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THE CHAMPAGNE KEEPS BUBBLING

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The US equity bull market continues to be swept along by a friendly environment now evident throughout the financial world:

- Readily available credit at low cost
- Financial markets operating with few signs of stress
- Low inflation with wage growth well-contained
- An economy growing at an above-trend pace
- A synchronous global economic expansion
- Consensus earnings growth of 13% for 2018
- A go-slow pace of scaling back monetary accommodation
- Feared risks failing to materialize, so far

Except for any declaration of military conflict, Washington will remain irrelevant from an economic perspective. Filing dates for many House and Senate races in November have passed already. The battles for control of the House and Senate in 2019 will dominate everything.

The Mueller investigation, which began in May 2017, may come to a head this year. If it does, it will have taken about one year less than Watergate.

The pendulum of stock market psychology has swung from fear through skepticism to complacency and now appears to be headed toward greed. Historically, these upswings have gone on higher for longer than most expect before they come to a screeching halt...as they always do.

After an almost nine-year bull market, it is not surprising that stock market valuations are lofty by absolute measures. The S&P 500 Index trades at 18.4 times forward earnings.

Yet, stocks compare favorably to interest rates. Pension plans, endowments, and other financial institutions seeking returns of 7% or higher -- faced with fixed income yields keying off 10-year Treasury yields of a mere 2.6% -- continue to have little choice but equities.

To many, stocks remain in a TINA market: There is No Alternative. Outside of the US, upwards of US$10 trillion of government bonds still trade at negative nominal yields.