



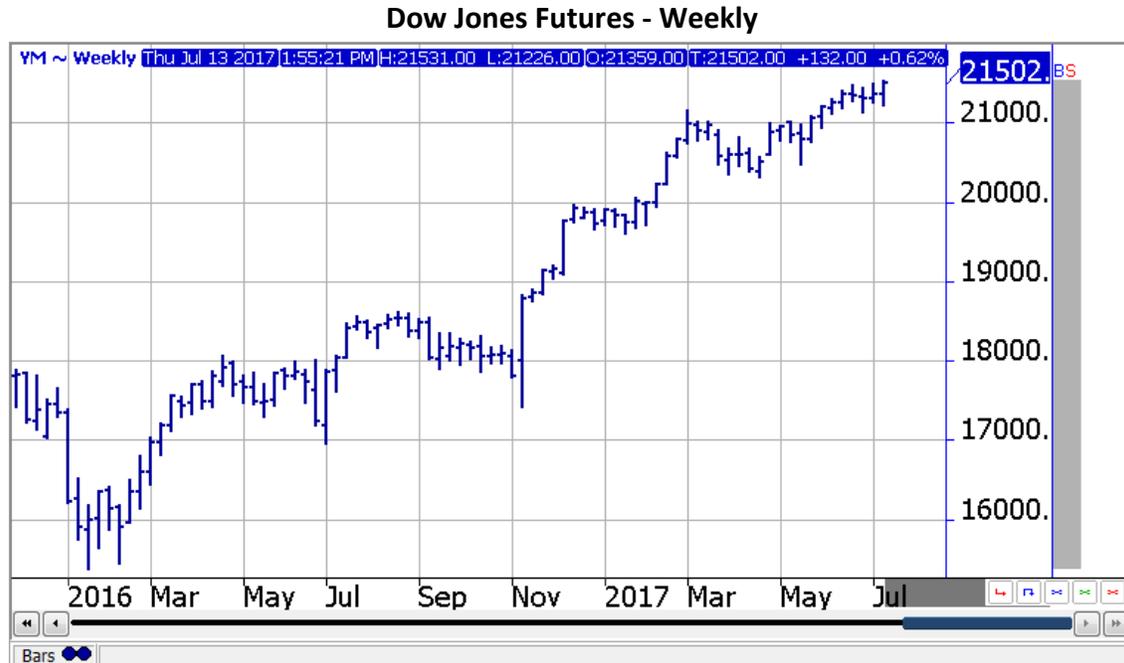
## **Stock Index Futures Advance Even though Political Worries Abound**

By Alan Bush (July 14)

Dow Jones futures this week registered new historical highs, while S&P 500 futures are closing in on record new high ground, as well. Why is it that stock index futures continue to advance in spite of the ongoing geopolitical worries? After all, there is a rule of thumb that the bears like to cite, which is political and economic uncertainty in the world tends to bring lower prices for stock index futures. Since the March 9, 2009 lows were made, there have been multitudes of geopolitical issues, which pressured stock index futures. At the time, many of them appeared insurmountable with little hope of being resolved any time soon.

Just to name a few were the multiple European debt crises, hostilities in Ukraine, Chinese economic slowdown fears, Brexit, this year's French presidential election and now the current North Korean military threats, along with ramped up political turmoil in Washington.

It is my belief that traders are placing too much emphasis on the political news, which often has only a temporary market impact, especially when the market impact of that news is contrary to the fundamentals. Traders that enter a market strictly because of a political news headline often find themselves stuck the wrong way in the market when the impact of that particular headline becomes several days or weeks old and the dominant fundamentals eventually take over and prices reverse. Headline political news items are attention grabbers, which can move markets in the short run, but there is rarely a sustained follow through.



*Chart from QST*

Over the last eight years, every time stock index futures fell due to the bearish geopolitical influences of the day that were predicted to have catastrophic consequences, the break was short-lived, as prices recovered and ultimately made new highs. The current domestic political situation will be no exception.

So why has this bull market for stock index futures been so resilient in the face of so many potential catalysts for a bear market? The answer is that interest rates in the U.S. as well as overseas, in spite of the rate hikes from the Federal Reserve, are still low enough to sustain the bull market for stock index futures.

And more recently it looks that the Federal Reserve is likely to take a slower path to interest rate hikes after dovish comments this week from Federal Reserve Chair Yellen. In her testimony to congressional committees she indicated the Fed will approach tightening cautiously, given the uncertain inflation situation. The Fed Chair said the central bank of the U.S. plans to continue raising interest rates gradually, but is ready to change course if inflation remains weak.

With global interest rates as low as they are in the U.S. and in many countries they are still negative, there is plenty of accommodation left in the international banking system. U.S. and global interest rates will likely remain low enough for long enough to sustain the bull market in stock index futures for quite a while.

Any bearish political news that pressures the stock index futures market should be used as an opportunity to enter the market from the long side on the belief that the influence of bearish news will probably last for a short time, while the bullish ongoing low interest rate environment is there constantly.

Expect the bull market for S&P 500, Dow Jones and NASDAQ futures to continue.

For more information about these markets, please contact Alan at 312.242.7911 or via email at [alan.bush@admis.com](mailto:alan.bush@admis.com). Thank you.

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