The major stock indexes have been enjoying a period of extraordinary calm so far in 2017. The S&P 500 has endured just one pullback of 3% this year, which is far from the norm. But while all appears peaceful on the surface, there has been a lot of rotational churning within the market that should not be ignored. It is, after all, as much a "market of stocks" as it is a stock market.

With the S&P 500 index less than 1% below its high, more than 40% of the S&P 500 stocks are more than 10% below their highs, and 20% of them are down 20% or more. In other words, many stocks and sectors have already had a correction, even if the "market" has not.

Other short term indicators are weakening as well. The chart, below, shows that while the S&P 500 (white line) remains near its high, and above its 200-day moving average (yellow line), just 60% of S&P 500 stocks are now trading above their individual 200-day moving averages (green line), which is down precipitously from 75% in just the last month. The ability of a stock (or an index) to remain above its moving average is often an important indicator of momentum, and the fact that fewer stocks are able to sustain this momentum suggests that it is very possible that the S&P index, itself, could soon break below its 200-day moving average, signaling a negative shift in market momentum.

We would view such a break – *if* it happens - as a normal correction and technical in nature, *not* a fundamental change of market direction. It is worth noting that there has been a correction of at least

7% in the index every year since 1996. In most of these cases, the bottom of the correction was reached within a month of when the 200-day moving average was breached. As mentioned earlier, we have not experienced a pullback of more than 3% so far this year, so we are overdue.

Longer term, though, the trend remains bullish, supported by strong corporate earnings. With almost all companies having reported, S&P earnings rose almost 15% in the second quarter, and sales rose 6%. Overall, earnings were 5.4% above consensus, and 89% of companies reported results at or above expectations. Earnings estimates for 2018 are being revised upward at the highest rate since 2011, and while this signals continued optimism by some, it gives us pause. At some point, in a positive earnings cycle, markets begin to take positive surprises for granted, and penalize disappointment severely. But this is likely a 2018 concern; for now, earnings continue to grow above expectations against weak 2016 comparisons, and are supportive of rising stock prices and current valuations.

The positive earnings performance remains supported by an economic expansion that is now in its 9^{th} year, with minimal risk of a recession any time soon. Durable goods and capital expenditures rose more than expected in July, and consumer sentiment continues to strengthen. In addition to sustained growth here in the U.S., growth in Europe accelerated during the second quarter to an annualized pace of 2.3% among the 19 Eurozone countries. We have written in past *Outlooks* of our strategy of diversifying our managed portfolios to take advantage of investment opportunities globally, and the benefits of that strategy are now in evidence. Growth in Europe – particularly southern Europe – now exceeds that of the U.S. after having lagged for years. And the performance of foreign markets reflects this improving growth, with the EAFE index, representing the developed countries of Europe, Australia, and the Far East, up 17% this year, while the U.S. market as measured by the S&P 500 is up 11%.

So despite the growing signs of possible short term weakness, we believe that we remain in a bull market driven by rising earnings, slow but sustainable global growth, and low interest rates. Enjoy what is left of your summer.

Joseph J. Tascone	Michael D. Blatt, CFA	Michael S. Lares, CFP
Senior Vice President &	Vice President &	Vice President &
Senior Investment Officer	Portfolio Manager	Portfolio Manager