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Tensions Rise: Holding for Now
April 17, 2017

As geopolitical events heat-up among several countries, this Market Comment will look at other conflicts and the effects they had on financial markets. We have not adjusted our S&P 500 Index target of 2,400, but feel we will hold at current levels until more certainty returns.

A little over a week ago, the United States bombed a Syrian military installment for its alleged use of chemical weapons just days before, and late last week we heard Syrian President Bashar Assad defiantly denying any use of chemical weapons. Assad continues with his rhetoric that Syria is embattled in the moral defense against hostile rebel forces. Russia continues to defend Syria and recently invited Syrian and Iranian foreign ministers to visit Moscow. Secretary of State Rex Tillerson summed up his recent meetings with Russian officials as "frank" with a "low level of trust between the two countries". Furthermore Tillerson said, "The world's two foremost nuclear powers cannot have this kind of relationship". The markets have taken much of these comments as little more than political jawboning, but any escalation could begin negatively impacting stocks.

Prior conflicts typically saw oil rally as stocks declined leading up to a war event. Operation Desert Storm in 1991 saw the S&P 500 Index drop about 5% and oil rally nearly 13% in the two weeks leading to the conflict. The day after the conflict, perhaps from the swift resolve, oil fell a drastic 30% and the S&P 500 rallied 3.5%. In the Iraq war of 2003, oil rallied 40% while the S&P 500 index fell 10% in the months leading up to the invasion, only to have a major reversal once the invasion occurred. The following month saw oil fall 24% with the S&P 500 index rebounding 8%. Similar reactions are found in other conflicts. Currently we are seeing a slight rise in oil, but we have not seen much movement in stocks. We will continue to watch this to see if any other adjustments are warranted.

After the past five months of higher interest rates and lower bond prices, fixed income (the bond market) has recently become increasingly volatile. If the Federal Reserve had not indicated a strong desire to raise rates, we believe the bond market would actually be rallying as a "safety" trade for the recent geopolitical tensions.

For now, earnings season is upon us and, so far, quarterly numbers are promising. There is some reflation in the markets, which is good for long-term growth; however, yields are moving back down, suggesting the reflation has limited upside. This could be a confirming sign from the bond traders that uncertainty from geopolitical risk is rising, leaving behind the Trump trade enthusiasm found just a month or two before. We are not quite ready to abandon the potential tailwinds of major tax reform but are watching closely to see if any changes occur.

For now we continue to hold and wait for some clarity. We stand by our earlier call that the market is neither overly expensive, nor cheap. Earnings could provide a catalyst for stocks but the political uncertainties surrounding global conflicts, combined with Congress' inabilities to pass any meaningful legislation should see stock prices remain in neutral.