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FINANCIAL FORUM

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Market Commentary

The "Teflon Market" continues marching on with the Nasdaq Composite hitting 6,000 last week, lead of course by the FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google). There is now talk that Apple, with a market cap of $775 billion, could become the first trillion-dollar company. Meanwhile, the combined market caps of the other four companies mentioned above now exceeds the gross domestic product (GDP) of either Australia or South Korea. Amazingly, this has occurred as most economic reports of late have disappointed. For example, the Commerce Department reported last week that first quarter GDP grew at a measly 0.7%, significantly less than forecasted and much lower than the 3% goal that politicians hope to achieve if tax cuts are enacted. The report showcases the declining trend in economic growth of recent years as 2015 and 2016's GDP has underwhelmed at 2.6% and 1.6%, respectively.

The weak first quarter GDP report begs the question, *"Where have all the consumers gone?"* With consumer spending making up about 70% of our GDP and with consumer confidence surveys hitting 16-year highs, you would think that retail sales would be soaring. Yet, month after month, in 2017, retail sales, including autos, have disappointed. Just this week, General Motors, Ford, Fiat Chrysler, and Toyota all reported another slowdown in sales and rising inventories. (GM is up to 100 days' worth of vehicles on car lots.) Even venerable motorcycle maker Harley Davidson is struggling as their first quarter sales dropped 14% versus a year ago.

Bottom Line: If economic growth slows in the near term, it could put downward pressure on stocks. Consumer confidence is a lagging indicator. When it peaks, it tends to mean households are satiated, i.e. no more pent up demand. The unemployment rate is another lagging indicator. When these two indicators can't get much better, and with a Federal Reserve in a tightening mode nine years into an expansion, it pays to proceed with a little caution.

When most people think about the "markets" their minds usually go to the stock market. But there are many other investment markets – bonds, commodities, currencies – to name a few. Currently, there is a disconnect between the stock market and those other markets. Let's take a look at what the various markets are telling us.

<u>Stocks</u>

Since the U.S. Presidential election, stocks have rallied to all-time highs on hopes that tax reform, decreased regulations, and infrastructure spending will create growth and lead to higher corporate earnings. Currently, stocks are trading around 19 times current year's earnings and 18 times next year's forecasts. However, as we discussed above and in last month's Forum, "soft" economic data is not being confirmed by "hard" data, leaving the market susceptible to a pullback if economic growth proves lackluster or politicians fail to enact pro-growth legislation.

<u>Bonds</u>

Since January, both stocks and bonds have been rallying. However, rallies in both of these markets often indicate two quite different scenarios. For stocks, the rally indicates investors' confidence in the economy and corporate profits moving forward. For bonds, the recent rally (bonds increase in value because interest rates

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are falling) indicates a lack of inflation and economic growth on the horizon. Bottom line, yields need to move higher to validate this stock market rally.

Currencies – The Dollar

After rallying approximately 10% in 2016, the dollar has weakened this year indicating the same weakness as the bond market. A strong dollar exudes strength and confidence in the U.S. while a weaker dollar projects a weaker economy, where perhaps, the Fed won't need to hike rates as often as previously indicated.

Commodities

Gold has rallied almost 10% this year as the reflation trade loses steam. The price action in gold remains very much a function of interest rates, and if the 10-year Treasury yield slips further back toward 2% that will be supportive of a continuation of the 2017 rally. There are many factors weighing on rates, and therefore gold, but the recent string of underwhelming economic data paired with political uncertainty have been the primary drivers of both bonds and precious metals.

Copper, the one metal said to have a PhD in economics because of its various industrial uses, has seen prices drop on a cautious global economic outlook and lack of progress in D.C. This trend lower in copper remains a warning sign for risk assets, such as stocks.

Oil has been oscillating around the all-important, psychological $50 mark as investors wonder: (1) Whether OPEC will extend their production cuts into the second half of the year, and (2) Will that even matter with U.S. and Libyan production increases offsetting more than half of the OPEC cuts. As of last week, U.S. oil production in the lower 48 states has increased by 500,000 barrels per day (b/d) while Libya has increased production to 760,000 b/d; 140,000 b/d above the levels at the end of March. Additionally, there was an unexpected build in gasoline stockpiles last week, which was another indication of bearish trends in the energy space.

Weekly Thought – Life

"Life isn't about finding yourself. Life is about creating yourself." George Bernard Shaw

Here's to new creations and to a tomorrow that is even better than today.

All the best,

Dan

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you know of anyone who would like to be added to this list or who might benefit from our services, please pass along our name. We are always looking for opportunities to meet and help great people like you.