

Progress Trumps Politics

It seems likely that much of the impetus behind the post-election market rally is the prospect of accelerated economic activity, which over time has been the prime mover for stock prices. Yet given the recent maelstrom in Washington, it's not unusual for folks to be concerned that maybe that prospect is in jeopardy.

The focal points of the new administration's agenda have been clear: health care, tax reform, and infrastructure. With one party seemingly in charge of making these kinds of decisions, one would have thought that it would be a clean sweep.

But that's no longer a slam dunk.

Efforts to approve a new health care bill met a brick wall from the Freedom Caucus and tax reform is anything but a no-brainer. For that matter, talk about infrastructure seems to be increasingly muffled.

However disappointing this appears to be, what should be reassuring is that investors tend to be more interested in progress being made by Corporate America than whatever politicians can do to deliver on their promises. On Wall Street, it's the bottom line that counts.

If investors really were bothered by the failure to Repeal and Replace, their actions suggest that its main impact was in the media, not on stock prices. Who is to say that difficulty in moving ahead on the other agenda items will prompt a greater reaction.

Investors Want Growth

What investors want is respectable economic momentum that produces continuing corporate profit growth. Political uncertainty may create noise and temporarily dampen investor sentiment, but longer term, it's a growing economy and expectations for higher profits that support stocks. Put another way, if it doesn't materially impact the U.S. economy and the economic outlook, investors have historically turned their focus back to the fundamentals.

There will always be fluctuations along the way. Investing is not without risks, but risks can be managed. Market timing rarely works.

At the moment, Wall Street analysts continue to look for double-digit gains for all of 2017. Although they usually tend to shave their numbers over the course of the year, even if there's some pullback the likelihood is that there will be a decent increase.

Still, it's important to keep in mind that current valuations are stretched toward the upper end of what traditionally has been viewed as a normal range. If there's a further rally and we get into a period of what Alan Greenspan called Irrational Exuberance, the odds of a dramatic downturn would increase considerably.

I think that's unlikely.

Time to Mark Time

A more promising scenario is one in which prices move sideways for an extended period, allowing earnings to rise and bring valuations down to a more moderate level. Although anything can happen, this is entirely possible.

One reason is that we're approaching the end of the seasonally strong time for stocks (November to April). As we move into the warmer months, the market usually takes a breather. That would be no surprise.

Even so, there are wild cards, the most serious of which are geopolitical. Developments in the Middle East and North Korea are increasingly disturbing and certainly capable of setting off a wave of nervous activity. We all wait for reassurance that the situation is under control and hope that the increasingly unpleasant verbiage will not lead to something worse. But that's not a given.

At this juncture, it would be prudent to dial down risk, understanding that although there are ups and downs, the long-term path of least resistance is up.

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