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Quarterly Market Review
Third Quarter 2017

INDEXES REACH NEW HIGHS

Stocks recorded solid gains in the third quarter, bringing returns for most of the major benchmarks into double digits for the year-to-date period. The advance also brought all of the major indexes to record highs by the end of the quarter, although trading volumes remained subdued, particularly in the typically quiet month of August. Information technology stocks performed best within the S&P 500 Index, followed by energy, telecommunication services, and materials shares. Consumer staples was the only sector to record a loss, while consumer discretionary and real estate shares performed only slightly better and managed small gains. Small-caps outperformed large-caps, while mid-caps trailed both and ended September lagging for the year to date. Growth stocks outpaced value shares and added to their significant advantage for the year so far, but value stocks recovered some momentum in the final weeks of the quarter.

U.S. Stocks

	Q3 2017	Year-to-Date
Camargo's Growth & Value Strategy NET	3.72%	13.31%
Dow Jones Industrial Average	5.58%	15.45%
S&P 500 Index	4.48%	14.24%

Past performance cannot guarantee future results. Note: Returns are for the periods ended September 30, 2017. The returns include dividends.

CORPORATE PROFITS RISE BY DOUBLE DIGITS AND BEAT ESTIMATES

Stocks began the quarter on a strong note, helped again by a series of positive reports on corporate earnings. According to research firm FactSet, reports released in July and early August revealed that profits for the S&P 500 as a whole had grown over 10% (on a year-over-year basis) in the second quarter, better than analysts expected and building on even stronger gains at the start of the year. A rebound to profitability in the energy sector was partly at work, but strong earnings gains in the heavily weighted technology segment also deserved much of the credit. Accordingly, the technology-heavy Nasdaq Composite led the market's gains over the early weeks of the quarter.

TURMOIL OVERSEAS WEIGHS ON STOCKS IN THE MIDDLE OF THE QUARTER…

Stocks sacrificed much of their gains as the flow of earnings reports wound down in mid-August and left political and international concerns to take center stage. On August 10, the major indexes pulled back sharply as the ongoing tensions between the U.S. and North Korea escalated. The S&P 500 dropped nearly 1.5% and the Nasdaq Composite fell over 2.1% after President Trump vowed that any aggression from North Korea—

which had recently threatened a nuclear attack on the U.S. territory of Guam—would be met with "fire and fury." Wall Street regained its footing as tensions seemed to de-escalate over the following days, but North Korea's launch of a ballistic missile over Japan on August 28 sparked another brief pullback. Traders noted that a relatively restrained response from the president to the latest provocation helped stocks recover quickly, however.

…BUT HOPES FOR TAX REFORM SEND STOCKS HIGHER AGAIN

Politics remained in the spotlight for much of the rest of the quarter, but in a way that was more favorable for investors. Stocks rallied on August 22, following a report in Politico that Republican lawmakers were making progress behind the scenes on tax reform legislation. Investors had to wait over a month, but they seemed to welcome the release of the GOP's plan on September 27, with stocks rallying in particular after President Trump revealed plans to lower the top individual tax rate, eliminate the alternative minimum tax, and treat corporate profits accumulated overseas as already repatriated. In an echo of the "reflation trade" that favored small-caps and value stocks after the election, the small-cap Russell 2000 Index jumped nearly 2% for the day and more than quadrupled the rise of the S&P 500 Index.

Apart from insurance stocks, the market as a whole seemed largely unmoved by the series of hurricanes and other natural disasters that dominated the news in the second half of the quarter, probably because there was little consensus on how they would impact economic growth. Many observers expected rebuilding efforts to help offset the reduction of economic activity in the affected regions, and one economist observed that the Federal Reserve was unlikely to adjust its policy stance as a result. Indeed, at the end of the quarter, Fed Chair Janet Yellen told a group of economists that the central bank "should be wary of raising rates too gradually."

POLITICAL TURMOIL IS DAMPENING STIMULUS HOPES, BUT TAX CUTS ARE STILL POSSIBLE

Many equity portfolio managers acknowledge that continued acrimony in Washington has diminished the prospects for the significant economic stimulus that many investors had anticipated after Republicans achieved unified control of the government in the 2016 elections. Many portfolio managers believe the market is underestimating the potential for modest tax reform, however. They estimate that a reduction in the U.S. corporate tax rate to 25%, which would be a smaller cut than what President Trump has proposed, could generate an incremental 5% to 10% earnings growth (but not necessarily an increase in stock prices) for the S&P 500 in 2018.

As always, if you have any questions or comments, please do not hesitate to call upon me. You may reach me at 513-936-5050.

Sincerely,

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