Peregrine asset advisers

4th Quarter 2017 Market Overview

Thine Market is an Outlier

The New Year started with a bang as the stock market shrugged off a languid, but steady, pattern of advance in 2017 and shifted into a steepening ascent. Renowned investment manager, Jeremy Grantham, most famous for his longstanding bearish view, joined the enthusiasm by proclaiming, "As a historian of great equity bubbles, I recognize that we are currently showing signs of entering the blow-off or melt-up phase of this very long bull market".

Whether we are beginning a speculative melt-up, as Grantham suggests, or simply a continuation of the advance from last year, no one knows. Early days of 2018 suggest a melt-up of some sort. The permutation of this market now qualifies as an outlier in both time and price. This means it now rivals the heights of past Bull Markets.

The stock market has defied skeptics and experts for a long time. Last year, for instance, the S&P 500 gained 19.4%. This gain exceeded even the most optimistic forecasts. Most brokerage firms and notable experts were forecasting gains for 2017 in the single digits. Bill Gross and Jeffrey Gundlach even called for low single digit returns.

Not only were these predictions well off the mark but the market has now risen *fourteen consecutive* months. That has never happened. And, longer term, it's also worth noting the market has risen by double digit amounts for seven of the past nine years. Clearly, this is a bull market for the ages.

Throughout 2017, the most extraordinary aspect of the climb was the absence of any noticeable accompanying pullback. Amidst political wrangling last year, major destructive storms, and some geopolitical threats, the market corrections were scant and the biggest retreat was a mere 2.6% drawdown in March.

Now, as we start a new year, it is clearly evident that investors are further emboldened. The S&P gained almost 5% in the first two weeks. This gain, coupled with the irrepressible advance from last year, makes the current market a true outlier with respect to its strength and durability. The strengthening economy, stimulus from tax cuts, and the shear momentum of the market are composing the bullish scenario. We might be ill advised to take any defensive action until these circumstances begin to dissipate.

"It's the Economy, Stupid"

The primary fuel driving the stock market has been an expanding economy. After sputtering at a sub 2%growth rate for five years, our economy accelerated above 3% GDP growth rate in the third quarter and estimates are for 4% growth for the fourth quarter, yet to be announced. This economic revival has had a profound effect on the stock market.

The best gains of the year for the market happened in the fourth quarter in conjunction with the improving economy. During this period, all major industry groups staged a strong advance and this was a departure from previous periods where the advance was not as uniform.

Previously, from 2014 -2017, the best market performers were heavily weighted to the FAANG stocks and exclusive areas of the market that could flourish with a limping economy. During this time, there were only a few stocks supporting an entire index like the S&P 500.

Now, conditions have changed, and as a consequence, the gains in the market are more broad and widespread. Currently, leading stocks are emerging from the industrial and basic material sectors. Even the beleaguered retail space is enjoying renewed leadership with names like Walmart and Macys making strong gains.

The improving economy stands to boost the fortunes of **Caterpillar Tractor**, which is emblematic the industrial revival. Technological advances in manufacturing efficiency along with growing markets in the industrial sectors could spark further gains in the shares of companies like these.

The surprise passage of the new tax bill definitely added more fuel to the rally. Tax cuts remove the competitive disadvantage that impeded American manufacturing for so long. Analysts continue to revise estimates northward and this is stirring enthusiasm for the shares of manufacturing companies.

Peregrine Portfolio

Peregrine portfolios are invested in a healthy dose of industrial companies. Certainly, infrastructure spending is an enticing concept that might get more attention in the months ahead. Tax cuts and economic growth provide more tangible reasons for these businesses to boom. Names that we would hold for client accounts, in addition to CAT, are **Boeing**, **Praxair**, **Komatsu**, and **Roper Tech**.

Peregrine Portfolios matched the strong gain in the S&P for the fourth quarter. Capping a solid year for investment gains which also followed strong annual gains in 2016, the Peregrine Composites gained 6.0% for the fourth quarter.

We took profits twice on trades in Amazon during the quarter. We also realized handsome gains from investments in **Tyson Foods**, **Diamondback Offshore**, and **Goldman Sachs**.

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