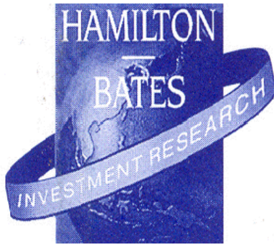

Hamilton-Bates

Market Update

November 2, 2017

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Stocks continue their advance as we head into the last pole of the 2017. Technology continues to do the heavy lifting. Tech was up 7% in November alone led by the FANG stocks (Facebook, Amazon, Netflix, Google). Outside of technology not everyone has enjoyed 2017, with retail stocks continuing their slide into irrelevance and consumer staples feeling the pinch of rising costs and slim margins. Higher interest rates and retail weakness are also starting to hinder the REIT sector, particularly those focused on commercial real estate.

Leading the tech charge was Amazon as it blew away earning expectations. Not even fully factored in was its purchase of Whole Foods. Plus, Amazon was just approved to sell drugs online—now the pharmacy segment will be the next to get 'Amazon-ed'. This means Amazon will now be at our doorsteps even more frequently, lord knows they are always at mine. Soon you will be able to get your prescription drugs along with food from Whole Foods, and do your other shopping-all while not having to budge from your bed as you watch a streaming video from Amazon Prime.

Economic and Earnings Outlook

Economic strength has been pretty good, with latest GDP results coming in at 3.0%. The Atlanta Fed expects 4.5% for Q1 2018. That seems high but if correct would be positive for earnings. Globally the economic trend is global, with growth nearly across the board. This synchronized growth has been key to the strength across all world markets for 2017. This growth cycle is likely to remain strong into 2018 where our main concern becomes the Fed and its rate hike cycle. For now strong global growth goes hand in hand with good earnings, and that is what we have seen so far in 2017. Growing earnings allow the market to move higher. Tax cuts are coming and the snippets from the early released talking points suggest the plan is likely to be positively received even if it is not as ambitious as some hoped. **Tax cuts on top of the current economic and earnings picture keep the fundamental outlook positive heading into 2018.**

Market and Investment Outlook

The positive potential impact of a tax cut, even if it is not a ambitious as hope for, is tough to gauge. It should help economic activity and may unlock some capital spending that was otherwise on hold until the details were known. When a bull market hits the seasonally positive October-April period the trend is likely to stay in force. Tax cuts could help offset the loss Central Bank support in the early part of 2018.

The Ghosts of Markets Past couldn't derail stocks this year during the scary October period because central bank money flows continue—and they are set to continue into 2018 until they begin a gradual unwind.

Investor sentiment data finally shows signs that investors are getting 'too bullish', and why shouldn't they for a market that never seems to go down. Even with somewhat overly bullish sentiment, other data is nowhere signaling any signs of a blow-off top.

There are three big themes unfolding that continue to support stocks: strength in the global economy, rebounding commodity prices, and strong earnings. In a nutshell, these factors (along with Central Bank money) support the market as we are now moving into the strongest 6 months of the year. There is no telling just how much further equities can run before the bull breathes its last.

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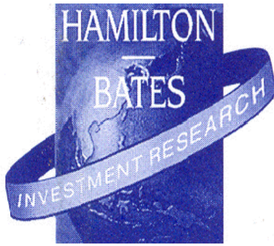

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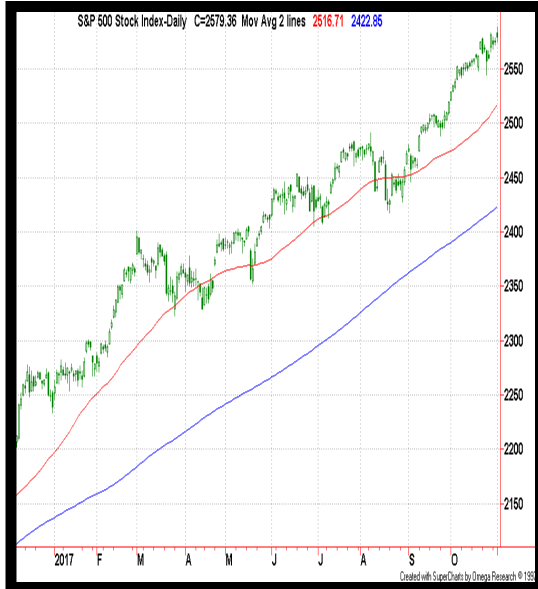
S&P 500 Chart: Up and to the Right—Definition of a Bull Market



S&P 500-Like it has for most of the year the market has cruised through the seasonally weak September-October period with nary a concern. Now the market heads into the seasonally strong Year-End period where we expect—you guessed it—more strength.

The S&P chart shows a pretty clear and consistent move 'up and to the right', with a few dips to the 50-day average (in red) but nothing more, an easy to see bullish trend. That isn't likely to change until 2018 as the economy and earnings continue to chug along. Continued inflows should push the indexes higher into next year. The real test for the market will come in 2018 as the trend of favorable Central Bank flows turns negative. Coupled with higher rates as the Fed continues to hike, this could be enough of a headwind to knock the market off its footing.

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