the technical analyst
AWARDS 2011
FINALIST

16st February 2017

Market Update:

Bulls are in control of the S&P still

UPDATE
Technical
Fundamental

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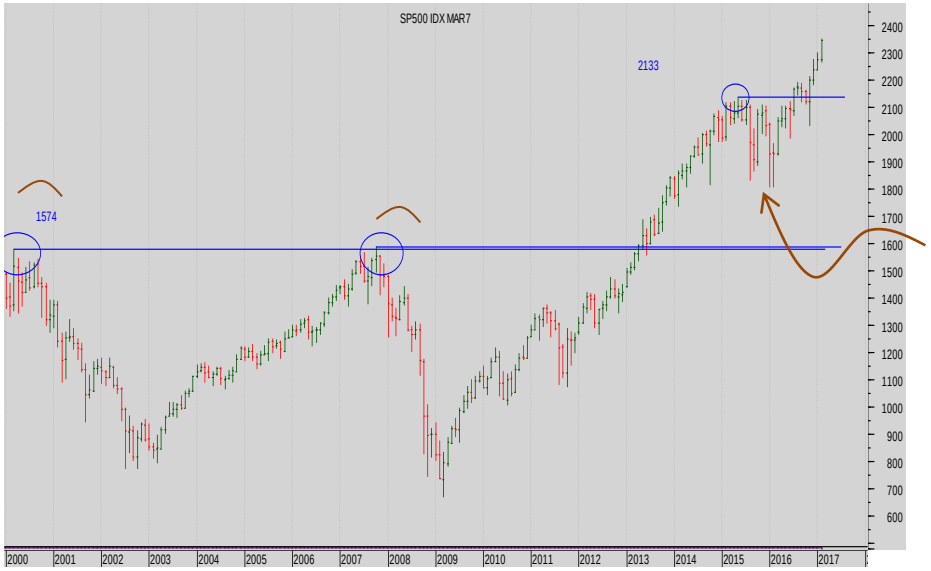
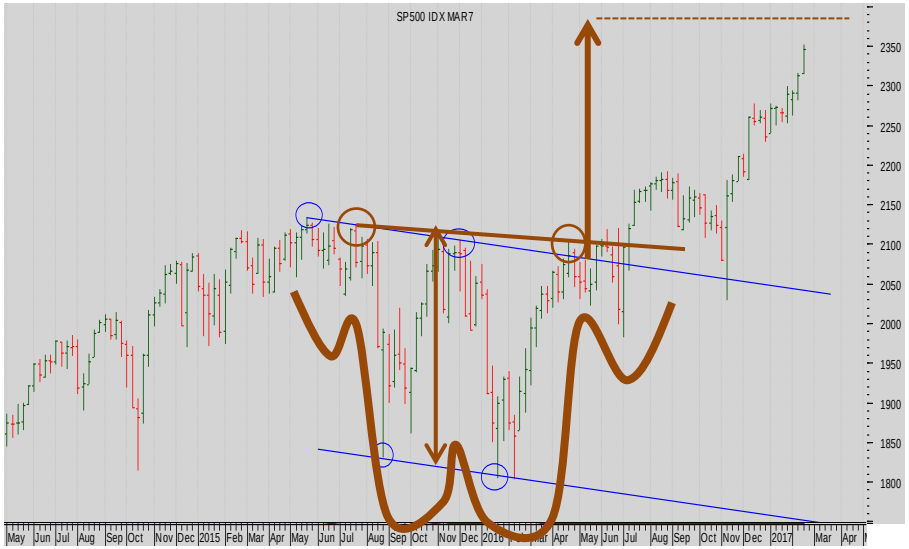


MONTHLY CHART

The market has not looked back from breaking the Prior Highs from 2000 and 2007.

Look closer at the pause throughout 2015 and 2016.



WEEKLY CHART

Was that a parallel Fag?

Or a continuation Head (Double-Headed) and Shoulders?

Much of the move has happened… the minimum target is about 2400.

We would be profit-takers at that level and above.

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FUNDAMENTALS:

Since the low made on November 4th last year, days before the US Presidential election, the S&P has been a solid bull market and although it entered a period of consolidation for much of December and January, in recent weeks the market has moved on to make new highs.

Why has a change of President had such a positive impact on the market, when during campaigning he was clearly not seen as Presidential material?

The main reason is his proposed economic policies.

Apart from threatening to tear up various free trade agreements negotiated by Obama that have seen US jobs exported to the likes of China, he is also intent on renegotiating the NAFTA trade deal agreed under Bill Clinton's tenure. Although this has alarmed many of Americas trading partners, taken together with his pledge to spend on renewing infrastructure, such as Schools, Hospitals, roads and bridges and at the same time cut corporation tax and personal tax, his package is seen as pro-growth.

The US Federal Reserve sees this too, but is concerned about the potential inflationary impact and has already said interest rates are set to rise three times this year, but the S&P has brushed those concerns aside.

Although stock markets prefer a falling or stable interest rate environment, rising interest rates are no good reason to sell stocks if the back drop is one of strong growth and rising employment which is now the case in the US. In fact President Trump has inherited a sound economy.

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FUNDAMENTALS: CONTINUED

The thrust of Trump's policy-stance is to bring back high value manufacturing jobs to the US which he says have moved abroad as a result of globalisation. He argues that while middle class Americans have lost employment opportunity, countries such as China have grown rich as US multinationals have moved production abroad.

Obviously US consumers benefited from cheaper prices, and although the mantra has been "we are all consumers", consumers need well-paid jobs.

Whether or not Trump's plan will succeed remains to be seen, there is a risk that his policies will fuel the budget deficit and inflation to an extent that it outweighs any pro-growth benefits; hence the Fed's leaning towards hiking interest rates as early as its March FOMC meeting.

And that concern is currently holding the Dollar back.

But if Trump is right and he implements his policies, US productivity could be set for a longer-term improvement. Successful economies need good infrastructure, a well-educated workforce and a competitive tax regime. In the US, Corporation tax rates are very high, roads, bridges, Hospital and School buildings in a bad state of repair after years of neglect.

Then there is his plan to expand the military. Since the US only buys its home-built kit, an expansion of the Navy, Airforce and Army after years of retrenchment will benefit manufacturing and create and support well-paid jobs.

In summary, for us the jury is out on whether or not he can deliver and crucially whether his alleged connections to Russia will prove his undoing, but for now the plan has excited investors and will drive the S&P higher still.

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