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 Jesse Livermore.

"Get out when you can, not when you have to."

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

May 5, 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.

Here are the last eight daily closes for the S&P 500:
2388.61
2387.45
2388.77
2384.20
2388.33
2391.17
2388.13
2389.52

Exciting, right? I have to wonder: if the index had stayed at 2388 the whole time, would anyone have noticed? This is about as flat as a market can get.

This week, the **Volatility Index** (VIX) dropped below 10 for the first time in more than a decade.

Despite the market's equipoise (look it up!), there was a fair bit of news this week. At the top of the list was another Federal Reserve meeting. As expected, the Fed did not raise interest rates. However, their policy statement hinted that a rate hike is coming, possibly as early as next month. Honestly, this would be a mistake. I simply do not see the need for another rate hike. I will lay out my case in a bit.

For earnings season, for the broader market, the "beat rate" usually runs around 70%, so this has been a very good earnings season.

The Fed Should Not Raise Rates In June

So far, the Federal Reserve has raised interest rates three times this cycle: this past March, this past December, and again in the December prior to that.

The current range for the Federal funds rate is 0.75% to 1%. Obviously, that is quite low, and it continues to be below inflation.

The Federal Reserve got together again this week on Tuesday and Wednesday. Wall Street was almost certain that the central bank would forego a rate increase this month, and they were right on that.

But in the Fed's policy statement, the central bank dropped several hints that a rate hike is on the way. I had no objections to the Fed's first three rate increases, but I just do not see the need for another. At least, not yet.

Let us remember that the jobs report for March was pretty much a dud. Just 98,000 net new jobs. And what about inflation? Please. The last core CPI report was the weakest in 35 years. We actually had a bit of *de*-flation.

The first-quarter GDP report fell flat on its face. We had growth of just 0.7%, the slowest in three years. We also learned this week that worker productivity fell by 0.6% during Q1. For some context, the long-run average is 2.1%. The latest construction-spending report showed a decline of 0.2% for March.

Check out the commodity pits. You may also have noticed that oil is falling again. West Texas Crude closed Thursday at $45.52 per barrel. That is the lowest close for the year. Oil was over $53 just a few weeks ago. I don't know if the trend will continue, but it is hard to say that inflation is heating up when oil is going down fast. Still, the bond market is getting ready for higher rates. The short end of the bond market is seeing the highest yields in more than eight years.

To be fair, there has been some decent news on the jobs front. Initial jobless claims have been under 300,000 for 114 weeks in a row. That is the longest such streak since 1970. Job growth has been steady, but the problem is that wage growth has been, at best, tepid.

The latest numbers from the futures market show that traders believe there is a 76% chance that the Fed will raise rates again in June. On top of that, there is a 51% chance of another rate hike in December.

In the Fed's policy statement, they acknowledged the recent weakness, "The Committee views the slowing in growth during the first quarter as likely to be transitory and continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2 percent over the medium term."

It is as if they are saying, “Here are the reasons not to raise rates. But we are going to anyway.”

We can also see some interesting trends when we look at the stock market. While the overall market has been calm, we have been seeing a growing divergence just below the surface. Growth stocks are going higher, while value stocks are mostly going nowhere.

Apple, Google, and Amazon are all up over 20% this year, and Facebook is up more than 30%, while the S&P 500 is up 6.7%. Take away a few high-profile names, and the market is basically flat.

Next week should be fairly quiet for economic news. I will be curious to see the next CPI report, which comes out on Friday. As I mentioned before, the inflation report for March was unusually low. This could be an outlier or maybe the start of a trend. If inflation was elevated last month, that would give the Fed more ammo to proceed with a rate increase.

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/2017/05/cws-market-review-may-5-2017.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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