



# Forward Focus

## July 2017



### Quarterly Market Review

The first half of the year was great for stock markets around the world. Buoyed by a weaker U.S. dollar, improving economic numbers, and accommodative central banks, almost all international stock markets posted positive first half returns, in many cases besting the returns of the U.S. stock market thus far this year.

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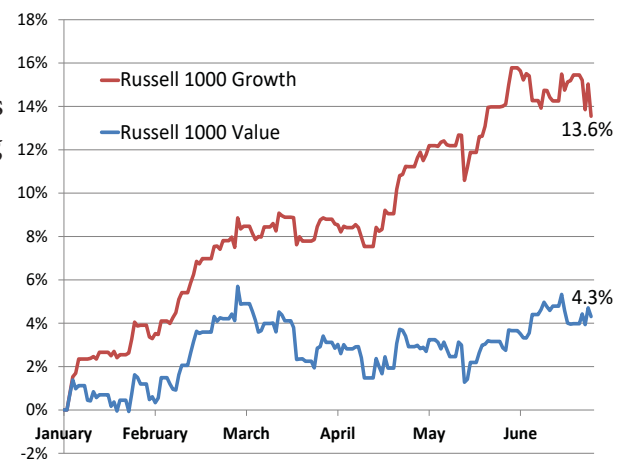
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In the United States, the Russell 2000 small cap index was up 2.1% during the second quarter, while the Dow Jones Industrial Average and the S&P 500 indices gained 3.3% and 2.6%, respectively. The S&P 500 has now posted positive performance in 16 of the past 18 quarters.

Oil ended the quarter at \$46.04/bbl bringing the year to date losses to 14%. That is the largest first half decline since 1998. That is good news at the gas pump, but bad news for energy companies.

The U.S. dollar continues to weaken versus other currencies and is now down 5.6% year to date. Although it makes foreign goods and trips abroad more expensive, it helps U.S. exports by making goods less expensive to foreign buyers and improves profitability of multinational companies.

Growth stocks, led by technology, have significantly outperformed value stocks so far this year. See chart on right. However, value stocks are expected to post double-digit earnings-per-share in the second half of 2017, which should help value stocks outperform growth stocks over the next six months.



Here is a summary list of events that occurred during the quarter: Neil Gorsuch confirmed as 113<sup>th</sup> Supreme Court Justice • MOAB bomb dropped in Afghanistan • Venezuelan protests • Last person born before 1900 dies • Queen Elizabeth II turns 91 • NASA astronaut spends record 534 days in space • Emmanuel Macron becomes 25<sup>th</sup> President of France • FBI Director James Comey fired • WannaCry cyberattack • North Korea fires test missiles • Presidential election in Iran • President Trump's first foreign trip • S&P 500 stock buybacks decline 17.5% year over year • Mount Everest's Hillary Step collapse confirmed • Manchester Arena bombing • U.S. withdrawals from Paris Climate Agreement • London Bridge attack • Montenegro becomes 29<sup>th</sup> NATO member • James Comey Senate testimony • United Kingdom general election • Mass shooting at Republican congressional baseball practice • Fed raises interest rates and announces plans to reduce balance sheet • Grenfell Tower apartment fire in London • Amazon to buy Whole Foods for \$13.7 billion • U.S. increases sanctions against Russia • A reported 65.6 million people are displaced globally • Western U.S. heat wave • U.S. Dollar weakens 5.6% year to date • Google hit with \$2.7 billion antitrust fine by European Commission • Facebook reaches 2 billion regular users • Average price for existing single family home \$286,790 • Hottest temperature ever recorded 128.7°F! • S&P 500 up 2.6% in the second quarter • 10-Year Treasury at 2.30% • Best performing sectors: Health Care & Technology • Worst performing sectors: Energy & Telecom •

