SELECTOR
Real-Time Money Management

Monthly Commentary

January 17, 2017

"Good investors gather information, put that information into current and historical context, then make sound decisions."

The Election Rally ran its course into mid-December, when another trading range captured domestic equities. In the past four weeks the S&P 500 has traded in a two percent range, reminiscent of the trading sequences in 2016. The good news is that thus far January is holding up very well. The other good news is that moving averages and trendlines continue to rise. In fact, bad news is conspicuous by its absence.

Equity markets are prepared to open up their first corporate earnings reporting season for the year. But as a result of the recent election and the considerable turnover in personnel, policies, and political positioning, all eyes seem to be on D.C. rather than Wall Street. Surprisingly, there is still considerable grumbling as we approach the Presidential Inauguration. Additionally, the news services seem to be struggling with their transitioning role of reporting news to the public, rather than leading the public to their agenda. But enough with the politics.

"January Barometers used to be the most talked about topic this time of year."

There has been very little distinction between large cap, mid cap, and small cap price action so far. All are sharing similar trading range restriction and all are enjoying similar technical pictures. Rising moving averages and trendlines should catch up to the prices in the next few weeks and it will be interesting to see if they budge higher or settle back to test the dramatic breakouts in November. From a market sector standpoint, the good news has been that the laggard real estate and utilities sectors have stabilized in the past four weeks. Consumer staples and health care, the other defensive sectors, have also found support and, while they are quite a ways from breaking out, do appear stable at current levels. Technology, energy, financials, industrials, consumer discretionary, and basic materials are all still enjoying the benefits of their breakouts to new highs.

International equities finally appear to be poised to join in the new year celebration. In the past few weeks, as domestic equities took pause, developed international equity markets have advanced to the top of their respective trading ranges. European equity markets are within one percent of a breakout. While initially this may incur a drawdown in domestic equity prices, there is no better bull market than a global bull market. U.S. equity markets would remain in the lead, but that nagging doubt about a lagging international commitment would be put to rest. No doubt the recent pullback in the U.S. Dollar has aided in the international recovery. Emerging markets have also been gaining in 2017 and, while they, too, remain range-bound, their technical picture is much improved.

The good news from the equity markets has also extended to the bond markets. After their very sharp pullback in November, a counter-move to the equity market's breakout, prices stabilized mid-December in the form of a sharp "V" recovery. Investment grade bonds have made a dramatic move the past four weeks, although they are still considerably off their highs last September. This has been a particularly nice move for municipal bonds, the first bond sector to reverse. High yield bonds, which had already advanced and broken out with equities, continue to hold their advantage. Bond markets got packed into the back seat of the car during the fourth quarter of 2016, as equities drove and rode shotgun into the new year, so this has been a welcome change.

January Barometers used to be the most talked about topic this time of year. The action in D.C. has stolen a good deal of their thunder as well. It also bears mentioning that the January Barometers were dead wrong by historical standards in 2016. Still, their long-term predictive ability is too impressive to be pure coincidence. In brief review, as the S&P 500 goes in January, so goes the year (last 57/66 years correct). Then toss in the January First Five Days indicator. As goes the first five days of January so goes the year (last 35/42 years correct). The first five days of 2016 the S&P 500 fell -5.92%, however the index closed up +11.96 % for the year. How did it fare the first five days of 2017? Up +1.34%. Of course, nobody invests solely based upon an almanac, especially a professional. It's just another marker stone in the garden, placed for casual reference.

Edward D. Foy
Manager, SELECTOR Money Management
www.foyfinancial.com, Ed@foyfinancial.com

©2017 Edward D. Foy

Sources: Bloomberg, Marketwatch.com, StockCharts.com