Investment Management of Virginia

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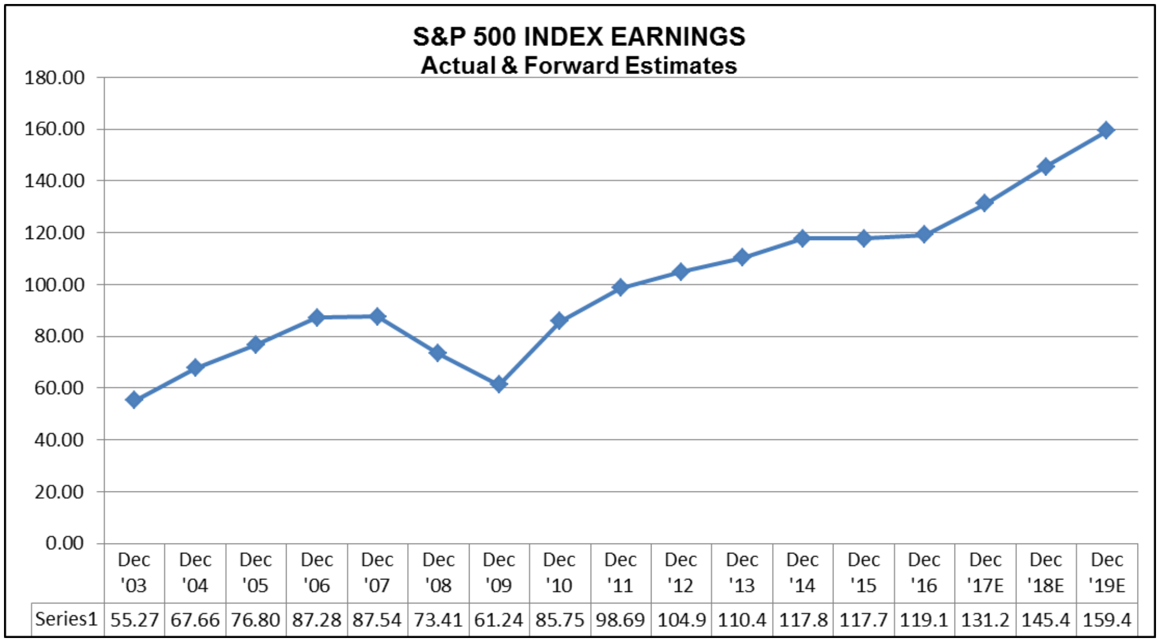
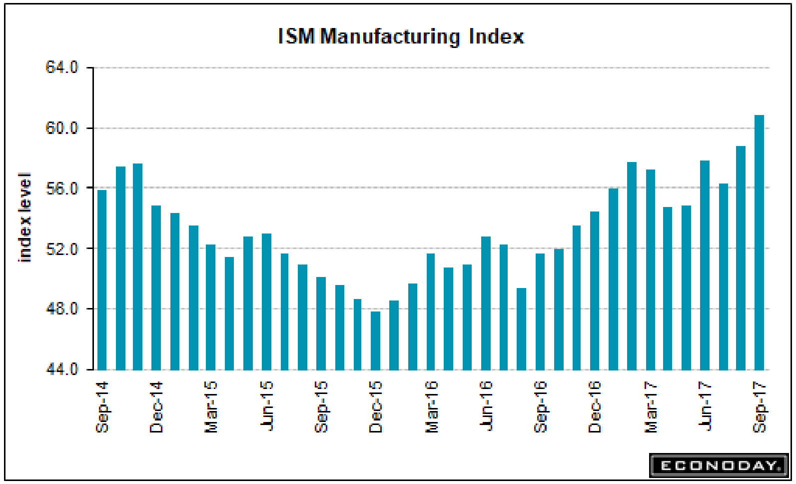
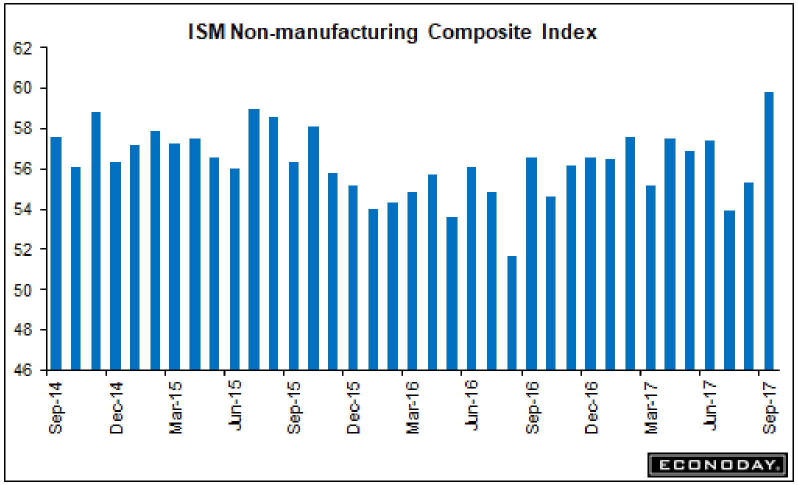
Interesting Charts and Commentary

