



Northport Investment Management, LLC
A Registered Investment Adviser

Market Commentary – 3rd Quarter 2017

It was another positive quarter for U.S. stocks. The Dow and S&P 500 have now advanced for eight consecutive quarters, and for six straight months. The NASDAQ Composite booked its fifth straight quarterly rise. For Q3 2017, the Dow rose 4.9% and the S&P 500 advanced by 4.0%. The tech-heavy NASDAQ Composite appreciated by 5.8%, closing at a record high for the 50th time this year. Year-to-date, the S&P 500 is up 12.5% (14.2% with dividends). A double-digit annualized growth rate for second quarter earnings, solid economic data and strengthening economies across the globe all continue to provide a lift for stocks. International equities continue to outperform (developed markets MSCI EAFE Index +4.8% in 3Q 2017, +17.2% year-to-date). Emerging-market stocks are on pace for their best year since 2009 (MSCI BRIC Index +12.8% in 3Q 2017, +30.4% year-to-date). Consumer Staples was the only one of the eleven S&P 500 sectors that was negative for the third quarter (-2.0%). Technology (+8.3%) was tops, preserving its place as the best-performing sector in 2017 (+26.0%). Second best Energy, although still down this year (-8.6%), rebounded in the third quarter (+6.0%), as oil prices stabilized.

In general, bonds moved higher in 3Q 2017, but gains over the quarter were tepid. Bonds were showing strength before selling off in late September (yields rose), when the Fed appeared to indicate that it would deliver another interest rate increase by year-end, and when the Republican leaders unveiled a tax plan that could significantly increase the federal budget deficit. Bonds were also swayed by the U.S. central bank's announcement that, for the first time in nine years, it would begin (in October) unwinding its \$4.5 trillion asset portfolio that had been built up to stimulate the economy. The yield on the benchmark ten-year Treasury note rose slightly, from 2.298% to 2.328% during the quarter.

We feel that interest rates will move higher, but that the Fed will continue to move gradually and deliberately. A gradual normalizing of interest rates will not derail the U.S. economy. Artificially low yields have deprived \$14 trillion in savings from earning any real interest. Moderately higher interest rates will be a positive for savers. Higher interest income will flow into the economy and contribute to economic growth.



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As good times roll on in the stock market, some investors are getting more and more concerned that, the higher we go, the harder we will fall. We are comforted by this level of concern, in that the stock market needs to ride a “wall of worry” to advance. It stops rising when we achieve “irrational exuberance”. Currently, we don’t see overwhelming optimism. At its heart, the stock market’s advance is due to improving world-wide economic fundamentals. We try to filter out all of the political “noise”, so that we can focus on these improving market fundamentals.

We always have concerns about the stock market. Current market risks at the forefront include the tenuous North Korea situation, the possibility of tax reform falling apart, and the possibility of a more hawkish Fed Chair replacement. Despite these concerns, we still see the stock market having growth potential from here. Economic factors kill bull markets. We currently do not see any shocks to the system on the near-term horizon. Equity prices are high, but not unreasonably high. We do not see a speculative bubble. Oil prices are stabilizing, but they show no signs of spiking. Consumer and business confidence, consumer and business spending, job growth and manufacturing activity, all appear to be improving. At the same time, we don’t see the Fed raising interest rates too quickly because there are few signs of accelerating inflation.

The U.S economy has bounced back after a weak Q1 2017, and should be able to cruise ahead for several more quarters at a 2% to 3% growth rate. If fiscal policy comes through in a stimulative fashion, growth could accelerate. If not, for a while we should still be fine. We remain overdue for a small market pullback. We would view such a setback as temporary and healthy. It would not be the end of the current bull market. As long-term investors, we will continue to maintain our bias toward equity exposure, taking emotion out of our investing, while striving to achieve growth with reasonable risk.

John M. Grib, CFA, CFP®