

CHART OF THE MONTH

JANUARY 2017

According to the latest monthly report from the National Federation of Independent Business (NFIB), small business optimism rocketed to its highest level since 2004 and the percentage of owners who expect the outlook for general business conditions six months from now will be better minus those who believe it will be worse soared from 12% to 50%, the greatest difference since March 2002. This survey is closely followed because small businesses employ approximately half of the private-sector labor force and have accounted for nearly two-thirds of all job creation over the past quarter of a century.

In addition, the University of Michigan Consumer Sentiment Index and the Conference Board Consumer Confidence Index reached their highest readings since at least 2004. The press release from the latter survey stated, "The post-election surge in optimism for the economy, jobs and income prospects, as well as for stock prices, reached a 13-year high."

As shown in the chart below, the S&P 500 has performed exceptionally well following similarly high levels of optimism. Our enthusiasm is tempered, however, by the fact that the stock market indexes are within 1% of their all-time highs and the reality that the current economic expansion is in its eighth year whereas comparable readings in the past were in the early stages of recovery. Nonetheless, we believe the rise in confidence bodes well for the economy, corporate earnings, and stock prices.

Gillian Tett, in an article about the unleashing of "animal spirits" in the Financial Times earlier this month, reported that the incoming administration's top eight officials (president, vice president, chief of staff, attorney general, and secretaries of state, commerce, defense, and treasury) had 55 years of government experience and 83 years in business. The outgoing administration's comparable team had 117 years in government but only five years in business. Ed Yardeni, chief investment strategist of Yardeni Research, noted in his most recent blog post the "radical change in governing regimes" and "government by dealmakers is about to replace government by community organizers."

While the changing of the guard has raised the hopes of small-business owners and consumers, the country is now in a waiting period to see if and when expectations will be fulfilled, heightening, as we forewarned in our December 2016 Chart of the Month, both the rewards and risks of investing.

OUTLOOK FOR BUSINESS CONDITIONS vs. S&P 500

