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You're either a Disnoid or you're not

Linda, who isn't (her sister is), sees potential trade-war surprises as risks to an otherwise bullish backdrop.

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Linda Duessel, CFA, CPA, CFP
Senior Vice President
Senior Equity Strategist

"Have a great vacation," said the chipper young Southwest attendant on my early morning flight to Orlando this week. He certainly wasn't talking to me, although it did appear that most of the people on the plane were Mickey Mouse fans—now, how can the 1-year old child behind me who won't stop crying possibly appreciate a Disney vacation? But who am I to say. Traffic in the Orlando area was brutal, reminding me of some of the biggest cities I visit. My local Federated colleague noted that the city is growing so quickly that there is a massive housing shortage. There is no longer any time of year you can avoid thick crowds at the amusement parks. My colleague calls these visitors "Disnoids," and having been to each park "at least 50 times" with his family, he most definitely is not one. "If I never go again it will be too soon," he remarked at a dinner with advisors, to which one replied, "I just don't get it." In advisor meetings there, as well as in nearby Melbourne and even at a client event there, the subject of interest rates and the Fed's ability to steer the economy clear of a recession predictably came up. Nothing policymakers did or said this week indicated a future change in policy is coming. Chair Powell played down talk of an "insurance cut," saying "transitory" factors—a word he used nine times—explain why inflation remains below its 2% target. Evercore ISI had a different take. It sees inflation around the world being restrained by technology, competition and globalization, three secular forces that clearly aren't transitory.

Interestingly, the topic of the millennial generation came up at each meeting this week. Unlike the snickers and rolling eyes that sometimes return my suggestion that this now-largest generation will be great for our economy and markets over the long term, these Floridians were quite complimentary. Did you know the average millennial has $100,000 in savings? One gentleman compared them with the World War II generation, avoiding debt and living below their means. I have been saying "I'm Team U.S.A." for 10 years in part because of the demographic advantages this 92-million cohort brings. In China, manufacturers increasingly must rely on automation and robotics because of a worsening work-age population shortage, a problem that extends throughout Asia. South Korea's birthrate has been plummeting for decades, falling to less than one child per woman last year; Japan and Europe are facing similar demographic squeezes. No wonder Germany, Japan and Korea are adding more robots than people to the plant floor. The U.S. is adding robots, too, but nowhere near as fast—one for every 3 workers. One reason: it doesn't need to automate as much. The U.S. labor force growth rate is *rising* and is projected to reach 8% annually by 2030. Perhaps this demographic bonus has something to do with "Team U.S.A." working so well. Since the start of the current bull market on March 9, 2009, the MSCI USA Index has risen 335%, vs. 124% for the MSCI All Country World Index ex-US in local currency (and 113% in dollars).

Two weeks ago, JP Morgan reported that the trade deal with China was "imminent." I suppose we'll find out the meaning of the word "imminent" eventually. While the U.S. suggested this week that talks can't go on forever, China′s economic integration with the European Union is moving toward potential agreements as early as June's G7 Summit in Canada, a move that could dilute the force of threatened U.S. sanctions on European automakers. Then there's the potential for an unraveling of Nafta 2.0. The market is pricing in good news on all three trade fronts! "Sell in May and go away?" I'm not particularly a fan of this maxim. This year's perfect 4-for-4 start is rare but not unprecedented; 2019 marks the 16th time since 1950 the S&P 500 rose in each of the first four months. In the 15 other instances, it averaged a 10% return the rest of the year (with an average 8% pullback along the way). Royal Bank of Canada and Leuthold Group see possible intermediate-term weakness on signs of excess euphoria in futures markets and more new lows than highs in the Nasdaq. Meanwhile, the 50-day moving average has crossed above the 200-day, the so-called "golden cross," historically a strong predictor of price gains going forward. Such friendly advisers I met on my trip this week, with Pittsburgh connections, too—one attended my alma mater (Carnegie Mellon University), another attended Pitt, a third Robert Morris and a fourth Penn State (not quite Pittsburgh but close). And, as for Disney World, I've been there about 10 times in my life. Now, my dear sister and BFF just loves the place, visiting at least two times a year for decades—it's her happy place. Am I a Disnoid? Hey, we don't have to agree on everything!

