Leigh Baldwin & Co.

Investment Brokerage

As predicted, first quarter earnings have been outstanding as the economy continues to hit on all cylinders. Unemployment is at a 17 year low of 3.9%, with more jobs available than those looking for work. New, lower taxes have allowed companies to re-patriate cash held overseas, which is not only increasing investment, it is igniting huge stock buy-backs and increased dividends. Apple's buy-back of $100 billion of stock (with a B) did not go unnoticed by Warren Buffet who added 75 million shares to his portfolio. Earnings, the ultimate determiner of economic success are expected to grow over 20% in 2018. So why are stocks unchanged for the year and, more importantly, what does the future hold for investors?

We see several factors at play on Wall Street that have kept returns muted through the first four months of the year. We are in the tenth year of an extended bull market, so some churning and soul searching at these levels would be expected and probably healthy for stocks. Also, the Fed has reiterated their need to continue to raise interest rates and with the ten-year treasury at almost 3%, that will act to temper the desire for equities. Quietly, inflationary pressures are building, particularly in the oil sector with crude trading over $70 per barrel, that could eliminate the benefits of the tax cut to the middle class and lower corporate earnings. Finally, headline risk, think Iran, North Korea, and a storm of other breathless news items, while not crushing the markets, may have kept the Bulls at bay.

Going forward within this landscape, we see a strong economy not only here, but around the world and ultimately that should be enough to keep the bull market moving higher. As interest rates rise, fixed income should provide coupon yields but nothing more. The volatility seen in February and March, while very unsettling (as 1,000-point Dow drops can be), may turn out to be healthy as you need some fear to climb in any bull market. The dramatic effects of the tax cuts are now being priced into the market and a key will be if we do get exponential growth from them going forward.

During the financial crisis of 2008-2011, we had the "Bernanke Put", which described his issuance of government bonds to keep rates low and defend any sell-off in stocks. Interestingly today, with a president with an unmatched ego and who uses the stock market as a primary gage of his success, we may have a "Trump Put" in place to ward off major downturns. Other than the "Simpsons", who could have made this up? Thanks again for your confidence in our firm and we look forward to serving everyone in 2018 and beyond.

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