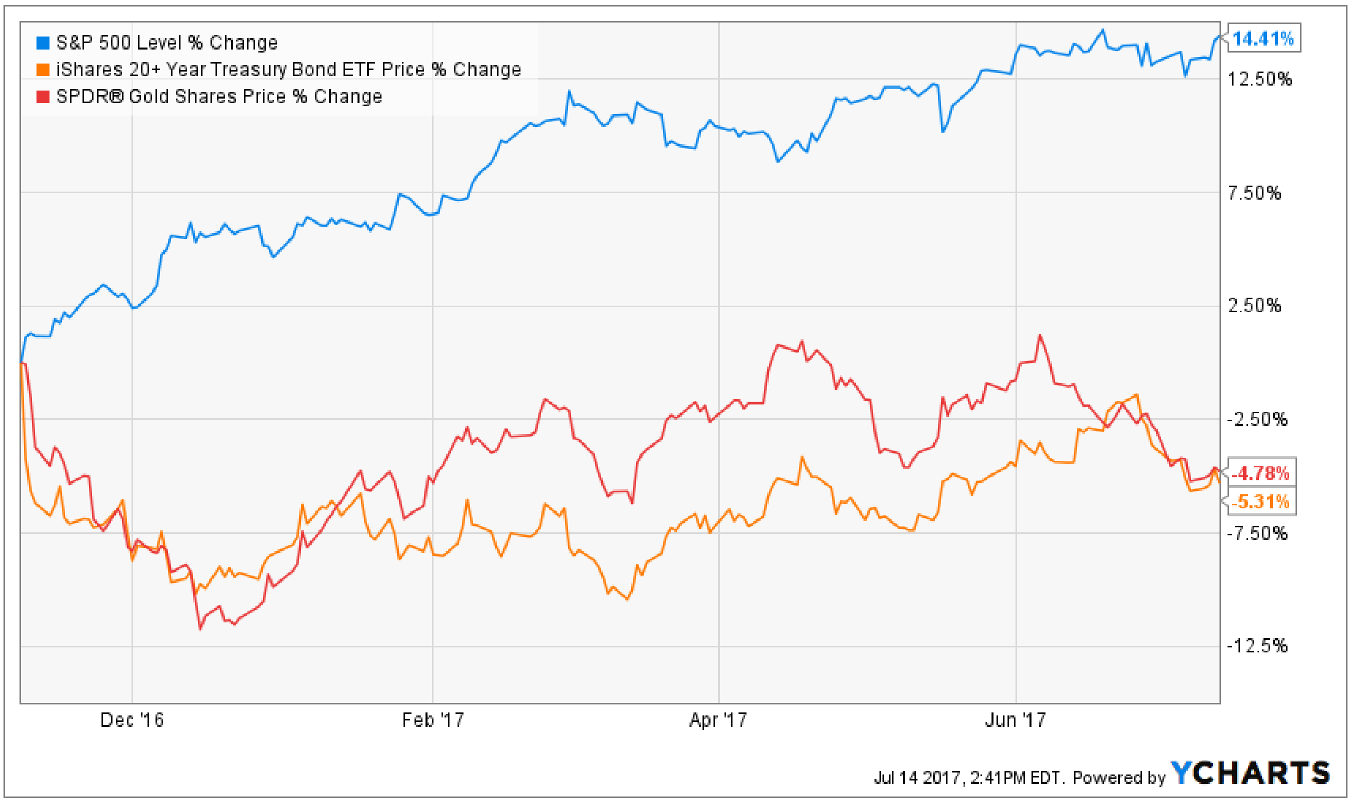
Market Update

July 14, 2017

Equity Markets Continue to New All Time Highs

U.S. equity markets continue hitting new all-time highs today. Since the beginning of this year the S&P 500 is up 8.42% and up 14.41% since the election as of the close of trading on July 13, 2017. The blue line in the graph below indicates the S&P 500. Bond prices are down 2.96% for the year and 5.31% since the election as indicated by the orange line in the chart below, which is for TLT a proxy for long term bonds. We have seen an up-tick in interest rates since last month and a bit of steepening of the yield curve. The redline in the chart below is for GLD a proxy for the price movements of gold. Gold has continued its slide further down into negative territory which may be further indication that investors are less worried about the economy both domestically and globally.



Information in this chart above was taken from sources we believe to be reliable; however, we do not guarantee its accuracy or completeness.

In last month's market update, I mentioned the equities markets may now be fueled by the continued improvements in the employment markets, strong corporate earnings, still historically low interest rates, and a Federal Reserve that has so far been extremely measured in their approach. These themes indicate why the market is where it is today and why there is confidence that they may continue to move in a positive direction for some time. As also mentioned, markets are still looking forward to a tax reform bill being passed and a healthcare bill being passed which could add a little bit more fuel to the markets.

