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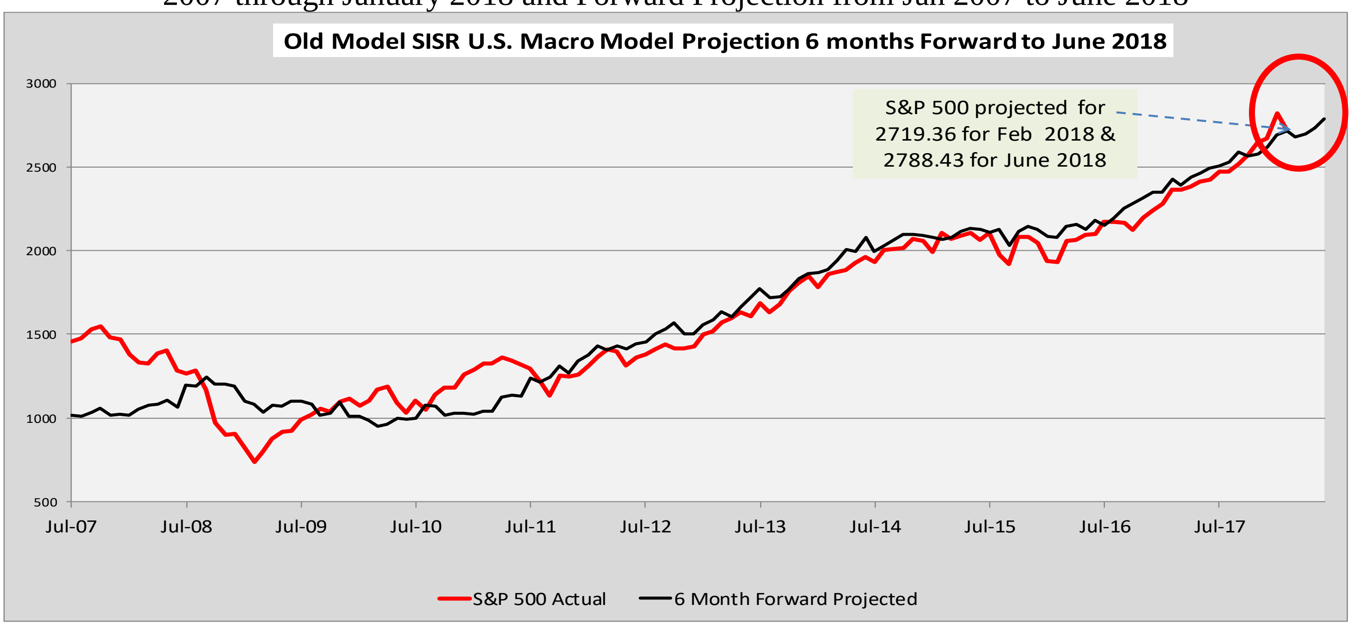
PRE-Tax cut model has Feb 2018 projection 2719.36 - with markets expected to retrace their recent loss within the next couple of months - Markets likely to end Q2 2018 at 3012.53 for an 11.5% gain

PRE TAX CUT MODEL: Figure I: SISR-LMI-Model for S&P 500 with actual performance for January 2007 through January 2018 and Forward Projection from Jan 2007 to June 2018



Source: Factset, SISR

Introduction

This past week we saw a partial retracing of the downturn caused by the correction. Our original fair value estimate for February 2018 was for the S&P to be at 2719.36, this morning the S&P 500 was at 2724.18 just under 5 points off the target from the fair value estimate or 0.18%, or virtually fully on target. That model has the S&P 500 projected to be at 2788.43 by June 2018.

