MEDALLION WEALTH MANAGEMENT

Where Trust is Earned

FIRST QUARTER COMMENTARY **APRIL 2017**

The first quarter of 2017 generated a highly bifurcated stock market. Large and growth were the places to be while small and value lagged significantly. The NASDAQ and S&P Growth indexes were up 10.1% and 8.5% respectively, while the S&P Value and Russell 2000 were up a mere 3.3% and 2.2% respectively. As may have been expected, the S&P 500 split the difference, rising 6.1% for the quarter. Breaking the returns down, the strength was very much focused on the large technology names with the S&P Technology sector up a whopping 12.6%. At the weaker end of the spectrum, the see-saw in Energy stocks continued with the sector down 6.7% for the first quarter of 2017 after posting a positive 27.4% return for calendar year 2016. Fed watching continued as a favorite pastime, with a quarter point increase in the Federal Funds rate having been engineered in the first quarter. This marks the third quarter point increase in the key money rate since the 2008-09 financial crisis and the first time in over a decade that the rate was increased in two consecutive quarters. In a departure from past tightening cycles, the increase was not driven by rising rates of inflation. In fact it's been just the opposite, as most commodity prices have continued to decline. The commodity price decline is being reflected in long-term interest rates as the yield on the 30 year Treasury declined three basis points in the quarter. As a result, the yield curve between 90-day Bills and 10-year Notes flattened by 30 basis points during the quarter. This somewhat unexpected curve flattening has taken some of the wind out of the sails of the financial stocks as the sector returned a meager 2.5% in the quarter versus a 21.1% return in the fourth quarter of 2016 when, in anticipation of higher rates, higher earnings were expected for the banking group. Internationally, emerging markets generated solid returns, with Spain up 11.9%, India up 11.2% and Hong Kong up 9.6% while the developed markets were more subdued. Japan's Nikkei 225 was down 1.1% and the FTSE 100 in the UK was up 2.5%. Political events have had minimal effects on the various markets, as the US absorbed the early days of the new administration, a missile strike on Syria and saber rattling between the US and North Korea with little fanfare. The UK has continued to manage through the Brexit vote with little disruption so far and the political contest in France is playing out as the polls seem to be predicting.

It has been somewhat amazing how little volatility there has been in the stock market since the beginning of the year. There was only one trading day in the first quarter when the S&P 500 moved more than one percent from high to low during the session. In the past when the market went through an extended period of low volatility, which have most often occurred during "bull" markets, they have generally been resolved higher. That's nice to hear, but there are no guarantees. In most of our separately managed portfolios, we have continued to favor the more economically sensitive sectors with increased weights in small cap and technology. We have also increased exposure to Europe and the Emerging Markets across most of our managed model portfolios international allocation during the quarter.
Whether the markets continue to advance into the seasonally weaker summer months or succumbs to some level of selling pressure is, we believe, dependent on the rate of growth in corporate earnings during the current and next earnings seasons and developments in tax reform plans, regulatory relief and the progress on the budget that comes out of Washington over the next quarter or two. Clearly little has shaken the confidence of market participants since the election but at some point patience will wear thin and actions to increase economic growth and productivity will be required.