Jack Way
Vice President

# “By The Way”

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Finally, Donald Trump looked and acted like a President in his speech to Congress. So much so that people seem prepared to ignore the fact there was very little detail as to what exactly his policy plans are. That was no mean feat, given the pre-speech dialogue among investors, strongly suggested that without such details markets would be disappointed and decline. Such is not the case, and as has happened so many times in the past number of years, the S&P 500 shrugs off geopolitical concerns and looks prepared to move higher. This does not suggest we can assume that the President’s policies to invigorate the economy through tax cuts, deregulation and infrastructure spending will come to fruition. The battle lines are being drawn in Congress by those who oppose those policies. Although, it must be said, Trump’s more conciliatory tone in his State-of-the-Union address gives one more hope that some common ground can be found. We can expect periods of “headline risk” as the two sides hammer out their differences. The opening confrontation could occur with the looming debt ceiling deadline. Since 2011, President Obama and Congress have come to a series of agreements to suspend the debt ceiling limit to allow the Federal government to continue to borrow money and carry on business. If you recall there was great concern that without a last minute agreement the U.S. would have had to default on its debt. Those agreements expire March 15, 2017 and if anything, the two sides are more entrenched than in 2011. It will be summer before there is any crisis, but this debate should give us an indication of how nasty the struggle between the President and Congress is going to be.

In what I believe was a moment of honesty and clarity, U.K. Central Banker and Monetary Policy Committee member, Gertan Vlieghe, said the following in testimony before Parliament: “We are probably not going to forecast the next financial crisis, or forecast the next recession. Our models are just not that good.” Yet these bankers wield the power to affect the economic future of all of us. Nevertheless, the utterances of Central Bankers continue to be analyzed and scrutinized ad nauseum; to no particular useful end in my opinion. Let’s move on and accept that we have passed the peak in monetary stimulus. Policy remains accommodative, but the direction is toward being more restrictive. Whether the Fed raises rates in March, June and/or September, rates will be higher this year (barring a negative economic or geopolitical event we don’t even want to think about). If we accept that as fact, we could use an acceleration in earnings growth to support higher markets in 2017, and that is our expectation.



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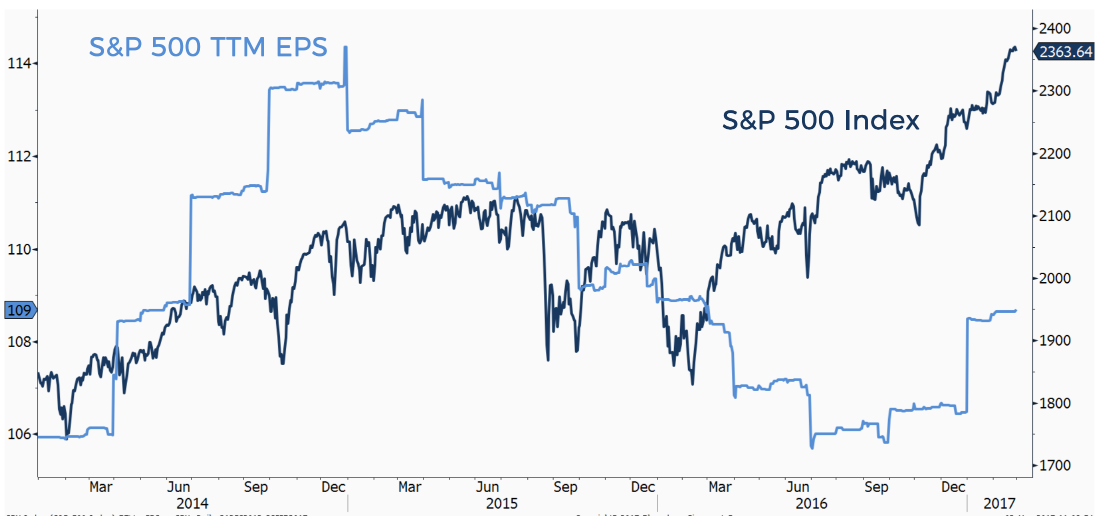
I purposely employed the words "could use" in the previous sentence since we have witnessed the S&P 500 move considerably higher over the last number of years without a meaningful rise is earnings per share. Growth is "devoutly to be wished", but not required. S&P 500 earnings per share are basically flat compared to year-end 2013, but the market is up almost 30%. Still, we would prefer to not rely on further increases in P/E multiples, but rather see some real growth in corporate profits. While it is a moving target, and there are many sources for 2017 EPS estimates, the consensus is that earnings will increase at a nearly double digit rate this year. As a rule, these estimates tend to be revised lower through the year, but an increase of close to that magnitude, combined with business friendly policies from Trump and Congress, should provide a strong base for the market to continue higher. In addition, market internals remain positive, and while not wishing to be simplistic, T.I.N.A. (there is no alternative to equities) still rings true. Interestingly, for those who still believe in supply and demand, JP Morgan calculated that for the first time ever the global supply of equities decreased last year due to share buybacks, mergers and leveraged buyouts and economics 101 suggests less supply equals higher prices.




One more thing, despite many years in this business new things still catch my eye and I've now added two items to the list of things that make me go "hmmm"…. Jay Z is starting a venture capital fund, and Pitbull will be sharing the dais in Toronto with Tony Robbins at a real estate forum.

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