

White House Chaos Doesn't Bother the Stock Market

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- One month and it's the best stock market since Lyndon Johnson
 - 'We're getting a bit of a civics lesson here,' a manager says
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Follow the money: it's a classic Washington catchphrase.

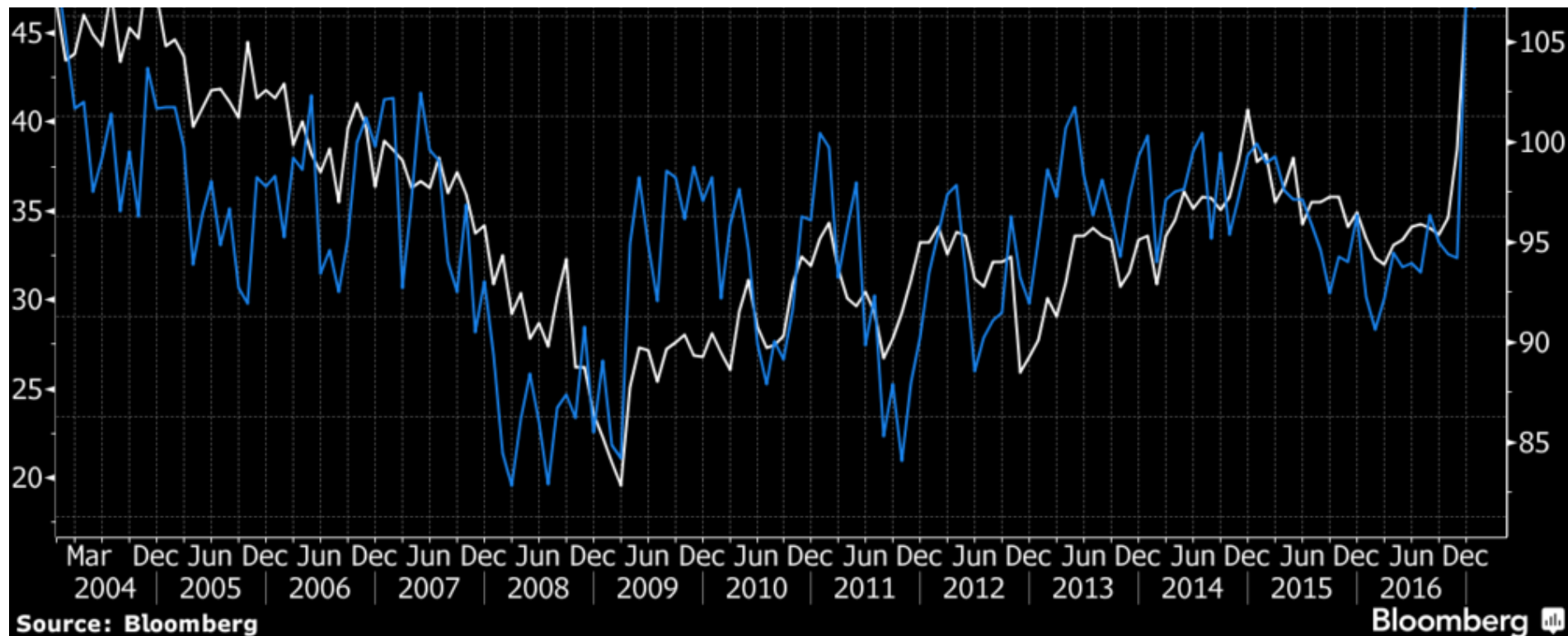
And if you follow the money on Wall Street right now, it's hard to see how all that chaos in the White House you've been reading about adds up to much for the financial markets.

Despite Russia and Michael Flynn, the tweets and CNN, the stock market has sailed from one high to the next under President Donald Trump. Yes, the first month has been bumpy (though Trump asserted Thursday his administration is "running like a fine-tuned machine"). But hey, the market is up -- and on the biggest tear under a new president since LBJ.

Soaring Optimism Two confidence measures at highest levels since 2004

■ NFIB Small Business Optimism Index (R1) ■ Conference Board Consumer Confidence Expectation Stock Prices Increase (L1)





Naysayers say equities are priced for perfection, that based on everything from earnings ratios to the bull market's age, this Trump bump can and should give way. A strong case can be made that signs of life in the economy have more to do with years of easy-money policies by the Federal Reserve than the man sitting in the White House. Stocks usually go up -- what's the big deal?

Read what America's biggest creditors have to think about Trump <<http://www.bloomberg.com/news/articles/2017-02-12/america-s-biggest-creditors-dump-treasuries-in-warning-to-trump>>

But talk to the trading class and many in middle America, and you'll hear a different line: that this is one of the biggest buying opportunities in years.

