



Market in a Minute

June 12, 2018

Index Performance: As of June 8, 2018

Index	Price	Last Week	YTD
Dow Jones 30	25317	2.8%	2.4%
S&P 500	2779	1.6%	3.9%
NASDAQ	7646	1.2%	10.8%
Russell 2000	8269	1.5%	9.5%
Russell 2000 Growth	7411	1.4%	11.5%
Russell 2000 Value	12428	1.6%	7.3%
Russell 1000 Growth	1427	1.8%	9.5%
Russell 1000 Value	1559	1.7%	0.5%
Shanghai SE Index	3212	-0.3%	-7.2%
SPDR Gold Shares	123.01	0.4%	-0.5%
GS Crude Oil Total Return	7.45	0.0%	13.9%
Powershares US \$ Index	24.64	-0.6%	2.5%
Ishares EAFE Index	70.40	0.6%	0.1%
iShares Barclays 20+ Yr Treasury Bond	119.53	-0.6%	-5.8%
Utilities Select Sector ETF	48.69	-3.0%	-7.6%
Vanguard REIT ETF	80.20	1.2%	-3.4%
iShares Mortgage Real Estate	44.29	1.0%	-2.0%
Wells Fargo BDC	20.51	0.9%	-1.2%
Alerian MLP ETF	10.47	0.7%	-3.0%
iShares Global Telecom	56.30	2.0%	-7.0%

Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance

Index	Price	Last Week	YTD
Information Technology	1256	0.7%	13.6%
Consumer Disc.	874	3.2%	11.2%
Consumer Staples	520	2.4%	-11.5%

A Word on the Market by Pat Adams, CFA

The Federal Reserve meets this week and it is widely expected they will raise rates by .25%, or to a level of 2% for the Federal Funds rate. The average of all the Federal Reserve director's expectations for interest rates is currently 2.1% for 2018, 2.9% in 2019, and 3.4% in 2020. This will likely change because of their meeting. The market is debating between 3 or 4 hikes this year, this will be the second. The market is discounting 3 hikes this year. The aggressive view is the FF rate is 3% by the middle of next year, and the current consensus is 3% by year end 2019. A 3% FF rate would be a big negative for the market in our opinion.

On Tuesday, CPI is reported, and on Wednesday, PPI. If the inflation numbers are too strong, then the market will have to think more in line with the aggressive view of 3% by middle of next year. We really do not think the market is ready for 3% on the short end. If everything stays in the same relative spread, then the yield on the 10-year treasury would be around 4% next year. For the bond market this would be a disaster and the stock market would need to take a big adjustment.

When the Federal Reserve increases interest rates it has a magnified impact on emerging markets. The reason, borrowing by emerging economies is done in dollars, as rates go up, generally the dollar goes up, and money moves back to the U.S. making it difficult to finance the current account deficits of emerging economies. It is also having an impact of European banks. By the way, the ECB meets on Thursday where they will discuss the end of their quantitative easing. The economy is currently very strong but monetary policy globally is being tempered. The economic winds are at our back, but the Central Banks are starting to blow a wind at our front, by this time next year it will be a strong wind at our front. In other words, do not fight the Fed.

Below is a chart of the iShares Brazil ETF, down about -19% YTD and -32% from the recent high. Brazil has been particularly hit hard.

Health Care	982	2.0%	2.7%
Financials	465	2.2%	0.3%
Industrials	641	1.6%	0.4%
Energy	565	0.7%	5.9%
Telecommunications	150	3.4%	-9.6%
Utilities	245	-3.2%	-8.4%
Materials	380	2.9%	0.2%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	1.625	5-Year	2.77
3-Month	1.93	10-Year	2.93
6-Month	2.12	30-Year	3.08
2-Year	2.50		

Source: Bloomberg.com

Economic Events This Week

12-Jun	CPI	0.3%	0.2%
12-Jun	Core CPI	0.2%	0.1%
13-Jun	PPI	0.3%	0.1%
13-Jun	Core PPI	0.2%	0.2%
13-Jun	FOMC Rate Decision	1.625%	1.875%
14-Jun	Initial Claims	223K	222K
14-Jun	Retail Sales	0.4%	0.3%
14-Jun	Retail Sales ex-auto	0.5%	0.3%
14-Jun	Business Inventories	0.3%	0.0%
15-Jun	Industrial Production	0.2%	0.7%
15-Jun	Capacity Utilization	78.1%	78.0%
15-Jun	Michigan Sentiment	99.0	98.0

Source: Briefing.com

Economic Events Last Week

Date	Event
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4-Jun	Factory Orders for Apr. declined -0.8% compared to estimates of -0.5%
6-Jun	Productivity-Rev. for Q1 was 0.4% vs. expectations of 0.6%
7-Jun	Initial Claims for the week of 6/2 were reported at 222K which was slightly lower than forecasts of 225K
8-Jun	Wholesale Inventories for Apr. rose 0.1% vs. estimates of 0.2%
Source: Briefing.com	

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