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 John Bogle (Vanguard Funds).

"If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks."

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

March 24, 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.

The streak finally came to an end. On Tuesday, the stock market did something it had not done in the previous 109 trading days. It closed down by more than 1%.

This was the longest such hot streak in more than 20 years, and it was close to becoming the longest in over 50 years. If we look more closely, the recent streak was even more impressive, because there were only two days in which the S&P 500 fell more than 0.7%. Of course, we have to remember that, not that long ago, a 1% drop was barely a scratch. In 2008, it happened 75 times.

As we know well, Wall Street has a notoriously poor memory.

So, is this the beginning of the end? Have the walls come crashing down? Eh…probably not. Bear in mind that the Trump Rally has endured four North Korean missile launches, two Fed rate hikes and, of course, President Trump himself. Through all that, it has quietly powered ahead.

But this may be the end of the Trump Trade. It is a little more complicated than has often been portrayed. I will explain what it all means.

The Death of the Trump Trade

While there has been a lot of talk of the Trump Trade, properly speaking, there were two separate trades in recent months.

The first Trump Trade came immediately after the election. That is when stocks soared. The stock rally was matched by a big down-turn for bonds. Within a few days, the yield on the 10-year Treasury jumped from around 1.8% to close to 2.3%. That is an unusually large move for such a short period of time.

Combine that with the fact that the 10-year yield had been creeping higher since the summer, and you can see how dramatically the interest-rate outlook had changed.

Within the stock sectors, the small-caps saw the biggest gains. On November 3, the Thursday before the election, the Russell 2000 stood at 1,156.89. By November 25, the index had risen to 1,347.20. That is a jump of more than 16% in just over three weeks. That is a huge leap for an entire size category.

Among stock sectors, the big winners were industrials and financials. The move in the latter was astounding. Prior to the election, Goldman Sachs warned of dire consequences if Trump were to be elected. That outcome, apparently, did not include a massive rally in shares of Goldman. Shares of GS gained more than 60% in the second half of 2016. (The bank's former COO, Gary Cohn, is now President Trump's top economic advisor.)

Here is what was happening. This first stage of the Trump Rally was based on the idea of a markedly improving economy. Traders thought policies in Washington would shift towards fiscal stimulus. That is why the cyclicals stocks led the way. The yield curve widened, and defensive areas like utilities and staples did not fare so well.

By early December, that stage of the rally had petered out. By December 13, the S&P 500 had reached a near-term peak of 2,271.72. The stock market was pretty flat for a few weeks after that. By Inauguration Day, the S&P 500 closed at 2,271.31.

Stage Two of the Trump rally really got going in February. This second stage was led by large-cap tech stocks. Unlike Stage One, this time the long end of the bond market was relatively stable. The yield on the 10-year bond peaked around mid-December and has mostly been in a trading range since (between 2.3% and 2.6%).

Instead, the interest-rate action has been at the short end. The second stage of the Trump Rally happened at the same time that there was a perceived need for higher interest rates. This is when we saw yields at the short end of the yield curve touch levels they had not seen in seven or eight years. This move in the market foreshadowed last week's Fed rate hike. In fact, it also caused traders to think more hikes were on the way.

But now, that thesis is starting to show holes. For one, we cannot help noticing the price of oil. One month ago, West Texas Crude got as high as $54.45 per barrel. Everything was going right for OPEC. The production cuts were holding. Finally! But the latest numbers show that there is still an oil glut. In fact, it is a big one, and the oil markets are taking notice. At one point, the price of oil fell ten times in eleven days. This week, West Texas Crude came close to falling below $47 per barrel.

Goldman Sachs noted that OPEC's production cut has had an unintentional side effect—it has spurred the biggest productions in history. It is hard to say that the Fed needs to raise interest rates to combat inflation when the price of oil is dropping.

Both parts of the Trump Rally have seen rising share prices and low volatility. If I had to pinpoint a single day when the Trump Rally peaked, it would probably be the day after President Trump's congressional address. Traders loved the speech. The Dow shot up 300 points the following day.

Since then, however, the market has had a tough time getting its footing, and some cracks are starting to show. For example, 217 stocks in the S&P 500 are currently below their 50-day moving average. The overall index is just 0.72% above its 50-DMA. There are now 171 stocks in the index that are more than 10% below their 52-week high, which is the traditional definition of a market correction. In other words, more than one-third of the index is effectively in a correction already.

On Tuesday, the S&P 500 lost 1.24%. Ryan Detrick notes that the average worst day of the year is three times worse than Tuesday's loss, which is our current worst day of the year. It wasn't bad, but it was different from the trend, and that is what catches our attention. The Nasdaq Composite, actually, hit a new all-time high on Tuesday, which shows the impact of large-cap tech.

So stage one of the Trump Rally (November and December) was about a resurgent economy. Stage two (February) was about taking on more risk due to higher rates.

What to do now: I am still holding on to my view that stocks are due for a modest pull-back. It may have already started, since the S&P 500 has now gone three weeks without making a new high. But let me caution you not to worry. I am not expecting a major decline.

Make sure that you are well diversified and look for decent dividends. I think there's a very good chance that we'll be looking at a lot of bargains in the spring.

That's all for now. Next week is the final week of the first quarter. On Thursday, the government will update the Q4 GDP report for a second time. Before that, on Tuesday, we will get the report on consumer confidence for March. Then, on Friday, we will get the reports on personal income and spending for February.

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-24-2017.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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