Market Update

August 14, 2017

Economic Data Volatility Ahead After Hurricanes Harvey and Irma

The U.S. equities markets were in rally mode on the first trading day after Hurricane Irma made landfall in Florida. Partly, because the effects of the hurricane ended up being not as disastrous as predicted. One thing to remember is that not all the effects of this hurricane have come to bare just yet. North Korean tensions seem to have subsided a touch over the weekend, as an expected missile launch did not occur and diplomatic efforts are the seemingly favorable route. The S&P 500 is rallying and trading close to historical all-time high's. Treasuries and Gold are trading down today, but it is too early to tell if they are reversing a short term upward price trend that started in mid-July. The chart below shows the % change in the S&P 500 (blue line), Long Term Treasuries (orange line), and Gold (red line) since early November 2016.

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

Economic data will likely be volatile after the two recent hurricanes because as clean up and rebuilding efforts begin, certain segments of the local economies will see an uptick in activity, while others will take time to recover. Preparation activities for future natural disasters are likely to see an uptick country wide as people are reminded to take the opportunity to better prepare. These events tend to have a lagging effect in a positive manner for the economy.

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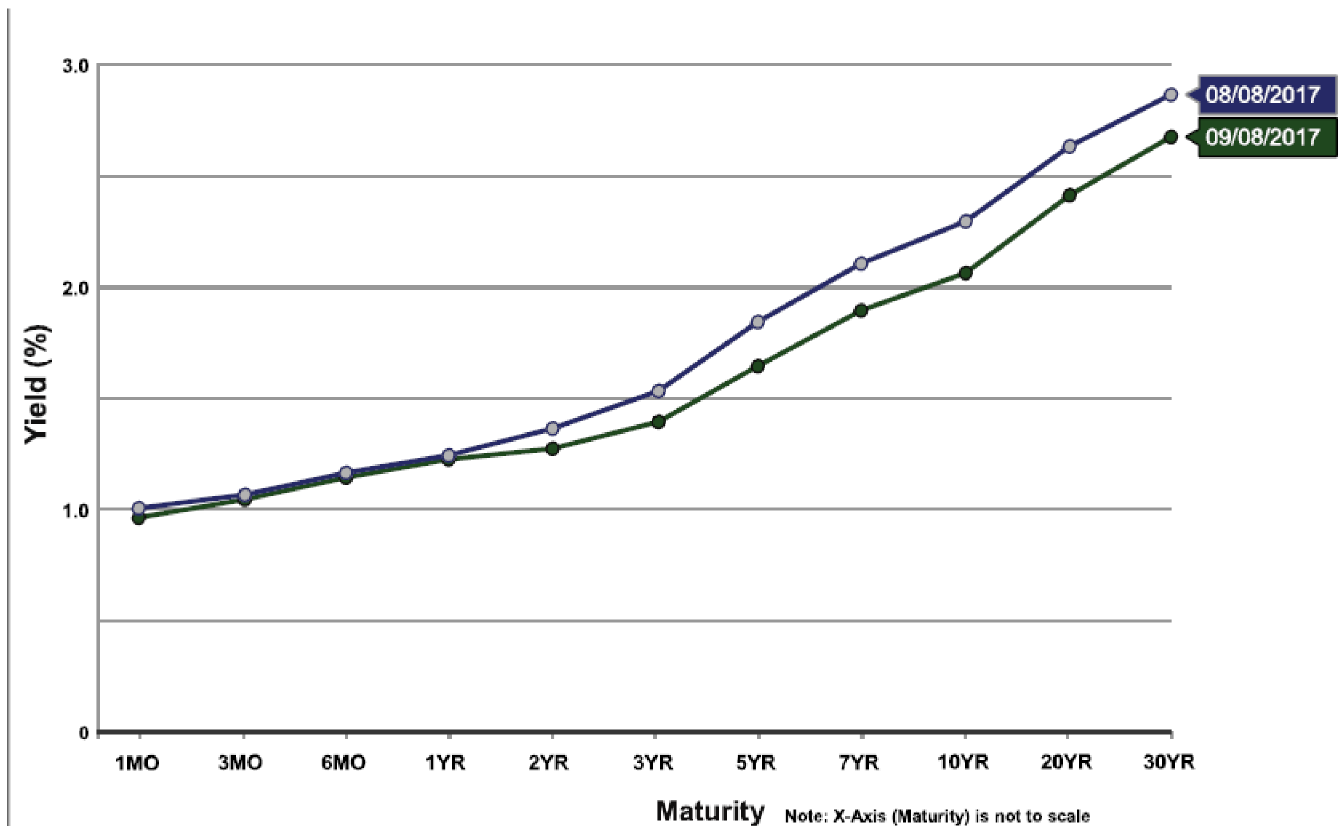

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The yield curve has shifted slightly since last month's, as the chart above indicates. Some uncertainty in the near-term path of interest rates also looms, due to diverging views among Fed officials and the upcoming departure of Vice Chair Stanley Fischer. Fischer has been more of an academic minded member of the Federal Reserve Board of Governors and we are yet to see who may replace him.

The markets have still not experienced a 5% or more pull back in 2017. While this may not be unprecedented, it is not the more traditional path of the U.S. equities markets. There is still plenty of hope for a tax reform package and repatriation package from congress. There is argument of what the effects of these packages might be, but most economists and market participants are bullish on the ideas. Also, and potentially more appealing, is a new spending package on needed infrastructure that could have a very positive effect on economic output.

As we have previously mentioned, 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 equities. International markets, especially developed international markets continue 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 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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