MARKET

Insights

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Onward and Upward

March 2017

Clients ask us whether the current eight-year bull market is near an end. In the last three months alone, the US stock market has gained nearly +8%, a performance that ranks among the top third of all three-month winning streaks during the past 30 years. As of late February, the S&P 500 index is up nearly +250% from the low it reached in early March 2009. We do not manage client portfolios by trying to time market peaks and bottoms. However, it is worth noting that both the length and performance of the current bull market is actually below average by historical standards. Most bull markets since the Great Depression lasted much longer than eight years (the 1970s and 2000s were exceptions), and total returns typically have been double what the current cycle has delivered so far.

US Bull Market History Since 1932

Bull Market	Length	Total Return	Annualized Return
1932-1946	14 years	815%	17%
1947-1961	15 years	936%	17%
1962-1969	6 years	144%	15%
1971-1973	3 years	76%	25%
1974-1987	13 years	845%	19%
1988-2000	13 years	817%	19%
2003-2007	5 years	108%	16%
2009-2016	8 years	244%	17%
Average	**10 years**	**498%**	**18%**

STAY THE (PRO-GROWTH) COURSE

We believe the recent rally in equities and corporate bonds reflects a fundamental improvement in earnings and economic growth. Reported earnings for companies in the S&P 500 index were up nearly +6% year-over-year in 2016, and this included the drag from the Energy sector which was burdened by much lower hydrocarbon prices than the current $54/bbl for WTI crude oil. Full-year earnings-per-share for S&P 500 companies are back to $119, near the previous high which was at the end of 2014.

Looking ahead, the Energy sector will likely swing to a significantly positive rate of growth this year. And, we can expect continued economic momentum, as evident in stronger consumer spending and the 76th consecutive month of job growth in January.

Staying at home with equity allocations

We remain overweight US equities in client portfolios, specifically in technology, financials and industrials.

We are not recommending increasing allocations to international equities yet. Despite better valuations and more cyclical businesses, key risks remain in Europe and Asia – namely, nationalist movements in France and the Netherlands, trade barriers for Asian exporters to the US and the slowdown in Chinese real estate markets.

Inflation rising, rate hikes likely

Inflation indicators have turned up, with producer and consumer prices up +1.6% and +2.5% respectively through January. Some of the increase was due to energy prices, but gains of more than +3% in major categories like shelter and medical expenses are driving overall consumer inflation higher. Inflation rates above 2% allow the Federal Reserve to declare more rate hikes this year.

Mindful of inflation risk in bond allocations

A continuation of the current, positive economic conditions represents significant risk for fixed income allocations to government and investment grade bonds.

The current yield on the ten-year note, at 2.48%, is nearly the same as consumer inflation. Treasuries offer virtually no compensation for inflation risk now. The vast majority of investment grade debt also offers yields as if there will be little to no inflation over the next few years. We don't believe clients are adequately compensated for either interest rate or inflation risk at these levels. We recommend allocating away from longer duration bonds and nominal fixed coupon debt generally, and toward floating-rate debt, inflation-indexed bonds and US-dollar emerging market corporate debt.

TO VIEW A MORE DETAILED DESCRIPTION AND ANALYSIS OF THESE INSIGHTS, VISIT WWW.WEBSTERBANK.COM/PB.

Source for charts: FactSet 2/28/17

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