

"Cup of Joe"

The markets have remained resilient over the last few months, turning any slight pullback into a quick buying opportunity - everyone who sat out after the crash in 2008 are now getting back in and pushing your investments higher. Europe dodged a major bullet in the French elections a few days ago with the market favorite, Emmanuel Macron, winning the nomination over the populist, Marine Le Pen. This took a large portion of risk off the table for global markets and reaffirmed the Eurozone's direction moving forward. U.S. corporate earnings have also done increasingly better, beating most expectations and adding a further tailwind for equities. As we have done in previous issues, we will provide catalysts for future optimism along with possible negative catalysts that may cause the markets to correct.

Let's start with the good news. As stated above, a lot of the recent volatility in the markets was political in nature and pertained to the contentious French election. The fear was that the populist candidate, Le Pen, would win, creating another "Brexit moment" and adding speculation that France would leave the Eurozone. This was viewed by many as the possible end of the European Union. That would have possibly led to significant global correction. These fears diminished after Sundays win by the centrist candidate, Macron. This, in turn, caused the market volatility to decline in a meaningful way. With the elections in the rearview mirror and the political risks significantly diminished, Europe seems to be positioned quite well and at a far cheaper valuation than the U.S. (Note: your portfolios were in position for this outcome).
Other positive catalysts include:

- Gas prices at or below $50/barrel, providing the consumer with more spending money
    - The peak was $147.50/barrel or gas prices over $4 dollars per gallon in 2008
- Deregulation providing a much-needed boost for the small- to mid-size companies in the U.S.
    - Smaller companies do not have the staff to maintain onerous regulations that were intended for the large banks and corporations that often abuse the system
- Corporate Tax Reform on the horizon
    - Foreign countries (for example, Ireland) maintain very low corporate tax rates to attract capital inflows from around the world
- Consumer sentiment remains high
    - Everybody seems happier when they have extra money in their pockets
- Possible Infrastructure bill

    - If we don't get this one, just imagine what roads, bridges, airports, railroad stations, etc. would look like

Possible negative catalysts that could derail the recent rally would come from a variety of areas that include:

- Markets become overvalued
    - This is a normal occurrence and corrects itself as the traders and fund managers sell their winners to take profits – it's a good thing!
- Political stalemate dragging out possibility of tax reform
    - It's tough to get congress to spend the money to fix things (roads, bridges, etc.) because they need to get the money from somewhere
- "New" corporate tax rate doesn't meet market expectations
    - When the corporate tax rate is cut, a substantial amount of revenue that the government needs in other areas is given up
- Geopolitical concerns (i.e. Russia and North Korea)
- Stagnant wage growth
    - The higher the wages, the more money people have to buy products. The big culprit here is technology - think robots replacing workers. No reason to raise wages when you can replace a worker with a robot. "They work for electricity".
- Oil prices capitulate
    - Oil prices could drop again due to the U.S. opening new wells and flooding the market every time the price of oil rises. Note: 12% - 14% of all U.S. stocks are influenced by the price of oil. "The price of Exxon falls with the price of oil".
- Trade Wars
    - It sounds great to just slap an import tax on foreign goods to make people buy American, but what stops the foreign countries from doing the same to our products that they buy? In reality, the tax is passed on to you, the consumer, in the form of a higher cost of the goods.

Our portfolios have been performing well. We anticipated that Europe was a great bargain and are overweight this sector. The emerging markets have also performed very well, with our American Funds New World Fund posting a gain of 14.09% YTD. Our biggest winner, though, just happens to be our largest holding - Apple. Over the last 4 years, we have been "pounding the table", so to speak, on the extremely cheap valuation and incredible fundamentals that Apple has working in its favor. With a 32.91% gain YTD, a 10.5% dividend increase and an increase in their capital return program, we couldn't be more pleased. Long term, we feel that Apple is still cheap when you strip out the enormous cash stockpile that is upwards of $260 billion and they also look to benefit from the iPhone 8 super-cycle (beginning in September of this year). **I don't know about you, but my dad still has an iPhone 5 and can't wait to buy the "8"!** And who knows, Apple could dip into that big cash hoard and do some pretty amazing things. Exciting times ahead!

Also, our "increased volatility" portfolio has been performing well:

- EWW: Mexico up 13% since our addition in December
- GLNG: Golar up 13% since our addition in December
- DIS: Disney up 7% since our addition in December

To wrap things up, we are very pleased with the markets and our returns YTD. As long-term investors, we know it's impossible to foresee the short-term swings of the markets, but we feel optimistic that the economy is on strong footing. Any foreseeable pullback, in our opinion, would be short-lived and a great buying opportunity. As always, we thank all of our clients for their continued referrals as we remain focused on preserving your capital and making it grow!

*Don't forget to check out some interesting articles below.

-Joe, Ryan, and the Chapel Hill Investment Team

CONTACT US

jsc@chapelhillinvestment.com
rmc@chapelhillinvestment.com

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Chapel Hill Investment Analysts, Inc.
126 Mathews Street, Suite 1600 | Greensburg, PA 15601
P: 724.830.2600 | F: 724.830.2795
www.chapelhillinvestment.com

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