Hamilton-Bates
Market Update
September 18, 2017

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As we enter the final weeks of the third quarter, the major equity averages have broken out to either all time multi-year highs. Granted the progress for the US markets has been halting over the past few months, but still the trend is higher as the US market is seemingly being dragged higher by foreign markets. It would be premature in either case to call the breakout in our averages impressive or confirmed by follow through, but at a time that the general refrain across market commentary is cautionary, the simple fact that markets have found the will to push higher throughout the summer is a positive.

Economic and Earnings Outlook
Last week was an average week we got some critical economic reports, but the problem is that the commerce shut-downs caused by hurricane Harvey and then Irma may have skewed all of it.

Inflation remains subdued around the 2% level (according to Govt data), and the odds of a Fed hike in December ticked higher. Traders are now betting on a December rate hike of 0.25 basis points, with a 55% chance of an increase then. What is very likely is an announcement at that the Fed will begin slowly unwinding its balance sheet in October. This would involve allowing bonds to roll off without buying more, and eventually selling Treasury and Mortgage securities it holds. At some point this will pressure the bond market and send yields higher, but this will be a 2018 issue.

Retail sales and Capacity utilization we weaker than expected, but could have been affected by hurricane Harvey. The general tone of economic data remains slow growth (around 2%), and next quarter GDP projections hover around that level.

Market and Investment Outlook
Equity markets continued their spiral up with three of the four key US market indexes hitting new highs. Even better news, is the rally is contagious with foreign equities outperforming, led by Emerging Markets. The bull market is a global affair right now, and we see that continuing at until at least Q1 of 2018 when Fed policy could finally put the brakes on things.

The only sell-off or market hiccup recently occurred after North Korea launched yet another missile, threatening to level Japan, the US, and Guam but not necessarily in that order. North Korea's recent actions are not surprising after new sanctions were imposed by the UN. North Korea's response was to defy the US and the UN as he announced his intentions to reach military parity with the US. After the Trump administration threatened military action, we got a rebuke from both Russia and China about not escalating tensions. It makes one wonder what either one of them would do under similar circumstances. **The takeaway from a trading perspective is that anything short of a nuclear or live-fire exchange won't unhinge the markets**.

With the quarter end allocation process about to gear up we would expect to see further extension of the equity market rally as we head into the seasonally strongest portion of the year. In our view the ever present risk of a near-term setback is more than balanced by the possibility of acceleration in upside progress, particularly if crossing an emotional round number such as S&P 2500 helps build enthusiasm.

We doubt that next week's FOMC meeting will have much of an impact on the market's mood, with the Committee likely to cite the Harvey/Irma double blow as a reason for caution but not one that would delay the

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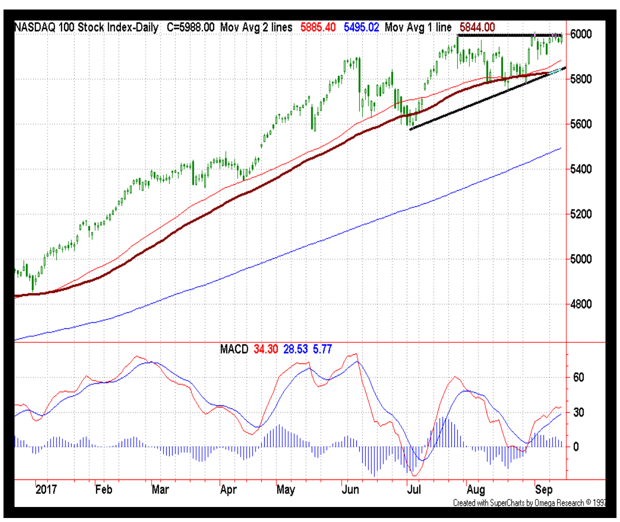
implementation of its balance sheet run off. This would give the market some time to move prior to the onset of earnings season next month.

Cash levels are high globally and allocation to US equities is the lowest in a decade, which is bullish across the board. We see higher prices for stocks in the Fourth Quarter and believe the current bull market lasts into Q1 of 2018.

Market Charts—S&P and NASDAQ Challenge Round Number Targets

S&P 500—Round numbers like 100, 1000, and 10,000 often act as important psychological levels for the market. Once such a level is broken it can trigger further buying (or selling) as the trend in force gains momentum.

For much of the summer the market has been moving higher but in grudging fashion, in fits and starts. This past week however the S&P has pushed above 2500, a nice round number, and this could trigger follow-on buying as we transition from the weakest part of the year into the strongest (mid-October thru May). We could see the S&P hitting 2625 before year-end.



NASDAQ 100—The NASDAQ has been a leader in 2017, but it has taken a bigger pause this summer as it tries to tackle its own round number barrier of 6000. If it can push above this level and confirm the move in the S&P, we could see a strong fourth quarter for tech stocks.

Semiconductors (not shown) have already broken out to a new high, so we believe its only a mater of time for the NASDAQ index to follow.