



Weekly Market Review

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The Week Ending October 20th, 2017

It was another positive week for U.S. equities. About 20% of S&P 500 companies have now reported third-quarter earnings with 76% beating estimates. The U.S. large-cap index has posted six straight weeks of record highs. Equities also saw a boost with the Senate passing the 2018 budget outline last week. Getting the budget approved clears the way for the House Ways and Means Committee to start drafting a tax bill. President Trump is still hopeful that tax reform will be enacted this year. Whether it is this year or early next year, it appears the political pieces are falling in place for some form of tax reform in the not-too-distant future.

With the market more bullish on equities, bond yields are rising because investors are selling their current bond holdings to buy more equities. Treasury and corporate bonds, specifically, fared the worst last week, while Municipal bonds and High-yield corporates both had positive weeks. High-yield bonds tend to follow the equity markets more closely than the other bonds mentioned, so the positive week in high-yields makes sense with a strong week in the equity markets. However, Municipal bonds posting a positive week when Treasuries and Corporates were down is a bit more curious, especially since we seem to be moving closer toward tax reform. If tax rates go down, this would reduce the tax advantage of interest in Municipal bonds which would reduce



the bonds' value, all-else-equal. That being said, all else is not equal, and there are other market forces in play.

On Friday, Bitcoin hit a new record high of \$6,149, breaking \$6,000 for the first time. Unlike traditional security markets, the Bitcoin market never closes. Trading resumed over the weekend, and the price pulled all the way back to about \$5,700 Monday morning. That is a 7.3% decline in just a few days. Nobody knows what the long-term future is for Bitcoin. Some believe it will replace all of the world's traditional government issued and supported currencies. Others think Bitcoin is an asset more comparable to gold as a storage of value, while some believe it is a massive bubble that will eventually collapse and end up completely worthless.



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