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Dow, S&P 500 Soar to All-Time Highs

Short covering, good economic news from the U.S. and China, and more central bank ease push stocks to new records.

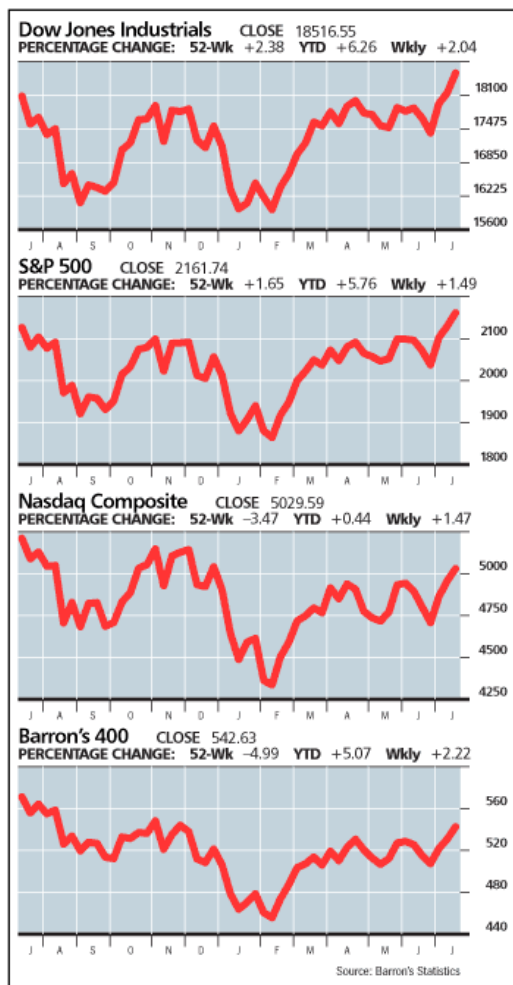
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By VITO J. RACANELLI
July 16, 2016

Vital Signs

According to a neighbor of ours in upstate New York, bear meat is tasty. Last week, bullish investors found out just how tasty.

After being caged in a tight range for nearly 14 months and after several fruitless attempts to top its all-time high set in May 2015, the bull charged to a new high in convincing fashion. The two major stock indexes set records every day but one and rose about 2%.



The rally's proximate causes were short covering by mauled bears; good-to-decent economic news out of the U.S. and China; and indications from central banks that the global ultralow interest rate regime will continue. The turn-on-a-dime, rollicking 8% rally since Brexit lows on June 27 made it feel as if somewhere a power switch had been flipped on.

The Dow Jones Industrial Average gained 370 points, or 2%, to 18,516.55, a new high. The Standard & Poor's 500 index soared 32 points, or 1.5%, to finish at 2161.74 on Friday, just off Thursday's all-time peak of 2163.75. The Nasdaq Composite rose 1.5%, to 5029.59.

Trading volume and many other market technical measures, like breadth, are strong. "That tells you this breathtaking run is a good breakout," says Keith Bliss, director of sales at broker-dealer Cutton. He adds that another confirming measure is

the 11% post-Brexit rise in the small-cap Russell 2000 index, which has outperformed large-cap measures.

Yet that's cause for concern to Ralph Fogel, head of investments at Fogel Neale. The Russell 2000, the Nasdaq, and the Dow transports are not near their highs, which he

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thinks is a lack of confirmation and “disconcerting.”

Fogel notes that if you “take a few hundred stocks out of the equation, the broad market hasn’t surpassed the highs.” The market’s price/earnings ratio isn’t cheap, at 18 times, and corporate earnings-per-share growth is deteriorating, adds Fogel, who nevertheless remains “fully invested.”

Tradition Capital Management Chief Investment Officer Benjamin Halliburton concurs. “It’s hard to see significant upside from here,” he says. And yet, he adds, for most investors the choices are limited, given the extraordinarily low yields that government and corporate bonds offer. The 10-year Treasury yields about 1.6%.

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“If the economy continues to show some backbone, it should be OK,” says Tom Carter, trader at Jones Trading Institutional, who calls himself “somewhat bullish.” Second- quarter earnings are going to be down from a year ago, but perhaps the results will be better than the lowered expectations, he says.

Many professional market participants still don’t seem to believe in this aging bull, which could be a positive signal. Moreover, individual investors have yet to join the festivities. Lately, the heavy lifting has been done to a large extent by corporations buying back their own stock in huge bunches.

In recent months, we’ve been more skeptical than downright bearish about the prospects for this seven-year bull market’s sustainability. We have to admit our view now seems off the mark. We’re nonplussed by a market at all-time highs that betrays few signs of irrational exuberance.

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E-mail: vito.racanelli@barrons.com

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Howard Needle

3 hours ago

Rally is very real. Central banks have created enormous liquidity which is finding its way into all markets including equities. Regardless of where the buyers come from -- there are buyers. A lot of them. Until central banks balance sheets decrease, market will continue to rally.

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21 hours ago

This rally is bogus. Investors are being forced to buy stocks, based upon such low yields and negative interest rates. Money managers have to pile in, so they can show gains, in a market that is rallying; otherwise, clients will move their money. I know this will end badly, which is fine, because I trade volatility, which has been great since, Brexit. Eventually, bonds will sell-off, forcing yields upward, followed by a flee from stocks.

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Ernest Montague

2 days ago

I'm approaching this one with caution and 20% cash. I just don't intend to be fully invested in another 800 point drop, which I consider as likely as 400 point gain.

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