



Interesting Articles

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See important disclosures for more information

“While we are postponing, life speeds by.” - Lucius Annaeus Seneca

Market Insights

Yield Curve Flattening: The yield curve continues to flatten, with the yield on 2-year note vs. 30-year bond spread, reaching a 10-year low of 137bps on Friday June 23rd. The flattening of the yield curve is something we continue to watch, as historically if it becomes inverted, the probability of slipping into a recession increases. (see chart 1)

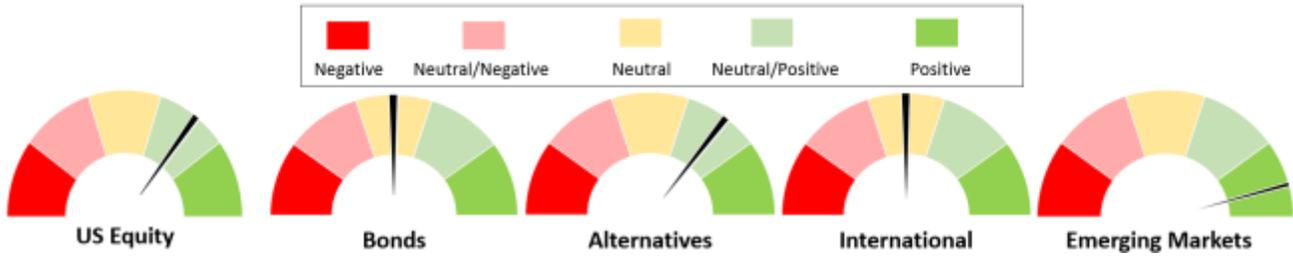
US Equity: While many believe this bull market is “long in the tooth”, S&P 500 fundamentals for the most part do not indicate nosebleed territory. Price to earnings, price to cash flow, price to book and dividend yield – while all above their 25-year median – are not close to their 25-year high. (see chart 2)

Growth vs. Value: This debate can often be better understood by observing the shape of the yield curve. A steepening yield curve generally is supportive of a value market while a flattening yield curve is supportive of a growth market. The difference in 10-year Treasury yields versus 3-month Treasury yields is roughly 120 basis points wide, and likely to flatten further in the medium term. This should bode well for growth equities. In a world where growth is relatively scarce, investors will pay a premium it. Value requires a catalyst (i.e., fiscal stimulus) that we do not believe is imminent. (See Chart 3)

Volatility: Where is it? About 50% of days during the last 6 months on the S&P 500 have been within a +/-25bps range. 2008 was the last time we saw such little price volatility. (See Chart 4.)

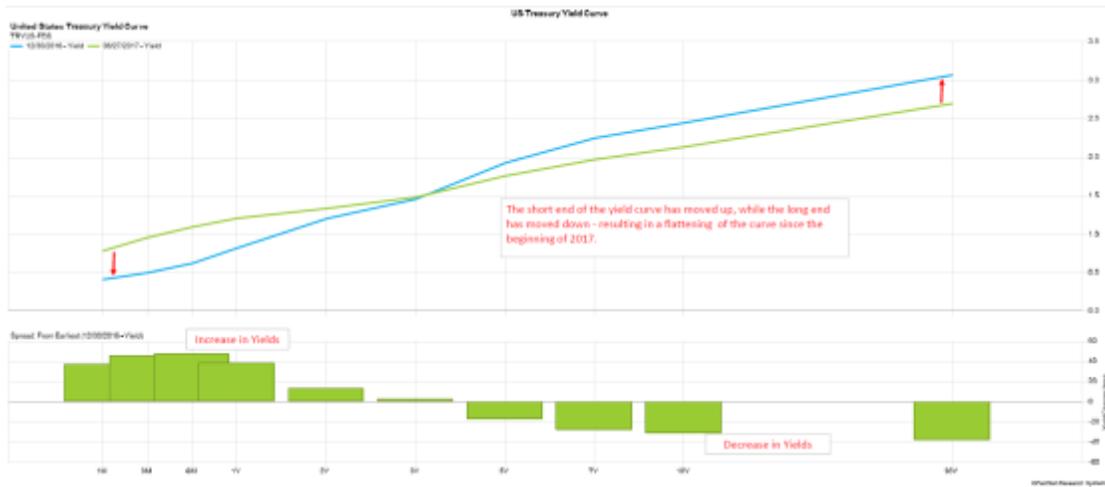
Oil: Oil has remained rangebound between \$45 and \$55 per barrel since the November OPEC deal. It is our belief that oil will continue to remain in a range between \$40 and \$60 barrel for the short and midterm. While we don’t see any significant reductions on

the demand side, there is a lot of supply and domestic oil production continues to become more efficient as companies adjust to \$40/barrel. Supply (excluding SPR) is at 29.5 days (just off the all-time



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high of 34.1 days in March), US production is currently at 9.3m barrels/day (just off the all-time high of 9.6m/day in June 2015).



