Northport Investment Management, LLC
A Registered Investment Adviser

Market Commentary – 1st Quarter 2017

Stocks tallied solid first quarter numbers with the Dow ahead by 4.5%, logging its sixth consecutive positive quarter, a streak it has not made since 2006. The S&P 500 gained 5.5%, for its best quarter since 2015. The tech heavy NASDAQ Composite eclipsed both, advancing by 9.8%, for its best quarter since 2013. Underlying positive fundamentals are helping stock performance. The major positives are: the U.S. economy continues to chug along; the global economy is finally picking up; and U.S. corporate earnings are back to being in positive territory.

Q1 2017 exhibited extremely low volatility and gains were broad based. Nine of the eleven main S&P 500 sectors rose in Q1, led by Technology (+12.2%) and Consumer Discretionary (+8.1%), while Energy (-7.3%) and Telecom (-5.1%) lagged. Small cap stocks (Russell 2000 Index, +2.1) and Mid-Cap stocks (S&P 400 Mid-Cap Index, +3.6%) appreciated less than the S&P 500 in Q1 2017, while developed international (MSCI EAFE Index, +6.5%) and emerging markets (MSCI BRIC Index, +11.4%) outperformed the U.S. benchmark for the quarter.

Bonds were positive in Q1 2017, rebounding from a poor Q4 2016, with the Bloomberg Barclay's Aggregate Float Adjusted Bond Index returning +.85%, and the Bloomberg Barclay's 1-15 Year Municipal Bond Index returning +1.5%, for the quarter. Following a sharp rise after the 2016 election, interest rates have declined modestly this year, with the benchmark 10-year Treasury yield falling from 2.446% to 2.396% during the quarter (yields down, prices up).

We are pleased that the Fed decided to raise interest rates by one quarter of one percent in March. This is a good interest rate increase. As the economy strengthens, rates should move up. We are merely going from emergency levels to accommodating levels. Higher rates are good for the stock market, banks, insurance companies, and an older population of savers. Higher interest rates actually incent people to make better financial decisions. Too much too soon could be bad, but we do not see this happening.

We feel that the still very easy Fed is going to be very deliberate. If we don't get the fiscal stimulus that's anticipated, the Fed will slow down. The stock market should be fine as long as ten-year rates stay below 3.5% to 4%. While some are worried that the current low yield on the 10-year Treasury is foreshadowing bad times ahead (in contrast to the soaring stock market's optimism), we continue to believe that stocks are correct. Low global interest rates, not weak U.S. economic conditions, have been an anchor for U.S. interest rates.

While we remain optimistic on equities, we are also mindful of the current high valuations and the elevated expectations of investors for timely progress on fiscal policy. We also know that a good stock market, combined with extremely low volatility, doesn't last forever. In these unusual political times, we're trying to avoid being overly influenced by the media's laser-like, day-to-day, focus on the President and news coming out of Washington, D.C. We are trying to more calmly focus on fundamentals, and U.S. economic fundamentals are good.

We take comfort from the strongest Consumer Confidence numbers since 2000. We are confident that Central Banks are here for us, willing and able to suppress volatility. We appreciate the predictable and stable, albeit unexciting, growth that our economy is currently producing. We like the expectation for a 9%- 10% increase in corporate earnings for Q1 2017. We also like the more stable U.S. Dollar and the steadying of oil prices, and we like the consistent string of solid employment numbers.

With growth harder to come by, investors flocked to certain favored growth stocks in Q1 2017. It was a quarter marked by some blowout return numbers from a smaller group of large-cap tech names that tend to dominate the major stock indices. Generally speaking, unlike in calendar year 2016, in which they excelled, some of our more value-and-dividend oriented, core individual Northport stocks, fell out of favor and lagged the benchmark for the quarter.

We remain committed to quality and total return and will continue to mostly pursue value-and-dividend oriented individual equities. We participate in the more purely growth-oriented equities through ETF's representing large-cap (QQQ), mid-cap, small-cap, international, and emerging markets. Our cash balances also dragged on performance in an up quarter. We are keeping some cash on hand to be prudent. Every year it is normal to see a 5% to 10% stock market setback sometime during the course of the year, and we will likely see one in 2017. We would like to have some cash available for such a buying opportunity.

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