Notes from the Trading Desk

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US equities all rallied in unison this past week. The S&P even posted its 4th best week year to date, as the index climbed 2.41%. The Dow, up 2.3% this past week, gained nearly 600 points. The Russell 2000 and the Nasdaq were the leaders for the week, up 2.63% and 2.68% respectively. The Nasdaq was helped in large part due to the 3.45% rally in the tech sector. However, Energy was the largest sector leader — up 3.75%. Followed closely by Financials (up 3.60%), the aforementioned Tech, Industrials (up 3.39%), Health Care (up 2.48%). Defensive stocks and interest rate sensitive stocks were the laggards. REITs posted a modest 0.64% return for the week, while Staples were off 0.45%. Utility stocks were the real outlier — down 2.27%.

On the fixed income side of the world, the 10-year once again broke through the mystiacl 3% level. However, it once again failed to sustain the break above 3% as it closed for the week at 2.97%. The 10-year has been range bound between 2.90 and 3.00 since its initial breakout in Mid April, The short end of the curve has continued its upward trek. 10s to 2s inched ever closer towards a flat curve. The spread is currently 43 bps — a cycle low. 30s to 2s are also at a cycle low with a spread of just 57 bps, the 30 year average for 30s to 2s is roughly 171 bps.

The dollar was largely unchanged for the week. Though again, it has strengthened YTD. Oil pushed ever onward, as WTI was able to stay above $70 for the week. The average gas price, according to the Federal Reserve Bank of St. Louis, is now the highest it has been since November of 2014. Gas prices are up nearly 13% YTD. *The Wall Street Journal* recently highlighted Morgan Stanley's concern and estimate that gas prices of $2.96 would negate roughly 1/3 of the take-home pay coming from tax cuts. Core CPI also climbed 2.14% for the month of April — the largest increase in over a year. All in all, consumers wallets are beginning to get hit ever so slightly — though consumer confidence continues to remain robust.

Last week we discussed the booming EPS growth taking place in the S&P so far this quarter, and how historically these peak earnings might hinder our future potential returns. We also recently discussed the limited historical returns given where we currently stand as far as valuations are concerned. We are seemingly experiencing peak earnings at elevated valuations. Yet, the market has continued to climb despite these facts! One often cited reason is the global expansion. We are now in the 4th straight quarter where all 35 OECD countries (i.e. developed countries) are expanding. The last time this happened on a sustained basis was in the mid-2000s into 2007, Prior to that, it occurred at the turn of the century. Synchronized growth is without a doubt a positive for global economies. Historically speaking, and similarly to peak earnings, complete synchronized growth appears to have previously limited our future returns (per the table above).

% of OECD Countries Growing	Avg. S&P 500 1-Year Return (3/31/61-3/31/17)
100%	4.1%
90-100%	8.5%
80-90%	8.4%
<80%	12.9%
Average	*8.0%*

Source: FactSet, OECD

Not to be cliché, but we really have found ourselves in a Goldilocks moment. Unemployment is at 18 year lows. Inflation — though ticking up ever so slightly — is at the Fed's target level. The global economy is in sync and growing. Corporations are growing and returning capital to shareholders at the fastest clip in 20 years. The stock market is once again positive for the year. We are quite literally firing on all cylinders. Traditionally, these Goldilocks era's come to an end — and with the end comes the return of risk. Seth Klarman, CEO and Portfolio Manager of Baupost Group, once warned when the perception of risk is muted, the risks are actually quite elevated.

***Notes from the Trading Desk will not be published next week. The next issue should be published May 29th*

Upgrades/Downgrades & Dividends

CELG — Downgraded to outperform from top pick at RBC Capital Markets, target cut to $118 from $120 (5/7).

DG — Downgraded to sell from neutral at MoffettNathanson, price target of $90 (5/10).

DLTR — Downgraded to neutral from buy at MoffettNathanson, price target of $95 (5/10).

EEFT — Initiated buy at Needham, price target of $100 (5/11).

EXPD — Increased their semi-annual dividend by 7.1% to $0.45 (5/9).

FDS — Increased their quarterly dividend by 14.3% to $0.64 (5/7).

MSFT — Assumed outperform at Credit Suisse, target of $115 (5/10).

NKE — Named a best short idea at Hedgeye claiming 25% downside (5/8).

RSG — Upgraded to buy from hold at Argus Research, target price of $75 (5/10).

TSCO — Increased their quarterly dividend by 14.8% to $0.31 (5/10).

Earnings Calendar

Date	Time	Ticker
5/22	Pre-Market	TJX
5/24	Pre-Market	HRL
5/24	Post-Market	ROST

Portfolio News

This past week we took advantage of a post-earnings selloff in Cognizant Technology Solutions to further add to our position in our Large Cap Core Strategy. We also took the time to add incrementally to CVS Health in our Equity and Large Cap strategies. CVS was up a little more than 6% for the week, thanks in large part to its whipsaw trading action on Friday. In roughly an hour and a half of trading, CVS dropped from nearly $63 to just below $61 before rallying north of $65.5. It ultimately closed at $64.41. The source of the volatile trading action was President Trump's Friday afternoon talk on drug prices.

Pharmacy-Benefit Managers, or PBMs for short, were all subject to a fairly violent trading session. PBMs sold off sharply when President Trump initially began speaking as many feared that cutting drug prices would hurt the margins of companies like CVS or Express Scripts. However, the speech refrained from any drastic and dramatic directives. Rather, it erred on the side of vague, which led to an almost immediate rally. CVS fell more than 2.5% in what was about a five minute window before rallying 4% in the following 10 minutes. One notable discussion point was whether or not PBMs should be required to have a fiduciary duty to their clients. Per *The Wall Street Journal,* PBMs have a stated focus on keeping drug costs low. However, they make more money when list prices go up. Regardless, it will be worth monitoring these developments going forward. Biotech experienced a large rally into the close as well on Friday.

	WTD	MTD	QTD	YTD
Dow Jones	2.3%	2.8%	3.0%	0.5%
S&P 500	2.4%	3.0%	3.3%	2.0%
Nasdaq	2.7%	4.8%	4.8%	7.2%
Russell 2000	2.6%	4.2%	5.1%	4.6%
Con. Disc.	0.8%	1.2%	3.4%	6.3%
Con. Staples	-0.5%	-1.9%	-6.3%	-13.6%
Energy	3.8%	3.8%	13.4%	6.0%
Financials	3.6%	2.8%	2.3%	0.9%
Health Care	2.5%	0.9%	2.1%	0.4%
Industrials	3.4%	3.4%	0.4%	-1.6%
Info Tech	3.4%	7.3%	7.3%	10.8%
Materials	1.9%	3.3%	3.4%	-2.7%
Utilities	-2.3%	-2.4%	-0.4%	-4.6%
REITs	0.6%	1.9%	1.2%	-4.9%