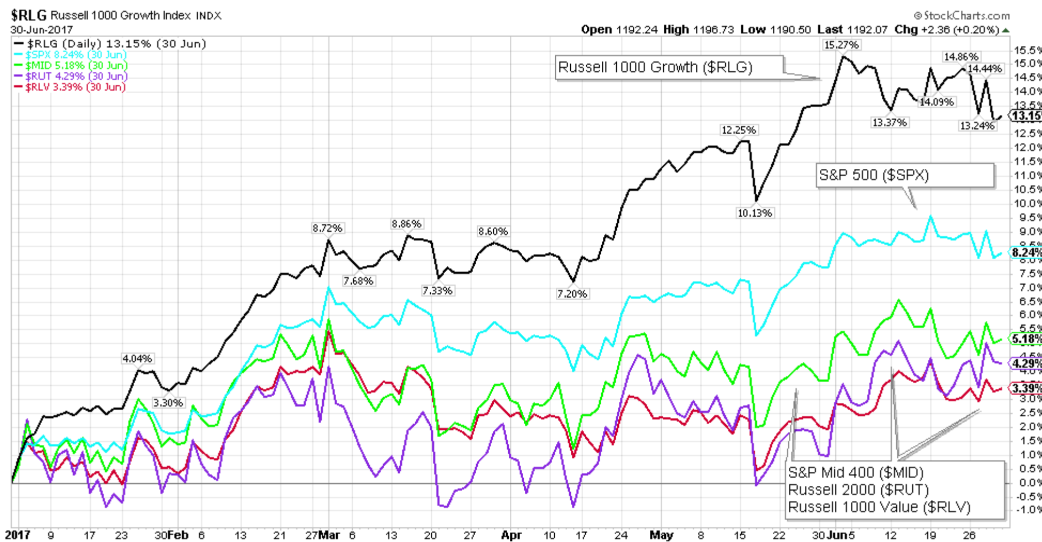
GBA Financial

Monthly Newsletter
July 2017

COMMENTARY

When taking a look at a few of the major US indices - Large Cap Core (S&P 500 index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Mid Caps (S&P 400 Mid-Cap index) and Small Caps (Russell 2000 index), it's easy to see that Large Cap Growth has been the winner so far as we reach the halfway point of 2017. Large Cap Growth is beating its Value counterpart by 8.86% YTD and a majority of the gains in the growth index have been concentrated in a few Large Cap technology growth stocks. Should we expect this kind of short-term performance to continue for the rest of 2017 and into 2018? It's possible, but we are seeing early signs of changes in the market that suggest a rotation from Growth to Value and from Large Cap to Small Cap. That said, these early signs of change could quickly turn back to favoring Large Cap Growth. We will need a little more evidence before this switch from Growth to Value and Large Cap to Small Cap is confirmed, but we are cautiously optimistic that the second half of the year will be a more broad-based market move.



In June, we saw two large news events that could have impacts on the financial markets moving forward: 1) the Federal Open Market Committee (FOMC) meeting announcement and 2) the United Kingdom (UK) election results. The UK election results ended in a hung parliament (which means that no political party has an absolute majority of seats in the parliament), the exact opposite of what Prime Minster Theresa May was hoping for when she moved for a snap general election. This puts another cloud over the Brexit negotiations that began in June, but this cloud might not bring much rain, as May might not be able to push Brexit talk as much as she would have liked with a majority in parliament. We could see a 'softer' Brexit compared to the 'hard' Brexit many expected before the snap election. Again, this adds another layer of uncertainty to the European and the UK markets, and we are eagerly waiting for signs of how the Brexit negotiations are going.

