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Market Outlook:

Ground Hog Day

It's Monday. That means there must be another new high in the stock averages.

Or maybe not, if retail earnings foretell another narrative.

Investors have grown so accustomed to a steady drumbeat of portfolio expansion that they have lost a bit of discrimination and analysis about their investment endeavors. When seemingly "everything" just keeps appreciating in value the overwhelming instinct is to close one's eyes, not to question the good fortune, and to expect (with a modicum of apprehension) that the ride will continue. That, in itself, tells me just about everything I need to know about this rally.

Don't get me wrong. We are in the midst of a very healthy bull market, built on the foundation of several years' worth of superior data and corporate re-engineering. Even if there were to be a capitulation in stock prices it wouldn't be significant enough to quash the prevailing economic trends.

But at some point short-cycle phases....those which comprise the day-to-day sequences of the longer term pattern....become overbought and candidates for expiration or rebalancing. I bring this to your attention not to say "I told you so" before (or if) it were to occur. No, it is worth noting because *active* portfolio transitioning is a *positive* attribute of building successful capital gains. The arrival of dark storm clouds can be imputed by using scientific method in the same way that meteorologists correctly imply changes in the weather.

The key for portfolio managers is to be right more often than you're wrong, and particularly to be responsive to the data, as opposed to being ignorant of them...or worse, stubborn in one's beliefs.

The current short-term phase in stocks is well ahead of the longer term's ability to sustain capital gains *at this existing rate of appreciation.*

No matter what your biases, the relative strength rankings for the current short-term trend are approaching saturation levels.

Better

It is worth reaffirming that both the market *and* the economy are doing better in the last 6-9 months, and have been anything but boring. US GDP should draw closer in 2017 above 2%, which is much better than expectations were just a few years ago. No matter how much one might wish for a pulsating blue warning light, there is no line of demarcation or signal that delineates the "olden days" from the "new". Instead, economic progress is tectonic, like the shifting earth itself, but looks, only in hindsight, as if progress has been made. Of course, while capital gains usually take years to develop, corrections are sometimes quicker, more manic, and mostly unexpected.

But not many of our data are calling for an immediate reversal of economic trends, simply a change in risk paradigms that by definition would usually occur over time.

Economic expansion must be propelled by private sector demand, and here is where our quantitative integers do foresee some problems ahead. Last week's retail reports sow the seed of doubt about "loose spending" and discretionary consumer purchases. You see, if stock price gains are linked solely to earnings expansion without commensurate upticks in top-line revenue growth, then the market has nowhere else to turn to bolster the accounting alchemy of the past half-decade. Quarterly gains in productivity have mostly been driven by cost-cutting and technological advances. We would prefer to see an acceleration in jobs growth coupled with wage expansion as the last successful peg in the puzzle to fall in place.

The stage is set for this summer either to be a dramatic acclamation of monetary and fiscal policies, or to be the battleground between shoddy financial mechanics and unintended consequences of consumer fear, ignorance, panic, and lost potential.

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