First Trust
Monday Morning OUTLOOK

630-517-7756 • www.ftportfolios.com July 3, 2017

The Bull Keeps Running

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – Dep. Chief *Economist*
Strider Elass – *Economist*

In March 2009, the stock market started its current bull run. At first, it was a V-shaped bounce from the 2008 Panic lows after mark-to-market accounting was changed.

Next, as the economy recovered, earnings drove stocks higher. But, between May 19, 2015 and November 3, 2016, the Dow Jones Industrials Average actually fell 2%, while other indices stagnated. A sharp drop in earnings (due to lower oil prices) and election uncertainty caused angst.

Since then, however, the Dow is up 19% and the tech-heavy NASDAQ is up 22%. Good policy ideas beget good stock market outcomes.

Last December we set our year-end 2017 stock market targets at 23,750 for the Dow and 2,700 for the S&P 500.

At the time, these targets seemed wildly bullish to many investors. Now? Not so much. We need barely more than an 11% increase in each index to hit those targets.

We weren't counting on better tax, spending and regulatory policy to reach those targets, but if that happens, our targets might be too low!

We use a Capitalized Profits Model (the government's measure of profits from the GDP reports divided by interest rates) to measure fair value for stocks. Using a current 10-year Treasury yield of about 2.3% says the S&P 500 is massively undervalued. We won't tell you the number because we think the Fed is holding interest rates artificially low.

Using a more rational 10-year yield of 3.5%, fair value for the S&P 500 is 2,700, which is our target. The model needs a 10-year yield of 3.9% to conclude the S&P 500 is already at fair value, with current profits.

As always, it's important to recognize we are not market timers and aren't saying a correction won't, or can't, happen. Corrections come and go. But market timers get burned time after time. In other words, if another correction hits in the near future, stay long and buy more.

Late last year we thought the Fed could do four rate hikes in 2017. It now looks like three. And with over $2 trillion in excess reserves, the Fed is a very, very long way from creating a tight money environment if and when its starts to unwind QE.

One change to the financial picture is on long-term interest rates. Six months ago, we thought the 10-year Treasury yield would finish 2017 at 3.25%. Now we think 3.00%. That's a headwind for fixed-income investors, but with growing profits, rising rates are less of a problem for equity holders.

As has been true since 2009, those who stay optimistic will be richly rewarded. Especially with a better set of fiscal policies. Stay optimistic and stay invested.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-3 / 9:00 am	ISM Index – Jun	55.3	**55.5**	57.8	54.9
9:00 am	Construction Spending – May	+0.3%	**+0.1%**	0.0%	-1.4%
Afternoon	Total Car/Truck Sales – Jun	16.5 Mil	**16.4 Mil**		16.6 Mil
Afternoon	Domestic Car/Truck Sales – Jun	13.0 Mil	**12.9 Mil**		12.8 Mil
7-5 / 9:00 am	Factory Orders – May	-0.5%	**-0.7%**		-0.2%
7-6 / 7:30 am	Initial Claims - Jul 1	243K	**243K**		244K
7:30 am	Int'l Trade Balance – May	-$46.3 Bil	**-$46.0 Bil**		-$47.6 Bil
9:00 am	ISM Non Mfg Index – Jun	56.5	**56.8**		56.9
7-7 / 7:30 am	Non-Farm Payrolls – Jun	177K	**185K**		138K
7:30 am	Private Payrolls – Jun	170K	**181K**		147K
7:30 am	Manufacturing Payrolls – Jun	5K	**6K**		-1K
7:30 am	Unemployment Rate – Jun	4.3%	**4.3%**		4.3%
7:30 am	Average Hourly Earnings – Jun	+0.3%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours – Jun	34.4	**34.4**		34.4