



January 15, 2018

### IT'S 2018, WHAT'S YOUR NEXT SHOT?

On January 15<sup>th</sup>, 2018, the Australian Open kicked off. This tournament is the first of the major four Grand Slam events of the year and it gives us tennis fans a perspective of what may occur over the rest of the year. In fact, over the past ten years in men's tennis, the winner of the Australian Open finished the year ranked in the top 3 nine out of ten times and finished No. 1 three of those times. The only time the winner did not finish in the top 3 was in 2014 when Stan Wawrinka won the tournament and finished the year fourth, still a solid result. In some ways, the stock market is like this tournament. A solid start for the stock market can be a harbinger for a respectable finish.

In the first five trading days of 2018, the U.S. stock market (represented by the S&P 500) was up 2.8 percent. Well, what does this mean for the rest of the year? Historically, the S&P 500 has increased at least 2 percent over the first five trading days of a year 15 times. When this has happened, the market finished the year positive 100 percent (all 15) of those times, with an average gain of 18.6 percent!<sup>1</sup>

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<sup>1</sup> LPL Research, FactSet. 1/8/18

## A STRONG FIRST 5 DAYS HAS BULLS SMILING

Years That Are Up >2% After 5 Days

Date	S&P 500	Return First 5 Days	Max Intra-Year Pullback	Return Full Year
01/08/51	21.00	2.8%	-8.1%	16.3%
01/08/58	40.99	2.5%	-4.4%	38.1%
01/08/63	64.74	2.6%	-6.5%	18.9%
01/09/67	82.81	3.1%	-6.6%	20.1%
01/08/75	70.04	2.2%	-14.1%	31.5%
01/08/76	94.58	4.9%	-8.4%	19.1%
01/08/79	98.80	2.8%	-10.2%	12.3%
01/07/83	145.17	3.2%	-6.9%	17.3%
01/09/84	168.89	2.4%	-12.7%	1.4%
01/08/87	257.28	6.2%	-33.5%	2.0%
01/08/99	1275.09	3.7%	-12.1%	19.5%
01/08/03	909.93	3.4%	-14.1%	26.4%
01/09/06	1290.15	3.4%	-7.7%	13.6%
01/08/10	1144.98	2.7%	-16.0%	12.8%
01/08/13	1457.15	2.2%	-5.8%	29.6%
01/08/18	2747.70	2.8%	?	?
		Average	-11.1%	18.6%
		Median	-8.4%	18.9%
		% Positive		100%

Source: LPL Research, FactSet 1/8/18

Like back-to-back aces, the 2.8% start to the year is even more impressive considering the 2017 market gain of 21.83% for the S&P 500 (including dividends).<sup>2</sup> Many of the talking heads in the media have begun to draw comparisons between 2017 and 1999. I have heard these assertions based on the technology sector's gain of 38.83% in 2017 (including dividends)<sup>3</sup>, and based on the market performance being attributable to a small number of companies. Specifically, the top 5 contributors to the S&P 500 were responsible for 25% of the annual performance in 2017. While this may seem large, this is roughly average for a year of positive returns.<sup>4</sup> Also, in 1999 the total number of securities gaining was smaller than the total number of securities declining, indicating weak overall breadth in the market. Many pundits measure this market breadth using the NYSE Advance Decline Line, which shows the total number of stocks advancing over the total declining. This measure of market breadth deteriorated

