

## Rally is Real, Not “Hope & Faith”

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Since the presidential election, the S&P 500 is up 8.4%, the Russell 2000, a small cap stock index, is up almost 20% and the Dow is closing in on 20,000. Financial stocks have surged.

This “Trump Rally,” just like the entire 2009-2016 bull market – which pushed up stocks more than 200% - has its detractors. We heard it over and over in the past eight years, and now we are hearing it again – “the market has moved too far, too fast.”

This rally, they say, is based on “Hope and Faith.” After all, nothing has changed yet. It’s wishful thinking.

We could not disagree more. According to our capitalized profits model, the market was undervalued by roughly 30% on election day. In fact, it was undervalued for the previous eight years as well.

We believe the reason it was undervalued was because government policy was constantly making it more difficult for free markets to operate. Higher taxes, higher spending and more regulation increase the risks to future growth. It’s why we have had a Plow Horse economy. At the least, these policies are now stopped, at best, they will be reversed.

Next, profits are rebounding. It’s true that in 2014-2016, the drop in oil prices undercut profits, not just for

energy companies, but for ancillary businesses (trucking, machinery, materials), as well.

Profits hit an all-time record high in the fourth quarter of 2014, then fell. Now, oil prices are stabilizing, which helped economy-wide corporate profits rise 6.6% in the third quarter. After Q3, profits now stand just 2.8% short of that previous record high.

So, instead of asking why the market is up, investors should be asking why wasn’t it rising more before? After all, with profits turning the corner in an already undervalued state, the market should be up.

But it was hard for stocks to rise with such a bad set of fiscal policies. And, following such a surprising election outcome, it is clear that these policies will change. The election may not herald a new era of free market perfection, but investors can be confident that, overall, public policy isn’t going to get worse and may get much better. The US is moving out the public-policy elite of the Ivy League, and moving in an all-star cast of adjunct professors. Markets know that this infusion of real world experience will push policy in a much more market friendly direction. It’s not just “hope and faith,” it’s an entirely rational response to a radical shift in economic policy.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-13 / 7:30 am	Import Prices – Nov	-0.4%	<b>-0.5%</b>		+0.5%
7:30 am	Export Prices – Nov	-0.2%	<b>0.0%</b>		+0.2%
12-14 / 7:30 am	Retail Sales – Nov	+0.3%	<b>+0.4%</b>		+0.8%
7:30 am	Retail Sales Ex-Auto – Nov	+0.4%	<b>+0.5%</b>		+0.8%
7:30 am	PPI – Nov	+0.1%	<b>+0.1%</b>		0.0%
7:30 am	“Core” PPI – Nov	+0.2%	<b>+0.1%</b>		-0.2%
8:15 am	Industrial Production – Nov	-0.3%	<b>-0.3%</b>		0.0%
8:15 am	Capacity Utilization – Nov	75.1%	<b>75.0%</b>		75.3%
9:00 am	Business Inventories – Oct	-0.1%	<b>0.0%</b>		0.1%
12-15 / 7:30 am	Initial Claims – Dec 10	255K	<b>254K</b>		258K
7:30 am	CPI – Nov	+0.2%	<b>+0.2%</b>		+0.4%
7:30 am	“Core” CPI – Nov	+0.2%	<b>+0.2%</b>		+0.1%
7:30 am	Empire State Mfg Index – Dec	4.0	<b>5.0</b>		1.5
7:30 am	Philly Fed Survey – Dec	9.5	<b>10.2</b>		7.6
12-16 / 7:30 am	Housing Starts – Nov	1.230 Mil	<b>1.222 Mil</b>		1.323 Mil