Weekly Capital Market Comments
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NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Same As It Ever Was

On the onset of writing this note, we originally thought the big news this week was a more "dovish" than expected European Central Bank (ECB) release, whereby the ECB announced a significant series of easing initiatives, including a rate cut and additional asset purchases (Quantitative Easing, "QE"). We then considered the upside surprise in core inflation (a.k.a. consumer price inflation, "CPI") and US economic growth, and how our call to add treasury inflation-protected securities ("TIPs") was opportune while our expectations of a recession was premature. And then we contemplated the "no-deal-deal" currently being choreographed between the Chinese and US, whereby a mini détente would have the US delaying tariff increases scheduled for October 1st until October 15th (2 weeks after the 70th anniversary of the People's Republic of China celebration); while at the same time, China would lift tariffs on some agricultural products (soybeans/pork). So much to consider.

Readers of our weekly know we draw upon pop-culture (movies/songs) as metaphors to current events. So, for fans of David Byrne, this week is yours. In writing "Once In A Lifetime." Byrne suggested that we largely move through life unconscious, operating half-awake or on auto-pilot. Finding ourselves in a place, where by the means are largely unknown or questionable.

This week, we feel the same way. A little over two weeks ago, the tariff war was in full force, with both sides digging in. At the same time, Germany was on the brink of recession, and the UK was sailing full steam ahead toward a "hard-BREXIT." And only a month or so ago, inflation and interest rates were going in only one direction (down), pundits on Bloomberg and CNBC were talking about an imminent recession, the 10yr-2yr treasury spread was negative, and S&P was trading over 5% lower than it is today. Wow, so I'll say it, "how did we get here?"

To us the answer is simple; half political and the other half is human nature. Politically speaking, the leaders of China and the US both need a "win" to sell to their constituency. But be certain, once October 15th comes and goes, we believe the trade uncertainty will be back at square one; at least for the issues that really matter such as intellectual property theft. Even if President Trump tries to sell any form of "mini-deal," to his base, Democrats will highlight that as falling short on one of his biggest campaign promises (which will cause the POTUS to once again get aggressive with China). Then there is the ECB. Acting ECB President Mario Draghi just presided over one of his last ECB policy decision meetings. But the overly-dovish nature of the latest release not only took many market participants by surprise, it also took many voting members by surprise as well. Several governors are publicly opposed to restarting QE (Germany, France, Netherlands), as is has proven to be ineffective in producing inflation, while further promulgating negative interest rates across Europe. But Draghi dare not leave office, calling his legacy into question as the ECB President that raised rates and cast the Eurozone into recession. So, he kicked the can down the road to incoming ECB President Christine Lagarde. Finally, we have a rebound in US equities, perhaps driven by a reversal in US growth expectations. Simply put, we think this is a dead-cat bounce, and the retracement in the S&P is more a function of "TINA" (there is no alternative"). We continue to monitor underlying economic trends such as job growth, manufacturing trends/PMIs, consumer sentiment, business optimism, and leading economic indicators (to name a few). And all are telling us the same thing: we are slowing. So with the S&P once again trading at 3,000 (or ~17x forward earnings), the US being 10yrs + into the longest bull-market and economic expansion in history, we remain cautious of any significant upside from here, and once again suggest to clients to fade the rally.

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