

## Market News

The treasury markets selloff continued this week. On Monday June 26th, the US 10Y had a yield of 2.14, it closed this week yielding 2.38. The 10Y Bund also broke 50bps for the 1<sup>st</sup> time in 28 months. The Bund was yielding 0.26 on the 26<sup>th</sup> and has since more than doubled. The Bund blowing through .50, and getting north of .58, led to the global blowout in yields this week. Gundlach reiterated his bearish call on treasuries from the beginning of the year, saying that the 10 year is moving towards 3% this year. He went on to claim that anything north of 3% is also definitively in bear territory. While Jeff may be right, we have a long way to go. The 10 year is currently reentering its post-election trading range of 2.32-2.60. We hit a high of 2.63 back in March – if we sustain a break above that, things could get interesting...

Silver experienced a bit of a flash crash this morning – serving as another reminder of the sudden pain algos can inflict upon the ever efficient markets. Around 7 o'clock last night, Silver dropped 11% in a matter of seconds for no apparent reason.



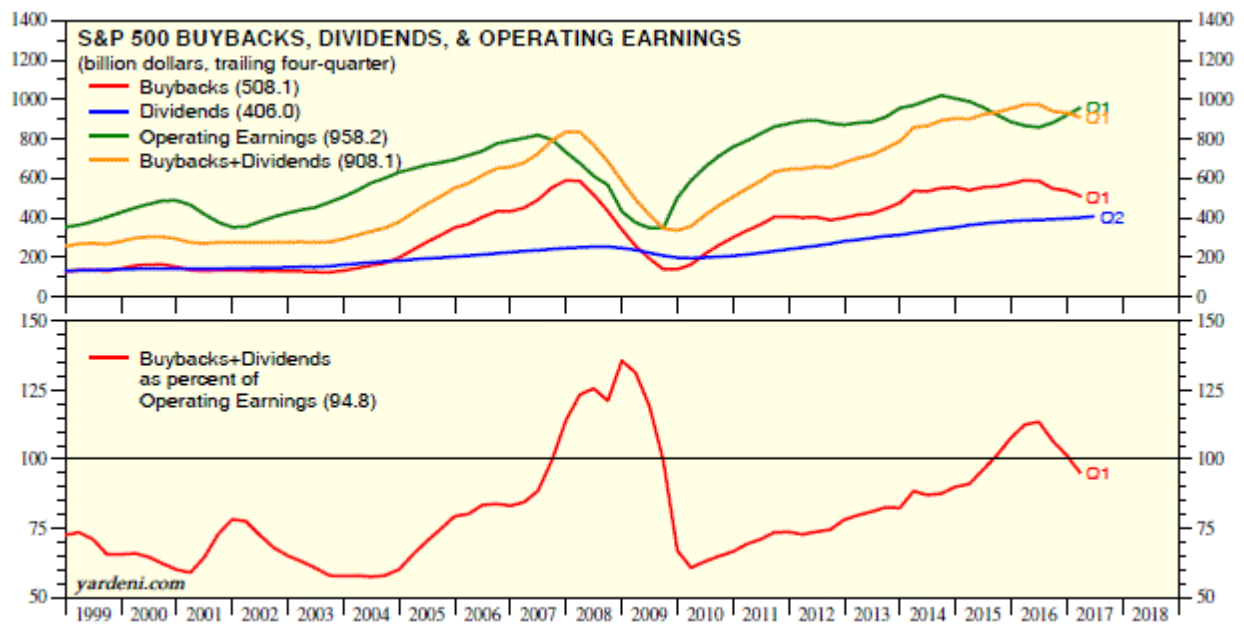
It was a rather slow week, due to the holiday, however there were still some interesting movements. Crude lost nearly 4% this week while equity markets remained more or less flat. Fins led the way this week as the curve steepened, closing up 147 bps. Industrials, Materials, and Tech all closed high more than 50 bps. Telecomm and REITs were both off 150+, with Energy not far behind down 125 bps. Utes, Staples, and Discretionary all closed down over 50 bps as well.

Note, transports hit an all-time high this week. They'd been getting rejected around 9,500 for much of the calendar year – though they now are breaking out. The Dow has been unable to sustain a break above 21,500, though maybe it will now, Dow Theory??

