

PARALLEL PORTFOLIOS | MONTHLY VIEWPOINT

Our Current View on Investments and the Economy

BIG THOUGHT

After a difficult October most stock markets found some recovery in November. In particular, emerging markets did well. U.S. markets surged off the lows late in the month helped in large part by Federal Reserve Chairman Powell implying rate increases could come slower than investors had feared. Then as the calendar turned to December a temporary truce on the trade war with China brought some potentially welcoming news. Neither of these are unimportant stories, but we suspect **like most headlines months and certainly a few years from now investors will have forgotten all about them**. Instead we are spending more time focusing on the path for earnings expansion, market price action and investor sentiment. Our trend model remains neutral after last months downgrade, but a late year rally could improve that along with the many other positives. In general, we **still find quality investments** to put money to work in, but there are also **enough caution flags to not be at our most aggressive** like earlier this year. Successful investing is best accomplished with a combination of a long-term focus and patience.

DASHBOARD



-  TREND
-  VALUATION
-  SENTIMENT
-  ECONOMY
-  CREDIT

BULLISH

- » Economy healthy
 - ⇒ Extremely strong job market
 - ⇒ Job strength boosting wages
 - ⇒ Leading Economic Indicators remain strong
 - ⇒ ISM Manufacturing data strong
- » Corporate earnings at record highs
- » Sales growth strong and rising
- » Small business and consumer confidence is high
- » Valuation more reasonable after market correction
- » At least temporary reprieve from the Fed and trade war truce

BEARISH

- » Protectionism/trade wars still a factor and could boost inflation and cause economic slowing
- » Yield Curve back near its low may signal danger
- » Corporate debt levels beginning to draw investor concern
- » Geopolitical concerns
- » Potential speed of interest rates increase
- » Stock market trends still neutral

CHART OF THE MONTH

Premium in U.S. stock valuations



Source: Wall Street Journal

Last month we discussed the stock market correction bringing U.S. stock valuations down to fairly attractive levels. Our chart this month shows that despite that move **U.S. stocks still trade at a very high level of valuation compared to foreign stocks**. In fact, at about a 30% premium the only other time in recent history with a greater premium was briefly during the worst of the Great Financial Crisis. International stocks have certainly had a difficult year. We also know that valuation is not a great timing tool, as disparities can last a long time. However, looking out **over the next 5-10 years history tells us that either by U.S. stocks getting less expensive, or foreign stocks gaining, this valuation spread is likely to compress.**

GREG TOWNER, CFA, CMT

Chief Investment Officer

Mr. Towner has worked in the investment industry since 1999 and received his MBA from the University of Central Florida and BA from the University of Mount Union. At Parallel he oversees the implementation of the firm's overall investment philosophy and is the Senior Portfolio Manager for several strategies. Prior to his current role Mr. Towner was co-manager of large cap core and equity income portfolios totaling approximately \$1 billion at Sterling Capital Management. He holds the designations of Chartered Financial Analyst and a Chartered Market Technician.

BRIAN BOUGHNER, CFA, CMT

Principal

Mr. Boughner has worked in the investment industry since 2000 and holds a BS from Florida State University. He is a co-founder of Parallel, a Senior Portfolio Manager for several strategies and has developed the firm's quantitative tools. Prior to Parallel he had extensive experience with U.S. Trust, BB&T Wealth, Royal Bank of Canada (RBC Centura), Amsouth Bank, and Charles Schwab Co. Mr. Boughner holds the designations of Chartered Financial Analyst and Chartered market Technician.

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