Market Perspectives | A Glance at How the World Affects You

Trending Themes Suggesting More Growth

May 10, 2017

Last Friday, stocks reached record highs (again) on a better-than-expected nonfarm payrolls report. The 10-year Treasury yield also rose for most of the week following reassurance by the Federal Reserve that it remains on pace with planned interest rate hikes. Friday's employment report was expected to show 185,000 new jobs added in the month of April but, surprisingly, the numbers came in at 211,000 jobs for the period. This favorable outcome was enough to offset economic concerns prompted by a weaker than expected GDP report. Washington was in on the action with an agreement to fund the Federal Government through September, and a victory in the House to repeal-and-replace the Affordable Care Act. Other items on President Trump's agenda seem to be gaining traction; market-friendly tax reform and infrastructure spending could bolster the economy and begin adding to the GDP.

Trending Themes

Earnings Season: More than 350 companies in the S&P 500 have reported first quarter results and stocks have reacted favorably. Moreover, first quarter 2017 is likely to be one of the strongest since 2011 because reported earnings show growth of more than 15%. If the balance of those reports simply meet estimates (and they should), the average growth will come in around 10 – 13%, even if the energy sector remains under pressure. Without question, the markets have enjoyed a healthy earnings season through April and part of May. However, the inundation of Earnings Per Share reports is coming to a close. The absence of unequivocal positive earnings may become the markets next hurdle. This coincides with the axiom, sell in May and go away.

Crude rebounded: 2.1% on Friday, but overall it was a big loser of the week, falling 5.5% to end at $46.47 per barrel. Crude has fallen to a six-month's low due to supply concerns and the continuation of U.S. oil production on top of elevated inventories. This backdrop will increase the importance of OPEC's upcoming meeting in May. You may recall that OPEC lowered production goals late last year in an effort to stabilize the crude market. That decision was met with increased U.S. production. Basically, higher demand will be needed to push oil prices out of their $45-$55 range.

Interest Rates and the Federal Reserve: The recent GDP report softened the economic tone, which could cause a majority of the Federal Open Market Committee (FOMC) governors to reconsider approval of further rate hikes later this year. Furthermore, the Fed has another significant challenge to deal with; beginning to taper its $4.5 trillion of Treasury and mortgage-backed securities before year end. As these securities reach maturity, the Fed could decide that anything more than one more rate hike this year could become disruptive to equity markets. In other words, the economy is likely not strong enough to withstand both interest rate hikes and a flood of maturing bonds coming off the Fed's balance sheet. In our opinion, the Fed needs to shed this debt sooner than later in order to rescue the economy should another crisis emerge.

Home Prices Rising: S&P/Case-Shiller National Home Price Index for February showed that prices gained an impressive 5.8% year-over-year. The February growth rate was a bit higher than the trailing year average as consumer confidence improved. Looking ahead, we think it is plausible that prices move higher, perhaps another 5% in 2017. Our theory is based on leading indicators; inventory levels, which are relatively low at a 3.8-month supply of existing homes for sale, and new home sales, which are running strong at 621,000 per year, (bubble territory should not be a concern as long as this number stays below 1,000,000). Countering our optimistic view, affordability could be a problem if employment trends stall, and borrowing costs rise due to the Fed's rate-hike and possible aggressive fiscal stimulus.

Insiders Remain Cautious: We don't rely on insider activity as a buy/sell indicator, though we do consider it to be a solid reflection of economic conditions. Vickers Stock Research calculates proprietary Sell/Buy Ratios using data from recent Form-4 filings that are required of all insiders. According to Vickers, the current insider sentiment is in bearish territory. Vickers' benchmark NYSE/ASE One-Week Sell/Buy Ratio improved by 116 basis points since last week, nonetheless it stands at a bearish 4.97. Meanwhile, the NYSE/ASE Eight-Week Sell/Buy Ratio worsened by 21 basis points and currently stands at 4.09. Vickers' Total One-Week Sell/Buy Ratio improved by seven basis points week-over-week and currently stands at 5.24, while the total eight-week moving average worsened by 24 basis points and is at 3.79. Both readings are bearish. The total number of transactions has increased significantly of late as many companies have now reported earnings, and insiders are again free to trade in many instances. We will continue to share these results with our readers.

OmniStar financial group™

© 2015 OmniStar Financial Group Market Perspectives

Bottom Line: The bag remains mixed; positives and negatives remain at this point. President Trump's recently unveiled his tax reform plan and, frankly, it has a lot to offer consumers, corporations and investors. Corporations benefit through higher profits, cash for buybacks, dividends and investment (hiring). Lower and simpler tax rates for consumers will result in greater take-home pay. Investors should benefit from lower capital gain taxes which means more spendable income and greater net worth. All of these things create a stronger economy. Unfortunately, the plan does not address the U.S. budget or Federal debt. However, it does contend that more cash for corporations will lead to more jobs and more government tax receipts which should lead to debt reduction and a more realistic budget. Now, the risk in this plan is that we depend on global investors to finance our overspending and debt. They do this by purchasing U.S. Treasury Bonds, a sign of confidence that our economy will continue to succeed. Nevertheless, if they become concerned that our debt levels are no longer reasonable, interest rates will increase and the dollar may fall under these condition. This outcome would create another economic crisis.

Risks will always be present and a part of investing is recognizing the opportunity. Our technical indicators remain favorable but equity prices have risen above fair value following a 15% increase since the election, to 2,400. Still, we expect economic growth will strengthen throughout 2017 which should provide support for equity prices as job growth expands and consumer spending increases. Our strategies remain fully invested with active rotation away from securities that no longer meet our strict guidelines for inclusion. Recently, we increased our Emerging Market exposure as European markets began improving. This approach has provided solid results across much of this year.

OmniStar Financial Group is a Registered Investment Advisor registered in the state of North Carolina. All notices should be sent to OmniStar Financial Group 1236 19th Street Lane NW, Hickory, NC 28601. Please contact your financial advisor if there are any changes in your financial situation, or investment objectives. Our current disclosure statement is set forth in Part II of Form ADV and is available for your review upon request. This material has no regard to the specific investment objectives, financial situation, or particular needs of any reader. The OmniStar Market Perspectives are published solely for informational purposes and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. References made to third parties are based on information obtained from sources believed to be reliable, but are not guaranteed as being accurate. Readers should not regard it as a substitute for the exercise of their own judgment. Any opinions expressed in this site are subject to change with-out notice and OmniStar Financial Group is under no obligation to update or keep current the information contained herein. OmniStar Financial Group accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this material. The purpose of OmniStar's Market Perspectives is to provide general opinion commentary and should not be acted upon without first consulting your financial advisor, tax advisor and/or legal advisor.