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Market Outlook:

Patient resting comfortably

While we managed to endure through a series of up and down cycles in the past 6 weeks, evidence convincingly suggests that the economic recovery and the bull market are sustaining. Midweek rises in the S&P, Dow Jones, and other global exchanges confirmed that investors are hungry for good news, even if it is short lived. Reports of a modest uptick in consumer prices and wages, for example, did *not* turn out to be the precursor for a recovery-busting inflation spiral that some had feared. Quite the contrary, they are indication of a vibrancy, albeit hidden beneath ordinary perception, that offers hope beyond the rhetoric of a rancorous political season. The "bogey in the room", a rate increase by the Federal Reserve, is demanding to be perceived as a good thing.

This kind of stirring in the tailwinds is necessary to confirm that policy initiatives and consumer confidence is starting to take root.

Additionally, the cumulative good news from the current earnings season demonstrates a persistence in share recovery in a number of sectors previously hard hit. Although I bemoan the fact that many of these profit accelerations are happening without robust capital expenditures and consumer spending, earnings patterns are more likely to expand than contract if/when the consumer finally does filter back into the equation.

However, the" jumbled mess" that is the stock market is another phenomenon, altogether.

While the data might indicate progress in corporate profitability, traders are punishing any company's shares that don't meet the smallest of yardsticks, or which aren't the darlings of hedge funds and institutions. Even the most modest of warnings ("guidance" is the term we use on Wall Street) leads to discounting of current valuation. We saw last year how the Energy sector got punished in this way. Now it appears as if retail stocks (Cyclical) are feeling the wrath.

All major global bourses are experiencing the weight of expectations like this, even as their economies are modestly climbing out of recession.

Here in the US, for example, the S&P broke its October winning streak abruptly in the last two weeks, bringing total return for 2015 back to "zero" or just below. These capitulations seem to be driven more by panic and psychology than by real numbers. As a result, investors have a choice either to fixate upon the market's performance integers, or to realize that many data are much better than they were just prior to and just after the onset of the recession in 2008.

Yes, we do have much further to go to rebuild market/economic equilibrium, but at this juncture in the secular recovery the risks of falling back into recession are quite low. Evidence would suggest that Main Street's apprehensions are misplaced or overdone...even if one acknowledges that the economy is not yet in a perfect place.

Playing through

Think of it this way: since analysts typically make *year-over-year comparisons* when offering their evaluations, shouldn't we consider that even tepid increases in sales, profits, or capital expenditures in the next few months might yield better comparative returns in the *next* year's earnings cycle?

It's clear that the markets are riding with "one foot on the brake", and very few of us are ready to commit with full abandon....and all our cash....to far-reaching forecasts for improvement in the economy.... or our collective attitude about it. Understood. But the next few quarters, assuming geopolitical exogenous noise (terrorism, e.g.) is not too extreme, might be the catalyst for building up those expectations.

That having been said, my proprietary integers are suggesting that the markets might continue a short-term pattern of advance/sell-off for the foreseeable future while it works out leadership and sector rotation themes for the coming year. This pattern does not rule out prudent evaluation and stock purchasing, however. We are still finding sector strength in Utilities, Financials, and Technology, with specific opportunities in water power generation, filtration, and commercial uses; regional borrowing/lending; and biotech research. With turmoil in the Mideast, we also can't rule out a short-term recovery in the Energy space.

Above all, maintaining a strict investment discipline...and having a little patience...is key to surviving end-of-year unpredictability.

(note: we will not be publishing a Market Commentary next week. Happy Thanksgiving to all our readers.)