THE CAPITAL MARKETS

March 1, 2017

"I think market participants likely are anticipating shifts in fiscal policy that will stimulate growth and perhaps raise earnings."

Janet Yellen, Chairwoman of the Federal Reserve Board during testimony in front of the House Financial Services Committee on 2-15-2017.

MarketWatch, Yellen may have the clearest explanation for the stock market's record run Mark DeCambre 3-1-2017

The Dow Jones Industrial Average (DJIA), a benchmark measure of the U.S. equity market that tracks the equities of thirty of the largest U.S. Corporations, ended the month at 20,812 up 5.3% year to date in 2017. The Standard and Poors 500 Index (S&P 500), added 5.6% thus far in 2017. Smaller company equities measured by the Russell 2000 benchmark grew 2.2% in 2017. Even the foreign equity markets, which have struggled to get traction over the past several years have added value in 2017 with the Dow Jones Global ex-U.S. index ahead 5.2% so far in 2017.

On Wednesday, March 1st following President Trump's address to the nation the previous evening, the U.S. equity market measured by the DJIA jumped up another 303 points. During his address, we heard the President tell Congress and the nation he wants to boost the economy with a "massive" tax relief bill and a $1 trillion infrastructure spending bill. Even before the President's address to the nation some market observers had expressed concern that the markets are moving on "anticipated" policy moves and their potential impact.

"The stellar showing by equities has lifted valuation measures again. To wit, price-earnings multiples for all stocks with earnings have climbed into the 20 range"

Source: Value Line Selection and Opinion, The Quarterly Economic Review, Page 3097

CORPORATE PROFITS

Corporate profits in the 4th quarter of 2016 were strong "with the majority of companies (74%)[1] beating expectations on the bottom line and more than half of all companies (53%)[2] beating on the revenue line".[3] Corporate earnings will need to continue to show strength as we near the end of the first calendar quarter of 2017 to support the high price-earnings (P/E) ratios. There is

[1] Barron's, Eight years a Bull, by Kopin Tan, Page 11, February 27, 2017
[2] ibid
[3] Value Line Selection & Opinion, The Quarterly Economic Review, Page 3097, Publication date March 3rd, 2017

also concern that the markets have assumed everything will go as expected with the President's strategy and policy initiatives. A failure to achieve the high expectations of these initiatives could result in a negative surprise within the capital markets.

ASSET ALLOCATION STRATEGY

In addition to concerns that domestic markets have already incorporated these strategies and policies, there are concerns abroad with hints of other countries, Netherlands, France and Greece all considering ending their membership in the European Union. This comes at a time when we are finally beginning to see improvement in the international equity markets, which are trading around 15 times earnings, well below the 20 plus P/E ratios we are experiencing in the U.S. equity markets. Despite the exit discussions in Europe, David Kelly, J.P. Morgan chief global strategist thinks "European stocks deserve consideration"[4] due to the lower P/E ratios and growing earnings.

FIXED INCOME MARKETS

The Federal Reserve Open Market Committee (FOMC) will meet again on March 14th and 15th to review monetary policy. Federal Funds futures have increased recently and the odds of a mid-month rise in rates now stands at 66%.[5] The consumer price index as reported by the Bureau of Labor Statistics is still below the 2% threshold the FOMC has set for their target inflation rate. The anticipated initiatives of the President are generating concerns about increased inflation in the future and the expectation is the FOMC will move interest rates sooner, rather than later to address this concern. A link to the most recent FOMC meeting report is attached below.

https://www.federalreserve.gov/monetarypolicy/files/monetary20170201a1.pdf

OUTLOOK

While we are concerned about how far the equity markets have come in such a short time we refrain from "market timing" and moving all, or significant portions of equity holdings to cash now, or in the future. We continue to focus on long-term results rather than short-term market action. Attribution of return reports inform us how difficult it is to "time" the markets. If you start down this path, then you must be right twice, not just once. The timing must be correct as to when to exit the equity markets and when to get back in too. Despite our distaste for market timing we will continue to monitor the equity markets carefully for warnings regarding corporate earnings, or other surprises as well as political and other market moving news. This could result in small tweaks of our asset allocation strategy in recognition of the current high equity P/E valuations.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 2-28-2017	2017 YTD % CHANGE
DOW JONES INDUSTRIAL AVERAGE	20,812.24	5.3%

[4] Barron's, Eight years a Bull, by Kopin Tan, Page 11, February 27, 2017
[5] Market Watch, Stocks and bonds view Trump through different filters, by Caroline Baum, Published 3-1-2017

S&P 500	2,363.64	5.6%
RUSSELL 2000	1,386.68	2.2%
2-YEAR TREASURY	1.22%	
10-YEAR TREASURY	2.36%	

THE INFORMATION REPORTED IN THIS NEWSLETTER IS COMPLIED FROM SOURCES BELIEVED TO BE ACCURATE ALTHOUGH WE DO NOT GUARANTEE ACCURACY. INVESTING IN MARKETABLE SECURITIES DOES INVOLVE RISK AND MAY RESULT IN MARKET VALUE LOSS.

CONTACT US AT:
NEW COVENANT TRUST COMPANY
200 E 12TH STREET
JEFFERSONVILLE, IN 47130
800-858-6127 OPTION #6

Presbyterian FOUNDATION

NEW COVENANT TRUST COMPANY