POSITIVES

Jobs perking up April nonfarm payroll gains surprised at 263,000, as did the decline in the jobless rate to its lowest level since 1969. Weekly wage growth did slow, the participation rate slipped again and manufacturing employment was little changed amid slowing activity (*more below*). But along with the ADP's stronger-than-expected increase in private payrolls, the improvements in the labor market following a winter lull are bullish.

I'm in the market for a new handbag Personal consumption expenditures jumped in March by the most since August 2009, led by durable goods spending (mostly vehicles). March pending home sales also rose sharply, a good sign for April existing home sales, while the Conference Board's gauge of April consumer confidence rebounded strongly. On top of March's strong rise in retail sales, the reports indicate spending should strengthen in the second quarter, taking some of the worry out of a first-quarter GDP report that reflected consumer weakness.

'Transitory' or not, inflation sure is low Core PCE prices slipped to an 18-month low in March, first-quarter unit labor costs fell and the Institute for Supply Management (ISM) said April manufacturers' prices paid were unchanged while factory prices charged hit a 3-year low. The first-quarter's unexpected surge in productivity—it rose at its fastest pace in almost 10 years—also should help keep inflation in a box. The jump in output per worker came on the heels of a sharp decline in regulations and increases in business spending.

NEGATIVES

Manufacturing off to blah second-quarter start The ISM survey of manufacturing activity fell more than expected to its lowest level since October 2016, succumbing to pressures from slower global growth, unresolved trade issues and a stronger U.S. dollar. New orders and production grew near their slowest rates since August 2016. The report reflected regional survey findings for the month that were indicative of positive but slower growth.

Services, too The ISM measure of non-manufacturing activity disappointed last month, slipping to its lowest level in a year, on concerns among survey respondents about capacity constraints and employment resources. Markit's separate read of services activity also declined to a 13-month low.

A China recession is my biggest fundamental concern Factory output in China unexpectedly slowed in April, with the employment component falling to its lowest reading since January 2012. Medley Global Advisors said the showing confirmed that March was a "false dawn" and that China's overall economy likely decelerated last month.

WHAT ELSE

Growth is killing it As of last week, S&P value-to-growth relative style performance hit an all-time low, falling below the Tech bubble low in value's relative performance. The reason, Cornerstone Macro surmises, is that unlike inflated 1990s growth stock valuations on pipe-dream stories, today's valuation premium in growth stocks largely comes from the lack of strong and sustainable earnings growth in value names, largely due to growth headwinds that have been around since the global financial crises.

'Stagnant' wages? Yardeni Research doesn't buy the argument. Its research shows that, from March 1989 through March 2019, inflation-adjusted average hourly earnings of production and nonsupervisory workers has risen 32% and that a separate series on median pay is up 25% over the same period. And its preferred standard of living measures, the disposable income and consumption series compiled monthly by the Bureau of Economic Statistics, are up a respective 61% and 67% over the same period.

Whatever, I much prefer wine My home state is the country's No. 1 producer of craft beer, according to the Brewers Association, with 350 brewers producing more than 3.7 million barrels of specialty beer in 2018.

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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.

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

MSCI-All Country World Index Ex. U.S.: An unmanaged index representing 48 developed and emerging markets around the world that collectively comprise virtually all of the foreign equity stock markets. Investments cannot be made directly in an index. Indexes are unmanaged and investments cannot be made in an index.

MSCI USA Index: Designed to measure the performance of the large and mid-cap segments of the U.S. market. With 627 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S. Indexes are unmanaged and investments cannot be made in an index.

Nasdaq Composite Index: An unmanaged index that measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq Stock Market. Indexes are unmanaged and investments cannot be made in an index.

Personal Consumption Expenditure (PCE) Index: A measure of inflation at the consumer level.

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.

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