

A Ho-Hum Week

Although we're well into the first-quarter earnings season, Wall Street seems more bored than not with the latest news. Corporate profits overall are coming in ahead of estimates, but stock prices continue in the broadly fluctuating range that began in early February.

From this perspective, there really is no great reason for the market to move significantly higher. Understanding that investors base their decisions on what they believe is to come, prospects are really good for this year, but markedly more moderate in 2019. The current year is benefiting importantly from the recently enacted tax bill. Indeed, it's probably the single biggest factor underlying current gains.

The hitch is that progress will almost certainly slow down quite a bit next year. What's more, a total of four interest rate increases seems likely over the course of the current 12 months. The good news is that even with those increments, rates will still be relatively modest, compared with typical interest rate levels of many years past.

From a purely economic standpoint, there are encouraging measures, but a slowdown in growth will lead the way to less generous stock valuations. That's a good thing. Earlier this year, valuations were stretched toward the upper end of the historical range. With prices moving essentially sideways over the latest three months while earnings climbed substantially, valuations have come down to a more reasonable level.

A Utopian wish would be for stock prices to move sideways through the remainder of the year. If prices mark time and earnings continue to rise, even if there's a slowing of growth in 2019, one could make an increasingly compelling case for making new commitments.

But we're not in Utopia and stuff happens. In addition to the ongoing chaos in the Beltway, there are important concerns about geopolitical matters such as the upcoming deadline for the Iranian nuclear deal as well as the planned summit with the North Korean dictator.

For the moment, the watch phrase is cautiously optimistic. There are still significant investment opportunities, but be aware that investor psychology can change in a heartbeat. Plus, we are now entering the market's slow season.