- Week to Date Performance:
  - Dow: +0.30%
  - S&P 500: +0.07%
  - Nasdaq: +0.21%
  - R2000: +0.03%

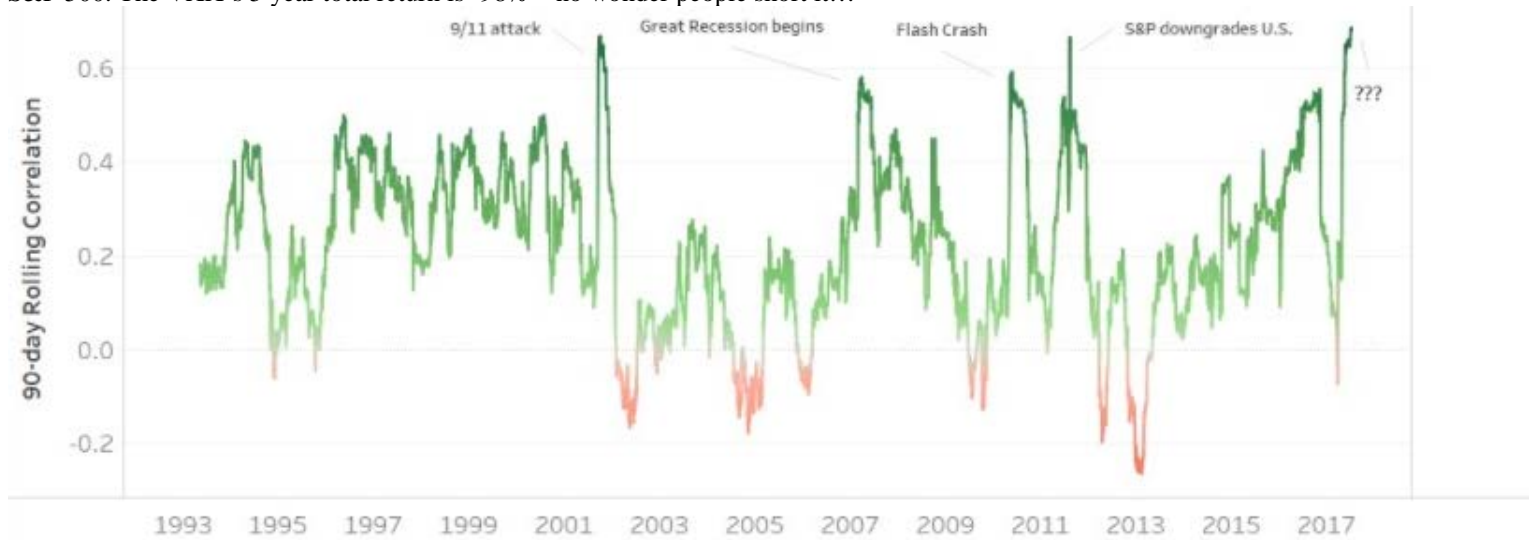
## Macro Bits

Yardeni posted an interesting chart, as seen below. There are a couple ways, in my opinion, to interpret the chart. First and foremost, operating earnings for the S&P 500 was north of \$950 billion. Dividends + buybacks were north of \$910 billion – companies are pumping money into their repurchases and dividends, which is not a trend for a healthy market. The second interpretation is that the last time we were north of 100% was the Great Recession, we were over 100% in 2015/2016 – just one more indication of 2015/16 being a covered-up recession? Though it's an interesting thought, it's hard to say, as n=1, right Billy?



### Things to Consider

Volatility continues to be the center of conversation. A few quick hits... In chart 1, per Bianco research, Equity and US Treasury implied volatility have achieved the highest correlation going back to '93. The second chart shows the parabolic nature of VXX short interest. The VXX is an ETN based on the S&P 500 VIX Short-Term Futures Index Total Return – in layman terms it is an ETN to track volatility in the S&P 500. The VXX's 5 year total return is -98% – no wonder people short it...