The S&P 500 Index delivered 5.2% sales growth in the second quarter of 2017, with earnings rising 10.3%, in aggregate, on a year-over-year basis. More broadly, U.S. Corporate Profits reflected growth of 8.1%. The third quarter likely produced continued strong growth. After three years of flat earnings, S&P 500 companies now appear to be delivering the best year-over-year earnings growth rate since 2011 and remain on target for double-digit progress in 2017.



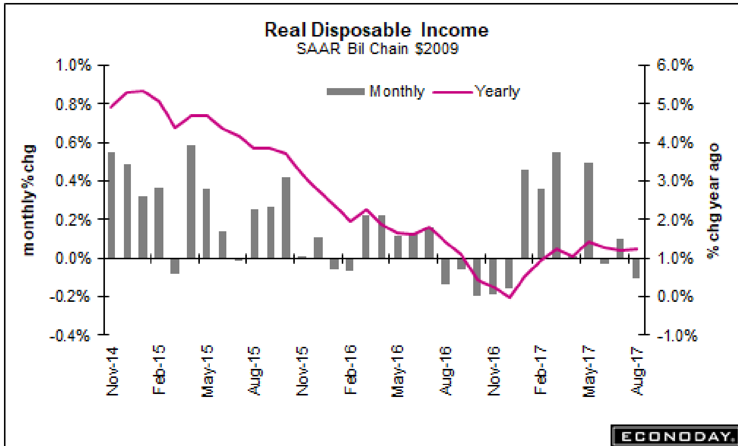
The Institute of Supply Management (ISM) Purchasing Manager's Index (PMI) and Non-Manufacturing Index (NMI) have made remarkable recoveries from the 2014 energy downturn and continue to indicate expansion.

