# Weekly Market Review

***e*Research Corporation** is pleased to provide a review of the markets by Eddy Elfenbein of **Crossing Wall Street**.

Mr. Elfenbein introduces his commentary with the following quote from Winston Churchill:

*"In finance, everything that is agreeable is unsound and everything that is sound is disagreeable."*

Read Mr. Elfenbein's analysis and market comments on the following pages.

Information about **Eddy Elfenbein** and **Crossing Wall Street** is provided at the end of this article. You can also learn about **Crossing Wall Street** by going to its blog website at:
http://www.crossingwallstreet.com/.

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Bob Weir, CFA
Director of Research


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# Crossing Wall Street: Weekly Market Review

by Eddy Elfenbein

**BW: We have taken only an extract of Mr. Elfenbein's latest weekly article. If you wish to read the entire article, which includes stocks in his recommended portfolio, there is a link provided below.**

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Recently, I have told you that I have become more bearish on the stock market in the short term, and that I expect a difficult period for February and March. So far, I am relieved to say that I have been dead wrong.

The stock market continues to wander higher. On Wednesday, the Dow, Nasdaq, and S&P 500 all closed at all-time highs. For the first time in 25 years, the three indexes made five consecutive new highs together.

If I had told you that North Korea would launch a missile and that the National Security Advisor would resign, how do you think the market would have behaved? Now we know the answer. Wall Street continues to be as calm as could be, and quite optimistic as well.

This week, Janet Yellen went to Capitol Hill to testify on the economy and monetary policy. But that was not the biggest economic news this week. Instead, we learned that, in January, inflation had its biggest surge in four years. Last month, consumer prices rose at an annualized rate of 6.8%—and it was not all due to gasoline.

## Inflation Soars in January—What Does It Mean for Us?

On Wednesday, the Labor Department said that consumer prices rose by 0.6% last month. That is twice what economists had been expecting. In the last year, inflation has been running at 2.5%. January's report was the highest rate in four years. Annualized, consumer prices rose by 6.8% last month.

About half of the increase was due to higher gasoline prices, but there are other factors as well. Clothing prices, for example, rose strongly last month. If we look at "core inflation," which strips away food and energy prices, then we see that inflation rose by 0.3% last month, or 3.76% annualized. Still, that is the highest rate in more than 10 years.


Does this mean that inflation is on the upswing? Frankly, it is too early to say. With economic numbers, we always want to look at the trend instead of single points of data. I suspect that it is not a resurgence of inflation, but I am open to being convinced.

More importantly, inflation is now running above the Fed's 2% target. In fact, the increase in inflation essentially nullified the Fed's December rate hike. I have said that I have been a doubter about the Fed's aggressive hike-rate forecast for this year, but if inflation pressures persist, then it may come about. I would expect their next rate increase to come in June.

This week, Janet Yellen went to Capitol Hill to testify on the economy. Regarding the stock market's recent surge, she said, "I think market participants likely are anticipating shifts in fiscal policy that will stimulate growth and perhaps raise earnings." I have to agree, and this is important because it means that the Fed is no longer pulling the market along.

Fortunately, the long-end of the bond market is still relatively calm. The yield on the 10-year Treasury climbed 2.5% after the CPI report, but that is still pretty tame. Earlier this week, the yield on the one-month Treasury got up to 0.53%. Obviously, that is not a lot but it is a nine-year high. The message is clear that interest rates are on the way up, but we are a long way from them being real competition to stocks.

Other interesting economic news this week is that small-business optimism continues to rise. We saw big jumps after the election, and it is now at a 12-year high. Retail sales did well last month. We saw a seasonally adjusted increase of 0.4%. Interestingly, the figure for December was revised higher to 1% growth. That is very good for one month.

The stock market will be closed on Monday in honor of George Washington's birthday. The NYSE is a bit old school on such matters. They make it clear that it is Washington's Birthday, not President's Day.

There is not much in the way of economic news next week. The existing home-sales report is on Wednesday. Then, on Friday, the new homes sales report comes out.

Be sure to keep checking the blog for daily updates, and I will have more market analysis for you in the next issue of *CWS Market Review*!

- Eddy

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BW: In the rest of the newsletter, Eddy reviews the earnings announcements of the companies on his Buy List. You can read about them and the entire article by clicking on the following link:

**http://www.crossingwallstreet.com/archives/2017/02/cws-market-review-february-17-2017.html**

Named by CNN/Money as the best buy-and-hold blogger, Eddy Elfenbein is the editor of Crossing Wall Street. His free Buy List has beaten the S&P 500 for the last six years in a row. This email was sent by Eddy Elfenbein through Crossing Wall Street.

**BW: Information on Eddy Elfenbein and Crossing Wall Street follows on the next page.**


## ABOUT THE AUTHOR

### Welcome to Crossing Wall Street

I started this Web site to help individual investors. I have to admit that I *love* the stock market. I think I must be an addict. In my opinion, the stock market is one of the greatest inventions in history. The stock market is simply the most consistently successful way to make money over the long term. Even after the financial crisis, stocks have still beaten every asset category over the long haul—bonds, commodities and real estate.

While the stock market may bounce around from day to day, and even month to month, the long-term trend has always been higher. Over the last 35 years, stocks have gone up 35-fold. And since the end of World War II, the stock market is up an amazing 120,000%. I wish I had been around! That was the beginning of an American financial revolution. Today, we're at the beginning of a *global* financial revolution. That is why I think the next 70 years will be even better.

The key to doing well on Wall Street is actually very simple: Buy and hold shares of outstanding companies. But too many investors never learn this valuable lesson. Or if they do learn it, they learn it the *hard* way. That is where I come in. I want to help investors avoid the mistakes that separate successful investors from those who always find themselves spinning their wheels.

There are lots of pitfalls on Wall Street. From shady companies that are more popular than they are profitable to a mutual fund industry that is more interested in its fees than serving investors. Todayis investors must be careful.

At Crossing Wall Street, I give investors my free and unbiased view of the market. I probably analyze dozens of companies every week. I am always looking over income statements and balance sheets. I've spent several years collecting my list of the best companies to own. This is my current Buy List. I've included a description of each company and its current share price. These are the ones that I make the most effort to follow on the site, but please feel free to ask me my opinion on any stock. I don't receive compensation from any of the stocks I recommend. Also, I don't "short" any of the stocks I criticize. At any time, I may own the companies on my Buy List. All of the information on this site is free and unbiased. I also have a section for Frequently Asked Questions that will help you learn more about Crossing Wall Street.

Please feel free to e-mail me. I enjoy getting feedback from investors. I am happy to give you my opinion on any stock or investing in general. I should warn you that I cannot give out personal portfolio advice, but all other topics are fair game. You can also check out some of my favorite links.

**- Eddy Elfenbein**