Hamilton-Bates
Market Update
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The current move is said to be a Trump rally, and maybe so. The truth is, stocks go up when there are more buyers than sellers. For now, there is more interest in buying stocks because there is a widespread belief that President Donald Trump will deliver change. The stock market delivered on its part, now it is time for the President and GOP to do the same. We have seen some measures to reduce regulation, but the market is eagerly awaiting tax reform. Any significant delay could derail the post election momentum.

Economy, Interest Rates, and Earnings
Last week saw a lot of economic data reports, giving us an interesting if conflicted view of the economy. The first was last month's inflation data - producer and consumer. Both were up, and by much more than expected. This puts some pressure on the Federal Reserve to move faster with 2017's planned interest rate hikes than perhaps it was initially counting on. If inflation continues to ramp up it will be a problem.

Last month's retail sales were also strong, showing improving trends on the lull of 2015 and 2016. This data however conflicts with the outlooks reported by retailers, with Target the latest to disappoint. New car and truck sales are doing a lot of heavy lifting-but how long can that last?

On the flip side industrial productivity was off, as was capacity utilization. This data set historically tracks earnings very well, and jives with the lackluster earnings results we are getting. The lackluster trends in earnings could be a hint that stock prices are getting a little ahead of themselves in terms of valuation. We really need to see improvement in earnings very soon.

GDP growth remains sluggish, as we got a disappointing revision to Q4 GDP. Q4 GDP remained 1.9% versus expectations of 2.1%. In addition the outlook for Q1 might need to be tempered. The US trade balance for January showed a $69.2 billion deficit. This is the second largest deficit since 2008, and considerably worse than the $66.0 billion expectations. The problem with trade deficits is that it detracts from growth, and Bank of America noted the current outlook given the impact of the deficit is now 1.8% for Q1 GDP. Trump and the GOP will need to get things moving if growth is to pick up in 2017.

What Could Derail the Rally?
Stocks have surged to new highs since the election, from already elevated valuation levels, on the theory that the Trump Administration and Congress would create policies that would provide significant growth, and do so fairly quickly. This includes; as President Trump called it recently, a “phenomenal tax plan,” deregulation for Wall Street and other over regulated sectors, and additional government spending, particularly in infrastructure and military spending.

At this point the market is counting on it. Some level of expectation is already built in. Stocks have soared. Investors should be happy. What could go wrong? Trump ‘Hope’ could hit a very

political wall. And the greatly anticipated tax reform may turn into a series of delays.
The problem is the repeal of Obamacare. The GOP wants to do this first to get an idea of the cost on the budget. But GOP lawmakers disagree on whether to repeal it first and replace it later, or modify it instead. They also disagree with what to replace it with, or even how to modify it. So this could end up as a Congressional mess that is typical for large legislative changes, rather than a quick thing the market expects.

If things drag out it will delay the upcoming debate over tax reform, and thus set the market up for disappointment. They could simply scale the healthcare plan back, by repealing parts and keeping other parts, more of a fix than a full replace. But the longer it takes to get to work on the ACA reforms the longer it will take to get a tax plan hashed out. Quick and substantive corporate tax reform is what the markets are counting on when they pushed the S&P index up since the election. Now if the efforts to deal with Obamacare push corporate tax reform to the back burner, that would put that rally at risk.

Market and Investment Outlook

As the market rallied at the end of last year, individual investors did not participate, as investor fund flows showed a flow of cash to money market funds. The market then went sideways from mid-December to early February. Now, after two months of sideways action and a strong earnings season along with another move higher, individuals may feel like they can move money into stocks. Flows to mutual funds picked up again, and with many investors missing the gains after the Election, we could see a move to higher beta names like the Russell Small Cap Index (IWM). The Russell has seen a bit of a move up in the last week, but nothing to suggest a return to leadership by this group. We'd look for weakness in the Russell to suggest the rally is running out of steam, or extreme strength to show that animal spirits are out of control. Right now we see neither.

Eventually, the current move will run out of buyers, and then we could see that decline so many analysts now expect. But we also could be on the verge of a rapid up move that will deliver nice gains in a short amount of time — the kind of move investors won't want to miss. Bonds have held up well despite talk of rate hikes, and the bond market doesn't seem to fear the Fed hiking too much too soon. High yield bonds continue to dominate the fixed income sector, given their nature to track the stock market, that is not surprising.

We will continue to watch for signs it is time to get out of the way, but for now the signs point to higher prices. As long as Trump or his Administration don't disappoint in the State of the Union or with a lack of political follow through, we could see gains of another 3-4% in into the Spring.

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Market Charts-Pushing Higher but Getting Extended

Indexes Pushing Up to Highs
Last week the S&P hit a new all-time closing high, and the move out of the December-February 'consolidation' has broken up and out once again. Technical indicators support the move suggesting that there will be continued follow through in the momentum oscillator and potentially price. At new highs, there is nothing but blue sky ahead in the S&P (no overhead resistance), leaving the 2450 target squarely in play.

Long-Term View
The move up in the aftermath of the Election took the S&P up and out of the range it had been in from 2014 to late 2016 (blue line bounded area). The move now projects to 2450 (from a current level of 2370). That is 3.3% above current levels. What may have seemed an over optimistic projection several weeks ago now looks within reach. We think there is a good chance the target is reached in Q1.

Key long-term support is 2200 on the S&P 500.