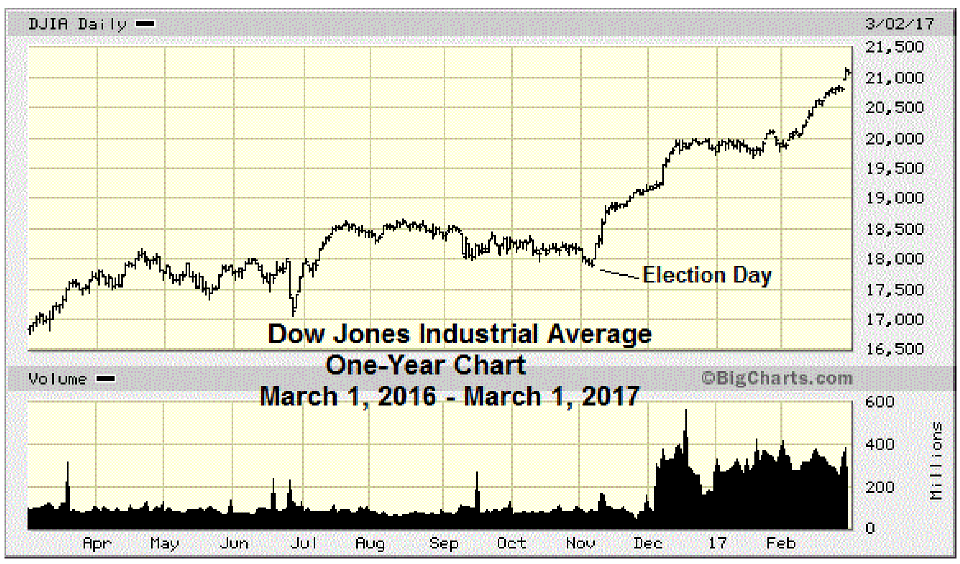
March Update March 2, 2017

Irrational Trump or Trump Exuberance?

Something about the stock market of the past few months is reminiscent of the market of late 1996 when Alan Greenspan made his famous ***"Irrational Exuberance"*** comment. Known for obfuscation, Greenspan was uncharacteristically clear when he warned of *"unduly escalated asset values."* At the time, the market was in the sixth year of a bull market—the prior correction of at least 10% was in 1990, and the Dow had risen by 153% over those six years (from 2,520 in October 1990 to 6,382 on the day of Greenspan's speech, December 5, 1996). More than the six years and 153%, "exuberance" of 1996 was due to gains of 34% and 20% in 1995 and 1996, respectively, in the S&P 500. And, it was during this period that CNBC was becoming popular, day trading was just beginning to become available to small investors and the company **Netscape**, which went public in 1995, not only enabled easy internet browsing but epitomized the nascent craze in technology stocks.



Supporting the bull market in 1996 were growing earnings, a strong economy, declining unemployment and a relatively benign political environment. S&P 500 earnings had expanded by 125% over six years, almost in line with stock prices. Economic growth, as represented by GDP, averaged 3.3% for the four years ending 1996 and unemployment had its lowest reading since 1989 at 5.1%. Bill Clinton was re-elected to his second term in 1996 and was enjoying rising popularity, according to Gallup, with mid-50% approval ratings throughout 1996.

We are now in a very different world than 1996 but there are clear similarities. Our current bull market celebrates its eighth anniversary on March 6 and the S&P 500 has gained 253% since the extreme low in 2009. Earnings have not kept up with stocks in the current bull run: S&P 500 earnings have grown just 82% in the period but growth was depressed due to energy related declines in 2015 and the first half of 2016. The economy has been in a longer growth streak but this recovery began after a recessionary decline of 2.8% in 2009 and the seven years since have averaged a stubborn 2.1% growth. The good news on the current economy is that it finally seems to be achieving real traction with stronger manufacturing, employment, better GDP growth over the past two quarters, higher market interest rates and even a hint of inflation.

So recent economic numbers clearly are improving and appear sustainable and that justifies a portion of the stock market gains. But the **recent gains in stocks reflect more than just the latest economic strength.** The change in Washington is responsible for a significant portion of the recent stock market rally—even if a many people refuse to accept that notion. The ***Trump Bump*** is more than just another dismissive rant by political foes. The S&P 500 has gained 12% since November 8 and has consistently recorded new all-time highs. It is because investors are putting their money where the President's mouth is; they are demonstrating their confidence that President Trump will succeed in improving the economic climate by reducing regulation, lowering taxes and ramping up spending and jobs.

Yes, this market has become "exuberant," possibly as exuberant as in 1996. While Alan Greenspan defined it as ***"Irrational Exuberance"*** *in 1996,* we define the current market as ***"Trump Exuberance."*** Of course there is risk in such a market. Prices have inched ahead of even the improving economic outlook and that price movement can be attributed to great expectations of promised changes which will be very difficult to carry out. Today's market, like that of 1996, is being driven by positive economic data as well as a large dose of positive, even irrational, investor psychology. Many today, like Alan Greenspan in 1996, are ringing their hands in anguish about the current market. **A point to add in our comparison to 1996:** The market did finally correct the *Irrational Exuberance* of 1996, but it was nearly four years later, in mid-2000, and stocks had gained another 105% from the date of Mr. Greenspan's warning.

Still, risks are high and the new administration has a ***huge*** challenge to deliver on the expectations—just as we, as investors, have the challenge to anticipate and navigate the changing environment. Personally, we are believers in the old adage ***"change is good"*** and certainly our stubborn economy is in need of innovative change. If we can count on anything, change and uncertainty are near the top of the list. We will continue to monitor the political, economic and market changes and work to adjust your portfolio to benefit when we see opportunity.

Best regards,

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