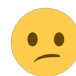
Here at home, the FOMC moved ahead and raised the Federal Funds target rate to 1.00-1.25% from 0.75-1.00%,

(continued on next page)

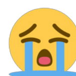
ECONOMIC HIGHLIGHTS

S&P 500	2,423.41
DJIA	21,349.63
NASDAQ	6,140.42
OIL	$46.04/barrel
GOLD	$1,242.30/ounce
10-YEAR TREASURY YIELD	2.30%
UNEMPLOYMENT	4.3%
GDP	1.4% (Q1 third estimate)
CONSUMER PRICE INDEX (CPI)	-0.1% / 12 month change: +1.9%
CORE CPI	+0.1% / 12 month change: +1.7%

Consumer Confidence: The consumer confidence report beat consensus range and continues to show strength. Hopefully the confidence transitions to spending (more on that below).



GDP: The first quarter is still running on the low side at 1.4% annualized, but it did get a small upgrade from previous estimates of 1.2%. Wage growth seems to be lacking even as unemployment continues to indicate full employment, which could be affecting consumer spending and GDP.



Retail Sales: First quarter consumer spending was weaker than the consensus estimates. Second quarter reports are also not very strong. This is troubling for a economy that is driven, in large part, by consumers.

(cont'd.) a move that was widely expected by the markets. The Fed also provided more details on how it would start to unwind its $4.5 trillion balance sheet if the economy continues to expand as they expect it should. As it stands now, the FOMC is reinvesting proceeds of maturing treasuries and mortgage-backed securities (MBS) back into treasuries and MBS. The plan is to start letting $6 billion per month of treasuries and $4 billion per month of MBS mature and roll off the balance sheet by not reinvesting the proceeds. Every subsequent quarter, the FOMC would increase the amount of treasuries and MBS it will let roll off without reinvesting until it has reached $30 billion per month in treasuries and $20 billion per month in MBS. The Fed has been able to absorb a large amount of treasuries and MBS by being a major player in the market. How does the market handle $10 billion per month less demand at the beginning of this process and $50 billion per month when the Fed reaches its max amount? As we work through this question and model the different scenarios of how this could play out, we are looking at all possible options to take in our fixed income model and also how it might affect the overall economy and the stock market.

Overall, the long-term view of the economy is strong with many indicators pointing to a bullish economy and strong stock market. U.S. Large-Cap stocks have been performing well the last two years and we expect this to continue but also believe that Small- and Mid-Caps are positioned to take the lead as risk appetite increases. With our shift to more exposure in Small-Caps, we believe this should benefit the portfolio over the next three to five years as an improving economy and strong balance sheets for U.S. consumers and businesses should continue to drive the economy forward. As investors' risk appetites grow, we believe this will also benefit Small-Caps. Emerging Markets have been preforming very well this year and valuations still look very attractive. We do believe there will be an opportunity to benefit from these valuations, but with all moves we need to find a spot to underweight in the portfolio to add to emerging market position. We also are maintaining our defensive position in International Developed markets, although economic data and stock market behavior are turning positive. The downside risk is still present as Brexit negotiations still are cloudy, but if economic data continues to improve, it might offset the downside that is present—stay tuned. Our Fixed Income positions have been weighted towards low duration, which historically tend to do better in a rising interest rate environment; we believe this is still the best positioning, as we think rates have more room to increase. As we analyze the impact of the Fed's reduction of the balance sheet, we continue to be tactically underweight to government treasuries and overweight to corporate, high-yield, floating rate, and global bonds. With our daily monitoring and proactive trading, we will continue to rebalance models when they fall outside their target threshold.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	3.09	17.90	9.61	14.63
MSCI EAFE	6.37	20.83	1.61	9.18
BARCAP AGG BOND	1.45	-0.31	2.48	2.21

Data as of 6/30/2017. Investments cannot be made directly into an index.

GBA Financial

Monthly Newsletter

This is not an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment-making decision. Opinions expressed are not intended as specific investment advice or to predict future performance. This information is not intended as investment or tax advice.

Securities and advisory services offered through Registered Representatives of Cetera Advisor Networks LLC, Member FINRA/SIPC. Some advisory services also offered through AdvisorNet Wealth Management. Cetera is under separate ownership from any other named entity.

Opinions expressed are not intended as specific investment advice or to predict future performance. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards, all of which are magnified in emerging markets.

Past performance is not indicative of future results. The stocks of small companies are more volatile than the stocks of larger, more established companies.