Weekly Update: But Cramer said there is always a bull market somewhere!

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2018 is on track to be the first year since at least 1972 with no asset class returning 5%. Everyone is worried about peak earnings, widening credit spreads and falling oil, and are viewing everything as binary outcomes, i.e., if this, then that. If earnings have peaked, stock prices have too. If credit spreads are widening, the bond bear is here. If oil is plunging, a global recession is next. Add to this algorithm-driven trading in a low-volume Thanksgiving week, and you get risk-off. Trend Macro sees a lot of similarities between now and 2015 to early-2016, when there were long and deep corrections in the stock, credit and oil markets but in the end, no recession. It's on recession watch again, and the primary drivers are the same—concerns about a slowing China and falling oil prices. But while Tech has been hit the hardest, no single sector is responsible for the drop-off in forward earnings; they're down in five of the 11 S&P 500 sectors. To be sure, tech companies' earnings are the most vulnerable to the costs of either paying tariffs on goods from China or re-engineering their supply-chains to avoid those tariffs, and to the costs of harassment by Chinese regulators. What will happen at the G-20 next week?? President Trump is publicly reiterating his view that he wants a trade deal. Presidents usually prime the pump ahead of their re-elections. This is why the S&P has not declined in the 12 months following a midterm election since 1946 (with average 12-month returns of 15.3% from 1950 through 2014). The market is being held hostage by Fed worries (which are receding) and worries about a deep, prolonged trade war. Trump is surely watching the market.

What about oil? It seems a lot different now than it did in 2015-16, when prices plunged to a decade low, undermining domestic production and energy investment in the U.S. and taking the whole stock market down with it. Oil prices aren't near those levels now—they are back at levels seen just eight months ago—but October's oil shock nevertheless was dramatic. After peaking in early October, West Texas Intermediate (WTI) crude prices dropped 12 straight sessions (*the longest down streak ever*), falling more than 20% on the month—only the 10th time *ever* prices have plummeted as much in one month. Historically, such rapid declines have tended to be bullish for the S&P. Looking back to 1990 and excluding the global financial crisis, a two standard-deviation 1-month move in oil prices such as we just had has been followed by an average 2.3% gain in the S&P over the next month and 5.4% over the next three months. The numbers for WTI are even better. It tends to bounce 5.5% in the next month and 7.3% over the next three. Even if crude begins to climb back, its precipitous decline has lessened price pressures, a positive for consumers and businesses and, perhaps most importantly, the Fed. Indeed, there has been a strong shift in market expectations for Fed rate hikes—December no longer is a sure thing (though still most likely). After that, the yield curve is projecting just one more hike over three years! This suggests the market believes the Fed can smell the fear in the air and will act appropriately.

The breadth of the sell-off across asset classes is WOW. The Leuthold Group believes stocks and the markets have begun to discount a major inflection point in the economy and corporate profits for 2019 and 2020. That may be true, but it's long way from here to there. Employment remains very strong, real GDP is on track for another strong quarter, and business and consumer confidence is at or near multi-decade highs. All of these are coincident indicators, true, but they suggest earnings still have a lot of life even if they are slowing. Corporate profits, which rolled over well before the last two recessions started by 2.5 years on average, just came off a 25% up quarter. It's not clear when they will roll over but it won't be very soon. This is not a normal market, and both volume indictors and the magnitude of the sell-off across indexes suggests retesting of the lows in the weeks and months ahead. The Fed is likely reasonably at bay. But the question of a real trade war is binary (no one knows how this will play out). And algorithmic trading has the capacity to exacerbate market moves and to do so quickly. In the meantime, high-quality dividend stocks have been quietly returning to favor since the summer, even as 10-year Treasury yields hold above 3%. Interestingly, on a year-to-date basis utilities have outperformed tech stocks by 500 basis points. Well, Cramer, how do you love high quality here?

Positives

- **Main Street believes in Santa Claus** Despite a big sell-off in retail stocks, indications are the holiday sales season is off to a good start. Q3 e-commerce sales rose 14.5% year-over-year (y/y), lifting online's share to a record high of nearly 10% of all sales. Separate gauges of weekly sales at chain and department stores also accelerated through the first half of November, with Black Friday and Cyber Monday still to come.

