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The Bank of Mom and Dad

Earnings, economy and technicals supportive of stocks.

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Off to Nashville and Chattanooga this week. But not before lunching with a dear friend and veteran in the business, who, while discussing the market's resilience, noted that "I guess there will never be another recession ever again." And not before hearing from a favorite advisor and veteran in the business, who writes that he is "so bullish I can't sleep at night." In Nashville, an advisor described a clever investment theme of buying the special revenue bonds of universities with Top 20 college football teams. A brilliant strategy, I think, who as a Clemson mom has seen the acceptance rate plummet when the Tigers won the championship in 2017 and then plummet again when the team won again in 2019. That's got to be great news for the school's alumni donations and tuition hikes. Despite the first-quarter's strong momentum and a market that's flirting with new highs this month, retail investors have remained cautious, selling developed-market equity funds, purchasing emerging-market equity funds and heavily buying bond funds. This is a contrarian positive, as final legs in up-market moves require retail participation, an outcome JP Morgan thinks the market may not get until 2020. Since Standard & Poor's started keeping score in 1926, its S&P 500 Index has delivered double-digit returns in the first quarter just 14 times (it was up 13.7% this year). There were only four years—1930, 1986, 1987 and 2012—when the benchmark didn't go on to post a +20% year, and the returns in those four respective years were -28.5%, 18.7%, 5.3% and 16%.

As the first-quarter earnings season got underway—this morning's better-than-expected big bank results helped the market off to a strong start—consensus was calling for year-over-year earnings to contract about 4%. With Q1 expected to be the cycle low for earnings growth, forward guidance will be more important for investors. If the typical path of revisions is followed, estimates should end the quarter at just about 0%. While the difference between a modest contraction and expansion is insignificant mathematically, Evercore ISI says it is psychologically important that earnings growth ends up positive. S&P earnings estimates have improved recently, providing a fundamental support for the S&P's 16% year-to-date gain. From Strategas Research's view, factor returns for the first quarter look eerily similar to those in the 18-month run-up to the March 2000 peak. It notes five characteristics are outperforming meaningfully: 1) highest revenue growth; 2) most expensive based on forward P/E; 3) most expensive based on free-cash-flow yield; 4) highest share dilution; 5) and highest arbitrage risk. While the Tech sector—and internet plays in particular—are very much in favor, it doesn't look like the market is yet at the point of obvious excess. Valuations at the sector-level also show meaningful differences from March of 1999. If the market's manic rebound succeeds in assuaging consumers' recently shaken confidence —and data this week suggest this may be the case (*more below*)—Leuthold Group foresees a scenario in which the economy and corporate profits firm up after their current slowdown.

Weekly momentum indicators have transitioned from deeply oversold levels in late December into overbought levels, suggesting a temporary pause/pullback in the weeks ahead. This could provide an opportunity to continue to build exposure, as a range of technical indicators continue to reveal a longer-term pattern of good underlying breadth and support. Global growth, and particularly Europe, remain a worry (*more below*). This week's 6-month delay in reaching a new Brexit deal and Treasury Secretary Steven Mnuchin's comments that he doesn't want an arbitrary deadline for a China deal weren't helpful, the Institutional Strategist says. It wonders if the "Sell in May and go away" mantra could prove prescient this year, particularly since President Trump would want to get free and clear of any correction in time to have a clear run into the 2020 election. I love to visit Nashville, where I can visit with my dear brother, for whom

I will do almost anything. For my children, of course, I will do anything, as I'm sure most parents would. This has been particularly helpful for student debt-laden millennials who have found the perfect lenders. Forbes reports that "The Bank of Mom and Dad" is now the seventh-largest mortgage lender in the U.S. Young adults are borrowing from Mom for their first mortgage, who would not complain if they are late with their payments. I resemble that remark...

