MAIN
MANAGEMENT, LLC

Q3 2017 MARKET RECAP

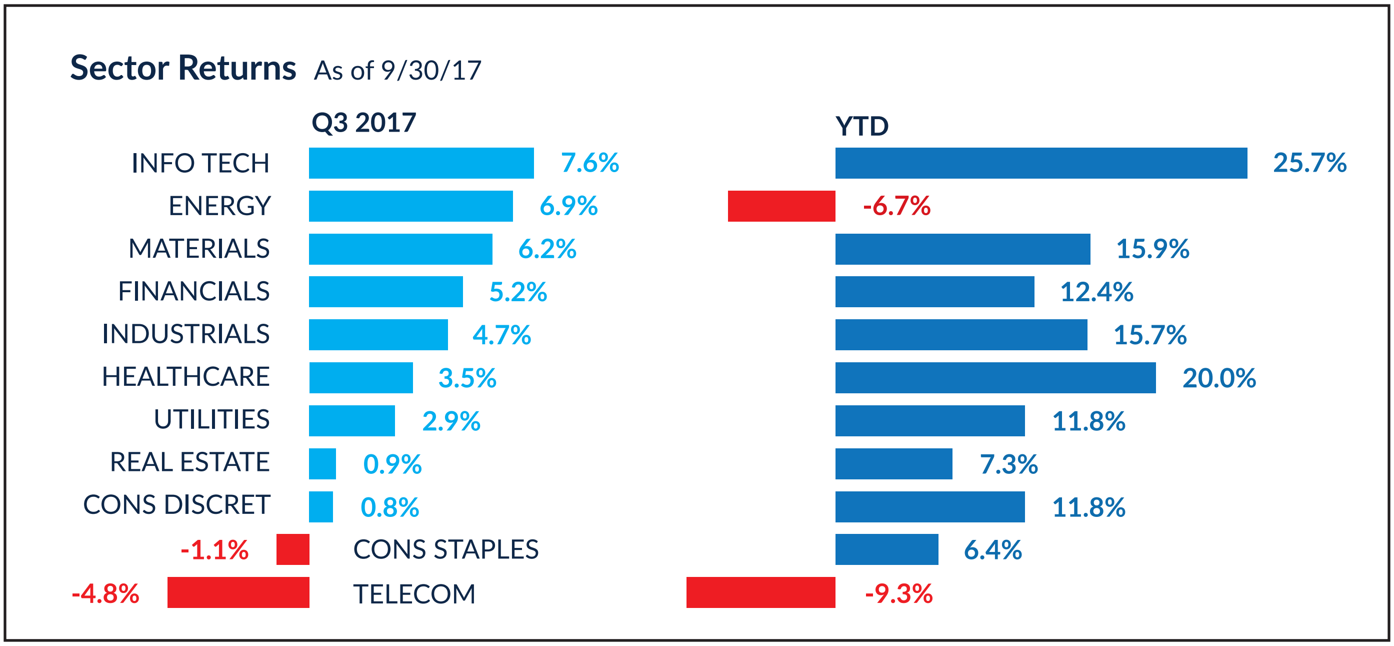
October 10, 2017

ENCOURAGING GROWTH, BUT HURRICANE IMPACT ADDS UNCERTAINTY

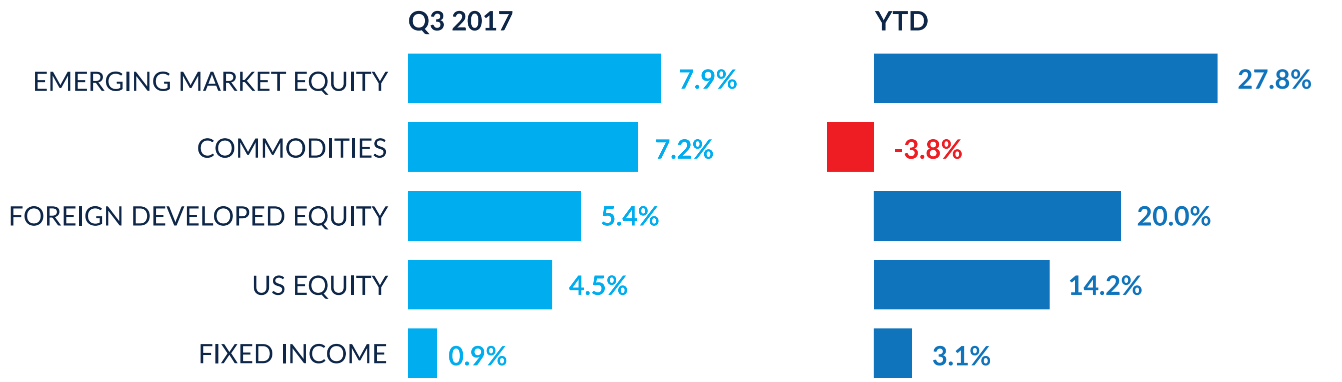
The third quarter of 2017 saw equity indices around the globe move strongly higher. Emerging Markets led the way, rising +7.9%, while Commodities also turned in a strong quarter, up +7.2%. In the US, the tech-heavy Nasdaq Composite was the strongest of the broad indices, rising +5.8%. Behind it, the Dow Jones Industrial Average was up +5.6%, while the Russell 2000 returned +5.3%. The S&P 500 TR lagged a bit but was still up +4.5%. The best sectors were Info Tech (+7.6%) and Energy (+6.9%) while the worst were Consumer Staples (-1.1%) and Telecom (-4.8)%. The cyclical sectors handily outperformed the defensive sectors, as cyclicals were up +4.6% on average while defensives were basically flat, returning +0.1%. While it seemed as though volatility couldn't get much lower than it did during the second quarter, it managed to do so in Q3, with the VIX index average dipping below 11 to 10.94. On the fixed income side, the Barclays Aggregate Bond Index returned +0.9% and yields moved slightly higher during the quarter.

US economic data was solid, but not great. GDP for the second quarter came in at 3.1%, which narrowly beat forecasts of 3.0%. However, forecasts for the third quarter are closer to 2%. There is also some uncertainty around the effects that the hurricanes will have on growth in Q3 and Q4, as their devastation will be somewhat mitigated by the reconstruction efforts. Inflation continues to run below the Federal Reserve's target but the labor market remains tight, with the unemployment rate sitting quite low at 4.4%. In September, the Federal Open Market Committee decided to keep rates unchanged at 1.00-1.25%, but signaled that they would likely hike at the December meeting unless the economic situation deteriorates considerably between now and then. The FOMC also mentioned that it remains on target for 3 more rate hikes in 2018. Despite this, treasury yields were basically flat during the quarter, with the 10-year US Treasury moving from 2.31% to 2.33% and the 30-year moving from 2.84% to 2.86%.

