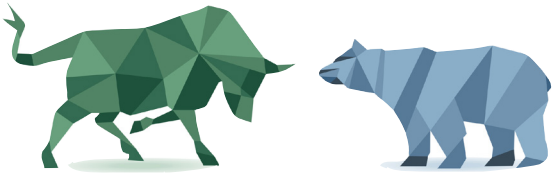
December 23, 2019

Braeburn Observations



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LOWRY'S 12/23/2019

Evidence of internal market weakness continues to recede.... Robust trends in the balance of Supply and Demand, market breadth, stock participation, and price reflect the still-growing strength of a healthy bull market, not the spreading weakness of a fading uptrend.

U.S. MARKETS

The large cap benchmark S&P 500 index recorded a solid weekly gain as investors appeared to continue celebrating the announcement of a "phase one" trade deal between the U.S. and China. The bigger story among Wall Street denizens was the S&P 400 mid cap index joining large caps and the NASDAQ Composite in record territory, taken as a welcome sign of broadening participation in the rally. The Dow Jones Industrial Average rose 319 points to end the week at 28,455, a gain of 1.1%. The technology-heavy NASDAQ Composite added 2.2%. The large cap S&P 500 added 1.7%, while the mid cap S&P 400 rose 2.0% and small cap Russell 2000 gained 2.1%, respectively.

INTERNATIONAL MARKETS

Canada's TSX rose 0.7%, while the United Kingdom's FTSE 100 surged 3.1% (defying some predictions of an epic crash should Boris Johnson be elected). On Europe's mainland France's CAC 40 added 1.7%, Germany's DAX gained 0.3%, and Italy's Milan FTSE rose 2.9%. In Asia, China's Shanghai Composite gained 1.3%, while Japan's Nikkei lost ground, giving up -0.9%. As grouped by Morgan Stanley Capital International developed markets rose 0.4%, while emerging markets added 2.6%.

U.S. ECONOMIC NEWS

The number of people applying for first-time unemployment benefits fell back last week after spiking to a more than two year high in the previous report. The Labor Department reported initial jobless claims fell by 18,000 to a seasonally-adjusted 234,000, back to near multi-decade lows. Economists had estimated new claims would total 235,000. New claims had jumped to its highest level in more than two years last week as the late Thanksgiving holiday skewed the government's process for adjusting the numbers for seasonal swings in employment. The less volatile monthly average of new claims rose by 1,500 to 225,000. Continuing claims, which counts the number of people already receiving benefits, increased by 51,000 to 1.72 million.

The number of job openings ticked up in October and more Americans quit their jobs, both signs of a strong labor market according to analysts. The Labor Department's Job Openings and Labor Turnover Survey (known as JOLTS) reported job openings totaled 7.27 million in October. That's up from 7.03 million the prior month, but still below the all-time highs set last year. The "quits rate", rumored to be one of the Federal Reserve's preferred gauges for the health of the labor market, remained flat at 2.3%. In October, 3.51 million Americans left their jobs, up from the 3.47 million in September. Analysts watch the number of quits as a barometer of the labor market, as it is assumed that one would only quit one's job if an even more lucrative one was available.

The pace of home-building continued to ramp up in the wake of this summer's drop in interest rates.

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Builders began construction on new homes at an annualized rate of 1.37 million, the Commerce Department reported. The reading is a 3.2% increase from October, and 13.6% higher than the same time last year. Furthermore, permit activity hit yet another post-recession high. Building permits for privately-owned housing were issued at a seasonally-adjusted rate of 1.48 million. That reading is 1.4% above October's number, and 11.1% greater than this time last year. Both readings exceeded consensus estimates. Housing market analysts look at permit activity to give an indication for future building activity.

Sales of existing homes fell by 1.7% last month, but not because of lack of demand, but rather due to the constrained inventory of homes for sale. The National Association of Realtors reported existing home sales occurred at a seasonally-adjusted annual pace of 5.35 million. The reading missed the consensus estimate among economists that the pace of sales would remain unchanged. Still, the pace was higher than this time a year ago when the rate came in at 5.21 million. In the report, the median sales price for an existing home was $271,300, 5.4% higher than a year ago.