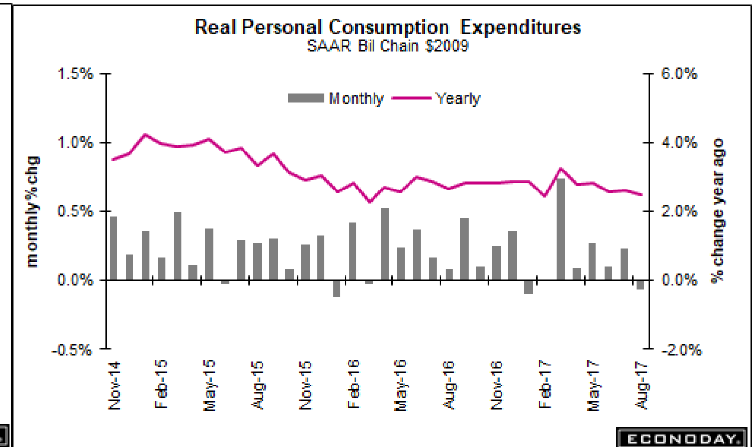


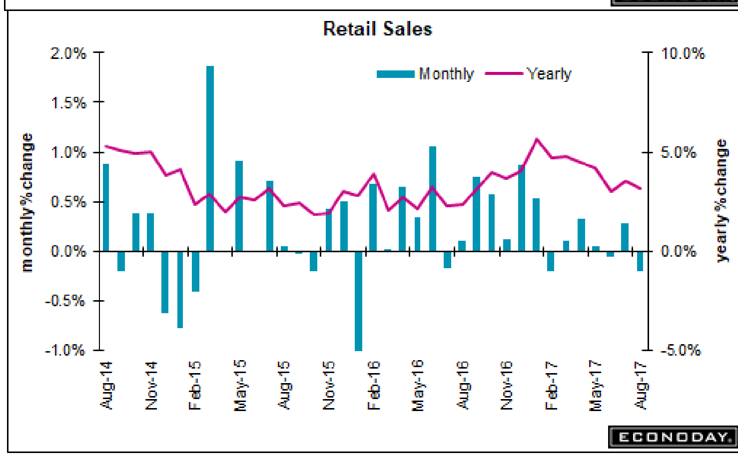


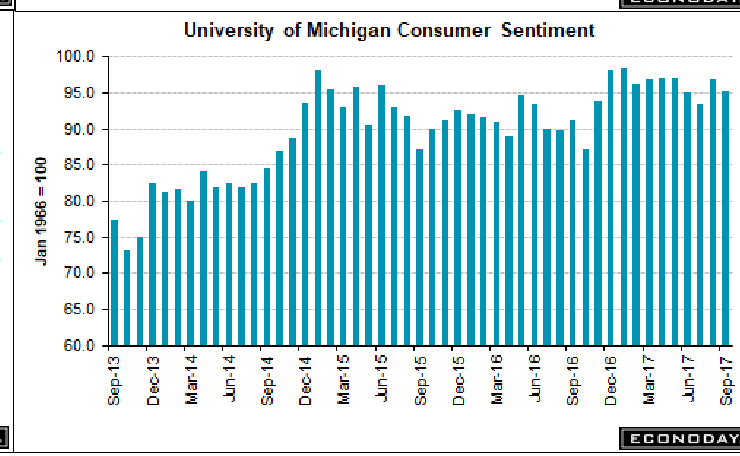
Source: Bloomberg, LP, www.Bloomberg.com, and IMVA

The strength in employment and manufacturing is not being reflected in retail sales. Real disposable income remains stagnant, and retail sales have continued to be anemic.

