SELECTOR

Real-Time Money Management

Monthly Commentary

October 25, 2016

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

Equity markets have been carefully navigating the months of September and October. These are historically treacherous months for equities as institutional investors 'clean the closets' going into the end of the year. September included a mild correction followed by a mild recovery. The S&P 500 Index ended the month with a decline of only 2 points, or -0.09%. As of yesterday's close the S&P 500 Index was down 17 points for the month of October, or -0.78%, after another mild correction of -2.49% followed by another mild correction. This is actually quite tolerable, especially as we approach the election and the historically positive November, December, January period.

International equities have been mirroring domestic equity action for the most part, but emerging markets are making a strong showing. Led by the Latin equities markets, emerging markets are among the strongest sectors that we follow. Several of the emerging markets countries benefit by the rise in oil prices, as well as associated commodities. Accordingly, the domestic and international energy sectors have also been strong. We are also seeing good relative strength and technical strength from the technology sector, as several large cap technology companies have reported strong earnings for the third quarter. Another sector which has moved up is the financial sector. The prospect of an interest rate hike from the Federal Reserve in December, and into 2017, provides a healthy environment for the financial sector. Financial companies historically have benefited during periods of rising interest rates.

"Equity markets have been carefully navigating the months of September and October."

Bond markets have been particularly curious lately as the highest risk sectors have been significantly outperforming the high quality sectors. High yield bonds, emerging markets bonds, convertible bonds and long-term bonds are at the top of the leaderboard. Investment grade, intermediate term bonds are stuck in a trading range, while the entire municipal bond market has experienced a mild correction. Over the last three months the Markit iBoxx USD Liquid High Yield Index has gained +3.25%, while the Morningstar Emerging Markets Corporate Bond Index is up +2.03%. In contrast, the Markit iBoxx USD Liquid Investment Grade Index is down -0.17%, and the S&P National Municipal Bond Index is down -0.88%. That being said, every bond market index that we follow is in positive territory year-to-date.

A broad sector which bears mentioning is the transportation sector. This sector has been a long-standing cornerstone sector of the domestic equities markets. It earned specific honors by being one of the original Dow Jones indexes, known as the Dow Jones Transportation Index (DJTI). Along with the well-known Dow Jones Industrial Average (DJIA) and the Dow Jones Utilities Index (DJUI) these indexes are the foundation of the time-tested Dow Theory, which generally states that when all three of these indexes are moving in sync, either up or down, the rest of the market will follow. Year-to-date the Dow Jones Industrial Average is up +6.84%, and the Dow Jones Utilities Index is up +14.57%. The DJIA has been navigating a 'construction zone' the past couple of months after enjoying a nice summer. The DJUI is currently in a moderate correction, down -8.71% since hitting its yearly high in July. Meanwhile, the DJTI has been gaining strength and appears ready to break through resistance and perhaps revisit its highs of late 2014. It is a very interesting prospect.

The strength of the transportation sector is even more significant when you consider the implications. This sector includes those companies which move consumer and industrial products. When their business is picking up, the economy is picking up. And that paints an attractive picture for equity markets in general.

Edward D. Foy
Manager, SELECTOR Money Management
www.foyfinancial.com, Ed@foyfinancial.com
(800) 456-4380

Sources: Bloomberg, Marketwatch.com, StockCharts.com