



INVESTMENT STRATEGY NETWORK

## Stocks: Consideration: USA

### Market Overview

The DOW moved 400 points earlier in the year and then over 600 points yesterday resulting in a 4.7 point drop in relative valuation on the Total Market to 117.3. This is a very good adjustment of expectations placing them more in line with reality. LargeCap moved over 6 points down and even the previously stubborn Midcap and SmallCap categories gave up 3.3 and 4.7 points, respectively. With these adjustments the markets are now a comfortable 17% above fair value which is a reasonable expectation for future growth.

We have a 12.7 point spread between the highest valuation, MidCap at 118.9% Fv and the lowest, Smallcap at 106.2% Fv. This is wider than last month when the spread was 11.3 and larger than three months ago when it was 6.9 points, but overall, the USA market is in a much better position for future growth at 112.6%.

U.S. Market Overall		
Name	Relative Value	Under/Over
iShares Core S&P 500 ETF	110.4%	
iShares Core S&P Mid-Cap ETF	118.9%	
iShares Core S&P Small-Cap ETF	106.2%	
iShares Core S&P Total USStock	112.6%	

Table 1: Relative Fair Value (Fv) of Each Major Market Capitalization Segment

Market									
U.S.	Ticker	Current	% CHG Week	% CHG Month	% CHG Quarter	% CHG YTD	% CHG 12 mo		
iShares DJ US ETF	IYY	140.26		(2.48)	(4.51)	(0.69)	12.70	2.76	
iShares Core S&P 500 ETF	IVV	282.8		(2.48)	(4.44)	(0.62)	12.40	3.26	
iShares Core S&P Mid-Cap ETF	IJH	187.63		(2.92)	(4.70)	(0.93)	12.99	(3.67)	
iShares Core S&P Small-Cap ETF	IJR	76.84		(3.13)	(4.11)	(0.40)	10.85	(5.61)	
iShares Core S&P Total USStock	ITOT	64		(2.53)	(4.33)	(0.62)	12.76	2.27	
iShares S&P 500 Value ETF	IVE	111.92		(2.59)	(4.64)	(0.73)	10.66	(0.11)	
iShares S&P 500 Growth ETF	IVW	171.54		(2.32)	(4.25)	(0.48)	13.85	6.43	

Figure 2: Performance Return of Each Major Market Capitalization and Style Segment

U.S. Sectors									
Description	Ticker	Current	% CHG Week	% CHG Month	% CHG Quarter	% CHG YTD	% CHG 12 mo		
SPDR Consumer Discretionary	XLY	113.8		(2.98)	(5.22)	(0.04)	14.94	8.38	
SPDR Cons Staples Slct	XLP	56.77		(0.94)	(1.63)	1.18	11.80	13.88	
SPDR Energy Sel Sctr	XLE	62.95		(1.72)	(4.78)	(4.79)	9.76	(20.03)	
SPDR Financial Select	XLF	26.68		(2.91)	(4.78)	3.77	12.01	(5.32)	
SPDR Health Care Select Sector	XLV	87.24		(1.88)	(2.26)	(4.92)	0.84	5.12	
SPDR Industrials Slct	XLI	74.1		(2.85)	(5.01)	(1.24)	15.04	(1.05)	
SPDR Materials Select	XLB	53.9		(2.25)	(6.18)	(2.88)	6.69	(9.84)	
Real Estate Select Sector SPDR	XLRE	36.11	-	0.22	(0.30)	16.48	18.24		
SPDR Select Technology	XLK	73.31		(3.77)	(6.86)	(0.93)	18.28	6.00	
Comm Serv Sel Sec SPDR Fund	XLC	47.59		(3.10)	(4.95)	1.75	15.29		
SPDR Utilities Select	XLU	58.58		1.07	(0.22)	0.70	10.70	19.60	

Figure 3: Performance return for each domestic sector. (Communication Services is not 12 months old and does not have a % CHG 12 mo value.)

Returns for calendar 2019 remain positive and above long-term averages with every classification in double digits. There was some give-up on the past-12-month position with MidCap, SmallCap and LargeCap Value returning to red. This should be a short-term condition as even the LargeCap Value negative position is only 0.11%. The month of May is not the friendliest of the year, at least at the midway point.

## Domestic Sectors

All sectors remained in the green for the year with 8 sectors registering double digit returns. Even though Energy is down significantly over the past 12 months at -20.03%, the calendar year has reached a 9.76% on the positive side. Financials, Materials and Industrials are all negative over the past 12 months, but all remain positive for the year. Industrials has been able to add over 15% to the positive side of the balance. So far, the month has been the toughest on Technology, Materials and Consumer Discretionary all with over 5 point losses.

## Bonds

The bond market is a bit mixed with gains in Municipals, Investment Grade Corporates, and Mortgage related debt. The market was not kind to High Yield Corporates. This

category moved from a previous gain of 7.07% down to 5.35%. Government debt finally moved above 1% for the past 12 months and all categories except high yield corporates are in the green over 12 months.

## Global Markets

Global markets all moved lower with China in the lead down 15% for the year. The major developed markets were down over 10% while Mexico and Canada were able to limit declines near the 5% range. Even though the 12 month time period is solid red, several markets have posted respectable gains for the calendar year. Canada has gained over 15% to 15.32% and both the U.K. and Pacific (X-Japan) are over 10%. Europe is near this mark at 9.64%. It is interesting to see the U.K.

