

## New obstacles await US stocks as Dow hits 19,000

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A trading monitor shows the market above 19,000 on the floor of the New York Stock Exchange (NYSE) on November 22, 2016 in New York City ©Spencer Platt (Getty/AFP)

A post-election stock-buying spree lifted the Dow above 19,000 for the first time Tuesday, but the index faces key hurdles, including the prospect of Federal Reserve interest-rate increases.

Composed of 30 blue-chip stocks, the Dow Jones Industrial Average finished at 19,023.87, crossing above the big round-number threshold. It had topped 18,000 in December 2014.

The market has been on a tear since the November 8 US election in expectations that President-elect Donald Trump and congressional Republicans will enact pro-growth regulatory, tax and investment policies.

But several analysts predicted equities would be hard-pressed to score significant additional gains in the weeks and months ahead.

"It is a beautiful narrative," said Cantor Fitzgerald's Peter Cecchini of today's market sentiment.

"We are finally going to move back to a point of time when good politics can lead the US economy out of its malaise and the Fed will no longer have to act accommodative," he said, adding that this viewpoint is "more hope than reality."

The equities surge has taken into account expectations that the Fed will lift interest rates in December. But the prospect of additional rate increases in 2017 and beyond could be more nettlesome, analysts said.

"The market has priced in a rate hike almost fully in December," said David Levy, portfolio manager at Republic Wealth Advisors. "The question is what the Fed does beyond that and what guidance they provide."

"The market benefits from lower interest rates as we've seen for several years now," said Levy. "So if the Fed starts giving guidance of multiple rate hikes in 2017, that could be viewed as a negative."

- Uncertainties a-plenty -

Prices of US bonds have retreated since the election. But a significant increase in interest rates after a lengthy period near zero would likely spur some investors to shift funds out of stocks and into treasuries.

"The real question is where do we go from here?" said Hugh Johnson of Hugh Johnson Advisors. "When we ask that question the answer is more uncertainties about 2017 or what lies beyond 19,000 than I've seen in a long time."

The rally is betting that Trump will succeed in getting a mix of fiscal stimulus and tax cuts through Congress and that the measures will lead to further growth.

But those are assumptions.

A key wildcard will be the reception of the plan in Congress where Republicans hold narrow majorities in both Houses. Congressional Republicans generally support tax cuts, but are leery of spending programs that could increase the deficit.

"We do not know how much of (Trump's) fiscal stimulus plan will be approved and secondly when it will start to impact the economy and earnings," Johnson said.

"If I were to use one word to summarize what lies ahead, I think it is uncertainty."

Another question is just how much of Trump's virulent anti-trade rhetoric during the campaign will translate into actual policy in office. Wall Street is wary of heavy tariffs and other steps that could restrict commerce.

Also unclear is the prospects for US corporate earnings, which have slumped for much of the last two years. US companies turned a corner in the third quarter with better year-on-year results, but the situation is tenuous, especially if interest rates rise significantly.

"Fundamentals have not really improved," said Cecchini. "Much of the optimism we are experiencing right now is going to evaporate."

<http://www.dailymail.co.uk/wires/afp/article-3962622/New-obstacles-await-US-stocks-Dow-hits-19-000.html>