



INTERNATIONAL INVESTMENT
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Market & Stock Fair Value Briefing

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Expectations dropped across all three market capitalization categories. Mid cap at 117.3% Fv remains the highest ahead of both Small cap at 112.3% Fv and Large cap at 105.3% Fv. It is interesting that Large cap continues to move around the 10% return year-to-date while Small cap moved back down to near breakeven at 0.65%. Small cap has struggled all year trying to post positive results. The category is well inside the fair value trading range and should be able to move solidly into higher returns later this year.

Ticker	Name	Relative Value
IVV	iShares Core S&P 500 ETF	105.3%
IJH	iShares Core S&P Mid-Cap ETF	117.3%
IJR	iShares Core S&P Small-Cap ETF	112.3%

Figure 1: U.S. Market Capitalization Fair Values for major capitalization categories.

Source: ISN

Mid cap stocks are expected to continue in the mid-single digit return values with relative fair values in the mid to high teens. With overall economic conditions fair to good, Mid cap expectations at 117.3% Fv are slightly ahead of market capabilities. Moderation will remain until economic conditions move higher.

Sector Valuations

All large cap sectors remained above 100% Fv except Telecommunication Services which moved down below 100% Fv to 98.1% Fv. This was a 6.4 point drop. While this drop was significant, it was not the largest. That honor went to Consumer Staples falling 8.2 points to 102.5% Fv. The drop also placed Telecomm at the bottom of the list when measured in overall valuation taking last place from Health Care. Health Care experienced the highest gain of any Large cap sector advancing 3.8 points. The gain was large, but did not put the sector at the top. That honor went to Utilities at 109.8% Fv. Year-to-Date returns for Utilities is in double digits at

11.28%, placing it in 3rd place behind Health Care and Technology. Expectations are high.

U.S. LARGE CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	101.5%	
Consumer Staples	102.5%	
Energy	103.5%	
Financials	105.3%	
Health Care	106.8%	
Industrials	108.7%	
Information Technology	108.6%	
Materials	105.8%	
Telecommunication Services	98.1%	
Utilities	109.8%	

Figure 2: U.S. Large cap Sector Relative Fair Valuations for Major Sector Classifications. Source: ISN

Mid cap sectors experienced larger expectation changes than Large cap sectors. While Telecom Large cap stocks were dropping, their Mid cap brothers were advancing by 10.7 points moving the sector above 100% Fv to 103.6% Fv. The move placed one more Mid cap sector above 100% Fv leaving only Consumer Staples and Energy below the fair value water mark. Both of these sectors made advances in the month, but Energy remains the most undervalued Mid cap sector at 87.8% Fv. The most overvalued Mid cap sector honor went to Consumer Discretionary at 126.8% Fv a gain of 8.0 points since our last briefing.

U.S. MID CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	126.8%	
Consumer Staples	97.8%	
Energy	87.8%	
Financials	117.1%	
Health Care	114.6%	
Industrials	113.4%	
Information Technology	121.9%	
Materials	108.1%	
Telecommunication Svcs	103.6%	
Utilities	119.2%	

Figure 3 U.S. Mid cap Sector Relative Fair Valuations for major Sector Classifications. Source: ISN

Financials gave up the top spot while dropping 14.3 points, but this was not the largest drop in the category. That recognition went to Materials dropping 15.2 points to 108.1% Fv.

U.S. SMALL CAP		
Name	Relative Value	Under/Over
Consumer Discretionary	109.1%	
Consumer Staples	114.0%	
Energy	86.1%	
Financials	111.0%	
Health Care	113.1%	
Industrials	110.2%	
Information Technology	121.3%	
Materials	112.7%	
Telecommunication Services	112.9%	
Utilities	120.1%	

Figure 4: U.S. Mid cap Sector Relative Fair Valuations for major Sector Classifications. Source: ISN

Small cap sectors did not experience as much movement as Mid cap, but were more active than large cap. One sector, Energy moved well back below 100% Fv to 86.1% Fv dropping a sizable 16.5 points. This was the largest movement, either up or down, of any sector in any capitalization category. Energy also remained the sector with the lowest expectations. Top honors went to Consumer Staples at 114.0% Fv even though it dropped by 7.9 points. Four Small cap sectors expectations advanced: Consumer Discretionary, Health Care, Technology and Telecomm.

Across all market capitalization categories Financials, Industrials, Materials and Utilities all gave up expectations. There was only one sector that advanced across all capitalization categories – Health Care. Overall, expectations are more realistic than earlier this year. If the economy and inflation remains within current ranges, the market should be able to continue to post gains. At this rate, it is highly probably that the DOW could reach 23,500 by this time next year.

Industry Valuations

Only one industry group remained below 100% Fv, Food & Staples Retailing. This was the case in our last briefing even when the industry group was 3.2 points higher. Pharmaceuticals & Biotechnology moved above 100% Fv reaching 102.6 after advancing 5.6 points.

Highest expectations reside in Consumer Durables & Apparel at 129.9% Fv just 0.1 points from being overvalued. The industry group advanced 12.6 points since the last briefing. This was the single largest increase in valuation of any industry group. The most undervalued group remains Food & Staples Retailing at 93.7% Fv a drop of 3.2 points. Certainly, Amazon's acquisition of Whole Foods had an impact on expectations for the group. Amazon has traditionally not been a positive factor for competitors success.

U.S. Industry Group All Market Cap		
Name	RelativeValue	Under/Over
Automobiles & Components	106.0%	
Banks	111.3%	
Capital Goods	112.2%	
Commercial & Professional Service	112.9%	
Consumer Durables & Apparel	129.9%	
Consumer Services	107.8%	
Diversified Financials	107.1%	
Food & Staples Retailing	93.7%	
Food Beverage & Tobacco	104.0%	
Health Care Equipment & Service	117.9%	
Household & Personal Products	101.2%	
Insurance	116.6%	
Materials	109.1%	
Media	118.9%	
Pharmaceuticals & Biotechnology	102.6%	
Real Estate	100.1%	
Retailing	100.3%	
Semiconductors and Semiconduc	119.9%	
Software & Services	110.1%	
Technology Hardware & Equipme	115.9%	
Transportation	100.9%	

Figure 5: U.S. Industry Group Relative Fair Valuations. Source: ISN