



WEEKLY MARKET UPDATE

December 5, 2016



In Spite of (fill in the blank), Markets Shrug Off Result

This morning the financial news carried the headline that, once again, in spite of expectations of a dramatic market sell off due to yet another momentous vote (this time in Italy), resilient markets shrugged off the outcome and soldiered on. Since our response is similar to previous outcomes in Great Britain (“Brexit”) and the U.S. presidential election, this week’s commentary will be mercifully on the short side, which we are certain our beleaguered readers will appreciate!

At the risk of oversimplification, in the long run, earnings growth moves markets, for better or worse. Many factors, obviously, affect earnings growth, and we would be the first to state that assessing those factors accurately is difficult, as is determining whether or not the market fairly values said earnings at any given point in time. Having said that, what economists call the macro picture as it affects earnings growth has a significant impact on the market, and the reason for the seeming nonchalance of the market in the face of the recent series of momentous national votes has to do with the macro picture, in our opinion.

Politics aside, the market seems to be focused on the “improving” macro picture of higher infrastructure spending, corporate and individual tax reform (including tax repatriation), and the easing of certain regulatory burdens leading to higher economic and earnings growth rates moving forward. We put quotes around “improving” because there is reasonable debate surrounding those issues, and whether or not such policy changes will indeed incite the earnings growth the market seems to be expecting lately.

That debate will continue to rage on, hopefully with civility and respect for opposing viewpoints. Investors, however, are voting with the money, and the results of that vote are clear. Until investors change their minds, or real life proves the current macro conclusions wrong, markets are shrugging off the votes and, per the Jeffersons of the old TV show, movin’ on up.



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