<sup>2</sup> S&P 500

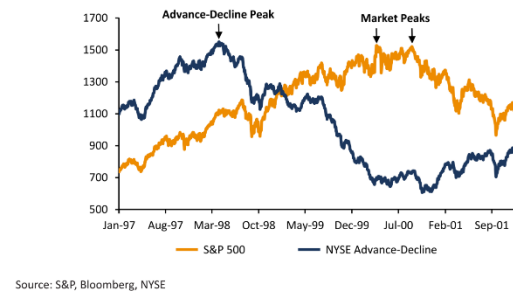
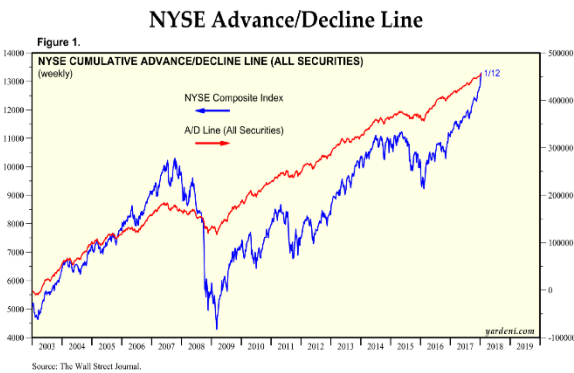
<sup>3</sup> S&P GICS Sector Indices

<sup>4</sup> Bloomberg, JP Morgan. 12/31/2017

sharply in 1998, a stark contrast from the current environment where the NYSE Advance Decline Line continues to reach new highs.<sup>5</sup> While today's bull market may resemble the 1990s more than the Great Recession (2007-2009), the expansion is still distinct from the Technology Bubble.

Top S&P 500 Contributors in 2017			
Rank	Company	Contribution	Years in top 5 (1991-2017)
1	APPLE INC	1.62%	2005, 2007, 2009, 2010, 2011, 2012, 2014, 2016, 2017
2	MICROSOFT CORP	1.04%	1996, 1997, 1998, 1999, 2001, 2006, 2007, 2009, 2013, 2014, 2015, 2016, 2017
3	AMAZON.COM INC	1.02%	2015, 2017
4	FACEBOOK INC-A	0.76%	2014, 2017
5	ALPHABET INC-C	0.50%	2015, 2017

Source: Bloomberg, JPMAM. December 15, 2017.



In 2017, only one American, Jack Sock, ended the year ranked in the top 10. Stock markets demonstrated this, as well, as international equities (measured by the MSCI EAFE index) outperformed stocks in the U.S. (measured by the S&P 500) for the first time since 2012. International valuations have been cheap for a while, but investors are finally seeing value in Europe as the economy recovers and the political noise wanes. Early indicators, such as the Purchasing Manager's Indices, point to Eurozone GDP growth of 3%.<sup>6</sup> Furthermore, banks have shown consistent loan growth since 2015, consumer sentiment is on the upswing, and the central banks remain extremely accommodative.<sup>7</sup> This could bode well over the near-term. Net equity flows from mutual funds and exchange traded funds (ETFs) were positive for international stocks and negative for U.S. stocks in 2017.<sup>8</sup> Perhaps, this development demonstrates investors' confidence behind the nascent economic recovery occurring in the Eurozone.

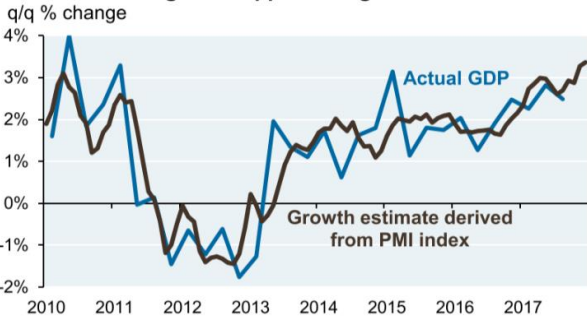
<sup>5</sup> S&P, Bloomberg, NYSE. 01/2018

<sup>6</sup> Eurostat. November 2017

<sup>7</sup> ECB, Haver Analytics, European Commission. November 2017

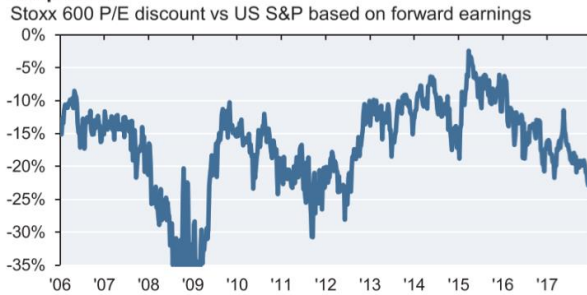
<sup>8</sup> Thompson Reuters Lipper. December 2017

