

## It's the Economy.....

The S&P 500 is up over 10% since the election and while we have all read about the effects of the “Trump bump”, the real question is whether the market is up due to the election or for other reasons. We contend it is for other reasons.

President Trump's election campaign focused on building walls, replacing Obamacare, putting Americans back to work, retooling the tax code, and reducing regulatory barriers for domestic corporations. Many of these goals are clearly protectionist and if realized, would be a boon for small companies. It would follow that if the recent market move was driven by Trump's election win, then small companies should be outperforming multinationals. But when comparing the performance differences between large and small cap stocks this year, we find large multinationals dramatically outperforming small companies.

So, what exactly is driving the markets higher? In answering this question, we are reminded of James Carville's 1992 presidential campaign quote: “it's the economy, stupid”. That is exactly what we see today - the economy is stronger than it has been in a several years and thus, corporate earnings are growing.

For the last few years, the first quarter has been soft in terms of growth – both for the economy and corporate earnings. Last year, the S&P 500 dropped over 10% during the first three months due to recession fears. Once these fears subsided and growth picked up, the market recovered. The first quarter of 2017 was dramatically different with 80% of the S&P 500 companies experiencing positive earnings growth above analyst expectations. As we have discussed before, earnings growth drives stock values; so, when earnings grow, the market is soon to follow.

Along with accelerating earnings throughout much of corporate America, we have also experienced a significant decline in unemployment – falling to nearly 4%. We believe these factors help explain why consumer confidence is now at its highest level since early 2000. And, as confident consumers spend more, so does the confident business leader who wants to keep up with an increasing demand. As they see increased sales, they spend to keep up with their growing business. We are seeing all of these things today.

While some investors fear that the market is over-heating due to its steady rise since the election, we think it is important to note that not all companies have appreciated as much as the S&P 500. For example, nearly half of the S&P 500's post-election upswing can be credited to financial stocks and the beneficial effects that rising interest rates had on their industry. We've already seen the Federal Reserve increase rates once this year and more increases are expected before year-end.

So, although we admit President Trump's deregulation promises could account for some of the appreciation seen in financial stocks, we feel most of the move is due to a strong economy. And, if the regulatory environment improves and lending picks up, we feel the economy should continue to remain healthy. This is not to say the market will be without drama along its upward path – after all, market pull-backs are both healthy and necessary. But, we just do not see a significant correction on the horizon.

James Carville had it right – it is the economy that matters. Politics get a lot of press and cocktail hour conversation, but unless the rhetoric is followed through with meaningful changes, the long-term effects on the stock market are minimal.

Some of President Trump's campaign promises will be good for the market while others will not. A less restrictive regulatory environment would certainly make it easier to do business, while starting trade war would be detrimental. For now, the markets are taking a wait-n-see attitude towards his political promises.

It is an important time to not let political rhetoric or emotions cloud our investment plans. One needs to maintain a diversified portfolio, rebalance if an asset class occupies too much of a portfolio, and own good companies that should be able to grow their earnings in this economic environment. This is exactly what Marshall & Sullivan is doing for our clients.

Greg Robinson, President  
[greg@msinvest.com](mailto:greg@msinvest.com)

Davis Miracle, Vice President  
[davis@msinvest.com](mailto:davis@msinvest.com)