

Market Outlook:

Forward or back?

It was just a few weeks ago when the Dow Jones Industrial Average went on a tear. The index saw a large part of its annual percentage gain occur during a very brief post-election run. "*Prosperity for all*", or so it seemed, was just around the corner and obviously preordained for unending duration....

Yet now, just a brief time later, those sobering questions of *recovery* or *reversal* are resolutely back into our analytical lexicon.

Many who watch the market's activity today are reminded of another period in the nation's history, almost a century ago, in which comparisons to another post-recession period of retreating stimulus and anti free-trade speech thrust the business community into consternation and a spiral to survive.

As a result, there are those who wait alarmingly for the historical mimicry and to see what emerges from this next session of Congress, and whether their fiscal policy proposals really do attempt to create change for the US economy.

Conversation and debate do not result in simultaneous change, however. Because there is a lag in time between proposals and law-signing, the real "value" to be found in all this preamble lies in the reactions (and actions) by businesses and households to what they *perceive* they hear. We, of course, know what the politicians *want* to do, we just don't know yet in what form it will take and how the general population will feel about it. Basically, all the financial and business-related information we knew and had three months ago is still the same: conditions are improving, but very slowly and not at the same rate for everyone. Simply tossing aside that data to create a "new mandate" is narcissistic and unnecessary. Just because there are political and jingoistic concerns about fairness in global trade does not mean the nation should hunker down and withdraw. Washington must choose whether to reign in domestic spending or to accelerate it.

The new "new reality"

The problem with all this conjecture is that the stock market now no longer seems to be an accurate barometer, or arbiter, of what's happening in the same way analysts perceived its accuracy for doing so last year. Valuations can certainly be helpful when analyzing trend lines, but whether or not stocks represent the "best snapshot" of America's current economic condition is up for debate.

Of course, *all* data are relevant. We choose to be invested on behalf of our clients across an array of sectors and probability quotients. But we also recognize that the market is lagging those indicators.... more so than last year.... because the political debate is much further out in front of the news, and because stocks are at accelerated price levels at which the winners and losers are less able to be delineated than when trading at the nadir of valuations. Yes, the market is going in the "right direction". But as I wrote last week, right and left/up and down are not definitional certainties anymore.

Despite all that, any potential slippage in valuations from here would most likely be a temporary thing. As noted above, the data are improving, so it would be quite difficult to stop economic momentum on a dime or by fiat alone....although there might be enough hubris amongst our legislators to give it a try (?) Even at record levels, stocks are still fairly priced because the social and financial indicators are still trending well ahead of current equity price performance.

Despite the convulsiveness that might lie ahead for the financial markets in the next few weeks and months, there are still a number of requirements that have to be filled by the private and public capital markets arena. Looking at the macro picture, we would suggest that research, ingenuity, and financial resources have not yet scratched the surface of potential to improve the human condition. This is why we still see secular potential from a number of sectors.

Besides, if government is not the *answer* to the problem, then it must be *part of* the problem.....correct?

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