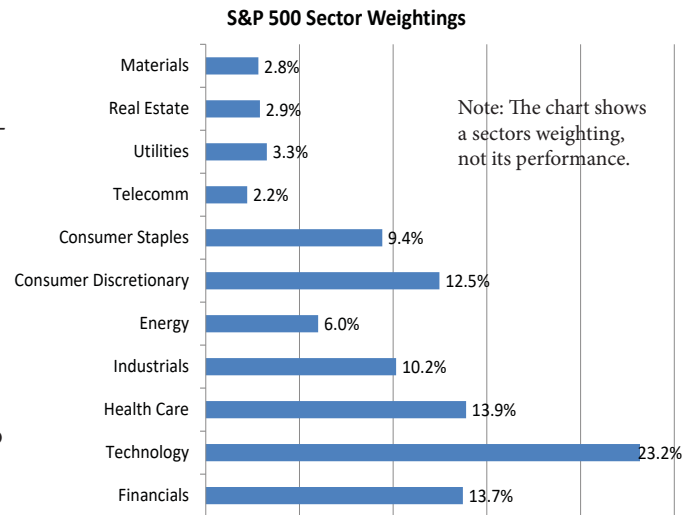
#### First Half 2017

Dow Jones Industrial Average 8.0% • S&P 500 8.2% • MSCI EAFE (International) 13.9%  
Russell 2000 (Small Cap) 4.3% • MSCI EMI (Emerging) 18.1% • Barclays Capital Aggregate Bond 2.3%

# A Primer on Sectors

Stocks are often grouped into sectors. Sectors are simply industries or areas of the economy that a stock represents. For example, Bank of America is in the Financial sector, Apple is in the Technology sector, and Exxon is in the Energy sector. There are 11 different sectors in all.

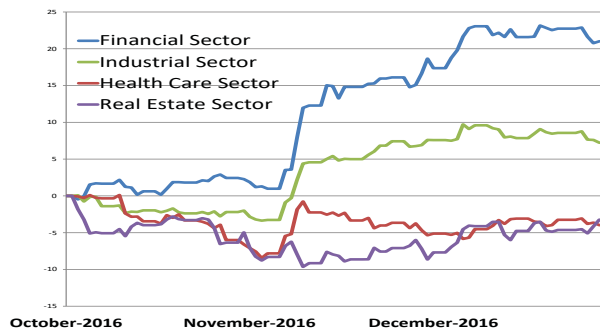
While each sector represents an area of the economy, as the chart on the right indicates, not all sectors carry the same weight. The largest sector is Technology followed by Health Care. Those two sectors make up about 37% of the S&P 500 index. The smallest three sectors (Real Estate, Telecomm and Materials) collectively make up less than 7% of the index. Therefore, the larger the sector weighting the more impact it will have on the overall market.



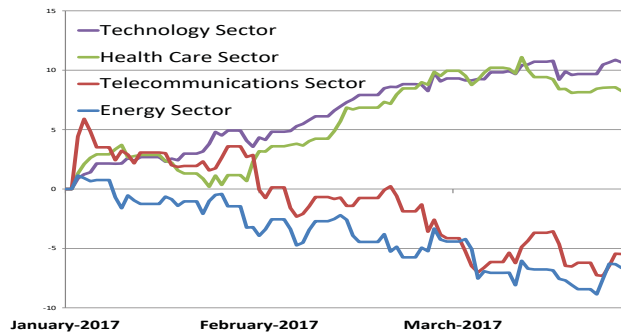
## Sector Rotation

Providing you with insight into the market is part of our goal at **Forward**. Therefore, we want to share with you a shift that is occurring in the market right now called Sector Rotation.

Sector Rotation, as the name implies, is when one sector begins to rise while another begins to fall. As the various charts below indicate, it is quite normal and is actually very healthy. Not all sectors can be strong all the time (duh). It is necessary for stocks that have performed well to cool off and for stocks that have been beaten down to rebound. It is similar to the Peloton in the Tour de France or a leader change for a flock of geese. When the leaders begin to lag, it is time for someone else to take over. As long as a new leader takes its place, all is well and the group as a whole can continue to prosper. That has been happening very nicely in the stock market.



The above left line graph shows the fourth quarter sector rotation. Notice that the Financial and Industrial sectors took off, while the Health Care and Real Estate sectors pulled back. That was due to investor perception of how various sectors would perform under a new administration.



The above right line graph shows how Technology and Health Care took the baton in the first quarter of this year and Telecommunication and Energy lagged.

The final line graph at right shows that in just the past 30 days (all of June) the Technology sector weakened while the Financial sector took its place. This is welcome news since the overall Technology sector was up 18% in the first 6 months of the year versus the overall market gain of 8%.

It was time for new leadership. Seeing this sector rotation shows that the overall economy is improving and not dependent upon just one or two sectors for growth. We expect the Financial sector, which has underperformed the overall market thus far this year, to post stronger gains in the second half of 2017.

