

Market News

Health Care is breaking out. See the chart of biotech below. Pharma sets up in a very similar manner. Hospitals also had a nice back half of the week on the backs of the healthcare bill. Biotech stole the show though this week, and XBI (Biotech ETF) was up over 12%.



QQQ officially set its record today for its longest run above its 50 day – 137 days and roughly up 21%! It thought about breaking down last week, though it now looks poised to go higher and actually was up 2 and a quarter this week. SPY was up 20 bps and the IWM (R2000) was up 51 bps. Gold Miners also caught a bid this week and closed higher by 3%. Banks and Energy were the two worst sectors – which is not a total surprise... oil jumped off a cliff and fins can't catch a break with this flattening yield curve.

A few quick bullet points on this week's action:

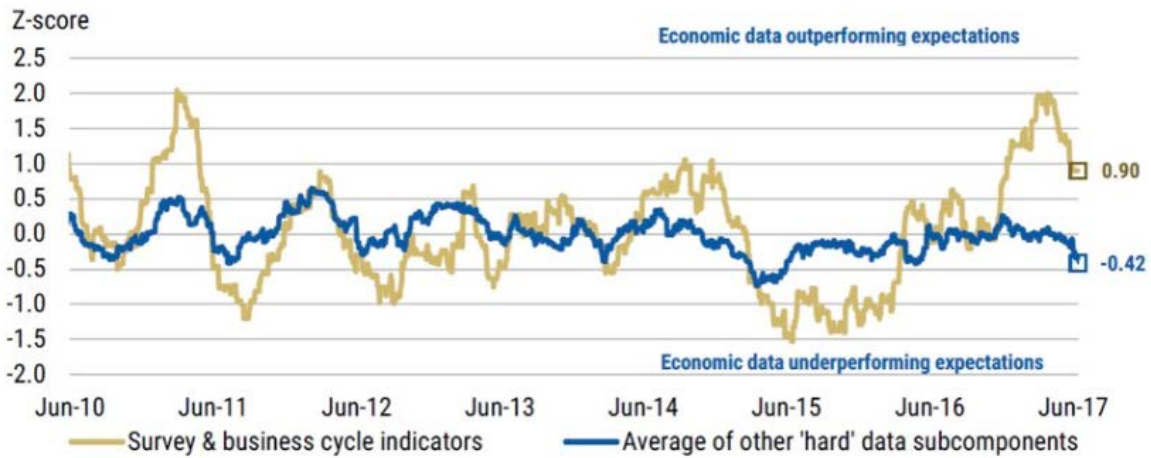
- Markit manufacturing PMI and services PMI came in weaker than May numbers for our lowest readings in 3 months – though they were both in-line with consensus.
- Bullard today said that current econ data suggests the Fed can “wait and see” before hiking... are they
- Index Performance
 - Month-to-date: Dow +1.84%, S&P +1.10%, Nasdaq +1.08% Russell +3.25%
 - Quarter-to-date: Dow +3.54%, S&P +3.20%, Nasdaq +5.98% Russell +2.08%
 - Year-to-date: Dow +8.26%, S&P +8.91%, Nasdaq +16.39% Russell +4.25%

Macro Bits



Hard data hasn't been robust for a while. Though soft data enjoyed a nice run at the start of the year. Well it looks like the gap is beginning to close between hard and soft data – unfortunately its closing in the wrong direction as the Fed has continued their tightening cycle. The chart below sort of looks like it is setting up similarly to what we were seeing in '11.

Exhibit 4: Bloomberg US economic surprise index: hard data vs. soft data surprises



Keep an eye on oil... In 2016, the sharp drop in crude led to a drop in the Energy Sector, which then led to a drop in Junk, and ultimately the market. So far, this correlation has decoupled on this recent drop in crude. Crude and Energy have fallen, but Junk and the S&P have not sharply followed... yet.

The Dow Transportation has been lagging this so far, this week. The Transportation average is a key principal in the Dow Theory. In theory, if the Dow is going up – which means industrials are doing well – then the industrial powers will be shipping/transporting more goods – which means transports must be doing well. However, the last two market cycle’s tops have been but preceded by a double top in the Dow Transportation Average. See the chart below.

