BULLS&BEARS

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Teflon Markets

I may be showing my age a bit, but I cannot help thinking that this year reminds me a little of our country's fortieth president, Ronald Reagan. "How so?" you may ask. As a reminder for us baby boomers; and, perhaps a revelation to the millennials, President Reagan was our first president to be ordained as the "Teflon president." During much of his presidency, it seemed that potentially damaging scandals that might lay waste to the popularity of most politicians would simply slide off of his reputation, as if it were made of Teflon.

Getting back to 2017, we have observed a number of potentially market damaging scenarios that had little, if any, lasting impact on equity prices. For example, hurricanes Harvey, Irma and Maria, as well as seemingly unending western wildfires did their best to irreparably damage public property and psyche. The launches of North Korean missiles and presidential intimidations elevated global tensions, with no solutions in sight. The U.K.'s attempt to make Brexit a reality made little progress, only adding to economic uncertainties. The political environment in the U.S. remained very polar, as evidenced by action/no action on health care reform, debt ceiling resolution, immigration reform etc., etc. In spite of all the distractions, the ability of most major equity markets to reach all-time highs on double digit returns in the ninth year of a bull market was certainly not the most likely outcome…except for the Teflon markets.

Ten Years Running?

So, as we approach the start of 2018, what are the prospects for extending the bull market for a tenth year? As is normally the case, there are a few potential killjoys for us to consider. Monetary policy, particularly in the U.S., with a follow-up by the European Central Bank, is becoming less accommodative, with quantitative easing gone or disappearing and interest rates rising or no longer declining. That is, central bank actions are changing from tail winds to potential head winds for equities. While stock prices are not considered overpriced, in our view, they cannot be considered cheap by historical standards, thus raising the risk of at least a cyclical correction. Speaking of corrections, this market has become one of the lowest volatility markets on record. As an example, the S&P 500 has went well over a year without a five percent single day decline…very unusual. Of course, there is always the normal political/geopolitical unknowns that can wreak havoc on unsuspecting markets.

But…

Nonetheless, bull markets do not die of old age; and, in the end, equity prices are driven primarily by earnings over the long-term. In recent quarters, we have seen signs of accelerating economic growth both in the U.S. and in Europe. Recently passed tax legislation is expected to add mid to upper single digit earnings growth, before accounting for potential economic benefits. A recent surge in productivity growth, that had exhibited a previously unsettling absence, is potentially another source of fuel for growth. Adding up all the pluses and minuses for 2018 results in our giving a "yea" vote for adding another year to this long running bull market, with the previously insinuated risks of a return to more "normal" volatility. After all, we wouldn't want to be labelled a "Scrooge" in this festive season. Best wishes for a happy and prosperous new year.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

12/21/17 Year-to-Date Change	
S&P 500	22.28%
NASDAQ	30.78%
Russell 2000	15.43%

Interest Rates	12/21/17	12/31/16
10-Year Treasury Note	2.48%	2.45%
3-Month Treasury Bill	1.34%	0.51%

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