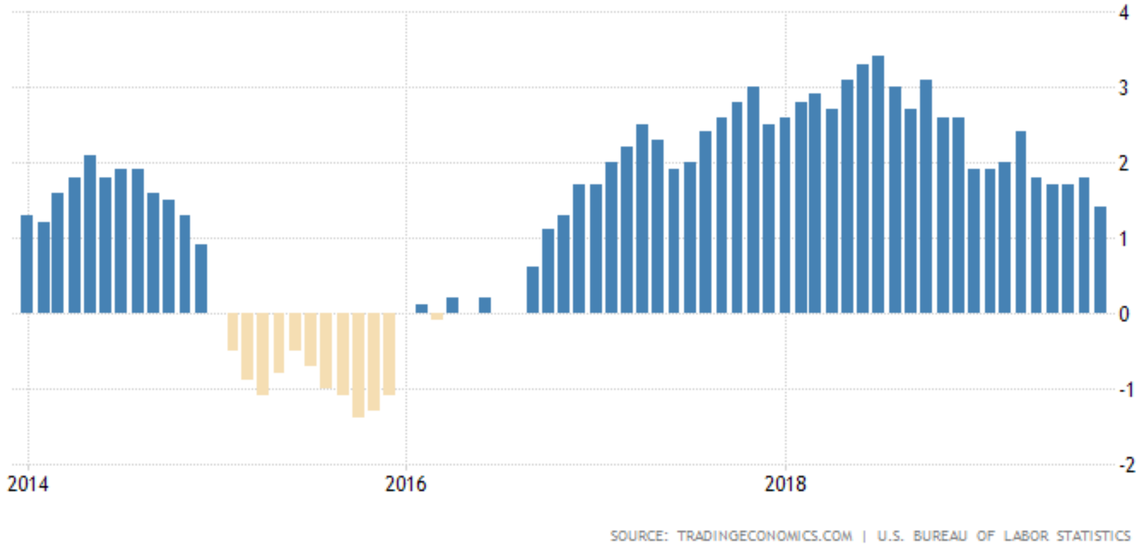
Surprise, surprise, surprise…

Join us as we channel our inner Gomer Pyle and say, 'well surprise, surprise, surprise,' the markets rose strongly late this week based on, you guessed it, a series of positive comments and Tweets from President Trump touting that talks with China are going'really well'. Meanwhile, everyone we talk with is simply exhausted by the volatility and the gamesmanship being shown in the face of a global economy that continues to slow, with billions at stake.

The Economy

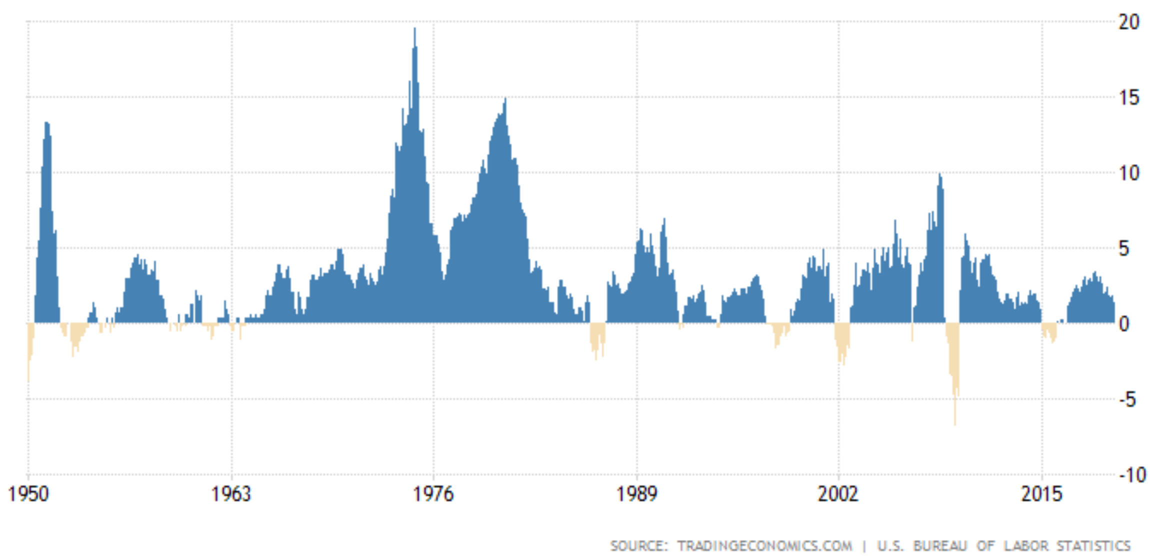
There was little on the economic calendar this week, except for two relatively cold readings on inflation. The first was Tuesday's release of the producer price index (PPI). We prefer to use the overall number that includes food and energy, versus the core which backs them out. Notice on this five-year chart the negative reading in 2016. Once again, we want to point out that, love him or hate him, the economy was looking a little shaky when Trump took over.