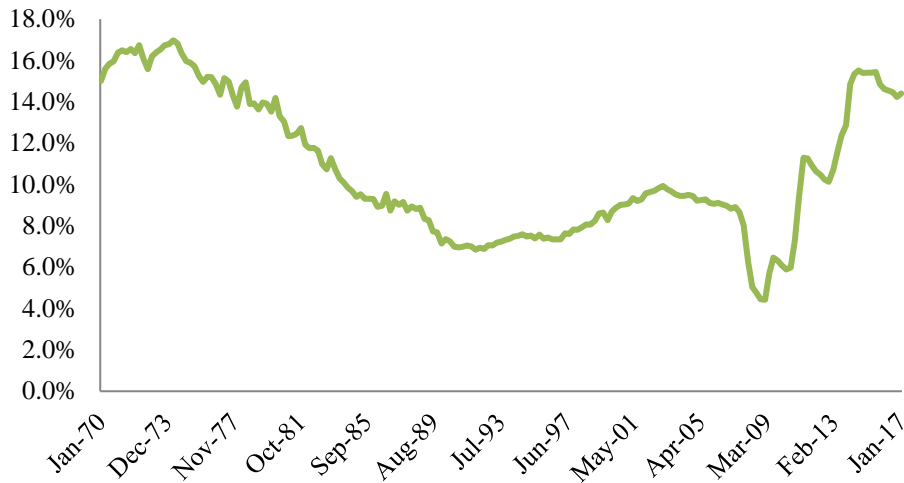


The Yield Curve has continued to flatten... take you pick of spreads. 30s to 2s, 30s to 5s, 30s to 1s, 30s to 90 days, it doesn't matter... all of the spreads have hit post-recession lows. The curve is flattening, period, stop, end of story. Well, not quite end of story... It certainly begs the question, are we going to see an inverted yield curve? It's hard to say as we have never had this much manipulation and intervention in the treasury market. The Fed owns 14% of all Federal Debt. We haven't seen these levels since the early 70s – which ended so well for our economy.

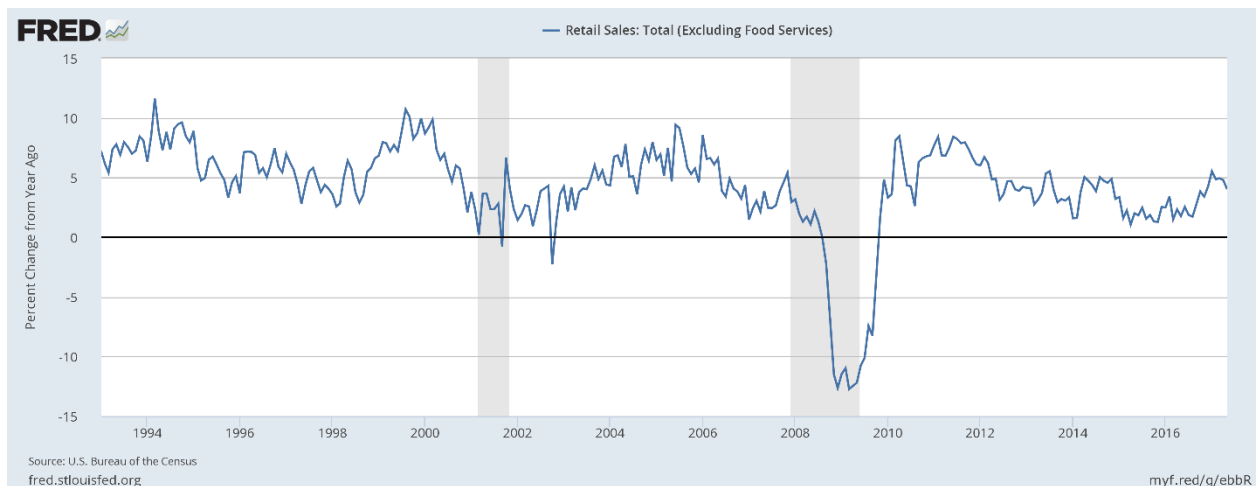
30-Year U.S. Treasury Yield Breaking 12-Month Up Trendline



% of Federal Debt held by the Fed



Lastly, retail sales, ex food services, is starting to roll over a little. We saw a downtrend in these numbers from '12 thru half of '16 without seeing a recession, saw this is not predictive of anything except an economy that is not exceptionally healthy.