Data Sources: Bloomberg, LP

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## Portfolio News

July 3, 2017

- **Bank of the Ozarks** increased their dividend by 2.9% q/q – this marks the 28<sup>th</sup> straight quarterly increase
- **Dominion** filed to offer up to \$500m in common stock
  - They will use these funds to pay back their debt and to fund capex

July 5, 2017

- **O'Reilly** reported Q2 comps of 1.7% v. their previous guidance of 3-5% & estimates of 3.9%
  - Management blamed the weather and just generally weaker consumer demand
  - Analysts point towards a variety of reasons causing the slide in business
    - One analyst points out that fewer cars are entering their peak repair stages
  - The stock traded down nearly 20% intraday and is down roughly 40% off their highs in July of 2016
- **Costco** reported their June comps, 6% v. estimates of 3.9%
  - Their total revenue was up 7.4% in June
    - Costco initially traded higher on the news, nearly 2%, but it ultimately sold off with the market on Thursday and closed lower for the day

July 6, 2017

- **Microsoft** is reorganizing their sales force and will ultimately cut 3,000 jobs

July 7, 2017

- Alere shareholders approved an amended merger with **Abbott**, though the transaction remains subject to regulatory approval.

## Upgrades/Downgrades:

- Raymond James initiated **Nike** with an outperform & a price target of \$71 – though they also upgraded Adidas
- **O'Reilly** downgraded from overweight to equal-weight at Morgan Stanley, with their price target cut to \$200, down from \$290
  - They downgraded by Credit Suisse to neutral, from outperform – their target was cut to \$195 from \$262
  - Goldman upgraded **O'Reilly** from sell to neutral, though they lowered their price target from \$262 to \$210
  - Downgraded to neutral from buy at BOAML – the price target was cut from \$325 to \$200
- **Scana** was downgraded to underperform by Mizuho with a price target of \$63

## Portfolio Performance

Our portfolio had some real losers this week and only mild winners – mild in my book at least. **O'Reilly** became the Lord of Suck this weekend as it dropped 21% this week. It's down 41% off its 52-week high... Talk about a bear market! Not one to be outdone however, the King of Suck, **Tractor Supply**, dropped nearly 6% this week and is 46% off its 52-week high. Damn. We had 12 stocks down at least 2% this week and only one of ours was up more than 2%. we have 18 stocks off at least 10% from their 52-week highs. 7 of them are off more than 24%... ouch!

**T. Rowe** was up 2 ½ percent this week, which was our leader. Not all is down in the dumps on the trading desk though. We have stocks trading at highs as well! **Thermo, Aptar, Becton, and United Tech** are all trading at 52-week highs. We have another 5 stocks within 2% of 52-week highs. We touched on it a bit this morning and I think our portfolio is set to outperform in the future. To quote the omniscient Bob Pisani, "There is a market rotation going on, folks." While he is a dork, and a monochromatic dweeb, the man has a point. There is a clear sector rotation. Defensive plays are sliding as people rush into the Fantasy world of FANG and shorting the VXX. Staples and Utes are

down almost 5% since the start of June. REITs have slid 2.5% this month (that's with them being up 63 bps today!). Lastly, Telecomm is down over 16% YTD. Tech is up nearly 18% YTD – that ain't us, and that's alright.