**Eurozone GDP growth approaching 3%**



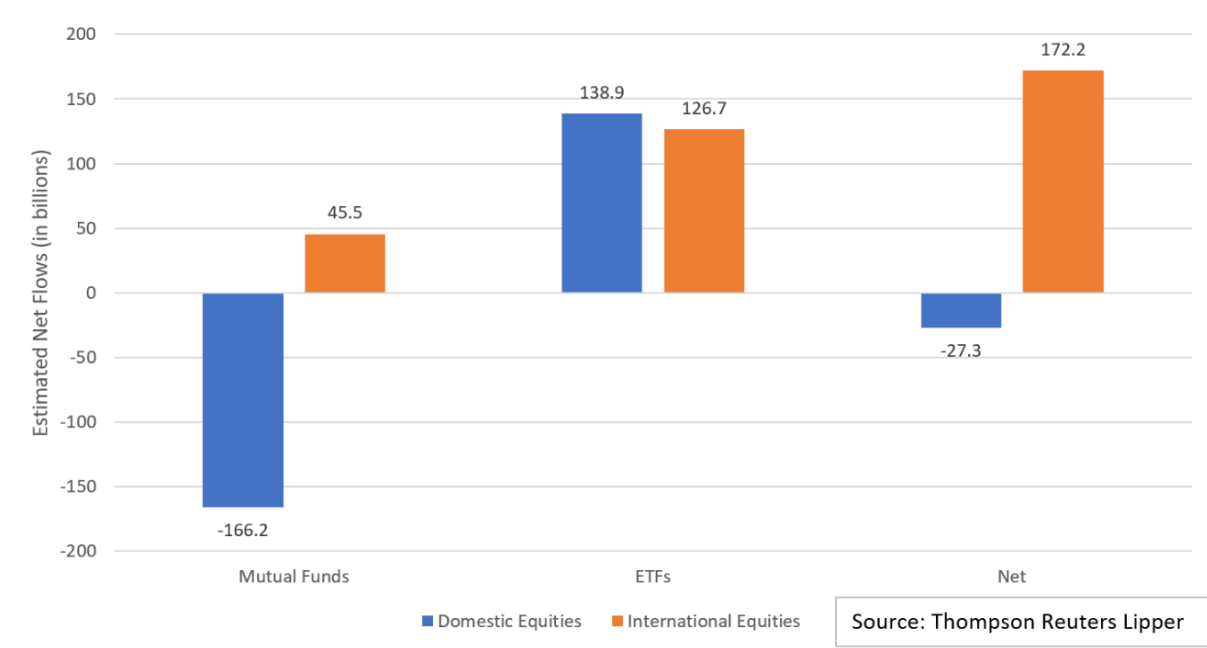
Source: Markit, Eurostat, JP Morgan Economic Research. November 2017.

**Europe: large P/E discount vs the US, but nowhere near deep value**



Source: Datastream, J.P. Morgan Asset Management. Dec 15, 2017.

**2017 U.S. Mutual Funds and ETF Estimated Net Flows**



Source: Thompson Reuters Lipper

In a lot of ways, the U.S. economy and stock market resembles the great Roger Federer. He is a smart bet, with an impressive track record, and one the most consistent performers over the past 15 years. However, he is old, and the door is open for a European to take his title. He should still put up a good result this year, but the chances of him walking away with another victory is slim. It should be a fun year to watch the stock market and the Australian Open. I can't wait to see the results!

To a great "Open",

Grant Glenn, CFA, CFP®

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