S&P 500 Reaches a Record High, and a Time of Transition as we say Farewell to Senator John McCain

by Bob Deitrick, CEO
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- ***The S&P 500 reaches a record of 2,897 - surpassing the prior record on Jan. 26th, 2018.***
- ***This bull market turned 3,453 days old last Wednesday - making it the longest in history.***

Senator John McCain, a vital component to our nation's political discourse for over half a century, today, belongs to the ages. John McCain was an omnipresent figure eager to challenge friend and foe alike - sometimes angry, often funny, but always passionate about his favorite topic – America. He leaves behind a heroic life and a tear in America's political fabric at a time when national unity, a constant McCain theme, seems elusive. John was an institutionalist, a creature of the Senate willing to put what he saw as the fate of the chamber above partisan politics. John was of an era when Senators saw themselves, and their branch of the government, as an independent equal of the executive, not merely an extension of it. At a time when we need statesman more today than ever before, John will be sorely missed. Godspeed to our American icon and hero - John McCain.

Having been asleep for 7 months – the market revived itself in August hitting a new record today. We have now created the longest bull market in American history as investors bet that a strengthening economy and booming corporate profits would continue, despite the trade battles and headline risk in Washington. The S&P 500 reached a record of 2897.52 today, led by consumer, healthcare and industrial stocks. The bull market turned 9.5 years old last week making it the longest in our history. Last week, we surpassed the bull cycle that ran from October 1990 to March of 2000. The S&P 500 has risen more 400%+ since hitting rock bottom during the financial crisis on March 6th, 2009 at the Damien Omen II digit of 666.

At PFP, we predicted this bull cycle in May 2009 and have not looked back. Many investors were so scarred by the 2008 financial crisis they never got on board and are licking their wounds to this day. Can this bull market continue? The short answer at PFP is yes. There is inherent risk today as there is in any cycle having endured this long. However, our economy is not over-heated and interest rates remain stable, therefore there is room for potential gain moving forward. The Dow Industrials gained 259 points yesterday closing above 26,000. And the Nasdaq Composite broke the 8,000 mark for the first time in history yesterday – another milestone. Keep in mind, at the peak of the disaster in March of 2009 the NASDAQ stood below 1400 - so we have quintupled plus since then. Other good news is that the Dow Transport Index, a leading indicator, hit another all-time high on Tuesday.

Equities have been boosted this year by the Tax Cuts and Jobs Act, strong corporate earnings and solid economic growth. The U.S. economy expanded by 4.1 percent in the 2nd quarter, its best pace since 2014. Strong corporate earnings, coinciding with solid economic growth, have partially offset the worries over global trade as U.S.-China relations have become more tenuous in recent months.

Trump pre-announced an interim trade deal with Mexico yesterday; however, this week he is proposing more tariffs on Chinese imports this week. This new round of tariffs would come despite the expectation of renewed negotiations recently announced. The reality is that the market would be much higher this year if not for the tariffs, trade and tweeting. Tariffs and the headline risk of our daily news cycle have weighed on the financial markets all year. However, despite the headlines of last week, the market dismissed the bad news and the VIX declined – conveying that this market is looking beyond the President's woes. This could change if things become dire. <u>Rest assured - we at PFP are paying close attention to these events in real time on your behalf and we will act if needed.</u>

<u>Remember, Bull markets don't die of old age; they die of euphoria and we are nowhere near that point.</u>

The President warned audiences in Columbus and on Fox News last week that were he forced to leave office or if he "ever got impeached, the market would crash. I think everybody would be very poor" the President said. With all due respect, this remark is outlandish. This won't happen, as a President Pence would be supportive of low taxes and regulation, so don't lose any sleep over this dogma.

Political events have less sway over the equity markets than economic factors. The more meaningful events for investors over time include the economic fundamentals of corporate earnings, changes in Fed policy, interest rate stability and GDP. The most significant concern today is the ambiguity premium given the constant news flow out of Washington. Albeit the market may respond negatively to an impeachment or any more indictments, the Senate will likely remain Republican after the mid-terms; therefore, a conviction by the Senate is unlikely. These headlines may daunt the market over the short-term; however, they should not create a tailspin. Last week's market records and the declining VIX are indicative of how strong this market is and continues to be. Have a great week!