Weekly Capital Market Comments

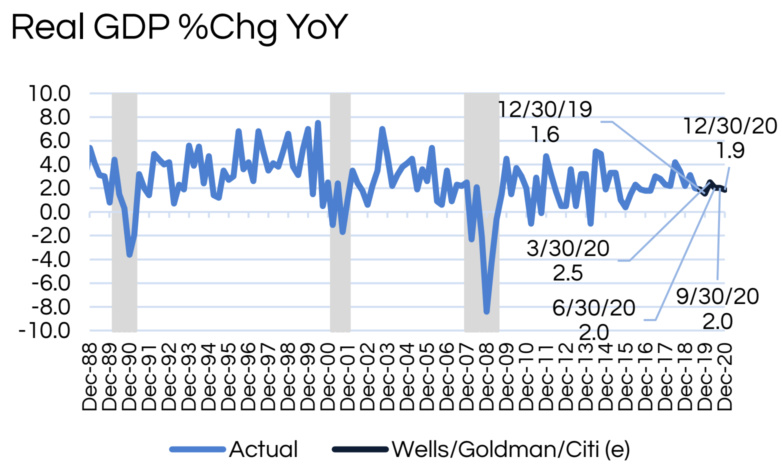
December 6, 2019

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Money For Nothing

The conventional groupthink across the Street is that inflation is slowing on a global scale, which has ushered in an "all-clear" signal for global equities to move higher. As one economist suggests, lower inflation prospects are a function of increased globalization, technological advancement (doing more with less), and open border competition (trade/industry/labor/financing). This helps support CNBC talking heads in their rationalization for higher multiples and higher equity prices through 2020.

Additionally, we believe the expectation of a positive Phase I trade outcome is fully-priced into the market. While most analysts suggest this trade accord is a needed win-win for both Trump and Xi, few suggest that perhaps both leaders may need to stand-still and illustrate strength to their respective base. It is unclear to us if the Trump administration is willing to roll-back any tariffs, and it is equally uncertain to what extent Xi is ready to commit to agricultural purchases. And forget **ANY** concession regarding forced technology transfer or additional capital market reform.



Source NEPCG, FactSet, Wells Fargo, Goldman Sachs, and Citi

Another commonly accepted postulate is that the US will encounter a resumption in growth higher than most other developed economies because demand in the US is more receptive to loosening financial conditions (lower interest rates, improving global growth). But what isn't in bold-face type in financial newspapers or journals is that the Fed's balance sheet has expanded over 7% since August of '19, and the overall growth of our national debt is running at a higher rate than that of nominal GDP. At this point, the consensus estimates for US GDP growth during '20 across the handful of economists/strategists we follow tops out at only 2%, and according to the Atlanta Federal Reserve, the latest forecast for 4Q19 GDP growth is only 1.3%. With markets at all-time highs amid no earnings growth, a topping of financial data, and an absence of any substantive growth driver(s) (infrastructure initiative, tax-cuts, or further deregulation), we wonder how high markets can run until they boil over?

We remind investors of just a couple of cases that support our more skeptical view. First, a closer look at shares of Apple uncovers that while the stock is up over 68% YTD, earnings are **NEGATIVE** year-over-year, implying that all of the run-up is due to multiple expansion. And secondly, WeWork. Here, investors should fully appreciate the unintended consequences (*and similarities*) when you combine free money (*global central bank easing*), limited corporate governance (*dysfunctional geopolitical policies*), venture capitalist (*pollyannish Wall-Street strategists*), and unicorns (*the "everything rally"*). These are just a few of the talking points we are reviewing as we beginning to frame-out our 2020 Outlook. We'd love to hear your thoughts.