

Market Outlook:

Full plate

A decade of capital gains should be good enough for most anybody, shouldn't it? As the global economy starts to shift into higher gears, the Great Recession is becoming a distant memory. The message coming out of the global economic summit in Davos, Switzerland last week was cautiously optimistic. So, will the good times keep rolling forward? It all depends on how your aperture of expectations is calibrated.

The contrast, however, between Wall Street and Main Street is striking. While one (the former) moves effortlessly like a jaguar, the other (the latter) moves at a snail's pace. The political "populism movement" has evolved out of this dichotomy, and is alchemically rejuvenated with each quarter of growing corporate profitability. Despairingly for some, the recent good fortune of corporate commerce has become a sore spot, where they look up at the fortunate and ask, "where's my piece of the pie?".

By recent historical standards, the gap between the affluent and the poor has become excessively discomfiting. Depending upon which side of the paradigm you lie, things are either alright or downright unfair.

Even if you feel as if you're on the wrong end of the scale, empirical evidence suggests, however, that the tides are rising for all ships in the harbor. The level of economic expansion supports current equity price increases, no doubt. The question, as I've suggested in the past, is whether *the rate of appreciation* in stock market valuation is sustainable and/or realistic.

The global economy is now creating more jobs, profits are rising, and US output (GDP) has risen above 3% for the first time since the early part of this millennium. We expect a continuation for each of these factors for the foreseeable future.

But I caution, once again, that the stock markets and the economy are only linked congruently (parallel disconnect) in a partnership that is highly fragmented by sectors of varying performance. Technology and Cyclical have done exceedingly well, but as stock prices rise in these successful areas it is likely that a more defensive allocation shift might occur. Money is always in fluid transition from one prosperous sector to another. While I am not forecasting a cessation of the bull, nor an economic recession, the potential for higher inflation and interest rates is definitely a factor in our future projections. Those, by themselves, will not erode an economic expansion, but they do signal the potential for seismic shifts in economic advances and the areas (both by sector and geography) in which they might reside.

Nevertheless, despite my confidence in the bull market overall, I will safely assert that **the current rate of stock price accretion will not continue indefinitely and might abate significantly, if these benevolent circumstances don't permeate down to the "average" consumer.**

In other words, everything must continue to improve, beyond today's levels, with or without Federal intervention, or we are in jeopardy of changing our economic and market forecasts.

As it appears now, consumer purchasing power has not proven to be sufficient to keep the expansion going. Somewhere, somehow, this year (2018) will be critical in finding the source of "fuel" to power the economy's engine

Pay attention

Growth is a factor of two things: demand and production. Both elements must be increasing if the market and the economy are to power forward. To be sure, we have seen productivity increases for the last half-decade at least. Thanks to technology, accounting, and prudent fiduciary stewardship, corporations have wrung about as much as they can from their part of the equation. Now it's time to incentivize the buyer. I have always believed in a "better mousetrap" theory of economics. Secular social issues are the nexus for the "next big things", for example, in areas such as water and food development, biotech and medical research, alternative energy, and physical plant (infrastructure).

It is entirely possible that the markets *are* "different this time"but I doubt it. On a scale of probabilities ranging from zero to one hundred, there might be infinite scale, but only a limited number of possibilities. How we address the issues of economic and social equanimity, as well as the moral peril inherent in that discussion, will determine the opportunity investors have for cashing in on the next bonanza and keeping the party going for years ahead.

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