



Written by [Bob Adelman](#) on May 18, 2017

Trump Didn't Cause Stock Market Decline

According to [nearly every major news outlet](#), Wednesday's 372-point decline in the Dow Jones Industrial Average was Trump's fault. CNN Money said "Trump drama rattles market" while CNBC blamed the selloff "on Trump fears." NPR said the decline was because "Trump remains embroiled in controversy" with CBC News saying it was due to "uncertainty around Trump."



Precious few deviated from their mission to blame everything on Trump to look at the real reason behind Wednesday's modest selloff: earnings of the companies whose shares are listed on the major exchanges compared to their stock prices. That, coupled with remarkably high complacency among investors, set the stage for a correction.

Putting things into perspective, the selloff was hardly earth-shaking. Most stock indices have jumped nearly 15 percent since Trump's election. Monday's decline in the Dow was 1.8 percent. The Nasdaq, representing the stocks of companies in the tech sector, which had been setting new highs, was off 2.6 percent. These kinds of declines do not make it into the history books.

But the MSM determined to make as much hay out of the decline as it could, with some engaging in the logical fallacy *post hoc, ergo propter hoc* (after this, therefore because of this). For example, MarketWatch made the connection: "The sell-off came in the wake of a bombshell report in the *New York Times* that notes from fired FBI Director James Comey revealed President Donald Trump had asked Comey to stop the FBI's investigation into fired National Security Adviser Michael Flynn's ties to Russia."

That's a very thin connection. Goes the logic: Trump's controversies, including those concerning Comey, are going to distract him and his administration from accomplishing many of the policy goals upon which the stock market was banking. Hence, the market will be disappointed.

The reality is that earnings have been very strong and earnings drive stock prices. In the first quarter, earnings growth among companies whose shares are included in the S&P 500 index clocked in at a stellar 13.6 percent. Earnings for three-quarters of those stocks exceeded Wall Street's expectations while nearly two-thirds had revenues that exceeded economists' consensus. Furthermore those earnings and revenues are expected to continue into the rest of 2017 but at a slightly slower pace.

Wednesday's sell-off did bring some indicators back to normal. On May 9, *The New American* reported that the "complacency index" — the VIX, or volatility index — had touched a level not seen in a quarter of a century. It noted further that the VIX had dropped by 45 percent just since April 13. On Wednesday the VIX jumped 46 percent, bringing it back into its normal range.



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There are plenty of reasons to be cautious. Wall Street is forever climbing a “wall of worry” over one thing or another. How long can corporate earnings continue growing at double digits? When will stock prices revert back to their usual relationship with earnings? Today, stocks of companies in the S&P 500 index are trading at nearly 22 times their last 12 months’ earnings, 30 percent higher than their 10-year average.

Additionally, Ford announced layoffs in the face of declining auto sales. Auto dealers’ parking lots are filling up with unsold automobiles. Lenders in the auto industry are bracing for defaults on high-risk loans they have made to borrowers who are only marginally creditworthy. Margin debt (investors borrowing to buy more stock) surged in January to all-time highs, set another record in February, and jumped even higher in March.

As Howard Gold, founder and editor of GoldenEgg Investing, noted: “Politics will surely roil stocks over the coming months, but corporate earnings [and not Trump’s alleged “controversies”] will ultimately determine the market’s fate.” On cue, stocks rebounded on Thursday, shucking off Wednesday’s decline, and moving higher in anticipation of continually improving earnings by America’s major corporations.

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