On the political side, the Trump administration has been unable to enact healthcare reform but it recently released



Asset Class Returns As of 9/30/17



a tax plan that could cut corporate tax rates from 35% to 20% and simplify the tax code for individuals. However, like healthcare, it remains to be seen if the administration can push its tax reform through. The infrastructure plan also continues to be held up by partisan conflict and lack of definition. But, should the tax reform pass and the infrastructure plan come into focus, the economy could benefit quite nicely.

MEANWHILE, INTERNATIONALLY...

Outside of the US, the global economy continues to move forward. International equity markets had a very good quarter. Manufacturing PMIs continued to be strong basically across the board, which likely contributed to market performance. Europe is showing particularly robust manufacturing growth, but the rest of the world is not far behind. The September German election saw Angela Merkel remain in power, but she faces a divided parliament. The uncertainty is the biggest concern here, as enacting meaningful change could prove difficult.

Heading into the fourth quarter, we continue to be constructive. Seasonal factors are also at play and historically this has resulted in positive returns for equity markets. The US and global economies are moving in the right direction, and while growth might not be as strong as many wish, it is steady and that has largely tempered recession fears for the time being. The Fed's December meeting will garner at lot of attention as the markets wait to see if they follow through with a rate hike and GDP will be under scrutiny as the damage caused by the hurricanes becomes more defined.

Sincerely,

Kim David Arthur
CEO and Portfolio Manager