2nd Quarter 2017 Market Overview

A "Goldilocks" Market

Turmoil in Washington, geopolitical concerns, a four hundred point one day drop in the DOW, and higher interest rates were not enough to keep the markets from creeping higher in the second quarter. Led by the FAANG stocks (Facebook, Amazon, Apple, Netflix, and Google) markets were able to largely dismiss the predominantly negative headlines.

Jurrien Timmer, director of global macro at Fidelity and a frequent guest on CNBC, described the prevailing market conditions as "Goldilocks", where the economy is either too hot or too cold. Clearly, the stock market likes the current environment and is remarkably resilient, even in the face of disruptive news.

A decisive point for the market came in mid-May when the S&P 500 touched its high mark that was initially set on March 1. Then suddenly, it suffered a 2% decline in a single day. It only took four days to recover from this loss and the market went on to make new highs throughout the rest of May and June. That is the way it has been lately, as the bears have not been able to drive the market down.

During the second quarter, the performance of only four stocks, Google, Amazon, Apple, and Facebook, accounted for more than 50% of the entire gain in the S&P 500. These companies have a commanding grasp of their respective business perches. A NASDAQ selloff on June 9 took them down over 10%, but they seem to be ramping up again in preparation for their July earnings reports.

This month marks the one year anniversary of the Brexit election and is also the last time the S&P 500 had a 5% correction. It is the longest time in 20 years the market has gone without a 5% correction! This is extraordinary, considering our long history of managing volatile markets. These Goldilocks conditions are containing any market sell-offs.

Since 2012, there have been different forces lifting the markets higher. First, was the Quantitative Easing policy that was implemented by the Fed and other central banks. The next driver was the TINA principle (There Is No Alternative) and that carried us for a while. Then, Central Banks did a QE redux that supported the markets through most of last year. Today, corporate **earnings gains are the key propellant that drives this market**. As long as earnings reports exceed expectations, the market will remain constructive and "Goldilocks" will prevail.

Third Quarter Playbook

For all of the strength in ‘tech land’, some areas of the market were actually resoundingly weak during the quarter. Stocks in energy, materials, gold, retail, real estate, and media have been in outright bear markets this year. We don’t know when, but these areas are so stretched to the downside, that a recovery must begin to form at some point.

The dichotomy between strong areas of the market like the FAANG stocks and the soft areas presents investors with an interesting proposition. Since all trends eventually fizzle and reverse course, when do the weaker areas of the market appear downright cheap and appeal to investors looking for value and turnaround potential?

Maybe these beleaguered sectors can finally recover from their malaise and offer good relative value for investors. One sign of this potential happened in June when a surprisingly strong earnings report from Nike gave new hopes for the retail and apparel sectors.

The June 9th selloff in the NASDAQ *might* mark a changing of the guard as mega cap tech stocks relinquish their leadership. We anticipate new names to emerge as leaders and match the strength of the FANG stocks in the second quarter.

Peregrine Portfolios

The Peregrine Equity and Balanced Composites trailed the S&P 500, which has now climbed 9% for the first half of the year.

Although our clients made good profits on FAANG stocks and other NASDAQ companies, we didn’t have a large enough weighting in these areas to receive the full impact for client accounts. During the quarter, as the ascent of these shares steepened, it made us cautious. We will continue to examine these companies as they “revert to their mean price levels” and pull back to normal and less extended price ranges.

For the second quarter, our clients *did* realize a good profit on their holdings in **Amazon**. **Apple** turned out to be a small loss, however. Our best performing position in the second quarter was **Nvidia** which surged 48% in only six weeks.

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