

Boenning Morning Comment

This report is prepared for us by Tower Bridge Advisors

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Stocks took a breather yesterday falling a modest amount after more substantial losses on overseas markets. Over the past several weeks, it appears markets from stocks to bonds to bitcoins to gold have all been rising simultaneously suggesting cash has been moving from the sidelines. All this happened despite mixed U.S. economic data, rising terrorism overseas, and heightened political controversy here that could come to a crescendo tomorrow as former FBI head James Comey testifies before Congress.

When there is a simultaneous melt up, as we have seen this week, it can't go on forever. Indeed, it almost seems like a mini-capitulation by sidelined investors that they are being hurt by staying out.

Certainly, the economic data shouldn't be encouraging enhanced enthusiasm. Growth in the first quarter was only about 1% and, while some talk of 3% or better this quarter, the numbers so far suggest growth won't be a lot higher than it was in the first quarter. We are still adding jobs and the unemployment rate continues to fall but the pace of additions is slowing. Auto sales are slipping. Housing is growing but lack of inventory and rising prices both provide headwinds. Retail stores are experiencing both declining sales and declining employment. President Trump's stances on immigration and terrorism threatened to hold back travel to the United States this summer.

Despite this sour economic data, corporate earnings continue to grow largely related to growth overseas and a weakening dollar. Lower than anticipated growth has put downward pressure on interest rates (and upward pressure on long term bond prices). Gold could be rising as a result of rising political uncertainty, especially in the Middle East. Don't ask me to explain price movements in bitcoins because I can't. About the only thing I can say is that when speculation enters a very thin market, strange things can happen.

Complacency has a way of entering ones mind when events are going well and no contradictory facts appear. Without much in the way of new economic data or corporate earnings coming, the ingredients for complacency are present. But so are ingredients for hesitation including sloppy economic data, heightened political angst, lack of progress in Congress with the fiscal agenda, and high valuations. Just one trigger can change complacency to hesitation to caution. Stocks have had a pretty good run in recent weeks. While there are no signs the bull market is over or that euphoria has become entrenched in equity markets, we are all becoming rather accepting of higher valuations than we have seen in about a decade. 20+ times earnings, isn't a historic norm. It happens late in market cycles often. As I frequently point out, P/E ratios tend to rise throughout bull markets before sharply correcting when bear markets take over. They rise slowly and fall quickly. The best protection is to keep to your asset allocation and take some money off the table periodically to rebalance.

Today Allen Iverson is 42. VP Mike Pence is 77. Tom Jones turns 77. Prince would have been 60 today.

James M. Meyer, CFA 610-260-2220

Additional information is available upon request.

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