Portfolio News

6/19/17:

- **Stryker** to acquire Novadaq for \$11.75/share (a nearly 100% premium) with a total equity value of ~\$700m
 - Analysts think the synergies make the premium worthwhile for **SYK**

- The deal should help leverage **Styrker's** Endoscopy channel as well as strengthen their MedSurg business
- Novadaq produces real-time fluorescence imaging products designed for use by surgeons in the operation room, or other clinical settings, for surgical procedures that are minimally invasive.

6/20/17:

- **Brown & Brown** made two acquisitions this week – they acquired TriCoast Insurance & Spann Insurance
 - TriCoast has annual net revenue of \$2.4m and specialize in Earthquake and Hurricane insurance products to agents and insureds/
 - Spann has annual net revenue of ~\$3m

6/21/17:

- **Nike** may be nearing an agreement to sell some of their products directly on Amazon
 - This is positive for **Nike**, as they now will have direct access to the Amazon platform and will be able to control their brand and imaging much better than they would have otherwise been able to do selling to third-parties that then sold on Amazon.

6/22/17:

- **Accenture** reported in-line with expectations and narrowed its estimated revenue growth range – it traded 4% lower throughout the day

Upgrades/Downgrades:

- **Abbott** was assumed as a buy at BTIG with a price target of \$56
- **AbbVie** upgraded to buy from hold at Societe Generale with a \$95 price target
- **Costco** downgraded by Goldman and Deutsche to neutral from buy, but received an upgrade to buy from neutral at Northcoast Research
- **Mednax** was upgraded to overweight from neutral at Stephens with a price target of \$68
- **Microsoft** had their price target increased to \$80 from \$72 by Morgan Stanley
- **O'Reilly** was downgraded from positive to neutral at Susquehanna
- **QCOM** had their hold rating reinstated by Deutsche
- **Wabtec** was initiated buy at Buckingham with a price target of \$104.

Portfolio Performance

Our holdings had mixed performance this week.

The death by Amazon trade continued as we saw a continued weakening as **Ross Stores, Dollar Tree, TJX, Costco, and ORLY** all were some of our leading laggards down 6.3%, 5%, 4.4%, 6%, and 4.9% respectively. Our regional bank holdings also took a hit as **Signature** and **Ozark** were both off at least 5.5% each. **Signature** made post-election low this week, and though it tried to create some support today, could easily trade down to \$130 from its current level of \$136. **Ozark**, who I kept promising last week was doing what it oughta failed me this week... It began the week holding its 200 Day just above \$48, however it closes this week below \$45.50. Luckily, it did not set a post-election low and looks to have a fair amount of support between \$44 and \$45. The chart does not set up well though. Other laggards include **TSCO, ACN, SJM, BRO, NNN, ITT, EXPD, WCN, and D** -- all of which were off around 3% or more.

It would be a dark weekly update if I were to only focus on the bad, so let's end our Friday on a high note – shall we? Some of our healthcare kicked a little ass – **MEDNAX** led all core holdings up 6% for the week on the back of the healthcare bill. **Cerner** was also up 3.5%, while **AbbVie, BDX, ABT, and RMD** were all up around 2%. **eBay** was 4 and ¾ and Nike was up nearly 3.5%. All in all it wasn't a horrible week for our holdings, though I do not have our performance at the strategy level.

We dipped our toes in the water a little bit during this rather unexciting week. We bought **FactSet** twice and **National Retail** once. **FactSet** is now a 2.6% position in all strats and **NNN** is 1.8% in LCC and MCC. We got into **FactSet** around \$168 on Tuesday and then added to the position on Thursday when it fell to \$165. **NNN** this time around has a cost basis just under \$38.

Well, that's all from me. I hope you all enjoy your weekend! If there are any questions or comments about the setup of this, then please tell me. I think it'd be great if we kept this going on a weekly basis to give us all something to talk about on Monday mornings. Maybe you guys are seeing things that contradict what I am writing about here or maybe I am glossing over something that you guys think is important. Regardless of what it is, this can be a nice little starting point.

Sayonara!