SELECTOR
Real-Time Money Management

Monthly Commentary
June 20, 2017

Slow and Steady

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

As expected, the May 17 equity market drop was a one-hit wonder/blunder. Large Cap market indexes climbed for the next six days in a row, making up the initial decline by day two. In fact, several large cap indexes have hit all-time highs in the last week. As we saw earlier in the year, all of the progress thus far in 2017 has been made by hitting singles and a few doubles. Equity markets are most certainly not overheated nor overbought. The mild rallies have been tempered by mild declines and short-term trading range action. Slow and steady is how this market is being managed, which is unusual but quite comfortable. There is no reason not to expect more of the same in the immediate future.

Mid Cap and Small Cap equity markets followed suit, but with diminished returns. Mid Cap equities have settled back into the shadow of Large Caps for the past couple of months. To continue with the baseball analogy, they have also been hitting singles and holding their trading range. But they have been striking out with runners on base twice as often as Large Caps. As a result, they have been less productive. Small Caps are barely swinging the bat. Like the Mid Cap sector, when they do get runners on base, more often than not they are being stranded as well. The Small Cap Growth sub-sector has been showing the most potential, but the numbers are not impressive. Year-to-date, the S&P 500 Large Cap Index is up +9.91%. Meanwhile, the S&P Mid Cap 400 Index is up +5.85% , and the S&P Small Cap 600 is up +1.63%.

International equities are managing to outperform their American cousins year-to-date. This is in spite of a variety of negative headlines including tariffs, government instability, terrorism, and the ongoing military action in the Middle East. It is very easy to rationalize reasons for not investing overseas. But the bottom line is that the biggest gains are being realized outside of the United States equity markets. The difference is that those gains are not slow and steady. European equities hit a big home run in late April and in spite of some relative weakness in June are still in a commanding lead. Emerging markets have been making slow and steady progress in the second quarter after a huge first quarter. Year-to-date the MSCI AC Europe Index is up +14.92%, while the MSCI Emerging Markets Index is up +17.85%.

From an industrial sector perspective, the equity leadership continues to rest with technology. That being said, the technology sector did take a surprising drop of its own on June 9th. There are significant long-term profits riding in this sector which can lead to some crowded profit-taking trading days. Health care has been particularly strong of late, as has the consumer and manufacturing sectors. This breadth of leadership is a big plus for the domestic equity market as we prepare for the second half of 2017. The weakest sector continues to be the energy group. The Dow Jones U.S. Oil & Gas Index is down -13.39% YTD on a price basis, as crude oil prices have declined over 18.86% from $53 to $43 a barrel.

Bond markets have also been working the slow and steady theme. In spite of two interest rate hikes by the Federal Reserve this year, every fixed income index that we monitor is in positive territory. International and global bond indexes have seen the best returns as they take advantage of the modest but steady decline in the U.S. Dollar. But domestic bonds are not far behind, with both high quality and high yield indexes putting up very respectable numbers. The municipal bond indexes are also showing slow and steady progress on the year. Meanwhile, short-term bonds and short-term interest rates continue to be the least attractive alternatives. The Bloomberg Barclays 1-2 Month T-Bill Index is up +0.27% YTD. The Bloomberg Barclays Municipal Bond Index is up +4.10%, the Bloomberg Barclays US Corporate High Yield Bond Index is up +5.08% and the Bloomberg Barclays U.S. Credit Bond Index is up +4.17%.

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Sources: Bloomberg, Marketwatch.com, StockCharts.com, Stock Traders Almanac