January 11, 2017

HOUSEKEEPING: Brendel & Fisher will be closed Monday, January 16th in observance of Martin Luther King Day

Greetings:

Investors are becoming more optimistic about the years ahead and consumer confidence is at a 15-year high. No wonder stocks are rising. Pollsters may not ask people why they are more upbeat, but if they did Donald Trump's election would be one reason. Just a coincidence, Trump's election and the market's rise? I think not. The outlook for the economy looms large as far as confidence goes, but it can change quickly. And for many it did on 11/8/16.

Growing confidence is not a U.S. phenomenon. Stocks in the U.K. closed 2016 at an all-time high (up 14.4 % in 2016 vs the S&P 500's 10%). So much for worries about Brexit's impact on the U.K. economy. Stocks elsewhere have done well. So has the dollar, the recent 14-year high a clear sign that investors worldwide are bullish on America.

Never mind Trump's daily tweets that receive so much coverage and dominate the news, just as he intends. There will be inconsistencies between campaign rhetoric and life in the real world. That is always the case. Bill Clinton campaigned on a promise to cut taxes only to promptly raise them as soon as he settled in. George H.W. Bush said "read my lips, no new taxes," then agreed to some. Changes are inevitable, including by Donald Trump.

Trump's view of the big picture won't change. He promised an administration more friendly to businesses small and large and to investors through lower taxes and fewer regulations. His administration couldn't help but be friendlier than the Obama administration in which people with a successful business background were nowhere to be seen. Investors and consumers alike sense that change is coming. They're right. Not every regulation and law will be rolled back or cancelled nor should they be, but the non-confrontational tone will quickly be made clear and hundreds or even thousands of regulations will soon disappear.

Whether the more upbeat outlook justifies higher and higher stock prices is another matter. That will depend on future earnings growth, the outlook for which has improved. Earnings in 2018 are now expected to be 18-percent higher than in 2016. A cut in the corporate tax rate will be one reason. A rebound in energy profits is another. Bringing back much of the $2.5 trillion in cash overseas will help, and GDP growth will begin to accelerate from its decade-long slumber. And what do they mean when some say stock prices are "overvalued" or "high?" Compared to what? To valuation levels when the outlook for profits was not as positive as it appears now? I'm sure stocks appeared overvalued and high to many people in August of 1982 given the dismal economic and earnings numbers then, but not high to buyers who were looking ahead to the better GDP and profit numbers they

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anticipated. Some investors buying now see similarities to the early 1980s.

If other investment choices are unattractive, and they still are, then investors will steadily push prices higher in fits and starts. That's been true for years now, and I don't see it ending anytime soon. One reason is that interest rates may inch higher, but it's entirely possible that long-term rates will fall again, a prospect virtually no one entertains, but one we're beginning to see now as the 10-year yield slips. Why would rates fall? There could be any number of reasons, including a recession triggered by a trade war or other factors or maybe trouble overseas. Where? Pick a spot. From Libya across the Mideast to Afghanistan there is nothing but conflict and tens of millions of refugees. The boiling pot has spilled over to Europe.

While I expect the S&P to work its way higher, some stocks and industries go their own way no matter the overall market's action. The energy bull market began almost a year ago when Texas crude was $26/bbl (now $54) and continues. There are higher commodity prices and better days ahead for stockholders.

In the ivory towers there are some who say that wind and solar will soon undermine today's energy suppliers. No they won't. Wind and solar, with all their subsidies and many billions invested, supply six percent of electricity generation, all of it "part time" -- when the sun shines and the wind blows. But we need full-time electricity. The technology to- on a large scale- efficiently store wind- and solar-generated electricity does not yet exist.

The healthcare industry is another with its own characteristics and rhythm, especially demand-boosting demographics, and unrelated to the economy and stock market. Healthcare stocks were last year's worst performers due to overblown concerns about future drug pricing. I would not be at all surprised if they are among this year's best.

More soon.

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