Ticker			Relative Performance				WTD
	52 Wk High	52 Wk Low	1 Yr.	YTD	QTD	MTD	
ABBV	-2.2%	30.8%	-1.6%	6.9%	8.1%	8.7%	-0.7%
ABT	-2.3%	29.6%	2.6%	17.2%	6.0%	5.1%	-0.3%
ACN	-3.3%	14.1%	-6.5%	-2.7%	0.6%	-1.1%	0.4%
ATR	0.2%	25.3%	-3.9%	11.2%	11.4%	2.8%	1.4%
BDX	0.3%	22.6%	-1.2%	10.4%	4.5%	3.3%	1.4%
BF.B	-19.3%	10.2%	-15.1%	0.0%	2.7%	-6.9%	-0.9%
BRO	-5.7%	20.5%	1.3%	-12.1%	0.7%	-1.2%	0.2%
CERN	-5.1%	39.8%	-4.2%	29.6%	8.5%	-0.4%	-1.1%
COST	-15.9%	8.4%	-14.1%	-9.5%	-8.3%	-12.9%	-3.6%
CTSH	-1.8%	47.4%	2.0%	10.7%	9.4%	-0.8%	0.8%
D	-7.2%	9.0%	-18.8%	-8.8%	-4.4%	-6.2%	-1.1%
DLTR	-32.0%	3.6%	-43.2%	-19.6%	-15.4%	-12.5%	-2.8%
EBAY	-6.2%	44.1%	28.0%	7.0%	-0.6%	-0.7%	-2.0%
ECL	-1.7%	19.9%	-2.6%	5.1%	3.5%	-0.4%	-0.1%
EXPD	-1.4%	20.5%	0.0%	-1.6%	-2.5%	5.3%	0.8%
FDS	-11.8%	7.3%	-14.4%	-9.4%	-4.6%	-3.0%	-2.5%
FISV	-3.4%	32.3%	-2.7%	7.0%	3.6%	-2.7%	0.4%
GWG	-31.8%	6.3%	-33.7%	-29.6%	-24.2%	5.2%	-0.7%
HRL	-17.0%	0.9%	-24.3%	-12.4%	-6.3%	-1.3%	-2.7%
ICE	-1.5%	31.1%	14.6%	9.3%	8.2%	9.7%	0.0%
ITT	-7.7%	33.0%	16.1%	-3.1%	-3.7%	6.1%	1.0%
KO	-3.6%	11.3%	-16.7%	-0.5%	2.6%	-2.3%	-1.0%
MD	-24.1%	8.6%	-35.7%	-20.8%	-18.6%	6.7%	-3.2%
MSFT	-4.7%	36.0%	18.7%	2.7%	2.1%	-1.7%	0.8%
NEE	-3.0%	27.1%	-8.1%	9.2%	6.7%	-1.2%	0.2%
NKE	-3.9%	18.3%	-12.3%	4.8%	0.6%	8.0%	-1.7%
NNN	-28.3%	5.4%	-41.8%	-20.9%	-14.1%	0.0%	-1.7%
ORLY	-41.0%	-0.6%	-51.1%	-44.2%	-36.6%	-27.0%	-21.0%
OZRK	-16.3%	37.0%	20.4%	-17.7%	-11.1%	7.1%	1.5%
RMD	-3.3%	35.7%	4.2%	14.9%	3.7%	7.0%	-1.3%
ROST	-19.6%	1.7%	-15.7%	-21.8%	-16.5%	-11.9%	-2.8%
RSG	-1.9%	30.3%	6.8%	3.8%	-0.8%	0.0%	0.6%
SBNY	-13.6%	25.0%	1.3%	-13.1%	-6.3%	-0.6%	-1.1%
SCG	-14.6%	1.3%	-27.5%	-17.0%	-0.4%	-2.6%	-3.0%
SJM	-26.6%	0.3%	-39.6%	-17.7%	-14.2%	-9.9%	-2.5%
SNI	-19.5%	13.2%	-6.4%	-13.1%	-15.9%	2.0%	-1.7%
SYK	-3.1%	32.5%	0.2%	8.6%	3.8%	-2.5%	1.7%
TJX	-15.9%	3.1%	-24.2%	-14.1%	-13.1%	-6.5%	-2.5%
TMO	0.3%	27.6%	2.6%	16.4%	12.0%	1.4%	1.7%
TROW	-3.5%	20.9%	-11.6%	-9.0%	6.9%	5.5%	2.6%
TSCO	-46.0%	-0.7%	-59.0%	-39.7%	-27.3%	-6.5%	-5.8%
UTX	-0.4%	25.6%	5.5%	3.6%	6.6%	0.6%	0.4%
VRSK	-4.3%	10.6%	-12.5%	-4.8%	0.9%	3.3%	-0.9%
WAB	-3.0%	38.8%	17.1%	1.5%	14.2%	10.9%	-0.5%
WBA	-12.0%	3.0%	-19.5%	-13.7%	-8.4%	-4.0%	-1.1%
WCN	-3.0%	36.1%	17.2%	14.9%	7.2%	1.3%	1.0%
YUM	-20.1%	23.4%	5.3%	7.1%	11.7%	0.1%	-0.4%