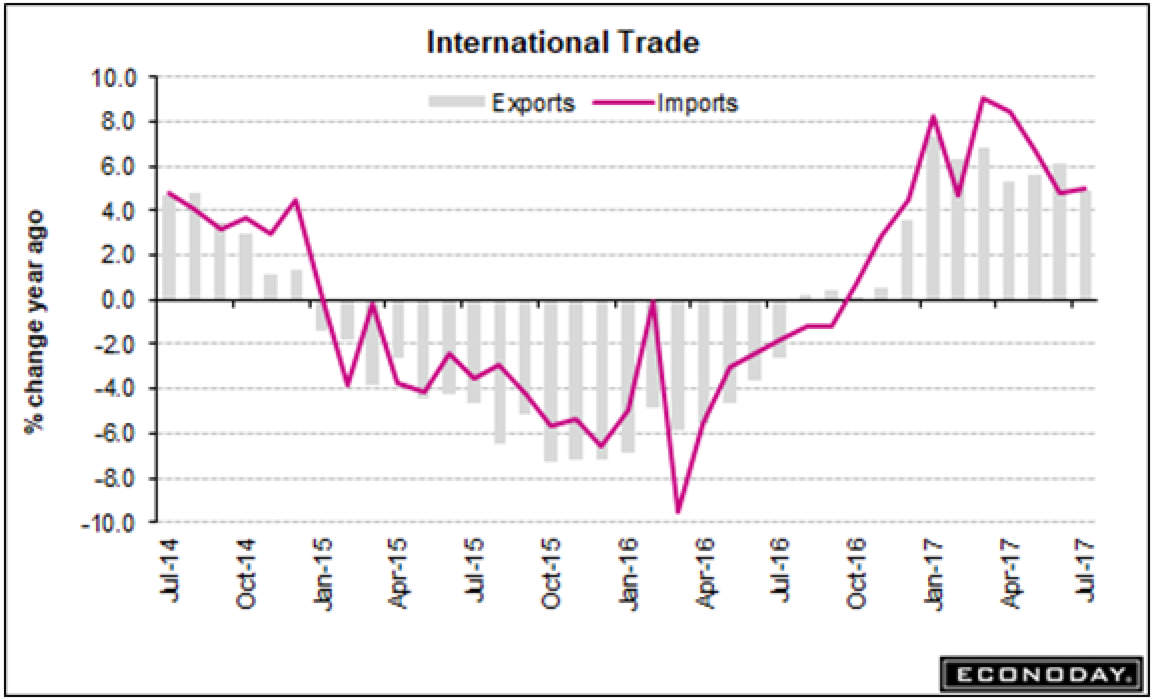






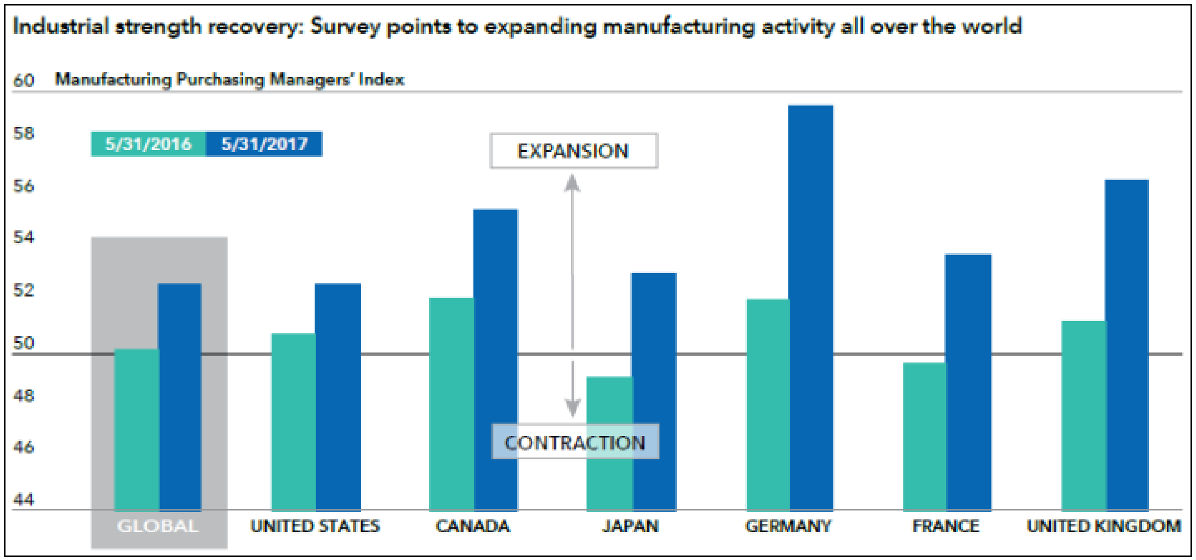


In today's global economy, international trade is a critical element that fuels economic development, particularly for manufacturing-related businesses. U.S. imports and exports started to improve dramatically in early 2016. That surge may be moderating, but global economic conditions appear to remain healthy.



