

Market Outlook:

Are we there yet?

Like the familiar refrain from passengers on a long grueling trip, it's just as plausible to ask "*are we there yet?*" for investors in financial assets...with the "there" part not having been fully defined!! Returns on investment (ROI) have been hefty in 2017, with most of the return skewed towards equities. One would be hard-pressed to find any ingrates amongst those who have benefitted from the stock market's good fortune. Last week's financial market activity was much the same...looking around and digesting the news of the week, without much commotion being made.

And yet, that, in and of itself, seems to this observer to be part of the problem going forward. Make no mistake, I am grateful for the bull run and still find scientific evidence for its perpetuation. But I also know both anecdotally and methodologically that when things are at their bleakest, hope for optimism *should be* at its highest. **Conversely, most bull markets expire during periods of acute optimism.** Such is the world of quantitative statistics and inverse probabilities that I inhabit as an economics scientist.

Nowhere is it written that this bull market *has to* expire. But a general sense of "what happens now?" is pervasive and likely to usher in a new phase in the markets which, if not bearish, will be a different kind of bullishness.

The global economy is subject to any number of shifts in factors, not the least of which is a troublesome era of isolationism, nationalism, and terrorism. The recovery that sprung out of the global credit crisis and "Great Recession" is slowly being usurped by a new populism...a period of global government austerity whose design is to reign in excessive spending, "unfair" commerce, and unnecessary fiscal expansion. *Reforming taxes* is not the issue nor the panacea in this observer's opinion. *Watching people and corporations selfishly holding on to what they've already got* is. Unfortunate as it may be, investors are hunkering down with their new-found wealth and playing it close to the vest.

This jingoistic attitude is a harbinger of an ever-widening gap between the affluent and the poor. Should it not also be a wake-up call for markets to take the lead on capital and investment innovation, rather than lagging on the important responsibilities of our time?

One of the most nefarious *passive non-decisions* of the market's recent past is how our central bankers have engineered low interest rates, thereby encouraging equity investing, and diminishing the alternative investment options that conservative and yield-oriented investors so desperately need. Not to mention that these alchemic policies have failed to manufacture the kind of growth that policy makers envisioned when they made borrowing money "free of charge". And now, as a result, they have literally painted themselves into a "rate-rising" corner. Thus, government initiatives such as "tax reform" have replaced the power of the Fed to remediate the issues we have with the direction and intent of capital spending.

And now...?

The I reason I am still positive about the financial markets in the long-term is that we see enormous secular opportunities in targeted sectors such as water, agriculture, infrastructure, alternative energy and biosciences as immunization from parabolic excess and volatility surprises. They also represent, as written in last week's commentary, the very best of us and the potential both to do good and to generate capital gains. The truth is no one knows the future. One can only conjecture based upon ones' science, methodology, and social value system.

The bottom line is that we still expect to be "long" financial instruments (stocks and bonds) for the foreseeable future, in the proportions which best represent our client's risk/reward tolerances, and that we continue to believe it is not about rhetoric but fundamentals to move portfolio valuations higher. Right now, despite the context of a late-phase linear rise in stock prices, we are taking advantage of an underlying strength in earnings expansion in selected categories for the near-term. Part of that earnings acceleration is due to consumer demand and accounting dynamics. Another part owes its strength to nascent pricing pressure emanating from anecdotal evidence of inflation in energy, healthcare, travel and entertainment, foodstuffs, and real estate. This, again, is where a confluence of monetary and fiscal initiatives could have significant impact upon releasing a lot of pent-up frustration...and capital...that investors are holding on to.

No one likes to overstay one's welcome at their ultimate journey's end. We are not "there yet", but very close.

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