Investor returns across asset classes have been surprisingly positive so far this year. We're only halfway through 2017 and have already met, or exceeded, return expectations for the full year. In many ways, this is merely a carryover of the larger narrative from Q1, where we saw outsized returns, yet no standout catalyst, driving market gains. Many prognosticated that the market was pricing in Trump's pro-business policies, yet it has now become much clearer that in fact corporate America is driving the bus.

While domestically, economic growth numbers continue to be fairly unremarkable, other metrics remain solid, or improving. The unemployment rate sits at 4.3%, with jobless claims at their lowest level since 1973 and average hourly earnings up 2.5%, year-over-year. Manufacturing data remains robust and business conditions are strengthening worldwide, most notably in Europe, an area that has lagged the US for years, in terms of growth. All of this has come on the back of sustained corporate earnings growth, with numbers now at their highest levels since 2011. The bright spot in 2017 has been the shift from earnings growth being driven by margin expansion, to being driven by top-line revenue growth. Q1 saw overall revenue numbers come in one percent above consensus expectations, perhaps marking an inflection point in the recovery and providing stronger support for higher stock prices and multiple expansion. This combination of higher sales and strong earnings growth is projected to continue, as global activity picks up.

The drivers of the strong returns seen so far in 2017 have undoubtedly been growth stocks. Companies such as Google, Apple, Facebook and Amazon have been leading the charge, as tech has returned over 14% year-to-date. These companies benefit from global exposure, market leadership and strong histories of innovation, all factors that are paramount in our evaluation process. Value stocks meanwhile, have lagged, as staples and utilities both trailed the S&P 500 and oil has continued to be buffeted by headwinds surrounding oversupply. We expect this narrative to persist and have positioned ourselves accordingly: having decreased our exposure to staples and oil, reallocating to tech and industrials, two sectors that should benefit from global growth tailwinds and continued momentum factors.

On the political front, the situation is somewhat of a mixed bag. Globally, the election of centrist Emmanuel Macron in France and the failure of Theresa May's Conservative party to gain a majority in Parliament were a repudiation of what seemed to be an international wave of nativism and isolationism in politics. This shift back towards the middle is certainly a positive for trade and global growth and has been rewarded by strong returns in international markets. Domestically, the circus continues. Surprisingly however, the market seems to have taken the chaos in stride and appears to have given up hope of any constructive action coming out of Washington, instead focusing on corporate and economic strength; at this point it is entirely possible that anything other than inaction, may be drag on markets.

One interesting dynamic that seems to support the above theory has been the movement of the US dollar and the structure of the yield curve for US Treasury bonds. While the dollar hit a multi-year high in November amid hopes for increased fiscal policy spending and a pro-business government agenda, it has since retreated from those heights, as optimism for substantive policy has faded. Obviously a weaker dollar improves demand for US goods and services, which supports increased earnings for domestic corporations and in turn should also increase economic growth. Normally, tighter monetary policy and higher interest rate differentials between countries should stoke dollar demand and signal strength, however this hasn't been the case and Euro growth is outpacing the US, increasing demand for non-dollar assets. This is

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perhaps illustrated in the flattening of the yield curve for US Treasury bonds, normally a signal of a declining growth outlook or recessionary period. While we obviously don't foresee this playing out, the contrast between tighter monetary policy and a stalled fiscal policy is certainly something to keep an eye on. Should we receive some clarity surrounding fiscal policy, it could serve to support further gradual monetary policy tightening and increased economic growth.

We continue to evaluate our current holdings and may further rebalance those positions that have grown too large due to outsized gains, or those that we feel no longer fit within the framework of our investment thesis. While we view the current domestic corporate earnings environment as supportive of additional multiple expansion, we are also looking internationally, as the growth story there has improved dramatically. We recently added an India-centric ETF to the portfolio, in hopes of capturing some of the tremendous growth potential in the world's second most populous country, a still emerging economy. The existing Prime Minister, Narendra Modi, is instituting economic reforms aimed at transforming the country's currency, banking and tax systems and opening India up to greater foreign investment. Going forward, we remain focused on quality above all else; companies with reliable revenue and earnings growth, strong balance sheets and proven track records of allocating capital prudently, are our emphasis.

Prepared by Flagship Capital Management, Inc.
Flagship Corporate Center | 2. W. Baltimore Ave. | Suite 200 | Media, PA 19063
t 610.565.9580 | flagshipcap.com

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