Happy New Year as We Look for Dow 20K

By Bob Deitrick and Steven Morgan

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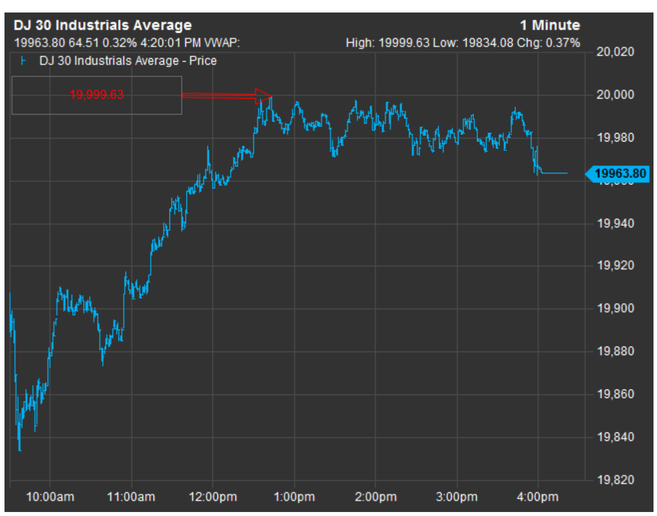
Happy New Year to You and your family! The New Year came in very strong as U.S. equities closed markedly higher last week after hitting all-time highs on Friday. In the first week of 2017, those sectors which faltered and were the laggards last year - biotech, health care, telecom and financials specifically - are leading the way so far in 2017. We are monitoring this very carefully to see if this trend continues through the month.

The Dow Jones Industrial Average rose 65 points last Friday to an all-time intraday high, with Goldman Sachs and Disney contributing the majority of the gains. The Dow came within 0.37 points of hitting 20,000 for the first-time on Friday. The Nasdaq hit an all-time closing high with Apple and the <u>FANG stocks - Facebook, Amazon, Netflix and Google - all up.</u>

We believe that part of this is simply a rotation into some sectors that had underperformed post-election. When you look at the tech sector, it was not viewed favorably by investors after Nov. 8th as most of Silicon Valley had not supported Trump and a repercussion was feared. Having said that, these "sandbox issues" appear to be in the process of being worked out between Trump and the liberal minds of Silicon Valley. Of course, time will tell.

The Dow has been approaching the milestone of 20,000 for several weeks now and it will likely hit it this week. Favorable jobs news, combined with optimism about Trump's 3-legged stool of deregulation, tax reduction and infrastructure spending are lifting stocks in our view.



We also learned Friday the U.S. economy added 156,000 jobs in December, according to data from the BLS. Economists polled by Reuters expected an increase of 178,000. The unemployment rate came in line with expectations at 4.7 percent. This jobs report was very good as we saw a considerable jump in hourly wages which rose 10 cents to $26, representing a 2.9 percent annualized gain - which as our friends from Cadiz might say - "<u>not too shabby.</u>"

The dilemma here is that investors are coming to the realization that a stronger US dollar is a headwind for 50 percent of the S&P 500. Having said that, a stronger dollar and rising interest rates are favorable for tech, biotech, financials as well as small and mid-cap growth stocks. So, those will be the sectors we will scrutinize to potentially overweight in 2017.

U.S. Treasuries sold off after the unemployment result because investors were honing in on the upward revisions to October and November which offset the slight December miss. Stocks and Treasury yields have skyrocketed since Donald Trump's election amid the prospects of looser regulation in certain sectors, especially the financial sector, lower tax rates and fiscal stimulus vis a vis infrastructure spending. Since November, major economic data have taken a backseat to transition-related news as investors assess how and when Trump's proposed policies will take effect. However, at the end of the day, it is earnings which will drive this market forward. Steven and I expect 2017 to see an increase in earnings of 7 to 10% or more.

2017 will be the year of the <u>"new abnormal"</u> as we will be paying more attention to fiscal policy over monetary policy for the first time in a decade. The Dow and S&P have risen more than 8 and 6 percent, respectively, since Election Day. Having said that, these indices entered the new year posting a 3-day losing streak to close out 2016. "The incoming president usually enjoys a market honeymoon" and we suspect that President-elect Trump may be getting his honeymoon before even taking office. We hope and suspect this trend will continue.

The VIX, also called the fear index, is trading presently at a low 11.9 today, which is favorable. A lower VIX indicates a more stable market that has the propensity to appreciate. As you know, January often portends how the new year will go, not always but often, so we are watching the next 3 weeks with great scrutiny. We want to meet with you and all of our clients sometime over the next eight weeks for reviews and recommendations. We are watching the market very closely in 2017 as we suspect this may be a favorable year. Please call upon us to set a review or look for a call or email from us sometime soon.