Weekly Capital Market Comments

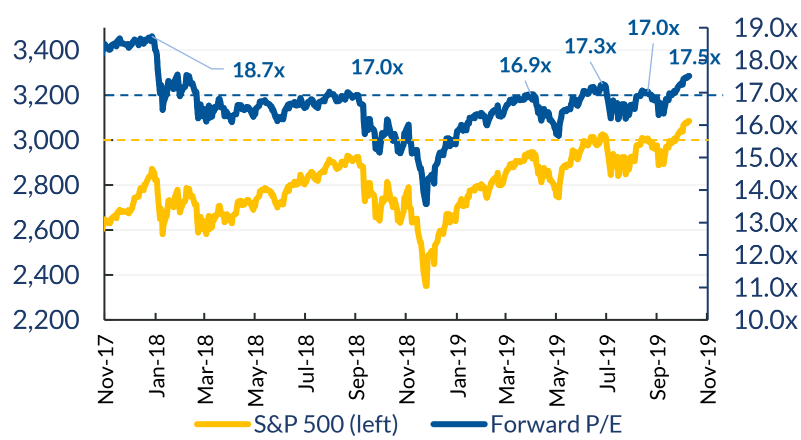
November 8, 2019

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Trading Places

Markets continue to grind higher, driven by expectations that a Phase I trade deal with China is the panacea to slowing global growth, the plateauing of US economic data and geopolitical headwinds. Pundits and talking heads are even suggesting, but in not so many words, that the US will now navigate through a soft landing, or in other cases, that the US economy has already troughed. As you probably have guessed, we are more skeptical.

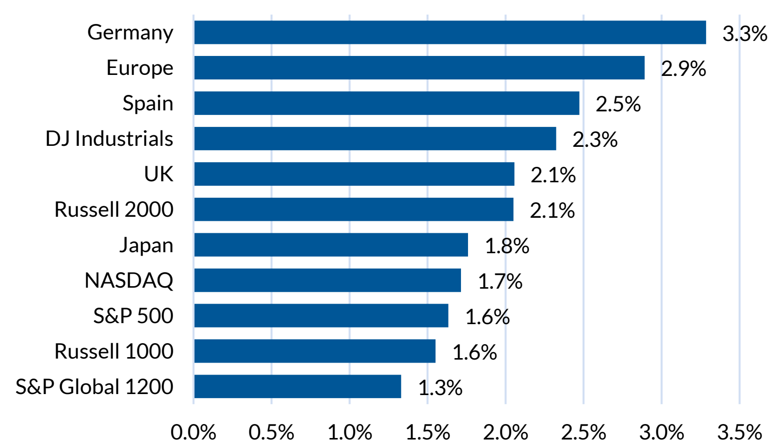
S&P 500 | Can The Break-Out Last?



Source: NEPG and FactSet

We need to remind our clients that markets are forward-looking, but its vision isn't always 20/20. In some cases, Mr. Market sees what it wants to, not necessarily reality, especially if there is a short-term profit to be had. While some may suggest that our bearish blinders cloud our own views, we once again revert to the data. Despite solid revisions to the monthly BLS/job data last week, the trends continue to roll over on a trailing 6-month and 12-month basis. Further, [Job Openings] continued to hook down, with the year-over-year trend now decisively negative. Also, while 3Q19 earnings have generally been better than feared, it seems that earnings weakness has been pushed out into 4Q19 and early 2020. At the same time, inflation prospects seem to be rising both here and around the globe, suggesting that the sugar rush provided by a dovish FOMC (global central banks) maybe coming to an end (and watch out for the head-ache). So while not out-right recession, we once again suggest that a 17x forward earning on the S&P will be difficult to hold, especially this late into the cycle and a 23% YTD run in the S&P 500.

1 Week Global Market Returns | Grinding Higher



Source: NEPCG and FactSet

Back to the title of the note. On Thursday morning, global markets shot up, fueled by the rumor that the US will roll-back in-place tariffs in exchange for agricultural purchases. This rumor/statement was refuted about 24 hours later by the POTUS, and as such, the equity markets retreated. We have long held that the rallying cry behind imposing tariffs was to limit intellectual property theft and to promulgate a more open/free Chinese capital market; two items we believe negotiators will

have a hard time to find common ground. However, the Chinese economy is in a tough place, and the last thing a Communist regime wants is for Hong Kong type outbreaks to spread. At the same time, the POTUS is starting to realize that a weak stock market and slumping economy are not the ingredients for re-election. Both leaders need a deal, but the outline will be much easier to "sell" to their constituency versus the details. We expect more headlines, similar to the ones we read this week, as we move further into the election cycle. Investors should expect headline-driven rallies and subsequent retracements. Therefore, we continue to advocate the "little-mistake" argument; that is it worth 3-5% of additional upside to remain fully invested? We think not!