly last year and in 2014 and 2015, this is an area of the market that could play catchup to a very expensive technology sector. As an example of the underperformance, energy has far from recovered from the 2014 and 2015 energy bear market, and was down -3.8% last year. The Energy MLP sector was down -14.4% last year. There are some great values in this sector. The Business Development Companies (BDC) were down -8.5% last year. An example of an opportunistic purchase is MCC, trading at a 29% discount to NAV and the NAV has a potentially very significant markup coming on one of their investments. MCC also has a 12.3% dividend yield. The management company MDLY is a potential takeover target, which would be a big positive for both stocks and the BDC sector. Telecommunications was down -6.0% last year and REITs were flat. We see lots of opportunities in the value sector of the market, many stocks brutally punished by tax loss selling, particularly with the tax bill. We are a believer in inflation coming back next year as wages rise and certain sectors of the economy have limited capacity to meet demand. Rising inflation is considered to be a good thing for value stocks.

Health Care	956	-0.4%	20.0%
Financials	464	-0.5%	20.0%
Industrials	638	0.2%	18.5%
Energy	533	0.2%	-3.8%
Telecommunications	166	-0.3%	-6.0%
Utilities	267	0.3%	8.3%
Materials	379	0.1%	21.4%

Source: Bloomberg website, Returns are appreciation only.

#### Interest Rates

Fed Fund	1.25	5-Year	2.20
3-Month	1.39	10-Year	2.40
6-Month	1.53	30-Year	2.74
2-Year	1.89		

Source: Bloomberg.com

#### Economic Events This Week

<b>3-Jan</b>	ISM Index	58.0	58.2
<b>3-Jan</b>	Construction Spending	0.7%	1.4%
<b>4-Jan</b>	Initial Claims	239K	245K
<b>5-Jan</b>	Nonfarm Payrolls	188K	228K
<b>5-Jan</b>	Nonfarm Private Payrolls	185K	221K
<b>5-Jan</b>	Unemployment Rate	4.0%	4.1%
<b>5-Jan</b>	Avg. Hourly Earnings	0.3%	0.2%
<b>5-Jan</b>	Factory Orders	1.4%	-0.1%

Source: Briefing.com

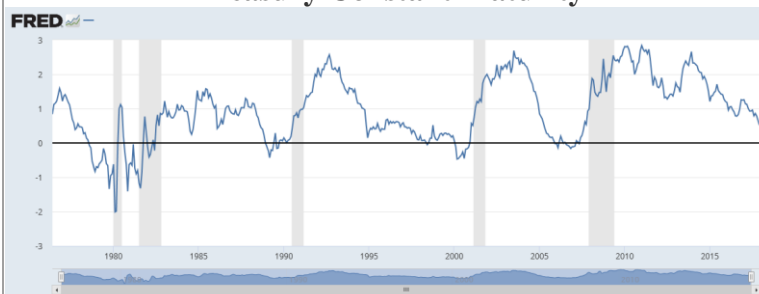
#### Economic Events Last Week

Date	Event
<b>27-Dec</b>	The Consumer Confidence for Dec. was 122.1 compared to estimates of 128.0
<b>28-Dec</b>	Initial Claims for the week of 12/23 came in at 245K which was higher compared to forecasts of 238K
<b>28-Dec</b>	The Chicago PMI for Dec. was reported at 67.6 vs. expectations of 61.9

Source: Briefing.com

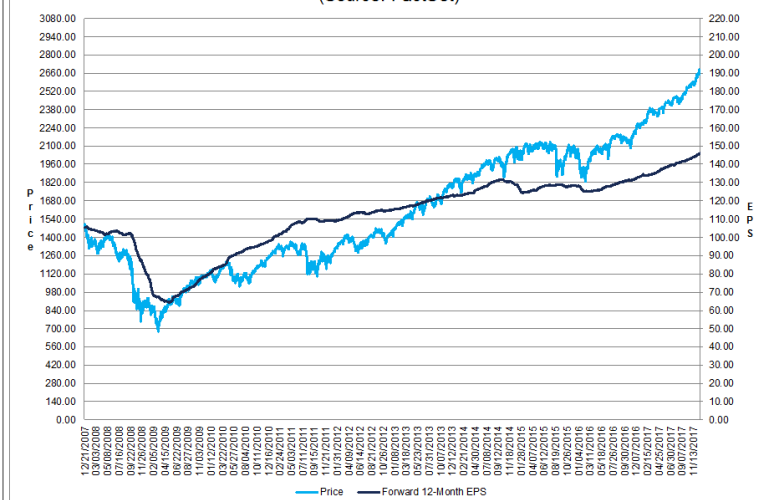
We are very concerned about rising inflation, inflated stock valuations, bond yields globally being silly low, and the Federal Reserve raising interest rates and shrinking their balance sheet. What has always killed the stock market and caused a recession is the inversion of the yield curve. Below please see the spread between the 10 Year Treasury and the 2 Year Treasury. We are not far from inverting. With all the stimulus coming from Trump it would be hard to believe a recession will occur next year, but the short term demand for money may be very different from the long term demand, thus an inversion.

#### 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



#### S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.

(Source: FactSet)



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