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 Bernard Baruch (1870-1965), American financier, stock investor, philanthropist, statesman, and political consultant:

“Become more humble as the market goes your way.”

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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March 3, 2017

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.

John Maynard Keynes famously spoke of how "animal spirits" can override rational human behavior. Given Wall Street's extreme placidity of late, I think those animals are currently possums, sloths, and snails.

Finally, we saw some action this week. On Tuesday, the Dow snapped its 12-day winning streak, the longest in three decades. Then, on Wednesday, the S&P 500 had its first daily move of over 1% in nearly three months. Surprisingly, the move was to the upside. For the first time ever, the index topped 2,400.

So what is the cause for the burst of optimism? For one, Wall Street reacted positively to President Trump's Tuesday address. Plus, there has been more positive economic news. Consumer confidence is now at a 15-year high. In fact, Wall Street is beginning to think that another Fed rate hike will come in less than two weeks.

In this week's *CWS Market Review*, I'll tell you what it all means. So, let us look at why things suddenly look so rosy on Wall Street.

Get Ready For An Ides Of March Rate Hike

In December, the Federal Reserve said that they expect to raise interest rates three times this year. At the time, I said that forecast was wildly optimistic. Suddenly, it does not look so wild. In just a few days, Wall Street's view on a rate increase has shifted dramatically.

What changed? Several things came together all at once. The inflation report for January was well above expectations. Existing home sales rose to a 10-year high. The minutes from the Fed's last meeting indicated that some members are ready to hike. This week, we learned that consumer confidence rose to a 15-year high and initial jobless claims fell to a 44-year low.

Perhaps the most influential event was when Bill Dudley, the top dog at the New York Fed, said, “I think the case for monetary policy tightening has become a lot more compelling.” After that, the rate-hike odds for March doubled.

The Fed meets again on March 14-15. Two weeks ago, before Janet Yellen testified before Congress, the future market pegged the odds of a March rate hike at 16%. Now it is at 80%. It does not stop there. The odds of another hike in June are roughly 50-50.

The change of mind is impacting the financial markets in several ways. Obviously, stocks are rallying. An improving economy means consumers have more money to spend, and that means greater profits for companies. The S&P 500 is already up 6.4% this year.

The bond market is also adjusting. The “short-end” of the yield curve is the highest it has been in years. This week, the yields on the three- and six-month Treasuries, plus the one- and two-year notes, all hit their highest levels in seven or eight years.

On Thursday, for example, the yield on the six-month Treasury closed at 0.84%. Obviously, that is not very high, but it is double the yield of six months ago. Let us remember that, just 17 months ago, the two-year was going for 0.08%. The one-year Treasury is close to breaking above 1% for the first time since November 2008. After many, many false starts, it appears that yields are truly going higher.

What is interesting is that the long end of the yield curve (over 10 years) has not moved much recently. After the election, those maturities saw their yields gap up but, since the start of the new year, they have been fairly stable. This may suggest that the Fed will not have to do a lot of hiking to get the job done.

When we see long-term yields go up, that generally aligns with good times for cyclical stocks. When short yields rise, that is usually good for banks and financials.

The big news next week will be the jobs report on Friday, March 10. This will be the last major event before the Fed meeting. If the report is strong (over 175,000 nonfarm jobs), then that almost certainly guarantees another rate hike. It will also increase the odds for a second hike in June.

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/2017/03/cws-market-review-march-3-2017.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

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