1st Quarter 2017 Market Overview

The Big Picture

Following the financial crisis in 2008-2009, the market staged a recovery but it began to run out of juice by 2011. At that time, the Federal Reserve was trying to figure out how repair our economy and help it escape the lingering ills of the crisis.

The Fed devised a plan of quantitative easing (QE) monetary policy. By effectively printing money, the Fed knew asset values would inflate and they hoped this would also spur the economy. This became a coordinated effort, as major central banks also instituted QE.

While the economy failed to respond, QE was magical for the markets. From 2012 to the end of 2014, the S&P 500 gained 61%. It was an extraordinary gain, particularly with our muted economic progress.

By late 2014, the markets began to tire after their fabulous run. The Fed signaled that it would terminate QE and the proverbial punchbowl was being taken away. This meant the market would have to stand on its own. Without the Fed stimulus, the market lost its luster and languished for over two years.

Going into the election, it was widely believed that an unlikely Donald Trump victory would be negative for the market. It stood to reason the market would be spooked by the uncertainty that surrounded Trump's policies. Furthermore, it appeared unlikely the market would rally *regardless* of the election results. Following the stunning outcome, the markets staged a magnificent rally when Trump won the Presidency. It had all seemed inconceivable.

The market rally was based on the optimism arising from tax cuts, deregulation measures, and a healthcare system overhaul. Basically, it has been these hopes that have driven the markets since the election. By late February, the DOW briefly went over 21,000.

Then the ebullience waned. The reality of politics caused the market to falter and it now seems poised to recoil. In March, the proposed healthcare bill stalled in the house. The disoriented manner by congress also suggested that a broad-based tax cut and deregulation will be difficult to achieve.

Since the market rallied after the election based on expectations of pro-business policies, simple logic holds that it would be vulnerable if these expectations were dashed.

A 3% or 4% correction in the S&P is expected and would be normal for this juncture. Anything worse would be cause for deeper worry.

Disappearing Volatility

The main story of the market's behavior in the first quarter is that volatility virtually disappeared. The average level of the VIX, which tracks volatility, reached a record low during 2017. Even the VIX for Treasury bonds and European stocks is also at historic lows. (WSJ - 4/7/17 Are Traders Creating a Bizarre…)

Last year, in the volatile first quarter, we had 16 days when the S&P rose or fell 1% or more. This quarter, March 21 was the only day the S&P 500 moved more than 1%. Previously, the market went 110 straight days without a change of that magnitude!

Trading strategies at big-money traders and large institutions are extracting volatility from the market.

This process happens when large banks and insurance companies sell insurance on stock portfolios to money managers. Money managers are able to protect client portfolios by buying this insurance. More insurance is bought when the market indices flatten at these high levels. Banks and insurance companies are happy to sell more insurance to portfolio managers. This activity has been removing volatility from the markets and that is why the day to day changes are small.

Hopefully, as the Trump rally weakens and the markets turn down, low volatility will serve to dampen the magnitude of any decline in the markets.

Peregrine Portfolios

The Peregrine Equity Composite gained 3.08% and the Balanced Composite gained 2.59% in the first quarter. This compares to the S&P 500 which gained 5.57%. It was disappointing that our holdings in Goldman Sachs and SunTrust Bank fell in the first quarter.

We recently added Amazon and Apple to our portfolios. We would always be looking to add names like these to client portfolios.

Dan Botti
Portfolio Manager
4/12/17

Past performance is no guarantee of future results. Investment management involves the possibility of losses. Significant general stock market moves up and down can influence the performance of client portfolios. Composite returns are based on client portfolios of over $100,000. Not all clients are included in the composites. All returns include the reinvestment of dividends. All returns are net of fees. Composite returns are derived from aggregated, time-weighted returns for clients of Peregrine Asset Advisers. Individual client returns can deviate from the composite returns. While Peregrine uses the S&P 500 as a benchmark, Peregrine does not attempt to mimic the structure of this index. Individual client portfolios vary. The number of securities held also varies per client.