Consumers continued to boost their spending heading into the holiday season, buoyed by a rise in income and an optimistic outlook for the U.S. economy. Personal-consumption expenditures, or household spending, rose a seasonally-adjusted 0.4% in November the Commerce Department reported. The increase came alongside an increase in personal income, which was up 0.5%. Consumer spending accounts for more than two-thirds of U.S. economic output, and has propelled the economic expansion now in its eleventh year. Consumer also felt better about the economy according to the University of Michigan (UofM). UofM's index of consumer sentiment was 99.3 this week, up from 96.8 in November. The reading was its highest since May. "The consumer sector appears to be in pretty good shape at this point. We should see that continue into 2020," said Scott Brown, chief economist at Raymond James.

In the New York region, manufacturing activity remained subdued for a seventh consecutive month in December. The New York Federal Reserve reported its Empire State business conditions index ticked up 0.6 point to 3.5. Economists had expected a reading of 4.0. The headline index has been stuck in a range between 2 and 5 since July. In the details, the new orders index fell 2.9 points to 2.6, while shipments rose 3.1 points to 11.9. Most notably, optimism about the six-month outlook improved. However, analysts were quick to caution putting too much weight on the figure. Josh Shapiro, chief U.S. economist at MFR Inc. noted, "While [media] headlines made a big deal about the improvement in the 6-month expectations index, we caution that this is a volatile measure that does not do a very good job of foreshadowing what actual conditions will look like in six months."

It was a similar story in manufacturing in Mid-Atlantic region. The Philadelphia Fed reported its manufacturing index fell in December to its lowest reading in six months. The regional Fed bank's index fell to just 0.3 points from 10.4 in the prior month. Economists had expected a reading of 8. The headline index is based on a single stand alone question about business conditions. Of note, the components of the index were not as weak as the headline number with both new orders and shipments indexes rising. Nonetheless, according to Ian Shepherdson, chief economist as Pantheon Macroeconomics, in Philadelphia there is "No signs of manufacturing rebound here."

About Our Research Sources

Barron's – Since 1921 Barron's has provided investment analysis and insight in its weekly publication and, in recent times, it's continuously updated web site. Barron's provides a wide range of perceptives, expert analysis and interviews with financial and investment professionals.

Investor's Business Daily (IBD) – A daily newspaper designed for the individual investor. All of its products and features are based upon the CAN SLIM Investing System developed by its founder William J. O'Neil. This system identifies the seven common characteristics what winning stocks display. For more on this see his book "How to Make Money in Stocks."

Lowry's – Based out of Miami, Florida, Lowry's is the oldest continuously published Technical Investment Advisory service in the US. Their work, which gives insight into the underlying supply and demand dynamics of the market, is based upon a daily examination of all stocks on the New York Stock Exchange and Nasdaq Stock Market. Lowry's has pioneered work in the statistical analysis of upside and downside volume statistics including their exclusive measure of buying and selling pressure.

Mauldin Economics - Best selling author, analyst and financial writer, John Mauldin, taps into his network either directly or through the reams of high-level research he's privy to on a regular basis, to assist in identifying the smartest investments for today's markets; then carefully screened and evaluated by a team of ace analysts.

Stock Trader's Almanac – A unique annual publication created by Yale Hirsch in 1967. The almanac is a treasure trove of insightful research originating such important phenomena as the "January Barometer," the "Santa Claus Rally," and "Sell in May and Go Away." It includes data backing, historically proven, cyclical and seasonal tendencies.

The Fat Pitch - an acclaimed blog that the Business Insider ranks on their annual list of the Top Finance People to Follow. The blog is written by Urban Carmel who has had a long career in financial markets. This blog discusses trends he sees and the business of managing money.

The Sherman Sheet - published by W. E. Sherman and Co., of St. Louis MO. Bill Sherman is a long-time professional money manager who developed an in-depth expertise in computerized analysys and statistical measurements over the years, and is a recognized expert in several areas of the investment universe.

Value Line – Founded in 1931, Value Line is an unbiased research firm providing intuitive investment research on companies, industries, markets and economies. Value line provides astute fundamental research, trending information and historical data that allows for shrewd decision making.

Zacks – Founded in 1978 by Len Zacks, PhD. MIT, Zacks is an investment research firm pioneering work in the area of corporate earnings estimate revisions and stock performance. Zacks believes, and Braeburn agrees, that Earnings Estimate Revisions are the most powerful force impacting stock prices.

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