Weekly Market Summary

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Equity Markets Remain on Fire !! Is it Time to Give Up Looking for the Right Levels to Short Stocks ?!

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Big news overnight for equity markets! Or is it? The US Senate adopted a fiscal 2018 budget resolution yesterday evening that House GOP leaders agreed to accept, a show of unity aimed at speeding consideration for President Donald Trump's plan to enact tax cuts. However, the budget barely cleared the Senate by 51-49 votes, with all Democrats as well as Republican Senator Rand Paul of Kentucky voting against it. "*This resolution creates a pathway to unleash the potential of the American economy through tax reform and tax cuts, simplifying the overcomplicated tax code, providing financial relief for families across the country, and making American businesses globally competitive*," the White House said in a statement after the vote. House Speaker Paul Ryan added in a statement the Senate budget vote "*keeps us on track to enacting historic tax reform that will mean more jobs, fairer taxes, and bigger pay checks for American families.*" Senate Majority Leader Mitch McConnell of Kentucky called it "*the first step towards replacing our broken tax code.*"

House and Senate Republicans crafted an amendment to the Senate budget designed to remove the need to spend weeks working to reconcile it with the version already passed by the House. The House would simply vote on the budget that passed the Senate, and plans holding that vote next week, a House aide said. Final approval of the measure will unlock a special procedure allowing Republicans to pass a subsequent tax code rewrite without Democratic support (Democrats had previously brought amendments to the initial text, to prevent tax cuts for wealthy Americans and protect funding for the Medicare and Medicaid health insurance programs, but those changes were voted down by Republicans) . The House and Senate tax-writing committees plan to release draft legislation by early November. Nevertheless, in order to avoid a repeat of the embarrassing Obamacare setback, Republicans must find a way to appease members eager to protect cherished tax breaks while also satisfying senators like Bob Corker of Tennessee who oppose increasing the deficit and would not buy arguments that trillions of dollars in tax cuts will pay for themselves through economic growth alone.

Markets were quick to react: The US dollar and stock futures climbed higher, whilst Treasuries (US government bonds) fell after the latest developments in Washington buoyed optimism about the chances for tax reform and odds rose that a dovish insider (Jerome Powell – a member of the Federal Reserve Board of Governors and a former investment banker at Carlyle; *Oops not Goldman Sachs this time, but hey close enough*!) could become the next Fed chief.

Earlier this week, Donald Trump dispatched the below tweet to his 40 million followers:

Clearly, the US President views the stock market as a crucial - if not the crucial - barometer of policy success and vindication. But that is the same president that wasted no time – in late 2015 & all over 2016 - proclaiming that the Dow was a bubble at 18,000!! In fact Trump's most brutal assessment of the stock market - and the economy - was made during his first presidential debate with Hillary Clinton on September 26th 2016, when he noted that the recovery was the worst since the Great Depression and that it would come crashing down the moment that interest rates rise. "*The only thing that looks good is the stock market, but if you raise interest rates even a little bit, that is going to come crashing down*," Mr. Trump noted. "*We are in a big, fat, ugly bubble*."

It is often said that hope is not an investing strategy to live by! Yet a lot of the post-election stock market gains and run to new highs (a daily recurrence in recent weeks!) have been built on hopes that Donald Trump's pro-growth, "America First" economic policies will morph from talk to reality and deliver benefits. The Dow Jones industrial average has rallied more than 4800 points, or roughly 26%, since Trump's election, to a fresh record high of 23,172 - with forward-looking investors pushing some sectors and stocks (such as companies that benefit from infrastructure spending and tax cuts promised by Trump) up too far, too fast despite the dearth of details. Still, the positive news overnight will surely add to market exuberance and have a large positive impact on business/consumer sentiment and economic growth in the short run, providing fuel for the stock bull market to run further.

How much further is the million dollar question though? With markets now mostly focused on positives and investors ignoring or placing very low probabilities on potential downside risks related to Trump's less market-friendly views, such as his criticism of U.S. trade deals and immigration - as well as widespread rising geopolitical and political concerns (North Korea, Spain, Italy, Middle-East, China,… and the list goes on & on) which will eventually lead to heightened market volatility – **there is a huge risk that all the good news is already fully priced in at current elevated equity valuations** (mind you that bond markets can hardly sell-off due to those pending uncertainties & lack of inflation signs!).

With President Trump giving the world ample reasons for concern about the future, and as markets start paying more attention to negative rhetoric/factors, one would soon expect investors to witness an abrupt wake-up call and a clear acknowledgment that the broad US stock market got ahead of itself. Don't be overly surprised when that happens!!

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