STIFEL

2017 Second half Market letter

As the calendar flies by equity markets have increased as well. Despite the continued political uncertainty markets see something they like and my guess is it's our strong economy and the underlying good earnings. 412 of the S&P 500 Index (S&P 500) companies have reported to date with 71.8% above forecast which leaves the index earnings forecast at $32.57 for the second quarter, a 6.5% increase over last year. (1)

Our economy continues to add jobs and the unemployment rate is at 4.3%, low. People and employers seem to be confident which drives spending and remember consumer spending is 70% of our GDP. Jeremy Siegel, the renowned Wharton finance professor who I had the pleasure of dining with a couple years ago, got bullish last week. He said, "If we can get the corporate tax rate down to 20%, you can easily see another 10% in the market this year." (2) My thought is if we can address repatriation tax treatment that would be huge for markets. Of course, no one can predict the markets with any certainty.

The 3 market tenants are 1) don't fight the trend. 2) don't fight the fed. 3) Beware of the crowd at extremes. Taking them in order, the trend is and has been up. As a market technician early in my career used to say, "The trend is your friend." Indeed, I believe it is still our friend. The Federal Reserve has moved from an easing stance to neutral and began tightening. With rates so low they need to so that when stimulus is required they have room to maneuver so this is something to watch going forward. I don't sense the extreme euphoria of a manic buy anything with a stock symbol, yet. In fact, there appears to still be a lot of liquidity on the sidelines, thanks to our fed, and so, in my opinion, we have not gotten to that extreme yet.

Having said all that, we are entering a historically weak period for markets in August and September. In September, we also have the Debt ceiling to consider since the Treasury Department has indicated the ceiling will be reached on September 29. If you look at the congressional calendar there are only 12 days when both houses are in session after they return September 5 to reach a deal before we run out of room. They will likely do it but not without excitement. So for the next two months I would think that investors will take a break and digest the gains.

For the balance of the year I will keep up the vigil and watch for change that may affect us. As we move into the Fall I'll be traveling a lot with excursions to Nebraska to see my son, our annual meeting for Stifel in St. Louis, and the annual portfolio managers meeting in New York. It will be a busy time and I still enjoy it as it helps me keep my guard up.

Thank you for your confidence in myself and Stifel. I wish all of you a fantastic Fall.

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Past performance does not guarantee future success and no one can predict the markets with any certainty.
The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

(1) Confluence daily 8/4/17
(2) Jeremy Siegal CNBC market watch 8/4/17