Commentary – April 1, 2017

Wall St.'s main indices reached a succession of record highs during the first quarter, amidst an almost unwavering faith in President Trump's ability to implement items such as corporate tax reform, increased infrastructure spending and an easing of federal regulations which hinder business activity. The S&P 500 Index gained 5.5% for the first three months of 2017, with the Dow Jones Industrial Average up 4.6%. (Wall St. Journal April 1st) Investors displayed a renewed appetite for tech stocks, which hold the largest holdings of foreign cash and would benefit from policies enacted to encourage repatriation of profits held overseas. The NASDAQ enjoyed a rise of 9.8%. (Wall St. Journal April 1st)

The only setback in the markets ascent came in late March, when Trump's health care plan to replace the Affordable Care Act died in Congress. Some investors became worried that the remainder of the administration's pro-grow agenda could also hit roadblocks. The decision to pull the bill before it was even voted on in the House of Representatives sent the S&P 500 to a loss of 1.2% on March 21st, only the second move of 1% or more in either direction for the quarter. (Barron's April 1st)

Federal Reserve Bank raised interest rates once during the first quarter and is expected to raise short term rates two more times in 2017. Further hikes, however, would be delayed, allowing it to begin winding down a $4.5 trillion portfolio of mortgage and Treasury securities, as part of a broader effort to drain stimulus from the financial system. On March 31st, the Fed obtained news that it was on the right track as the economy reached an important milestone: consumer inflation exceeded the Fed's 2% target rate in February, after undershooting it for 5 years. (NY Times April 1st) Inflation's move above 2% confirms that the sharp drop in oil prices is not a sign of weakness in the economy, and that business activity is growing at a healthy pace and downside risks diminished.

Emerging stocks, which have massively underperformed the stocks of the industrialized world since 2009, displayed great strength, returning 12% for the quarter. (Financial Times April 1st) Chinese economic growth, which began a sharp turnaround for the positive a year ago, has raised many other emerging market boats around the globe. These EM names are still prone to currency crashes, collapses in commodity prices and political turmoil, but their lower valuations when compared to U.S. counterparts provide a cushion against the risk of a trade war and other revisions in U.S. policies that could harm China and its brethren.

I invite and encourage readers to contact me with their questions and concerns and am available to meet at your convenience.