Market Outlook

August Charts

Chart 1: Flattening of Yield Curve

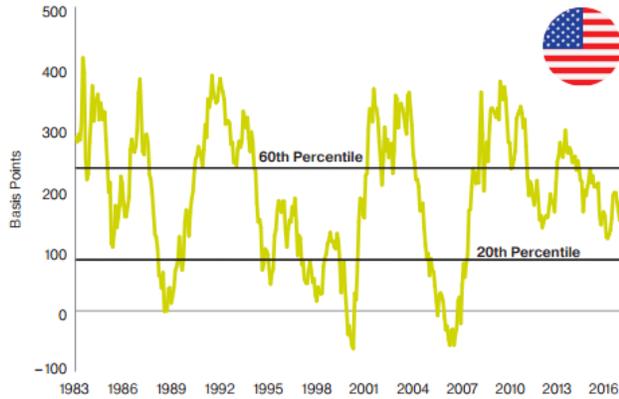
Chart 2: S&P 500 Valuation Metrics



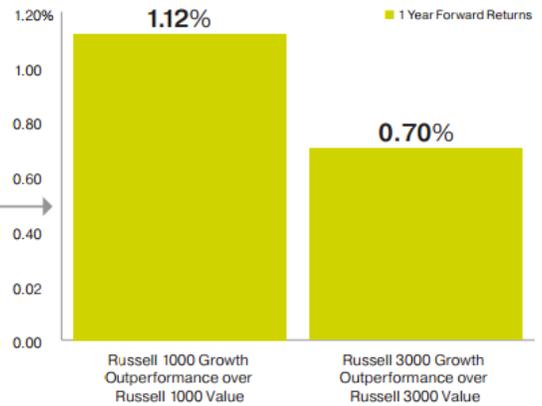
August Charts

Chart 1: Near Record Low Volatility

U.S. Treasury Yield Curve
(10-Year U.S. Treasury Yield Minus 3-Month U.S. Treasury Yield)



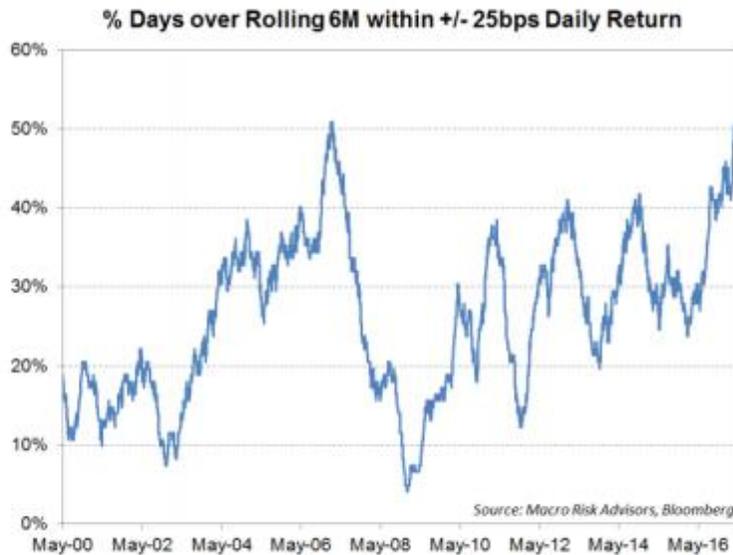
1-Year Forward Returns Difference When the Yield Curve Is Between the 20th and 60th Percentile



Near Record Low Volatility



- Chart shows percent of days over a rolling 6 month period that S&P 500 daily returns have been within a +/- 25bps range.



As of May 2, 2017
Source: Bianco. bps = basis points. Please see appendix for index definitions. You cannot invest directly in an index.

Important Disclosures

Chart 1 Source: Factset. As of 6/23/2017

Chart 2 Source: Bloomberg Finance L.P., State Street Global Advisors. As of May 31, 2017.

Characteristics are as of the date indicated and should not be relied upon as current thereafter. Past performance is not a guarantee of future results.

Chart 3 Source: FactSet, 4/30/17. Forward returns are from 12/31/83–4/30/17 and are determined by looking at the average difference between the Russell 1000 Growth and Russell 1000 value one-year forward returns during various periods of yield curve steepness and Russell 3000 Growth and Value Index for the same analysis. The 20th Percentile has a steepness of 84 basis points and the 60th has a steepness of 235 basis points. A basis point is one hundredth of a percent. Index definitions can be found on page 13. Past performance does not guarantee future results.

Chart 4 Source: Bianco. As of May 2, 2017

Indices Descriptions:

S&P 500 - Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Please note these, this is driven by the context of the newsletter and may not be applicable is subsequent material.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and lower forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The opinions expressed in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Important Disclosures

Municipal bonds are subject to availability and change in price. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax. Municipal Bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Stock investing involves risk including loss of principal.

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