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Argus ETF Commentary
John Eade
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Overview

- Equities have gotten off to a positive start in 2017, while bonds have struggled. Through February, the S&P 500 Index (SPY) was up 7.0% before dividends, while the primary fixed income index, the Barclays US Aggregate Bond Index (AGG), was break-even and the MSCI EAFE (EFA) had gained 5.6%.

- From an asset-allocation standpoint, Argus continues to favor stocks over bonds, and we favor U.S. stocks over international stocks. U.S. stocks remain attractive on a valuation basis compared to bonds, despite their recovery from 2009 lows. In addition, we think U.S. equities can benefit from economic and market trends that indicate 1) core U.S. GDP is growing at a 2.0% rate, give or take 50 basis points; 2) real interest rates will remain low on an historical basis through 2017, and; 3) corporate profits are on an upswing after a period of decline in 2015-2016.

- In our Moderate Asset Allocation model, we currently recommend a 60% weighting in stocks, 33% in bonds and cash, 5% in commodities and 2% in real estate.

- For equity exposure, large-caps appear to be the better value, based on our review of trends in P/E ratios, price/sales ratios and dividend yields. Our recommended exposure to small- and mid-caps is 15% of equity allocation, in line with the benchmark weighting. We continue to expect better market breadth into 2017, which should favor Value (IWD) -- though Growth (IWF) is out to an early lead. Looking internationally, we note that U.S. stocks have outperformed global stock indices over the trailing 1-year, 5-year and 10-year periods. We expect this trend to continue, given volatile global economic and currency conditions. We look for Emerging markets (EEM) to outperform in 2017, led by China, India and a recovery in Brazil. ETFs in our model portfolios include Schwab US Dividend Equity ETF (SCHD), Powershares S&P 500 Low Volatility ETF (SPLV), Vanguard Growth ETF (VUG), Vanguard Value ETF (VTV), Vanguard Emerging Markets Stock Index ETF (VWO) and iShares Edge MSCI Min Vol EAFE ETF (EFAV).

- In looking at interest rates for recommended bond exposure, we look for the 10-year U.S. government Treasury bond yield to fluctuate within a fundamental range of 2.25%-3.00% through 2017. The current long-bond yield is about 2.6%. Given recent economic data, we now expect the Fed to hike short-term rates 2-3 times in 2017. In this environment, we favor high-rated shorter-duration bonds and corporate bonds. We also recommend that investors seeking higher yields and willing to take on a higher degree of risk consider diversifying bond portfolios by including an allocation to preferred stocks. We recommend steering clear of emerging market and foreign sovereign rates at this time, as any potential extra yield comes along with a substantially higher degree of risk. Interest rates in countries such as Japan and Switzerland are negative. ETFs in our model portfolios include PIMCO 0-5 High Yield Corp Bond Index ETF (HYS), SPDR Barclays Short-Term High Yield ETF (SJNK), and Vanguard Intermediate-Term Corporate Bond Index ETF (VCIT).

- Commodities as an asset class have started to recover after a five-year downtrend. Recent weakness in the dollar has resulted in stability for commodities including oil, gold, metals and agriculture. We think commodities should constitute up to 3%-5% of Moderate portfolios. Commodity and alternative ETFs in our model portfolios include U.S. Commodity Index Fund ETF (USCI), iShares Gold Trust (IAU) and iShares US Real Estate ETF (IYR).