MARKET OUTLOOK LETTER

May 8, 2018

Our Growth and Dividend Growth portfolios have rebounded impressively in recent weeks and have gotten off to a great start this announcement season. In the upcoming weeks we will be selling good stocks with decelerating earnings momentum and buying stocks with stronger forecasted earnings growth as well as "fat" net operating margins. These high-margin companies should fare well in the bumpy summer months when the stock market becomes more narrow and selective.

In the near-term, we expect to continue prospering during the first-quarter announcement season, since both our Growth and Dividend Growth portfolios are characterized by strong annual sales and earnings growth, as well as strong earnings surprises:

https://navellier.com/private-clients/portfolios/portfolio-fundamentals/

In the past few months, the analyst community has revised their consensus earnings estimate significantly higher for many of our Growth and Dividend Growth stocks. Since positive analyst earnings revisions tend to precede future earnings surprises, we expect wave after wave of positive earnings surprises in the upcoming weeks. Furthermore, thanks to corporate tax reform, we are expecting strong earnings announcements in the upcoming weeks.

Many of our Growth and Dividend Growth stocks continue to boost their dividends and the average dividend has been boosted in the past year. Furthermore, the stock buy-back activity remains significant, which should also help boost many company's underlying earnings per share. Interestingly, many of our Growth and Dividend Growth stocks trade at relatively low price-to-earnings ratios, so these stocks have a lot of appreciation potential.

Speaking of valuations, the financial media has repeatedly warned investors in recent months that the stock market was overvalued. In my opinion this is totally bogus. Somehow the financial media forgot to tell you that the stock market has not gone up as much as its underlying earnings, so price-to-earnings ratios have been compressed and the stock market remains undervalued relative to both forecasted earnings and interest rates.

Some short sellers have been preying on technology companies for the past several weeks and spreading vicious rumors like "micro LED" will replace OLED screen technology. There are endless rumors that China will stop buying U.S. made optical equipment, which is entirely false, just like the micro LED story.

We should also add that our Growth and Dividend Growth portfolios have diversified away from technology in recent months, so we are much less dependent on technology stocks this earnings announcement season, but we expect the technology stocks that we still own will post strong first-quarter sales and earnings in the next few weeks. Crude oil prices continue to rise and are raising inflation fears. In my opinion, this is due largely to improving weather, strong economic activity, and tightening inventories. The fact of the matter is crude oil prices typically rise this time of year and ebb in late September as demand falls for seasonal reasons. The global energy glut is slowly abating due to robust demand.

The Commerce Department also recently announced that housing starts rose 2% in March to an annual pace of 1.32 million. This was good news, since housing starts had been erratic in previous months due to severe winter weather. The fact that spring is finally here and the long winter is ending in most regions means that economic activity will likely finally perk up. In the past 12 months, housing starts are now up 7.5%, which is healthy and means that there will likely be robust growth for construction suppliers and homebuilders.

The Fed recently reported that industrial production rose 0.5% in March, due largely to a 2.7% increase in vehicle production. Capacity utilization is now at a very healthy 78%, which is up 4.3% in the past 12 months. The Fed also released its Beige Book survey for its upcoming Federal Open Market Committee (FOMC) meeting in May. All 12 Fed districts posted growth at "a modest to moderate pace." Nine of the 12 Fed districts expressed concerns about tariffs, but since fears over new tariffs have fizzled with China's latest concession, we expect the tariff fears will subside.

Chinese President Xi Jinping's conciliatory tone threw cold water on the trade war fears that the financial media had propagated. Specifically, President Xi said, "In a world aspiring for peace and development, the Cold War and zero-sum mentality look even more out of place."

Overall, rising interest rates are currently the only near-term threat to the stock market, which is now in the midst of announcing the best earnings in decades. The 10-year Treasury bond has been remarkably well behaved and has been trying to stay below a 3% yield, but a flattening yield curve will like eventually push Treasury bond yields higher.

In the meantime, as the stock market moves higher, it will likely become more selective and a bit more narrow. As a result, in the upcoming weeks, we will be selling good stocks to buy more monopolistic stocks with "fat" operating margins that are more resilient to economic cycles. This is a good time to remind you that our best defense remains a strong offense and we remain "locked and loaded" with fundamentally superior stocks leading the overall stock market higher. As long as interest rates do not rise too fast, I expect that our Growth and Dividend Growth portfolios will continue to lead the overall stock market substantially higher.

SUMMARY

The bumpy summer months are fast approaching and we are fine-tuning our Growth and Dividend Growth portfolios to withstand any and all volatility disruptions. You have already seen some former market leaders struggle as short sellers spread vicious rumors. As a result, new market leaders are emerging, so I expect that many of our Growth and Dividend Growth stocks will benefit from institutional buying pressure as new leaders emerge. We realize that President Trump is not popular with many folks, especially with the DNC and within the Washington D.C. beltway, but mainstream and financial media's futile attempt to throw cold water on the stock market, a growing economy, and economic prosperity is getting silly. The fact of the matter is instead of smelling the roses and enjoying the strongest earnings in decades, the mainstream and financial media has decided to become a bunch of party poopers and have become increasingly unhinged

Elections have consequences and we all have the right to change things during the next election. However, as James Carville has repeatedly said, “It’s the economy, stupid.” It is also very unhealthy to be perpetually pissed off as the mainstream and financial media have been about tax reform, trade wars, tariffs, and needless gossip to get everybody upset, so I strongly recommend that you turn off the TV.

Our Growth and Dividend Growth stocks are ignoring all these distractions by (1) boosting their dividends in the past year, (2) continuing to steadily buy back their outstanding stock, (3) posting strong annual sales growth, (4) posting even stronger annual earnings growth due to expanding operating margins, and (5) providing positive guidance. So in the end, we can control our own destiny by making sure our best defense is a strong offense of our fundamentally strong Growth and Dividend Growth stocks.

LOUIS G. NAVELLIER
CEO/Chief Investment Officer

MICHAEL J. BORGEN
Senior Portfolio Manager

MICHAEL GARAVENTA
Portfolio Manager

TIM HOPE
Portfolio Manager

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1 East Liberty Suite 504 Reno Nevada 89501

800-365-8471 • 775-785-2300 • www.navellier.com