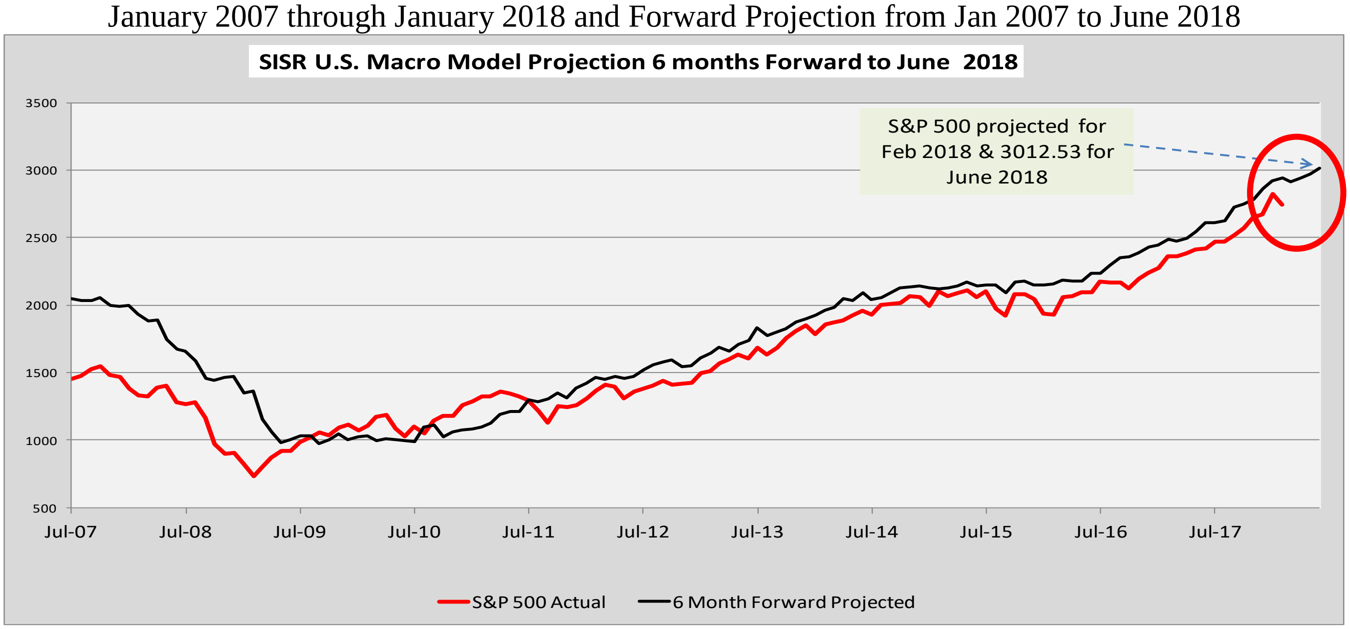
The projected forward June estimate of 2788.43 would represent a 2.4% gain for the S&P 500. However, this model was developed prior to the passage of the tax cuts which clearly will help corporate earnings.

The initial response to the passage of the tax cuts was to push up the markets on the expectation that tax cuts will boost corporate earnings, which will boost stock valuations and consequently the major markets. Then two weeks ago when the reality hit that the big increase in expected debt from government borrowing and printing money would cause inflation, the markets sold off over shooting its fair value estimate as represented by the model. Then, last week it retraced this over shoot and is back to almost exactly our estimated at fair value, based on our August 2017 6-month forward projection.

Last Week we wrote:

> *"It is our expectation that this 10% correction will be a distant memory in a few weeks and the new post tax cut model will prevail, the markets based on the post tax model should have the markets retrace its loss from last week by June and be about 2 to 3% higher than the old highs. The post tax cut model is being driven by the weak dollar, higher corporate earnings, an expanded yield curve, and a lower saving rate, which is expected to increase spending. The past two day strength in the dollar is not likely to reverse the weak dollar trend, as the relative real interest rates in Europe, Asia are likely to push the dollar weaker.*
>
> *The fear of inflation in the U.S. is still very problematic in the U.S. as M2 growth is declining currently with the Fed reducing its balance sheet and bank lending growth nonexistent. In theory at least there cannot be inflation without money growth expanding faster than the current 2.7% rate that it has grown over the past 3 months annualized. Money growth likely will increase faster when the tax cuts take a bite out of the federal budget and expanded Government borrowing is required, but so far this is not a factor.*

POST TAX CUT MODEL: - Figure I: SISR-LMI-Model for S&P 500 with actual performance for January 2007 through January 2018 and Forward Projection from Jan 2007 to June 2018



Source: Factset, SISR

Since the correction shock of higher interest rates with no evident inflation is a reality now, the tax cuts are not going away, and the increase in the government debt is likely at least 6 month away, it is our belief that the post tax cut model will turn out to be more accurate than the pre-tax cut model. The post tax cut model is projecting the S&P 500 will end Q2 2018 at 3012.53 for approximately a 11.5% gain for the markets in the next few months, from today's current levels.

The economy is moving along positively but very slowly, M2 growth has slowed to about 2.5% on a three month annualized basis (it needs to be at 5-6% growth for normal 2 to 3% growth). This is the main reason why our inflation expectations are pushed back at least by one year. Implying that the recent shock of higher interest rates were premature. The tax cuts on the other hand will show up in the next reporting quarter, which is why we modified our model to include forward EPS, and the now low saving rate (which implies higher consumer spending) into the post tax cut model, with these variable now significant variables in the revised stepwise regression model.

Summary and Conclusions

The main point of this report is that the market correction took out the tax cut expected benefit from the markets, but within the next several months when the benefit of the tax cuts will hit corporate earning, and the expected inflation is delayed by a year the new model post tax cut model is likely to turn out to be more accurate.

Both the SISR macro model and the SISR Bond model shows that the recent market correct was over blown with respect to the fear of:

1. Inflation and subsequent
2. Higher interest rates

We believe the recent correction had incorrectly anticipated the timing of the expected inflation. We are projecting that the markets will return to their former highs when the realization occurs that inflation is not as likely in the near term as the market had expected and consequently the U.S. bond yields are currently higher than they likely will be in 5 to 6 months.

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2 – Overweight – The stock is expected to outperform the equal weighted expected total return of the sector coverage. Our investment horizon is 12 – 18 months except as specified by the reporting analyst.
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Price Chart:

A price chart, with changes of ratings and price targets in prior periods, is included above, for all securities covered in this report.

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