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The stock rally that began after the election continued through January before selling off slightly the last few days of the month. The DJIA hit the highly anticipated 20,000 mark for the first time. The S&P 500 had a 1.9% gain for the month. After a strong year where they outperformed large cap stocks significantly, small cap stocks in the Russell 2000 index fell behind with a 0.4% return in January. International stocks in the MSCI EAFE index were stronger than US stocks and returned 2.9% in the month. Emerging markets were up 5.5%. Meanwhile, after rising significantly after the election, yields on the 10-year US Treasury Bond stabilized in January and ended the month where it began at 2.45% resulting in a 0.2% gain in the Barclays Aggregate Bond Index for the month.

The rise in the US stock market since the election is interesting when compared to other election years. In a short couple of months, the S&P 500 has risen more than average following an election. It is higher even than the average of elections in which one of candidates was seeking re-election and you would expect that environment to have less uncertainty and better performance. It's even higher than at any time over the average 12 month period following an election.

Although the media has been calling it the Trump Bump, the rise in stock prices can also be attributed to a number of economic factors turning positive. Corporate earnings turned positive after five quarters of decreasing growth and are on track to show growth again this quarter and for all of 2017. Zacks expects earnings growth in the fourth quarter to be 5.2% following the 3.8% gain in third quarter. So far of the S&P 500 companies that have reported, earnings growth has averaged 6% so the 5.2% expected could be revised higher by the time all companies have reported.

GDP growth in third quarter was quite strong at 3.5% after 1.25% growth the first half of the year. The initial estimate for GDP growth for fourth quarter is 1.9%. Long term, the Federal Reserve has been projecting GDP growth of 1.8%. Since the election, analysts have been increasing their projections. Strategas Research has increased their projections for 2017 GDP growth to over 2% and close to 3% for 2018. Wells Capital Management believes we may be four or more years away from the next recession. JPMorgan points out that although this expansion period has been the fourth longest at 89 months, the magnitude of the recovery has not been very strong so there is room for the expansion to continue.

Although we don't currently expect a recession in 2017 and the stock market has been strong, we would not be surprised to see a pullback in stock prices. In February after an election, the stock market pulls back an average of 4% as a new president's policies begin to take shape after their inauguration. President Trump seems to be moving quickly on his campaign promises and any missteps could trigger short-term fear regarding the economic impact. However, during the campaign season, his policies were focused on pro-growth ideals. If his policies follow through, the uncertainties will become more certain and stability should win out.

The Federal Reserve has signaled its plan to continue to raise interest rates gradually in 2017. Analysts expect two to three rate hikes during the year but not until after their March meeting. Strategas Research projects that the yield on the 10-year Treasury will end the year at 3.00% which is about a 0.5% increase since 2016. After that, they expect a slower rise with the 10-year Treasury at only 3.10% at the end of 2018. This year may be tough for bonds, but then bond investors should have a more favorable outlook in 2018 when they can invest in bonds at higher yields without as much potential depreciation from rising rates.

We continue to believe that diversification is prudent in protecting and growing portfolios in times like this when uncertainty is high, bond yields are expected to rise and stocks are trading near all-time highs. If you have questions about your account, please do not hesitate to contact your advisor.