Weekly Commentary February 25, 2017

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March Rate Hike in Play, but May/June more Likely

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Wow! The Dow Industrials made a “Tom Brady” move late yesterday. What looked like an all but certain loss turned into a gain in the last minute of play, sending the Dow to its first 11 consecutive-day gain in 30 years. This rally occurred on one of the warmest Friday that ever hit the East Coast, sending many outside to work and away from their desks. But there were enough bulls at the desks to send the markets upward.

The probability of 11 consecutive rise is one in two million, and given slightly over 200 trading days in a year, such an event should come every 10,000 or so years. The fact that runs like this occur far more frequently than a random walk would predict is because of stocks are not random walks, they display “trends” that are driven by “momentum players” that have recently made a big impression in the market. One can certainly rationalize the Trump rally, which is up about 10% since the election, on the reduction in corporate taxes and corporate regulation. Actually with both of these you can count even higher stock prices. But we know there will be bump on the road that will cause a pullback.

When not looking at the Dow, traders were wondering “is the Fed going to raise the funds rate or not in March.” Given the minutes of the last meeting and the words of many Fed officials one might think “yes.” However, the bond market seems to be thinking some else. The ten year yield fell on Friday to 2.31% the lowest level since last November. The year-end fed funds rate, which measures the cumulative Fed increases this year has also moved down from 1.235% to 1.165%. I noted last week that the decision will be mostly informed by Friday March 10. The labor market report comes out just before, and the inflation reports that come out during the 2-day FOMC meeting. It is foolish to speculative now.

On a longer horizon, most economists have indicated a 2.2% GDP growth this year, a tad greater than last year. I think the market senses greater growth, due to a rise in the labor participation rate, a bit of infrastructure spending and a less tight regulation. Most of the market is waiting for these “hopes” to become realties. When Trump says “I love meeting with CEOs” the markets cheer, but going from love to action is often much tougher than it looks. At one point stock investors are going to say “Show me.”
