Weekly Commentary December 23, 2016

Dow Struggles to Top 20,000; No Clear Direction for Holiday Week

Friday 10:50 a.m. EST

Although in modern times you can find markets open almost 24/7, trading around holidays has actually slowed in recent years. This year many have started that Christmas holidays early, leaving town last night. The markets have lost their momentum as interest turns to family, friends, and holiday dinners. As far as economic data are concerned, don't get excited about the 3.5% growth that the Department of Commerce announced for the third quarter. This quarter is expected to report only about half that amount, again giving us a sub-two percent growth for 2016. After a surge of better than expected news in late November and December, recent data has been coming in nearer expectations, although consumer, and especially business sentiment has improved.

On the Trump front, the appointment of Peter Navarro as head of the White House Trade Council, a prominent China antagonist, reminds voters that we cannot assume away tariffs and other trade restrictions. As readers know, on the whole I have been quite satisfied with Trump's appointments in the economic sphere: Most are individuals that have been immersed in global markets and understand the importance of trade to the US economy. But trade restrictions can come from many directions. The fact that the House of Representative is considering corporate tax legislations that will not allow firms to deduct the cost of imports in computing their taxable profit is equivalent to a huge tariff on all imports. Although I don't expect that measure will survive, it does shows that corporate – and personal tax reform, could be a game changer for investors. Nevertheless, the net impact of this legislation is expected to be investor friendly, and I believe that this belief is almost certainly correct.

Historically the period between Christmas and New Year's Day has been a good one for the market. From 1885 through last year, the daily return on the Dow Jones average has been almost ten times the overall average, yielding a total gain of almost one percent. If this occurred, it would drive the Dow above 20,000. But in recent years, this holiday outperformance has faded badly, and in the last two years, stock returns were negative between Christmas and New Year's. It is hard to say how next week will play out. Some believe the bias for equities will be upward since investors with capital gains might wait to sell next year, when the capital gains tax is expected to fall. Unfortunately, this might put pressure on stocks in early January, although the overall tax environment for investing will almost certainly improve next year. I would not worry too much about a January market sag. Enjoy the holidays and stay in stocks.
