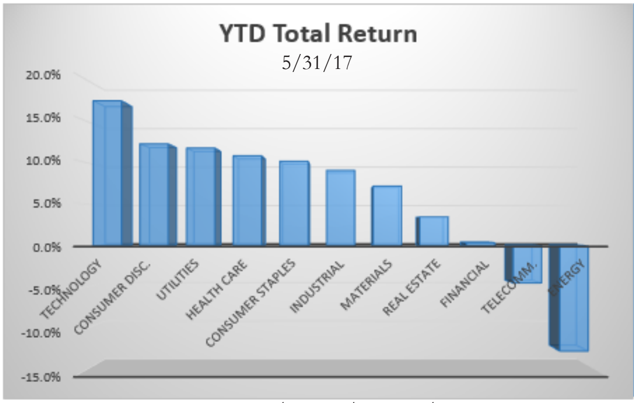
GBA Financial

Monthly Newsletter
June 2017

COMMENTARY

The S&P 500 is up 8.66% year-to-date (YTD) and it has been a pretty smooth ride, all things considered. The largest peak-to-trough in the S&P was -3.28% that occurred in March. The VIX (the CBOE volatility index futures, which shows the market's expectation of 30-day volatility) continues to hover around all-time lows, and the American Association of Individual Investors (AAII) Sentiment Survey (survey of individual investors on what the direction of the stock market will be over the next 6 months) is more neutral than bullish historically. The S&P has been grinding higher with small pullbacks before finding its way back up to new highs, but not all sectors are following this path. The chart below shows the YTD performance by all the S&P sectors. The Technology sector has been by far the best sector YTD, almost doubling the returns of the S&P 500 over the first five months of the year. But there are signs of weakness in Tech & the S&P 500, as a large amount of the returns are being driven from three out of the four largest weighted companies in Tech. When markets are hitting on all cylinders, you usually see broad base participation from more stocks, which isn't the case at this moment. Another example of this narrow breadth in the market is from the New York Stock Exchange Index (NYSE): less than 55% of stocks in the NYSE are above their 50-day moving average (short-term) and less than 65% above their 200-day moving average (intermediate-term). These are just a few indications that we are watching as we head into the summer, and we'll be looking to see if the rest of the market will be playing catch-up or if we will see a smaller pullback (5-8%). Long-term indicators still look very positive so any pullback could be used as a buying opportunity.



Technology	17.3%
Consumer Disc.	12.2%
Utilities	11.7%
Health Care	10.8%
Consumer Staples	10.1%
Industrial	9.0%
Materials	7.1%
Real Estate	3.5%
Financial	0.4%
Telecomm.	-4.5%
Energy	-12.6%

Source: advlypo.morningstar.com/Awse20/awsemain/awse-main-frame.aspx

Federal Open Market Committee (FOMC) minutes on May 24 communicated some guidance on how the Fed would start to unwind the $4.5 trillion balance sheet towards the end of the year or beginning of next year. The goal for the Fed is to limit the amount of Treasury and agency debt securities to maturity each month without reinvesting. By allowing only a limited amount to mature each month, it should be able to gradually reduce the balance sheet instead of letting mass amounts of securities roll off all at once which could cause some market mishap. Also, the Fed is playing a balancing act by trying not to tighten too much too fast, which could stop the economic recovery. The objectives that the Fed has are to maximize employment (we are pretty close if not there with unemployment at 4.4%), stabilize prices *(continued on next page)*

ECONOMIC HIGHLIGHTS

S&P 500	2,411.80
DJIA	21,008.65
NASDAQ	6,198.52
OIL	$48.32/barrel
GOLD	$1,275.40/ounce
10-YEAR TREASURY YIELD	2.20%
UNEMPLOYMENT	4.4%
GDP	1.2% (Q1 second estimate)
CONSUMER PRICE INDEX (CPI)	+0.2% / 12 month change: +2.2%
CORE CPI	+0.1% / 12 month change: +1.9%

Employment: The unemployment rate is at 4.4% and it seems like everywhere you look there are "Help Wanted" signs posted.

Housing Market: For sellers, this is a great market with low inventories and prices that are rising fast (too fast in our opinion - faster than income growth!). New buyers are being priced out of the market which could cause a drag on the economy, as consumers do lots of spending when buying a house for the first time.

GDP: First quarter GDP estimates got a bump from 0.7% annualized growth rate to 1.2%, but second quarter estimates have come down some, from the early 3-4% range down to 2%.

(cont'd.) (think inflation; we are still below the Fed's unspoken inflation target of 2.0%) and moderate long-term rates (looking good here, but trimming the balance sheet could affect this). Looking closer at inflation, Producer Price Index (PPI) both core and headline numbers are around 2.0% as well as both core and headline Consumer Price Indexes (CPI), but core and headline Personal Consumption Expenditure (PCE) numbers are around 1.6% and this is the main gauge the Fed looks at. On June 14 the FOMC is largely expected to increase the target rate from 75-100 bps to 100-125 bps and are projected to raise rates at least one more time this year. If the Fed does raise rates on July 14, it would be the third time in six months. Watch inflation data closely as we move toward the 3rd and 4th quarter; if we do not see PCE move closer to 2.0% and some more movement in wage growth, the Fed might pause on a third rate hike this year. Towards the end of the year, or early in 2018, the Fed will be using two mechanisms to tighten the economy: trim the balance sheet and increase Fed target rate. Increasing the Fed target rate will have influence on the short-end of the yield curve while the trimming of the balance sheet should have more effect on the long-end of the yield curve. The long-end is much harder for the Fed to manipulate than the short-end, so we'll see how unwinding the massive Quantitative Easing (QE) plays out when something like this has never been done.

Overall, the economy is strong and with many indicators pointing to a bullish economy and strong stock market, we maintain our year-end price target of 2520 on the S&P 500. 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. That said, we recently made the decision to increase the exposure to small-caps and reduce exposure to large-caps. We feel a shift into small-caps should benefit the portfolio over the next three to five years as an improving economy and strong balance sheets for US 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 valuations look very attractive, and we do believe there will be an opportunity to benefit from these valuations, but are in a wait-and-see mode regarding Trump and his policies on trade agreements. 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 could have major downside implications, but if improving economic data continues, 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 go. We continue to be tactically underweight to government bonds and overweight to corporate, high-yield, floating rate, and global bonds. With our daily monitoring and proactive trading, we'll continue to rebalance models when they fall outside their target threshold.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties.

MARKET TRACKER

Index	3 Mo	1 Yr	3 Yr	5 Yr
S & P 500	6.07	17.17	10.37	13.30
MSCI EAFE	7.39	12.25	0.96	6.32
BARCAP AGG BOND	0.82	0.44	2.68	2.34

Data as of 5/31/2017. Investments cannot be made directly into an index.

jen@gbafinancial.com
P 217.498.8575 or 855.778.8883
F 217.498.9299

GBA Financial
financial planning for retirement

Rochester Station
203 South Walnut / PO Box 528
Rochester, IL 62563