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Why Are Stock Futures at Record Highs? Sideline Investors Help

Stock futures are booming, but with multiple issues at play, can the run continue?

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The chase for Dow 20,000 continues, and nearly half of investment advisors are bullish on stock futures. Will 2017 continue to bring in robust market highs?

"Stock index futures are mixed, but remain near record highs," states Alan Bush, an analyst at ADM Investor Services, in a research note. "The main trend for stock index futures is higher in spite of anticipated tighter credit from the Federal Open Market Committee," states Alan Bush, an analyst at ADM Investor Services, in a research note.

Wall Street seems to be on board for a higher stock market in 2017. According to Altegras Advisors, in La Jolla, Ca., "almost half of advisors surveyed (46%) currently use managed futures in their client accounts, and more than two in five advisors surveyed (41%) plan to increase their current allocation to managed futures in 2017."

Financial professionals say that stock futures are on the rise for multiple reasons, but chief among the is the re-emergence of so-called "sideline" investors, who have jumped off the fence and are pouring big money into the markets.

"Since the market bottomed in 2009, a lot of retail investors have kept money on the sidelines," says Ryder Taff, a financial advisor with New Perspectives, Inc., in Ridgeland, Miss.

Taff says that fear of another economic downturn belied a "distrust" of the Democratic administration. "I suspect that a lot of money coming off of the sidelines is people investing alongside their political outlook," he says.

U.S. companies with hefty profits - and with an outlook for more of the same - are also contributing to the run-up stock futures.

"The income statements are as solid as ever and some domestic companies balance sheets look way too good to even be true," says Brian Ulch, a portfolio manager with Aventail Wealth Management, in Winter Haven, Fla. "Corporate U.S. tightened their belts in all industries very tight back in 2008, and even though sales have roared back, the belt is still fairly tight. Simply put more output is being created without huge increases in staff."

Ulch also notes that nearly all other investment options look woefully unattractive right now.

"Certificates of deposit have rates less than 1%, and only the truly uninformed would dare to buy a long-term bond and even some of the fallback securities like annuities have been weakened due to this prolonged low-interest rate environment," he says.

"Therefore, for those who seek investment of their excess cash, stocks continue to look like the most viable option," he adds.

Steve Nelson, CEO of Capital Insight Partners in Scottsdale, Ariz., says political overtones are pushing stocks higher, as well.

"More than just Donald Trump's election to the presidency, it was the Republican sweep that is driving stocks higher," says Nelson. "The prospect for pro-business policies coupled with a lighter regulatory burden is profoundly bullish. Both Main Street and Wall Street understand that turning from headwinds to tailwinds for the business community should provide years of growth."

Lowering taxes at both the corporate and personal levels is stimulative to the economy, and to stocks, Nelson explains. "Repatriation of profits trapped overseas will also be helpful to our domestic economy should such legislation pass," he adds.

From a purely business perspective, it's also likely the U.S. Supreme Court will become more accommodating to employers and companies, Nelson says. "Thus, the legal burden facing business may also improve right along with our tax and regulatory structure," he says. Overall, that magic number - the Dow Jones 20,000 - is "so close" that many investors expect that level to be surmounted prior to the next large pullback, Nelson says.

"We expect 2017 S&P 500 returns to approach double-digit performance, but it will be an interesting path to get there," he notes. "That said, we have likely borrowed some of next year's returns into the last two months of 2016."

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The big picture? "All of this is good news for the market," says John Boyd, principal at the Boyd Company, an economic analysis firm in Princeton, N.J. "In particular, I expect stocks related to our nation's infrastructure to get a boost from a President Trump, including transportation stocks, energy stocks and construction stocks," he says.

Other market watchers concur.

"We believe a lot of factors are driving the futures market," says Jennifer Necir, senior financial analyst with Apriem Advisors, in Irvine, Calif. "Stock fundamentals, which set the stock price in the long run, are getting better as evidenced by positive earnings growth. Consequently, economic growth is also poised to remain strong in 2017 with expectations of a stronger U.S. dollar, a robust jobs market and higher inflation."

"In that regard, market sentiment seems more optimistic going into 2017," adds Necir.