Producer Prices – Five Years



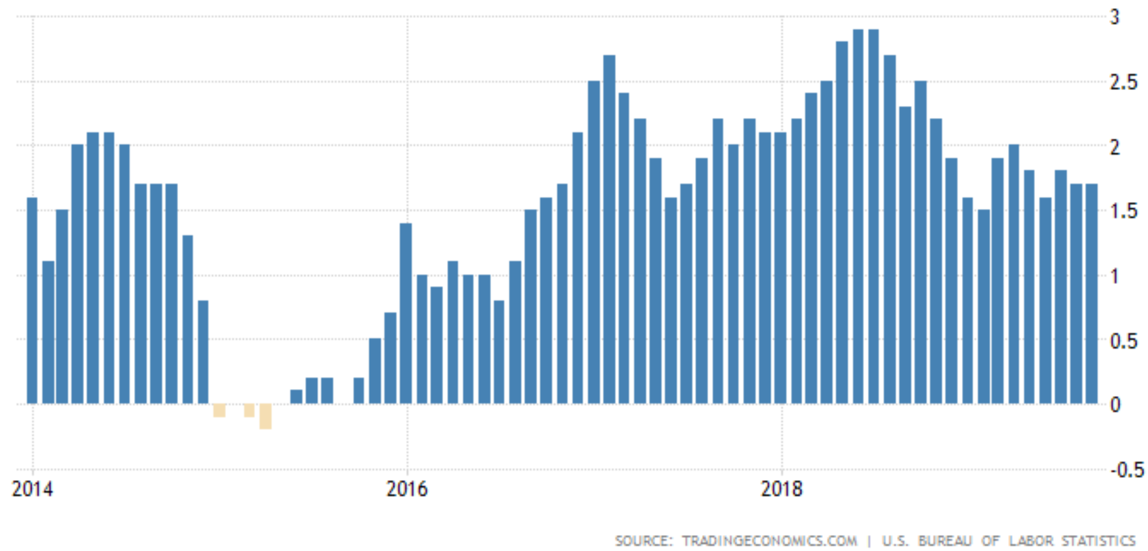
Taking a much longer look back, contraction in producer prices have a reasonably high correlation to a recessionary period. Which only makes sense given that reduced demand on outputs is going to do the same thing for inputs. Over the past fifty years, PPI has increased 3% on average. The lowest reading being -6.86 during the Great Recession.

Producer Prices – Seventy Years



Moving on to a measure that hits closer to home, on Thursday the Bureau of Labor Statistics released the consumer price inflation, via the CPI. This chart too shows a very benign situation, on the very importantly has allowed the Federal Reserve to lean heavily towards accommodation because there simply isn't a whole lot of inflation around, except for in asset prices. With that as backdrop, the Powell Put can remain in place.

Consumer Prices – Five Years



The man who is given credit for being the Godfather of the yield curve, Campbell Harvey, is saying we are at a critical moment for the economy as the most recent inversion has lasted long enough to confirm to him that trouble is on the horizon. Harvey also pointed out that the condition where short-term government bonds pay more than long-term ones has a scratch record of seven for seven in terms of being a leading indicator. By his estimation we have eight to eighteen months to prepare. If you are a junkie for this kind of thing, Josh Brown hosts a great 30-minute interview where the good professor explains the dynamics behind the curve, and what it tells us. Spoiler alert, de-risk now, not when you might have to.

Markets

Add Ben Emons of Medley Research to the list of market observers who think that a fall 2018 redux could be on the horizon. His view rests on the observation that liquidity continues to be tight, and even if partially resolved, the impact of the trade war is now imbedded in the global economy and can't be easily extracted. His counsel, as Campbell Harvey echoed above, start storing your nuts now, because it's getting cold outside and snow is in the forecast.

