Is 2017 Becoming Another Breakout Year for Equities?

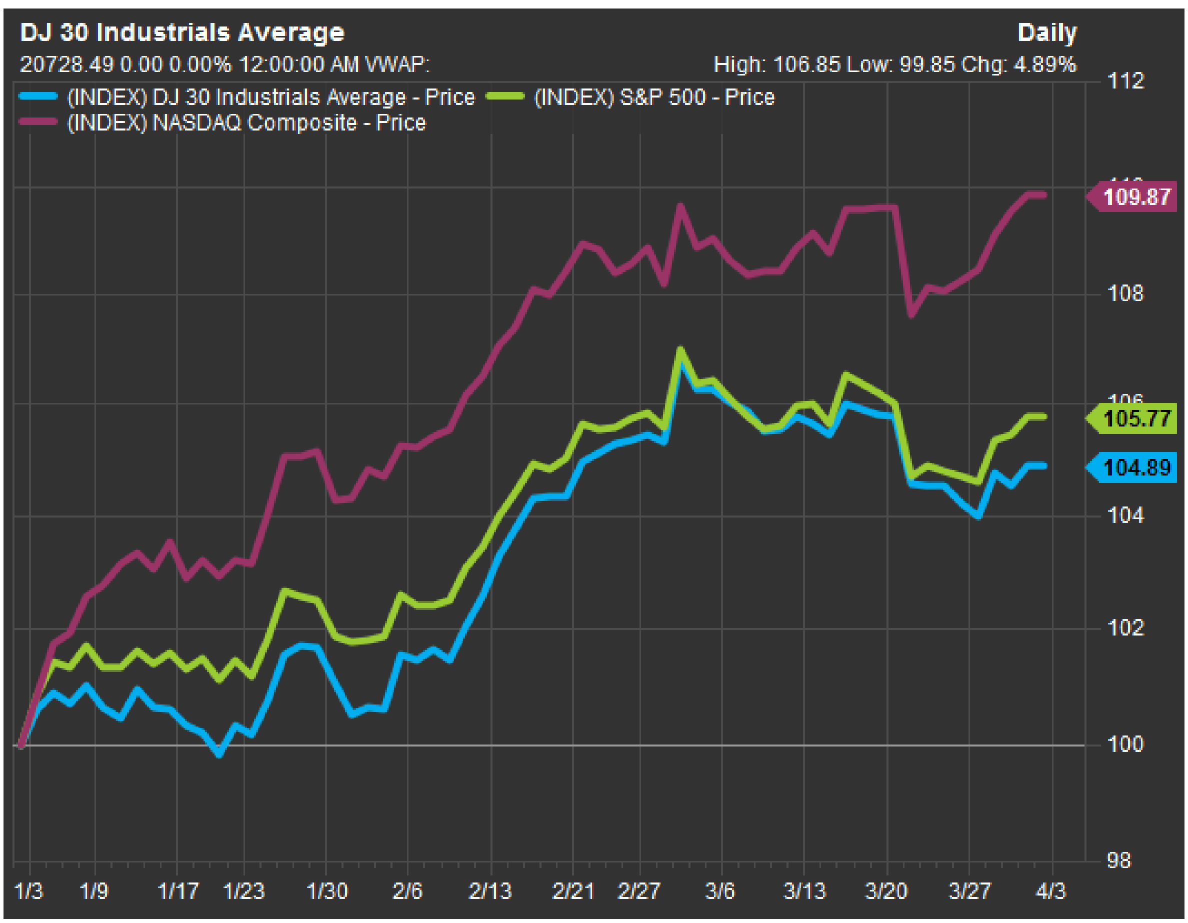
By Bob Deitrick

Monday, April 3rd, 2017

U.S. stocks were down modestly today as investors digested a slew of new economic data points from the last quarter. The Dow Jones Industrials ended almost even today and the S&P 500 slipped .16%, while the Nasdaq closed down 17.06 points. <u>Having said that, these 3 major U.S. indexes posted solid gains for the first quarter of nearly 4.6 percent.</u> The Nasdaq recorded its best quarterly performance in 4 years as some tech stocks rose 10 percent or more during this period.

