Mitch on the Markets

Stock Market Investor's Biggest Worries Today

By Mitch Zacks
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By March of this year, this will be the 3rd longest U.S. economic expansion since 1900, and the bull market is now the 2nd longest in history. Thinking about these two facts together, it naturally has many investors wondering: is the end near? Something has to give, right?

Well…yes and no. The nature of economic cycles and bull markets is that historically, they always come to an end at some point. Everyone knows what happens next – recessions, job losses, and bear markets agonize the economy, but then an economic recovery and expansion arrive and the process repeats itself! It's the circle of financial life, and I doubt it will ever change. That's why the four most dangerous words in investing are: "It's different this time."

For many investors out there, however, it *does feel very different this time*. The political climate in this country and in many countries across Europe is changing fast, and policy shakeups feel inevitable. If anything, this upsurge of political and social unrest has caused a higher degree of *uncertainty* amongst investors and corporations, and markets loathe uncertainty.

Here are the three biggest worries I see for investors today:

1) The Economic Expansion and Bull Market are Long in the Tooth – as mentioned before, this is the 3rd longest U.S. economic expansion since 1900, and the 2nd longest bull market ever. I've written many times before that bull markets do not necessarily have to die of old age, and neither do economic expansions. But, it can reasonably be deduced that there's a reason expansions and bull markets don't go on forever. Assets eventually get mispriced and growth cycles get stunted by bubbles or misallocations of capital. It's only a matter of time.

2) Geopolitical Instability – all bets appear to be off when it comes to President Trump's vision of America's place within the global political and economic sphere. This may embolden China and/or Russia to make drastic bets, which can have far-reaching economic and market consequences. It's difficult to know exactly what those may be, but it feels as though now more than ever the political chess match has intensified greatly.

3) Euphoria – with fiscal stimulus seemingly on the way as well as tax cuts and promised deregulation, investors and corporations may get a little too excited about growth prospects ahead. When that happens, investors tend to take more risks, which bids up the prices of assets well into overvalued territory. Before everyone realizes that everything is overpriced, the bear market will likely be in full force.

You most likely noticed that there was no mention of policy missteps from the new administration here in the U.S. That's because it is largely our belief that the policy proposals that involve taxes, deregulations, and fiscal spending are not likely to throw the economic expansion off course. They may be inflationary in many respects, but we do not believe to the point that causes a crisis. The Federal Reserve is in a position to raise interest rates substantially to combat inflation, and such moves will likely be effective if taken. The new administration may be able to stoke growth in the near term (next year or two), the question is will stocks get frothy if there's too much excitement and *expectation* built around that growth. That's the critical factor investors should remain focused on.

Bottom Line for Investors

There are many uncertainties and worries that exist in the marketplace today. But then again, aren't there always uncertainties and worries? Investors must remember to keep focus on the fundamentals that actually move markets: broad-based economic growth, corporate earnings growth, an upward sloping yield curve, and high and rising leading economic indicators. All of those signals point to more bull market ahead, for now. But investors need to keep a close eye on how policies take shape and how the world responds to a new political agenda. It's a time for cautious optimism.

-**Mitch**

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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