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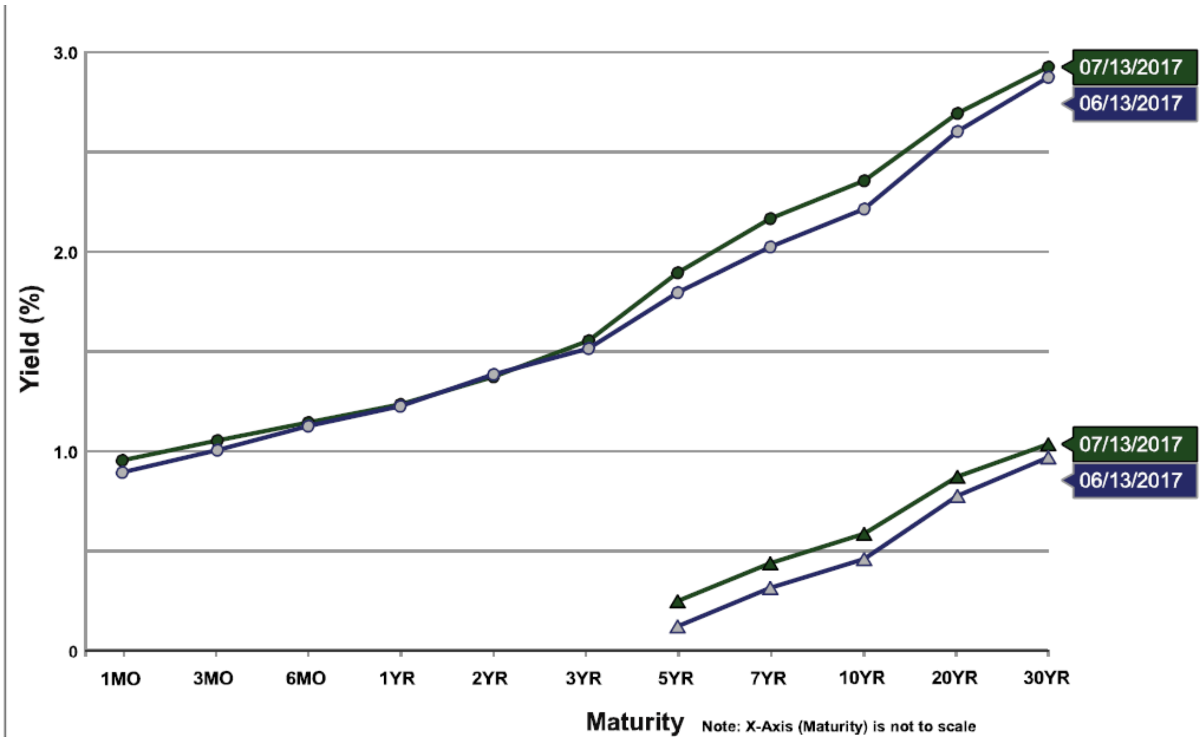
Historically, the treasury yield curve is one of many good indicators of the health of the U.S. economy. The steepening of the yield curve is often look at as a very positive sign. Banks can make better profits on the loans they make as the yield curve steepens which often leads to more lending or supply of capital in the economy.



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Source: https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-Yield-Data-Visualization.aspx

As we see in the chart above, the latest yield curve compared to one month ago has steepened. Paying attention to the shape of the yield curve has historically been an excellent data point in understanding the health of the economy and markets. The current yield curve is normal where as you go out longer in maturity the rate of interest increases. Watching the yield curve for significant flattening and indication of inversion where short term rates end up higher than long term rates may indicate a softening economy and potential of a recession. Most protracted bear markets require a recession and typically very flat to inverted yield curves may provide an indication of one that is coming.

We are watching geo-politics and continue to look for opportunities to reduce equity risk (beta and standard deviation) through changes to the equity holdings inside client's allocations. We still prefer domestic equities over international equites, however, international markets especially developed international markets look attractive. Most all of our portfolios hold a percentage of their assets in international investments which should benefit from improved economic indications globally. We will continuously monitor the U.S. and Global economic environment for signs that indicate a reason to be more favorable toward international equities. As we stated before, we continue to look at ways to lower the risk of a rising interest rate environment and continue to make needed changes to further reduce duration risk in our fixed income holdings where appropriate. Maintaining a low duration/shorter maturity outlook for bonds and fixed income remains our view for the foreseeable future. Based on the current environment, we feel it is prudent to maintain the lowest duration and shortest maturities possible specific to investors individual needs.

If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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