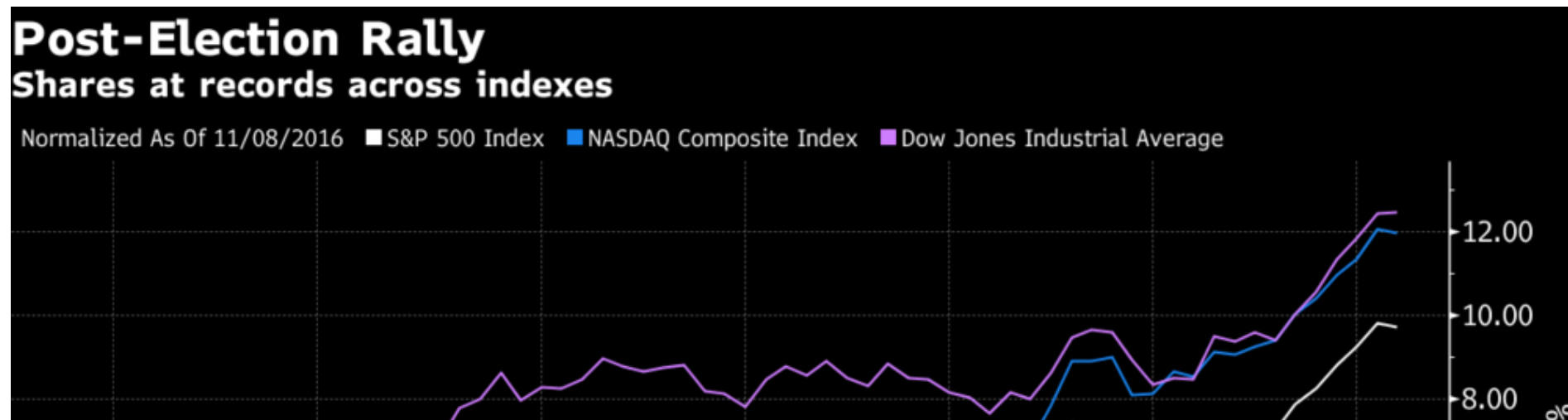
"It feels like I've woken up from a bad dream" after the past eight years, George Schultze, founder and chief investment officer of Schultze Asset Management in New York. "Whether you like him or not, the guy has a pretty long track record of doing what he sets out to do. He's a successful businessman and he's got a plan that seems to be aggressive."

Animal Spirits

Led by technology companies, banks and drugmakers, the S&P 500 has gained almost 10 percent since Election Day, pushing the bull market that began under Barack Obama toward its ninth year. At 2,347.22, the benchmark index for U.S. equities sits 50 percent above the high it hit prior to the 2008 financial crisis and 54 percent above the record it set following the 1990s technology bubble.

Whatever your politics, Trump, almost by his presence alone, has unleashed the animal spirits in an economy that, by most measures, was doing OK to begin with. It's a sign of hope that the Trump effect will drive stocks higher yet -- or set investors up for a dramatic fall.

“Up until recently, more than 90 percent of the questions that we got from clients were along the lines of, ‘What can go wrong?’” said Erik Davidson, chief investment officer of Wells Fargo Private Bank in Ranch Santa Fe, California. “Investors were afraid of their own shadows. Now, investors are more optimistic.”





Trump may ultimately struggle to enact his slate of pro-growth promises, from tax cuts to spending and deregulation -- something that many who are less bullish repeatedly point out. But equity investors haven't been waiting around to find out. After years of withdrawals, individuals are pouring money back into equity funds and ETFs. Billionaire Charles Munger told investors to "roll with" Trump this week because he's "not wrong on everything."

Rolling with it hasn't always been easy. On the front page are tales of upheaval in the White House. Trump blames the news media and intelligence leaks for the fall of his national security adviser. The New York Times says his campaign aides had contacts with Russian intelligence officials before the election. A federal court freezes Trump's immigration ban.

Alternative Facts

Meanwhile in the business section, growth proxies are humming. Retail sales jumped in December and January. Consumer confidence is near a 12-year high. Gauges of sentiment spanning everyone from small business owners to asset managers and CEOs on earnings calls are surging, even as people wait for Trump's economic agenda to take shape.

During a combative and largely unscripted 77-minute news conference on Thursday, Trump himself pointed to the stock market's performance -- the Dow, S&P 500 and Nasdaq all reached record highs this week -- as evidence of his early accomplishments in office and lashed out at media organizations that he said "will not tell you the truth."

“There’s no question that the political environment comes up in discussions,” said Dan Heckman, a Kansas City-based fixed-income strategist at U.S. Bank Wealth Management, which oversees \$139 billion. “We try to be sympathetic to those concerns, but refocus the clients back to their portfolio and what their objectives are.”

In some ways, conversations that stock brokers are having with clients today likely resemble those during last shift of presidential power. To say the election of Barack Obama in 2008 went down easy with the investing class would be an overstatement. And yet the Democrat presided over a 210 percent rally in the S&P 500, the second biggest on record.

Amoral Judgment

“We’re all getting a bit of a civics lesson here -- what’s the role of each person in government and what are they able and not able to do?” said Jason Brady, president of Santa Fe, New Mexico-based Thornburg Investment Management, which oversees \$50 billion. “As I look forward to what might occur as a result in changes in policy, I think a lot about what’s possible to get done and what’s likely.”

Wishful thinking or not, nothing succeeds like success in markets. Global equities just vaulted to their first record in 18 months amid the longest streak of gains in the S&P 500 since September 2013. The Trump Trade is approaching bull market dimensions in only three months, with futures on the Dow rallying 19 percent since their election night lows.

And despite the rancor over the administration’s ties with the Russians and Trump’s immigration policies, at the end of the day, investors are signaling they couldn’t care less. At least, when it comes to their investment decisions.

“People are saying they’re uncertain and concerned,” said Frank Hennessey, managing partner at Premier Planning Group in Phoenixville, Pennsylvania. “But their investing actions are telling me otherwise.”

