Sound Income Strategies Newsletter, April 2017

Index	Month / Year to Date
DOW	+1.44%/ 6.69%
S&P	+1.02%/ 7.13%
NASDAQ	+2.34%/ 12.69%

10-Yr was at 2.35% and finished the month at 2.24%

Source: Bloomberg.com

Markets:

The markets remained high in April but were also largely disconnected from economic reality. Reported corporate earnings reflected an annualized growth rate of just 0.7 percent for the first quarter of 2017.* That's down from 2.1 percent growth in the fourth quarter of 2016, and even though both of those are positive numbers, neither is anywhere near 4 percent. Annual GDP growth of 4 percent is what Donald Trump has promised if his tax plan and other economic policies are approved—and Wall Street remains irrationally optimistic that he can, and will, deliver.

I say "irrationally" because so much of what he's promised hinges on his tax plan, and that still has many critics and faces some tall hurdles on the road to approval. Skeptics argue that the plan is unrealistic and irresponsible for its potential to further increase the federal deficit. Trump's team argues that the level of economic growth spurred by the plan will offset its huge decrease in federal revenue if given enough time.

And, in an ideal world, Trump's plan would be granted that time. The result could indeed be 4 percent GDP growth within a few years and a stock market that stays up because reality is finally catching up with Wall Street's optimism. In fact, it might even climb 5 to 10 percent higher.

But, of course, this isn't an ideal world. At some point in the coming months, it could become evident that Trump is going to have as much difficulty getting his tax reform bill through as he did his travel ban and healthcare reform bill. Could the result be a swing from optimism to pessimism that triggers a sell-off and potentially the next market plunge?

Bear in mind that there have been signs throughout this rally that "big money" isn't really as optimistic as it might appear based strictly on the stock market. The most telling sign is that the bond market has not dropped proportionally with the stock market's rise since Trump's election. The 10-Year Treasury rate remains at 2.3 percent, and it hasn't surpassed 2.5 percent since the healthcare bill first failed in March. To me, that's a clear indication that big investors have "one foot on the gas and one on the brake."

* U.S. Bureau of Economic Analysis, https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

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