As we have said many times over the past few years, this market continues to show great resilience. We are beginning to realize that the Trump administration's pro-growth policies will likely happen, but they will not come as soon as many had thought or hoped.

Major indexes for the 1st Quarter of 2017



Source: FactSet

The stock market held its ground in the 1st quarter, as we commenced the 9th year of this dynamic bull cycle. This is a testament to the strength of the United States and to our economy. Consumer confidence, a barometer of the American psyche, hit 125.6 last week, a result not seen in about two decades. Another sign that the economy is improving was illustrated by a strong ISM manufacturing result of 57.5 in March – a two year high.

Stocks rallied in the first quarter on the expectation that <u>President Trump will be able to move forward on tax reform, deregulation, and a major infrastructure spending bill</u> – all of which are pro-growth policies for our economy. However, after a tumultuous start, the administration may be forced to push back some of these proposals. The White House took a hit on March 24th when the Republican-led repeal bill by Speaker Ryan, that would have replaced the ACA, was pulled from the House floor and not even voted upon.

The first-quarter rally slowed somewhat last month, with the S&P closing flat for March, while the Dow lost 0.72 percent but the tech laden Nasdaq still gained almost 1.5%. Overall, the 1st Quarter of 2017 was a very solid one as you will see below:

Name	As of Date	YTD	1-Year	3-Year	5-Year
DJ Industrial Average TR	03-31-17	**5.19**	19.91	10.61	12.15
NASDAQ Composite PR	03-31-17	**9.82**	21.39	12.08	13.84
NYSE Composite PR	03-31-17	**3.94**	12.59	2.97	6.97
Russell 2000 TR	03-31-17	**2.47**	26.22	7.22	12.35
S&P 500 TR	03-31-17	**6.07**	17.17	10.37	13.30
S&P MidCap 400	03-31-17	**3.94**	20.92	9.36	13.32

At the end of the day, investors and traders will be watching valuations very closely in stocks in the 2nd quarter. <u>"Earnings are the mother's milk of stocks",</u> as Larry Kudlow has said 100K+ times and we believe that earnings over the next few weeks should be favorable for this market. Short-term momentum sentiment can be very powerful as is has been over the past 5 months, but over the long-term - <u>Earnings and valuations are what truly matter.</u>

March 6th marked the eighth anniversary of the current bull market and although there are signs the market is maturing, we are not worried presently. There are 4 leading indicators that we are monitoring closely that will determine when this bull cycle is coming to a close:

- ***<u>A pick-up in the number of corrections per year.</u>***
- ***<u>Rising real interest rates.</u>***

- ***Wider spreads in the credit market and***
- ***The unemployment claims rate beginning to show signs of real weakness.***

None of these data points are flashing red; they're not even showing amber.

To summarize the quarter, we had a very strong January and February followed by an innocuous month in March. April is historically a good month for stocks as billions flood into the market to fund last minute IRA and SEP contributions. Time will tell and there are no guarantees to the market as you know, but 2017, in our view, is beginning to look a lot like the years of 2013 and 1997 – both of which were solid years for stocks.

We are cautious but optimistic about 2017. The concern we have is whether the new administration in the White House can get beyond the tweets, hyperbole and day-to-day rancor and focus on what they need to do:

Lead us - which means they need to govern.

To the extent that the Trump folks can become organized, and we hope and believe that they can, this could be a very good year for the equity markets. We are watching all of these issues very carefully, that is our assurance to you.

In other economic news last week, personal income rose 0.4 percent in February, while consumer spending rose 0.1%. The Volatility Index, or the VIX, the best gauge of fear in the market traded near 12.0 last week conveying to us that the market is stable. The opportunities we see in 2017 include the mid-to-small-cap space, both of which did well post-election, but have underperformed in the 1st quarter. We are looking to overweight those sectors as well as the sectors of tech, materials, consumer cyclicals, and financials in 2017.

We are watching these issues very closely for you and we encourage you to call us to the extent you have any questions at all. We have had many client reviews so far this year and want to see you if you have not been in to date, so please call or email us at any time. We wish you a wonderful Spring and look forward to seeing you soon.

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