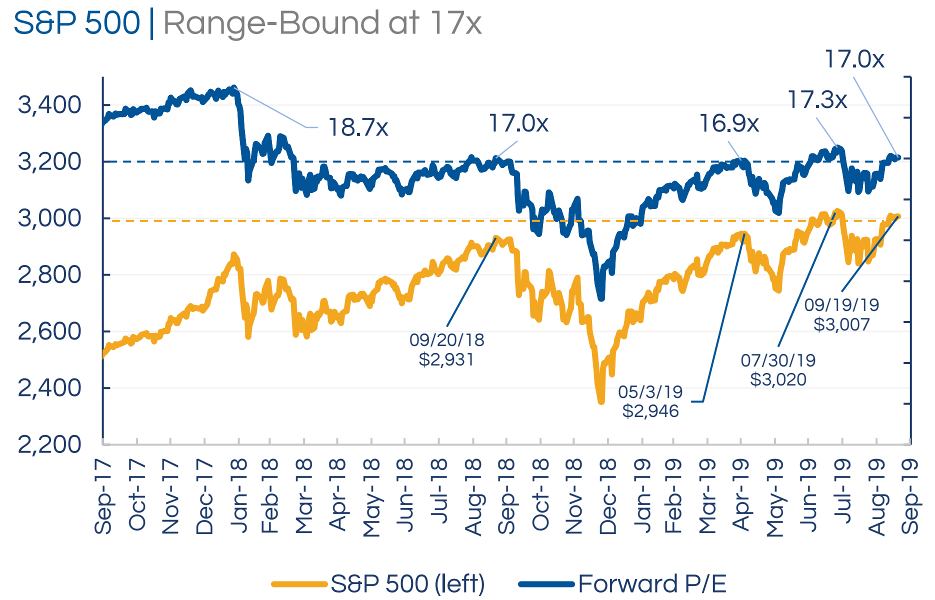
Is As Good As It Gets...Good Enough?



Source: FactSet and PCG

Equity markets continue to oscillate, with the latest move to the upside.

However, as we suggested in last week's note, the S&P 500 has difficulty breaching 17x forward earnings for any sustained period. Equally as important, this "ceiling" equates to only about 2.5% higher than the September 2018 peak of $2,931. In other words, relatively flat year-over-year returns.

We are not surprised by this price action, and neither should our readers. We are 10+ years into the longest economic expansion/bull market in decades. Moreover, given the geopolitical headwinds, macro backdrop (here and abroad), as well as the plateauing trends in jobs, leading economic indicators, inflation, and growth, we believe there is limited upside to equities through the remainder of the year. In fact, we may suffer a similar type retracement to the 4Q18 sell-off if any of several scenarios come to fruition including 1) a Fed policy mistake, 2) continued saber-rattling with Iran, 3) a no-backstop BREXIT deal, and 4) a re-escalation of trade tensions with China.

We believe markets are priced to perfection and find it ever so interesting that almost every equity manager interviewed on CNBC or Bloomberg TV/Radio suggests that the economy is doing fine (but is fine good enough?). Further, their advice: "stay invested." Of course it is; everybody is self-interested. That is why at inflection points, we opt to listen more closely to the fixed-income market than equities, for as we always say, "bonds see around corners." To this end, we found an interview on CNBC with the CEO of PIMCO, Emmanuel Roman. While not overly bearish, Mr. Roman simply states the obvious, and sometimes that is what investors need the most.

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