- **Home sales surprise** Existing sales rose 1.4% in October and September was revised up, too, a potential sign that housing's softness could be plateauing. Still, housing is likely to detract from GDP going into year-end and early next year, as y/y sales remain negative.
- **Recession watch** Conference Board leading indicators rose again in October and September's gain was raised further. Still, the pace of growth slowed for the first time since May, suggesting some moderation off the 3%+ pace of the past few quarters.

Negatives

- **Homebuilder confidence slides** It fell to a 2¼-year low on the *third worst monthly decline in its history*. The drop-off cut across regions and reflected worries about rising prices and mortgage rates that are slowing traffic among buyers. Many have become sensitive to rate increases even though mortgage rates remain historically low, and don't want to give up their existing lower-rate mortgages. Ongoing labor and lot shortages also are an issue, as housing starts and permits continue to run below year-ago levels, even as October multifamily starts rose.
- **Is manufacturing losing its Mo?** October durable goods plunged 4.4% on a reversal in defense aircraft orders and a big drop-off in primary metals following significant pre-tariff buying. Notably, core capital goods orders were flat, adding to signs of softening capital expenditure (capex). Cornerstone Macro still thinks the tax reform-capex story will prove true. It notes this year's surge in stock buybacks (up 65% y/y) has been concentrated in large-cap tech and fueled by repatriated dollars; smaller companies still favor capex over buybacks.
- **Main Street still believes, right?** The University of Michigan final tally of November consumer optimism fell to a 3-month low, with both future expectations and current conditions experiencing deterioration. The readings were still elevated on an historical basis, but it's hardly the sort of news retailers want to hear as the holidays kick off.

What else

I really think I can see Santa! The Institutional Strategist (TIS) says its research uncovered a remarkable 86% correlation between Q4 S&P performance and holiday sales over the past 20 years. With the S&P on track to be down at least 6% during this period, this suggest holiday sales could be down 4% or worse this year. Given the strength in employment and wages, it's doubtful sales would be so weak. Right?

Florida has both, so … Passage of the SALT legislation has turned migration from high-tax to low-tax or no-tax states into a wave. In Connecticut, there reportedly are scarce bids for higher-end homes and offers are well below asking price, prompting an avalanche of efforts to sell. In New Canaan, there are so many homes for sale that the Wall Street bedroom town is regulating how many "for sale'' signs can be placed on the lawns. There is a limit, and if you're not on the list, you have to wait until someone sells just to put a sale sign on your own lawn! Two things sell in America, sun and no taxes. I keep reminding the Mister that Florida has both.

I always blamed the endless football games Cornerstone Macros shares that the whole process of getting sleepy after eating turkey is set off by a chain of events—as you digest turkey, tryptophan is broken down into a B vitamin called niacin that helps regulate the body's serotonin levels, which impacts melatonin levels, which can make you tired. A "multiplier" effect kicks in if you also ate carbohydrates with your meal, which can accelerate this sleepy effect. In other words, if you eat until you are full, find a comfortable couch ASAP. Happy Thanksgiving!

Connect with Linda on LinkedIn

Linda Duessel, CFA, CPA, CFP
Senior Equity Strategist

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Gross Domestic Product (GDP) is a broad measure of the economy that measures the retail value of goods and services produced in a country.

High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks and may be more volatile than investment-grade securities.

S&P 500 Index: An unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Indexes are unmanaged and investments cannot be made in an index.

Standard deviation is the measurement of the spread or variability of a probability distribution; the square root of variance. It is a simple, symmetrical distribution where 66% of all outcomes fall within +/-1 standard deviation of the mean, 95% of all outcomes fall within +/-2 standard deviations, and 99% of all outcomes fall within 2.5 standard deviations. Standard deviation is widely used as a measure of risk for the portfolio investments.

There are no guarantees that dividend-paying stocks will continue to pay dividends.

The Conference Board's Composite Index of Leading Economic Indicators is published monthly and is used to predict the direction of the economy's movements in the months to come.

The University of Michigan Consumer Sentiment Index is a measure of consumer confidence based on a monthly telephone survey by the University of Michigan that gathers information on consumer expectations regarding the overall economy.

Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Federated Equity Management Company of Pennsylvania

420088

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Federated®

Federated Investors Tower
1001 Liberty Avenue
Pittsburgh, PA 15222-3779
Telephone: 412-288-1900