THE CHASE IS ON

It's official. This Bull Market is now the longest lasting in American history. The S&P 500 entered October near all-time highs. This Bull is now 9 years, 7 months old and counting. Born in the ashes of the Financial Crisis in 2009, this Bull has outlasted the near 10-year run for the Dotcom Bull which ended in 2000. To understand this Bull, one must remember its origin to make sense of its character. The wounds from the Financial Crisis are still raw, even a decade later. Trust and optimism are not pervasive. This is often referred to as the most hated Bull Market in history.

This is not Trump's nor Obama's Bull Market. Central banks have had more influence on its success than the White House with aggressive policies making money cheap and assets grow. The crisis spooked many corporate leaders when Capitalism nearly broke. Risk taking was curbed. Stock buybacks and dividend hikes replaced long-term investing in the business. The crowd of risk averters set up opportunities for those with courage and a vision. Innovators like Steve Jobs and Jeff Bezos seized the opportunity. The case can be made that it's Apple and Amazon's Bull Market too.

The current Bull has gained over 330% during this record run in length but still trails the Dotcom Bull in size. The Dotcom Bull gained well over 400% on its ridiculous record run. Investor sentiment is nowhere near the levels of the year 2000. Euphoria is absent. It's been a very slow but steady recovery. No Bull has ever made it to its 10th birthday. We think this mature Bull has strong legs and more runway ahead.

STRONG MOMENTUM

Throughout this 9-year cycle, the Market and economy have never been close to overheating. Earnings and economic growth have only recently accelerated. S&P earnings are growing over 20% this year. The US Economy grew over 4% in the second quarter. These are both multi-year highs. Growth should continue in 2019, but not at these unsustainable rates. Once these trends reverse, the probabilities of a Bear Market will increase. That's more of a 2020 issue in our work, but the Market will be quick to sniff it out. Valuations today are average; not cheap but not expensive. Investor sentiment is below average, unlike other peak periods, like the Dotcom craze. Earnings continued to climb in 2018 while stock prices fell. The correction in early 2018 did its job.

The S&P 500 just finished its best quarter since 2013. Both the Dow and S&P have gained in 11 of the past 12 quarters. That is serious momentum. Now we are embarking on the strongest period for stocks. Q4 is historically the best period, with December being the top month on the calendar. However, for the last 20 years, October has been the strongest month of the year for the S&P 500. We are in the midst of 6 straight months of gains to fresh, all-time highs. What's more, we're about to start the best 9-month stretch of the Presidential cycle since 1929.

TRADE WARS

NAFTA 2.0 has been reached as the US and Canada carved out a deal. Mexico was first. This will lead to a new trade agreement between the 3 North American allies. Trade wars seem to be finding resolution, one deal at a time. But a deal with China is nowhere in sight. Talks have stalled, and China seems poised to wait until after the midterm elections to resume negotiations. Since the statistical probabilities suggest the Democrats regain control of the House of Representatives, China might feel it more advantageous to negotiate with the White House in November. Remember, the 25% tariffs have not been implemented yet. That's significant in our minds. We don't see the election having a direct impact for investors but there will be many indirect influences as a result.

If the Stock Market is the scoreboard for the war on trade, the United States is the undisputed winner. China's stock market is down 15% this year. It was down 20%. Global stocks have begun rallying. This is a new and positive development. International markets have plenty of catch up to do. The US continues to lead the charge.

ALL ABOUT EARNINGS

Earnings drive stock prices. Corporate earnings accelerated this year, with growth of 22% expected for 2018. Revenues are growing 10% this year, a true sign of strong demand. Both earnings and revenues are growing at the fastest rates in years. Corporate America was among the greatest beneficiaries of the tax cuts. We will learn more when companies report their Q3 numbers in the coming weeks. These growth rates are not sustainable, but 9% growth looks doable in 2019, which will help extend the Bull run.

SECTOR LEADERSHIP SHIFT

Tech has been the dominant sector throughout this Bull run. But Tech took a bit of a breather over the Summer. Health Care led the recent rally to new highs. In fact, it was Health Care's biggest quarterly increase since 2013. Biotech looks good. Industrials were another standout sector. Hurt by trade war talk, Industrial stocks came back to life mid-Summer and are poised to continue the charge playing catch-up.

The price of Oil is back to 4-year highs. $75 Oil is great for Energy producers while proving not too problematic for consumers at the pump. Energy stocks are volatile by nature. They always have been. Boom and bust cycles are the norm. The cycle has been upward in 2018 and $80 Oil could be here before year's end.

International markets have been so bad, they look compelling again. Threats to global trade and the strong Dollar put a big dent in Emerging Market stocks. They hit Bear Market levels, falling over 20% from their highs. But Emerging Markets survived and are showing signs the lows might be in. The new trade deals have kickstarted international markets and more deals will lead to more gains. International markets are trading at the widest discrepancy from the US in a decade. We don't think that lasts. The chase is on.

RATES ON THE RISE

The Federal Reserve has maintained its interest rate hike campaign and looks poised to continue. The US economy has been growing and unemployment is low. The Fed is trying to stay ahead to prevent anything from overheating. It's a very sensible strategy. So far, it's working.

Interest rates are the price of money. They influence economic activity such as investments, mortgages and credit cards. When rates rise, borrowing power shrinks. Higher rates have put an end to the aggressive refinance cycle and have been a cooling agent for white-hot housing prices. While the Fed has been raising rates on the front-end of the yield curve, the back-end of the curve, being the 30-Year Treasury yield, has barely budged since Spring. This has caused a flattening of the curve, something that historically suggested recession ahead. Central banks overseas have kept their interest rates at abnormally low levels, in some cases negative. This has provided an artificial flattening of the yield curve, something we believe will sort itself out, but continue to study it closely.

Higher rates have made the Bond Market interesting again. We don't see 10-Year or 30-Year yields going much higher than the current 3%+ level. High-quality 10-year investment grade corporate bonds are yielding over 4% now. For the first time in a few years, the Bond Market has become compelling again for investment. We plan to add to our fixed income allocations as this Bull Market continues its maturity process. We like to stay balanced and the balance tends to shift throughout cycles.