U.S. Bonds							
Description	Ticker	Current	% CHG Week	% CHG Month	% CHG Quarter	% CHG YTD	% CHG 12 mo
iShares Barclays 1-3 yr Tr Bnd	SHY	84.12	0.12	0.01	-	0.60	1.19
iShares S&P Natl AMT-Fr Mun	MUB	112.15	0.23	0.55	0.86	2.85	3.72
iShares iBoxx \$ Inves Grd Corp	LQD	118.93	0.06	(0.24)	(0.11)	5.42	4.50
iShares iBoxx \$ HY B ETF	HYG	85.44	(0.92)	(1.73)	(1.19)	5.35	(0.06)
iShares Barclays MBS Bond ETF	MBB	106.2	0.13	0.20	(0.15)	1.48	3.16

Figure 4: Performance return of each major bond category

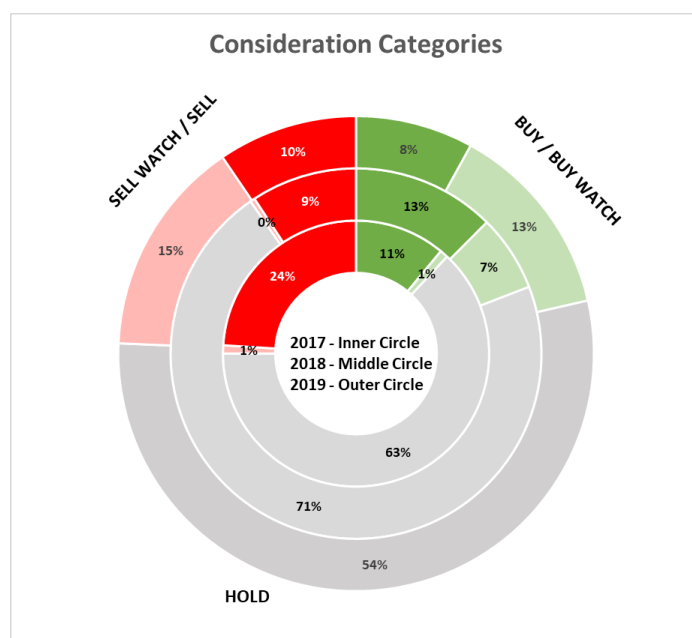
above Europe with the forecasts on BREXIT diminishing the British island to a subsistence level. Maybe those forecasts need to be revised.

Global bonds experienced improvements with foreign sovereign debt nearing the breakeven point from last year and corporates within 2% of breakeven. Both, have positive results for the calendar year and government debt overseas has also moved just ahead

International Stocks							
Description	Ticker	Current	% CHG Week	% CHG Month	% CHG Quarter	% CHG YTD	% CHG 12 mo
iShares MSCI EAFE ETF	EFA	63.81	(2.33)	(4.42)	(1.62)	8.56	(10.87)
iShares MSCI United Kingdom	EWU	32.36	(1.94)	(4.15)	(1.97)	10.26	(12.73)
iShares MSCI EMU ETF	EZU	38.44	(2.51)	(5.16)	(0.41)	9.64	(13.62)
iShares MSCI Japan ETF	EWJ	52.85	(2.26)	(4.64)	(3.42)	4.26	(13.59)
iShares MSCI Pacific Ex Jap	EPP	45.01	(2.39)	(3.68)	(1.94)	10.59	(6.13)
iShares China Large Cap ETF	FXI	40.62	(3.22)	(8.70)	(8.24)	3.94	(15.00)
iShares MSCI Canada ETF	EWC	27.63	(1.25)	(3.22)	(0.04)	15.32	(5.76)
iShares MSCI Mexico Capped ETF	EWW	43.93	(1.48)	(4.81)	0.78	6.68	(5.14)
iShares MSCI Emerg Mkts ETF	EEM	40.58	(3.33)	(7.63)	(5.45)		
International Bonds							
Description	Ticker	Current	% CHG Week	% CHG Month	% CHG Quarter	% CHG YTD	% CHG 12 mo
iShares Core US Aggrgt Bd ETF	AGG	108.85	0.17	0.24	(0.20)	2.22	3.64
iShares Int'l Treasury Bnd ETF	IGOV	48.98	0.45	0.64	(0.12)	1.05	(0.22)
SPDR Barclays Interntl Corp Bd	IBND	33.25	(0.25)	(0.46)	0.30	0.94	(2.55)

Figure 5: Performance return for international stock and bond markets.

Figure 6: Total USA market distributed according to consideration category for YTD 2019, 12 months 2018, 24 months 2017



of the 1% mark.

### Considerations

Consideration classification percentages remain balanced with 25% in the SELL / SELL WATCH classification and 21% in the BUY / BUY WATCH area. This is much better than 2017 when the market was lopsided toward the SELL / SELL WATCH side of the circle. The market was in this tilted condition for most of 2018 until the 4<sup>th</sup> quarter.

The SELL WATCH classification grew by 1 point since the last report as did the BUY WATCH category. The overall classification of individual stocks is remained stable and well divided.