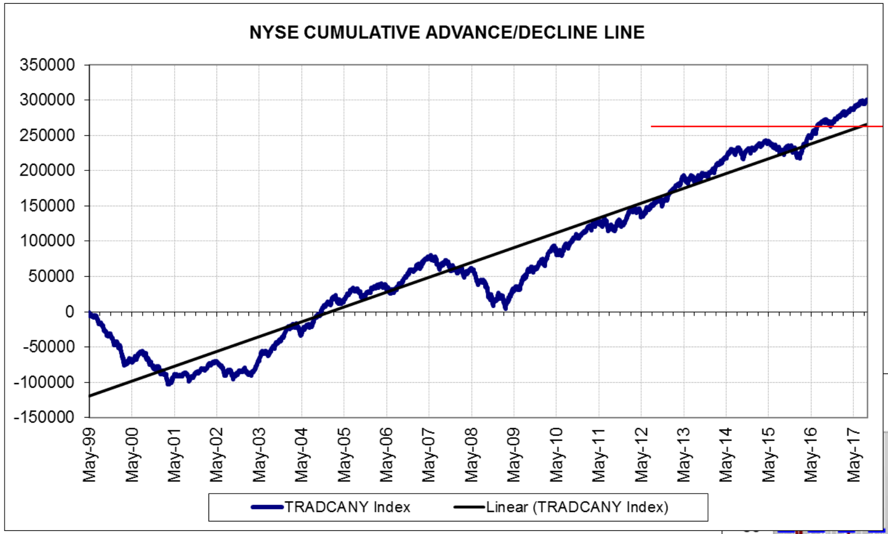
Source: Bloomberg, LP, www.Bloomberg.com, and IMVA

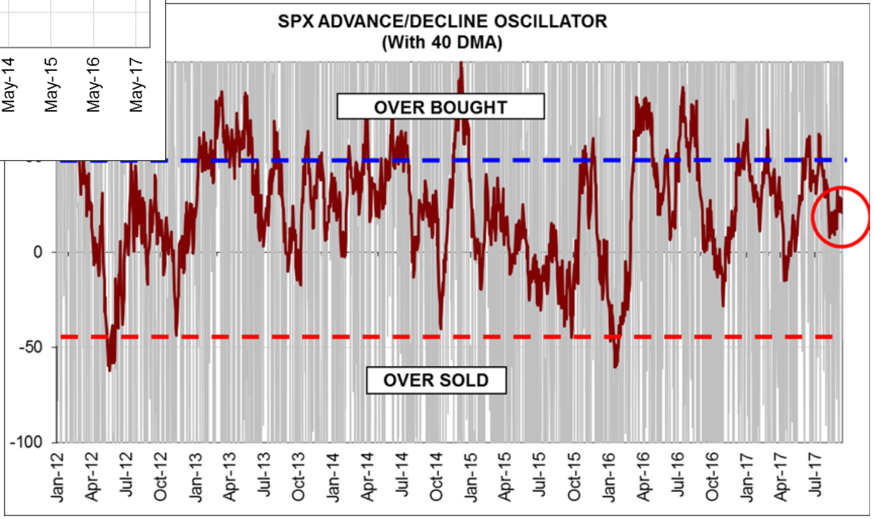
Economic data from around the world continue to suggest that a broad-based global expansion may be gathering momentum. According to the *Wall Street Journal*, the manufacturing economies of all 45 countries tracked by the OECD (Organization for Economic Co-operation and Development) are set to advance this year. With 30% of aggregated S&P 500 Index company revenues originating from international markets, the global expansion has provided a favorable tailwind driving revenue and earnings growth for U.S. multinationals.



