Last quarter, we noted that the market had proceeded through a series of distinct stages leading into and following the presidential election: the "fear" stage, the "opportunistic" stage, and the "wait and see" stage. As January ended, the subsequent "reality" stage had just begun. Early indications suggest that neither the grandest hopes nor the greatest fears are likely outcomes.

In recent months, there has been a general tempering of both the optimism and the concerns regarding presidential policy initiatives. It currently seems less likely that the new administration will achieve either tax reform or infrastructure spending on the scope originally envisioned; it also seems less likely that economic disruption stemming from moves affecting immigration and trade is likely to be as significant as feared.

Even if greatly diminished in scope, it remains plausible that there could be a sufficient combination of regulatory relief, corporate tax cuts, and infrastructure spending to sustain in business owners and executives a conviction that business conditions are improving. If so, their collective investment in labor and equipment could help make expectations for economic improvement a self-fulfilling prophecy.

Similarly, for markets, a belief that business conditions are improving may be sufficient to support higher prices despite the popular narrative of rich valuations and an aging economic expansion.

There are plenty of risks to this rather sanguine analysis, and plenty of legitimately frightening issues – such as public pension funding, Social Security, and the like – which are largely undiscussed at present, but it does not currently appear that the inevitable reckonings lie around the next bend.

In the very short run, March data put at least a temporary damper on the idea of an accelerating economy:

- Services, the biggest part of the economy by far, continued to grow, but at a pace that slowed meaningfully in March.
- Retail sales in general were very soft, and auto sales in particular weakened significantly throughout the quarter.
- Manufacturing output declined for the first time since August.
- GDP growth trended sharply lower as 1st Quarter progressed, finishing at 0.7% after growing at an average rate of approximately 2.5% in the previous two quarters.

Yet, despite the weakness in March and for the quarter in general, most key areas of the economy continued to look solid moving into the middle of the year:

- Jobs – The weak headline number for jobs growth in March was clearly an anomaly. Employment data has remained relentlessly strong, with jobless claims continuing near historically low levels, unemployment trending lower, and job openings remaining high. Employers are hanging on to the people they have and are actively looking for new applicants who have the skills they need.

- Consumer – 1st Quarter spending was not strong. However, with consumer confidence now hanging around the highest levels since December 2000, the consumer seems poised. With the savings rate at 5.9% and personal income rising at a year-on-year rate of 4.5%, the consumer certainly has not only the confidence but the capacity. Perhaps a bump in actual spending will show up in 2nd Quarter; there have been positive indications from department store and chain store sales, where weekly sales began to build into March and have surged at a growing pace through April.

- Housing – Though the volatile housing starts data followed the theme of weakening in March, the housing market overall continues to show impressive strength. New home sales for March nearly equaled the best month of the eight-year expansion. Prices, permits, and sales all continue to climb solidly, and without any indication of overheating.

- Manufacturing – The recent momentum slowed in March, but survey data continues to show solid expansion of new orders. In a potentially telling statistic, delivery times are slowing, a positive indication of an expanding flow of products. Although the government production numbers continue to lag far behind the strength of the survey data, the current trend suggests greater strength for industrial production moving forward.

- Corporate Earnings – One of the most critical concerns though most of 2016, earnings have rebounded strongly. After posting a 4.9% growth rate for 4th Quarter 2016, S&P earnings are on track for a 13% gain for 1st Quarter 2017, potentially the highest rate of growth in quarterly earnings since 2011.

- International Economies – In addition, international growth is now providing added support. Global manufacturing is expanding broadly and solidly. Global manufacturing Purchasing Managers Index data reached a score of 53.0 in March – the highest level since May 2011.

This is a simplified economic overview. It gives no specific consideration to the more complex potential impacts of interest rates, currency movements, a contracting monetary base, potential wage inflation, falling energy prices, or a diverse list of international issues. However, absent unanticipated shocks, the general economic trend for the short to intermediate term looks broadly constructive.

So, to summarize, there has been a tempering of the exceedingly optimistic expectations for policy change which immediately followed the election, and recent economic results have also been weaker than expected based on consumer and business survey data. But the economy, for now, seems to be on solid ground, and, in spite of clear indications that the path of legislation will not be smooth or quickly traversed, there appears to be a general belief among business owners and executives that business conditions are looking more promising, with less severe regulatory impediment and the potential for some degree of tax relief and fiscal stimulus, even if it all proves less dramatic than initially envisioned.

There is little question that at least a part of the market's gains since the election have been built on this now familiar triumvirate of business-friendly promises – regulatory relief, tax reform, and infrastructure spending. Business leaders and investors are watching closely the "progress" of the conversation in Washington. If they start to lose faith in the potential for meaningful tax reform in particular, the forward expectations of both groups will change. The current economic trajectory was in place prior to the election, and as such, the slow growth paradigm might survive some political disappointment. But the trajectory of markets could be a very different matter. Investors are expecting an economic acceleration spurred by the anticipated changes. Markets are likely to react negatively if they begin to sense that changes are not coming.

On the other hand, this is playing out in an environment in which corporate earnings are again solidly growing and the health of the international economy has broadly improved, providing added support for share prices while the political drama plays out. So long as these conditions are sustained, concrete steps toward meaningful corporate tax cuts could trigger a renewed surge in equity markets.