COMPANY NAME
Address | Phone | Link | Email

2018: Bear Market or Santa Claus Rally?

Description

Over the remaining few trading sessions of 2017, investors can hope, or pray, for another “Santa Claus Rally,” the phenomenon that usually sees stock markets rally higher to close the year as institutional money managers rush around buying stocks in an attempt to window dress their accounts for their companies’ year-end filings.

It was a good year to be an investor in 2017 – the **S&P 500** soared a very impressive 19% between January and December. Meanwhile, the **Nasdaq Composite Index** did even better, posting a 28% gain for the year. While the **S&P/TSX Composite Index** did not fare quite as well as its U.S. counterparts, it too ended the year in the black, up 5%.

The big story to end the year was the U.S. tax reform bill, which will see the U.S. corporate tax rate slashed all the way from 35% to 21%, almost on par with other nations.

Individual U.S. taxpayers will also be getting a break this spring once filing season rolls around, with most Americans expected to walk away with US$2,100 more than they did a year ago.

All this is certainly cause for celebration. The markets reacted accordingly when the bill was announced earlier this month, but there may be some knock-on effects as well.

Namely, inflation. As rumours of tax reform began circulating in the second half of the year, investors began bidding up the price of Treasury Inflation Protected Securities (TIPS), which act as a hedge against inflation as interest payments on the notes rise as prices on goods and services increase.

More money being added into the system – both through corporate tax cuts and a tax break for individuals – should lead to higher prices across the broader economy, including an allowance for higher energy prices as well.

It’s not surprising then, that the energy sector has taken off recently.

Canadian oil sands producer **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) for example, was up 18% just in the past two weeks alone.

But perhaps the bigger story of all is that expectations for inflation are heightened once again, and bond yields are starting to accelerate.

The past two weeks have seen a rise in both energy stocks and yields.

The U.S. 10-year Treasury Note, often referred to as the benchmark yield, or *risk-free rate*, has jumped to 2.47% from 2.30% since the beginning of December.

While the current 2.47% yield is still well below historical norms, a 7% jump in Treasury yields is certainly significant, and could indeed signify a path to higher rates in 2018, which could have several implications on most investors portfolios.

Bottom line

Usually a hawkish fed policy tends to have bearish implications on asset prices, including stocks – and housing prices.

Investors may wish to approach 2018 with a little bit of caution in what will be the ninth year of the current bull market.

Or maybe we'll enjoy extra innings.

Stay *Foolish*.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks

2. Energy Stocks
3. Investing

Date
2025/07/03
Date Created
2017/12/27
Author
jphillips