Source: Wall Street Journal and Cornerstone Macro

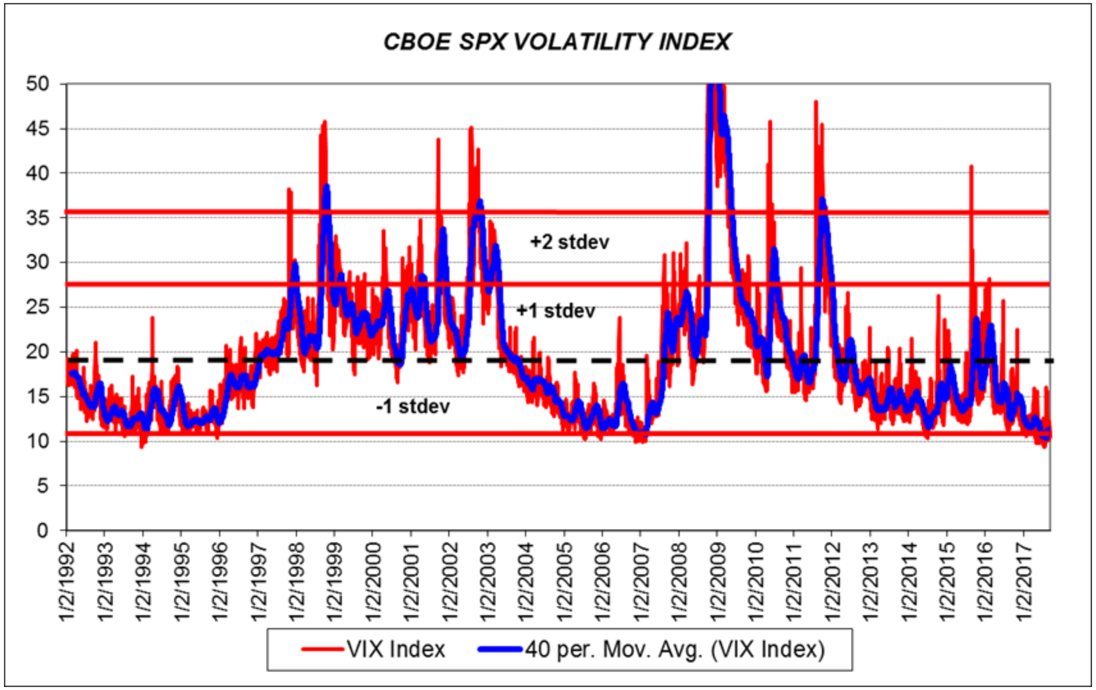
The technical conditions of the market remain supportive. The Cumulative Advance/Decline line continues to make new highs along with price, and the market's overbought condition has been worked off somewhat.





Source: Bloomberg, LP and IMVA

Volatility across asset classes, especially in equities, has declined and stayed remarkably low YTD. Periods of low volatility generally are linked to the business cycle, and low unemployment rates tend to anchor equity volatility. Low volatility periods often feature "risk on" and "carry-friendly" investment attitudes and activity, with both equity and credit valuations increasing. Looking ahead, shifts in central bank policies, political turmoil both at home and abroad, and other exogenous factors could generate higher volatility in the future.



Source: Bloomberg, LP and IMVA

Commentary

- After three years of flat earnings, S&P 500 companies now appear to be delivering the best year-over-year earnings growth rate since 2011 and remain on target for double-digit progress in 2017.

- The Purchasing Manager's Index (PMI) and Non-Manufacturing Index (NMI) have made remarkable recoveries from the 2014 energy downturn.

- U.S. imports and exports started to improve in early 2016 and have risen sharply. That surge may be moderating, but global economic conditions appear to remain healthy.

- Economic data from around the world continue to suggest that a broad-based global expansion is continuing. According to *The Wall Street Journal*, the manufacturing economies of all 45 countries tracked by the OECD (Organization for Economic Co-operation and Development) are set to advance this year.

- The technical conditions of the market remain supportive. The Cumulative Advance/Decline line continues to make new highs along with price, and the market's overbought condition has been worked off somewhat.

- Volatility across asset classes, especially in equities, has declined and stayed remarkably low YTD. Periods of low volatility are generally linked to the business cycle; low unemployment rates tend to anchor equity volatility.

Disclosure:

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