



ISHARES INDUSTRY UPDATE

The leadership of the stock market has narrowed to a very small slice of the market. Healthcare or financial industries take 7 of the top 8 spots over the 3 month and 6 month time frames. Healthcare issues have dominated at the sector and industry level for quite a while so that isn't much of a surprise. Consistent growth is highly prized in a market where growth is hard to come by at all.

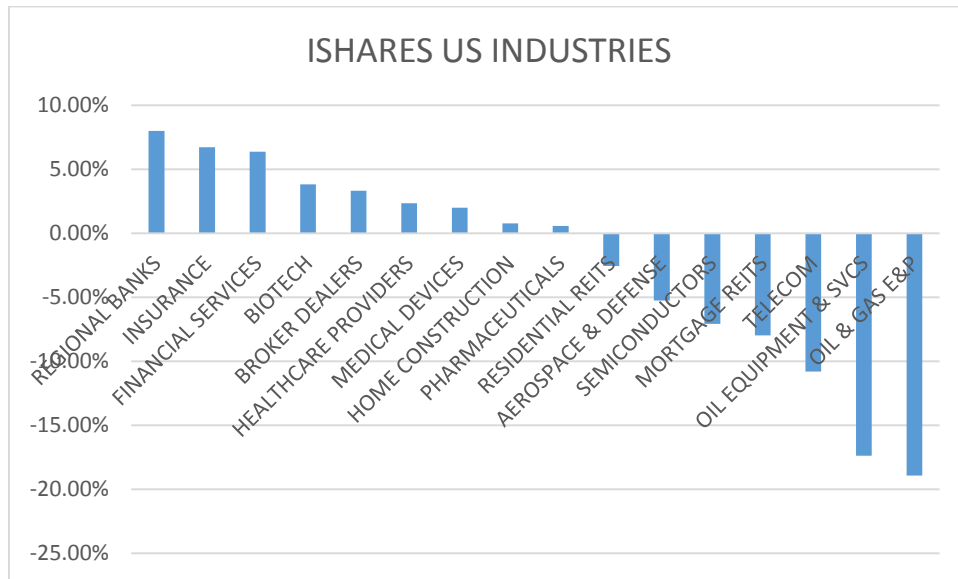
Financials are benefitting from a slight steepening of the yield curve. Most financial companies are, to one degree or another, profiting from the difference between short term and long term interest rates. A bank borrows short term by issuing 6 month CDs and lends long term funding 30 year mortgages. Insurance companies and other financial companies also profit from the arbitrage of time.

I would question whether that steepening trend for the yield curve is sustainable though. If the past rate hiking cycle is any guide at all, long term rates may not act as the Fed or anyone else expects. Remember the "conundrum"? Why didn't long rates rise along with short rates as the Fed tightened last time? Will that happen again? I suspect it may be even more pronounced this time and the long end will rally when the Fed finally gets around to trying to normalize rates. The market, having become accustomed to free money, will fight that move tooth and nail.

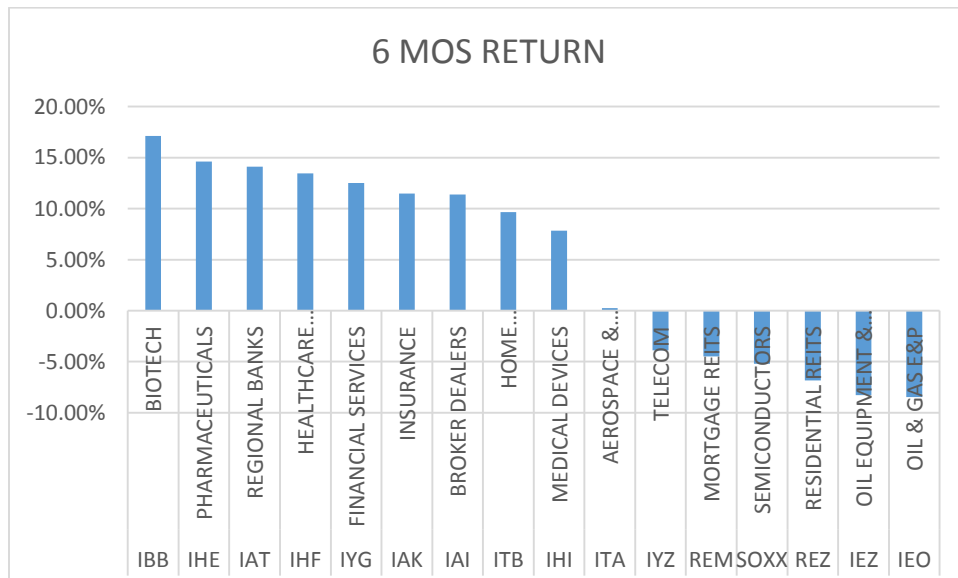
Another item of note is the rapidity with which the energy related items have fallen. It was not more than about a month ago that IEZ and IEO were at the top of the 3 month list. Now they occupy the last two spots as oil has collapsed after its dead cat bounce.



3 Month Returns



6 Month Returns





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