POSITIVES

- **The long-awaited rebound in consumer spending has arrived** Bank of America's aggregate of credit and debit card data shows March retail sales ex-autos jumped 1.5%, reversing much of the prior 3-month's decline. This coincided with improving small business optimism and consumer sentiment. This morning's initial University of Michigan take on April sentiment said consumers' assessments of current conditions spiked to pre-shutdown levels.
- **Don't be surprised if housing surprises** Activity appears to be on the cusp of a solid rebound, helped by lower mortgage rates, moderating prices and an influx of millennials entering prime home-buying years. The latter represents a structural shift that should be in place for years as this largest population cohort moves from apartments (where rental vacancy rates are at a 34-year low) to homes. Ned Davis estimates the country will be short 2.6 million housing units this year alone as household formation rates rise on this millennial surge.
- **Global green shoots** After declining 13 months, OECD composite leading indicators held steady in February, a sign downside momentum may be abating. Manufacturing PMIs also were unchanged, ending a 10-month down streak, as the share of expanding individual-country manufacturing PMIs ticked up for the first time in six months. Electronic equipment manufacturing jumped the most since June 2016, and trade-related shipping is accelerating.

NEGATIVES

- **This is what I've been debating advisors about for years** The average U.S. inflation rate over the past five years has been about 1.6%, and data this week suggest the

Fed's 2% target remains a reach. (The monthly decline in apparel prices was the most since 1949. *Excuse me, but where in the world are these lower prices?!*) Fed policymakers see no reason to act given inflation's absence, according to the latest minutes. In a recent speech, Chair Powell even worried the current environment may increase the probability of a decline in long-term inflation expectations, leading to a downward spiral of lower inflation and still lower rates. Sounds a lot like what happened in Japan.

- **Soft landing watch** For the third time since October, the International Monetary Fund cut 2019 global growth estimates, with the bulk of the slowdown emanating from Europe. But it said the likelihood of outright global recession remains remote, with no visible U.S. recessionary "red flags" and signs of improving momentum in China. The OECD composite leading indicator for the U.S. slipped in February to its lowest level since December 2009, suggesting near-term deceleration. That could prove short-lived as the Atlanta Fed raised its GDP estimate for Q1 to 2.3% on much stronger-than-expected March activity not captured in the OECD forecast.
- **It's a tight labor market** Initial claims for unemployment insurance fell a fourth straight week to 196,000, their lowest level since October 1969 when the labor force was half the size it is now. The 4-week average also slid to near its lowest reading in 50 years. While February job openings dropped, it was a quirky month, with openings still exceeding unemployed workers a 12th straight month.

WHAT ELSE

Tennessee native Al Gore really did create the internet! A Chattanooga advisor related that, as vice president, Al Gore gave the tie-breaking vote to authorize funding for a new government-owned fiber optic network that would allow the then-government-leased World Wide Web to be turned over to the public. But he would only cast the deciding vote if the new network ran through Chattanooga. And so, thank you, Al Gore!

Am I back home or still in Chattanooga That same Chattanooga-born advisor shared that he had an internship back in his college days in the '70s in which he worked a fair bit in Pittsburgh. "The two cities were exactly alike," to include an incline, a river along the

city, steel mills, tunnels and trollies. “Chattanooga’s Missionary Ridge heading west offers almost the same view as Pittsburgh when coming out of the Ft. Pitt Tunnel.”

Shoe soul mates, and sleep well My last meeting of the week was a client event in downtown Chattanooga, where I was warmly received. The group really loved my 4-inch Christian Louboutins! A gentleman told me after my talk that I should “buy my favorite shoes in every color.” I NEVER THOUGHT OF THAT! And a shout-out to a reader of my weekly—the outlook is bright, *sleep well*...

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DISCLOSURES

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Free cash flow is a measure of a company's financial performance calculated by subtracting capital expenditures from operating cash flow.

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

Price-earnings multiples (P/E) reflect the ratio of stock prices to per-share common earnings. The lower the number, the lower the price of stocks relative to earnings.

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.

The Markit PMI is a gauge of manufacturing activity in a country.

The OECD composite leading indicator is designed to provide early signals of turning points between expansions and slowdowns of economic activity in member countries.

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