THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – NOVEMBER

US Markets and Economy:

America's second longest bull market took another gallop forward in November. All major indexes forged ahead to new all-time highs, with the Dow Jones Industrials breaking 24,000 during the month, while the S+P 500 Index successfully breached the 2,600 level. Not to be outdone, the NASDAQ Composite Index, the strongest gainer of the year, came close to breaching the 7,000 mark (settling for 6,900), as its near straight-line rise continued. Perhaps even more significantly, the Russell 2000 Index, a broad measure of smaller cap stocks, perked up in mid-November and soared to a new all-time high at the end of the month. The Russell 2000 had been flat for the year in late August, before joining the bull stampede.

A prime driver of this latest surge is anticipation of a substantial tax cut for US business, which will boost after-tax corporate profits. Now that both chambers have passed a tax bill, it is likely a bill will signed by President Trump by the end of the year. A reduction in the US corporate tax rate from 35% to 20% will be especially beneficial to smaller businesses, which often pay the maximum rate. (Hence the surge in the Russell 2000.) Large international firms, like Google and Apple, have armies of accountants and suitable tax havens to minimize their US taxes, but they will also gain since they will be able to repatriate their overseas profits back to the US at a favorable rate.

US stocks should also continue to benefit from monetary ease. Jerome Powell will take over the reins of the Fed in February, when Janet Yellen bows out after a very successful run as Chair. Powell, already a member of the Board of Governors, has voted with Yellen (and before her, Bernanke) at every FOMC meeting, so Wall Street can expect a continuation of the Fed's very gradual increases in the Fed Funds rate, with inflation staying low (even a bit below the Fed's target of 2%) while the economy continues to pick up steam. The latest real GDP growth rate, for the third quarter of the year, came in at 3.3%, (in spite of hurricanes and floods), and the latest GDP forecast by the Atlanta Fed suggests fourth quarter real GDP growth could show a pickup to 3.5%.

This scenario of monetary ease, more rapid growth, low inflation, and rising corporate profits, could power the US bull market to further gains, as it enters the historically strongest months of the year. The “Santa Claus” rally could put even more presents under the tree for investors who have stayed the course over the last eight years of rising stock prices. But could there be a Grinch waiting to steal the presents? Two possible candidates are the Mueller investigation, which briefly knocked the Dow down 300 points after the indictment of Flynn was announced, and North Korea, which successfully tested a ballistic missile which might be able to reach the US mainland. But barring political surprises, the bull should roll on.

World Markets and Economy:

European stocks did not join the US celebration in November, even as growth reappears in much of Europe, as unemployment falls all over the continent (it is under 4% in Germany), and the political situation gets no worse. Greece and Spain have dropped out of the headlines, although Brexit continues to bedevil the British, and the Germans still need to form a government after the latest elections. Yet the Eurostoxx 50 Index of large European blue chip stocks fell over 2% for the month. The decline was unusually broad-based. Stock indexes fell 1-3% in Germany, Britain, France, Italy, and Spain. The most likely culprit is monetary policy: the European Central Bank has begun reducing its Quantitative Easing program of large-scale purchases of government bonds. When this happened in the US, the stock market decline was dubbed the “Taper Tantrum,” although the decline was short-lived. The Europeans seem to be following the same script.

Japanese stocks did join the US celebration, as the Japanese economy logged its seventh straight quarter of economic growth, the longest streak in many years. The Nikkei Index rallied more than 3% to once again approach 23,000. Optimism also prevailed in Hong Kong, with the Hang Seng up more than 3%, but the South Koreans could not keep up their rally in the face of the launch of a North Korean ballistic missile. The KOSPI fell 2% for the month.

OUTLOOK:

We are in the strongest seasonal period for US stocks, with support for stocks coming from tax cuts, easy money, and more rapid economic growth. Europe and Japan are growing too. Political uncertainties aside, the long bull market in stocks should continue.