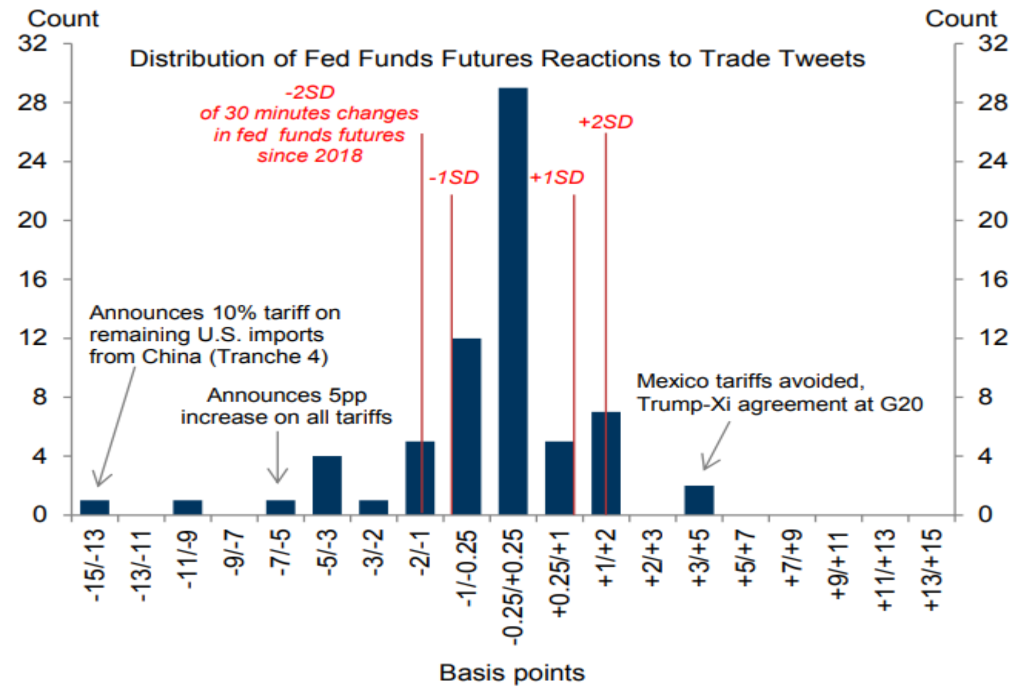
Time to Scurry Away

Source: Gary Corbis

The smart people at Goldman Sachs put together a research piece that highlighted their finding that President Trump's Tweets railing on the Fed have not been proven to impact the bond markets. On the flip side, his Tweets involving the trade war with China have had the opposite effect. The conclusion being, that when it comes to having an impact, macro trade is far more important than the micro browbeating.

Tweeting Like Crazy

Exhibit 2: Tweets on Trade Policy Elicit Larger Reactions



Source: Goldman Sachs Global Investment Research

The cannabis market has been taking a hit recently as collateral damage from an explosion in health concerns surrounding the nasty little habit called vaping. The reason being is that roughly twenty percent of flower (bud) production goes into the oils used in these products, which can't be good for business. Phillip Morris' investment in San Francisco based Juul could not have been timed worse, and the stock has suffered a 30% decline since investigations into vaping have begun. Our non-scientific take on this, the lungs were designed for air, and not much else.

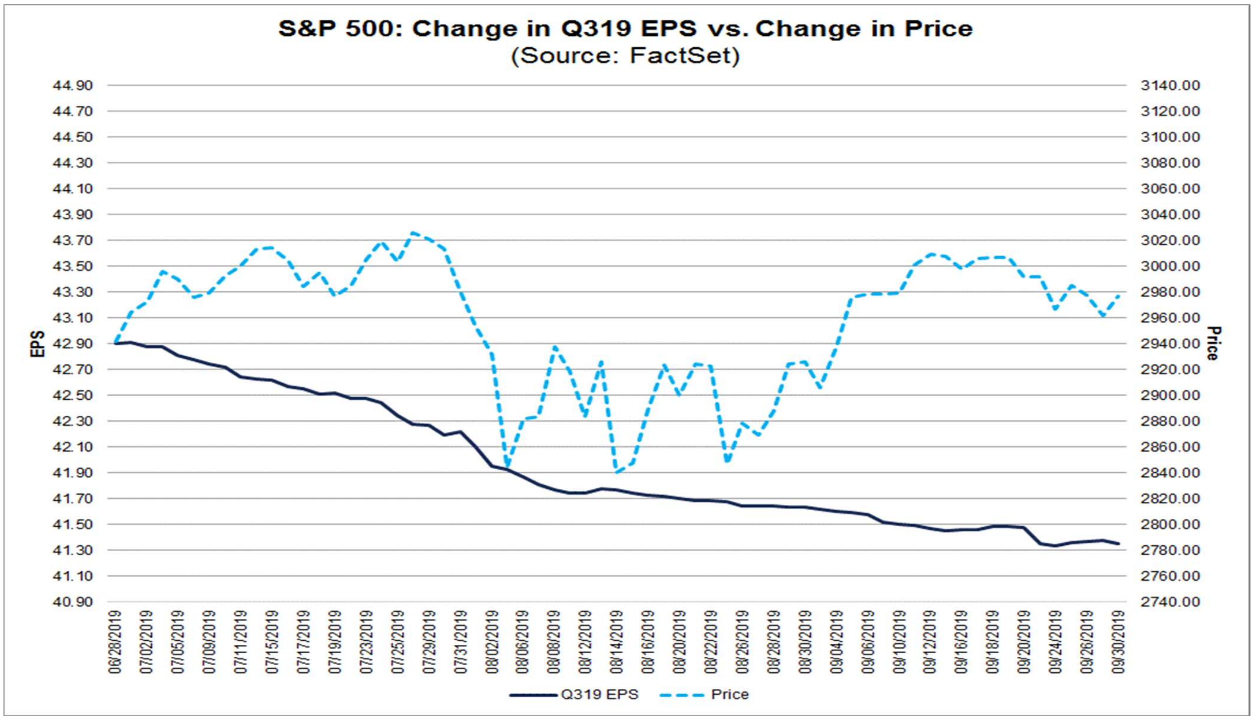
Neither Chic, Nor Good

Source: Cosmo Magazine

The Bottom Up

It was a slow week for bottom up news as the top-down and politics once again dominated the headlines. Good news, as we will need the rest for when the books start to open up next week. By the end of October, we should know just how much slowing global growth and the standoff with China is impacting the bottom line. Since the start of June, earnings estimates for the third quarter have declined 3%, while the S&P 500 is up 3%. Not the biggest difference in the world, that being said, the market is not pricing in an earnings decline of any real magnitude in our opinion.

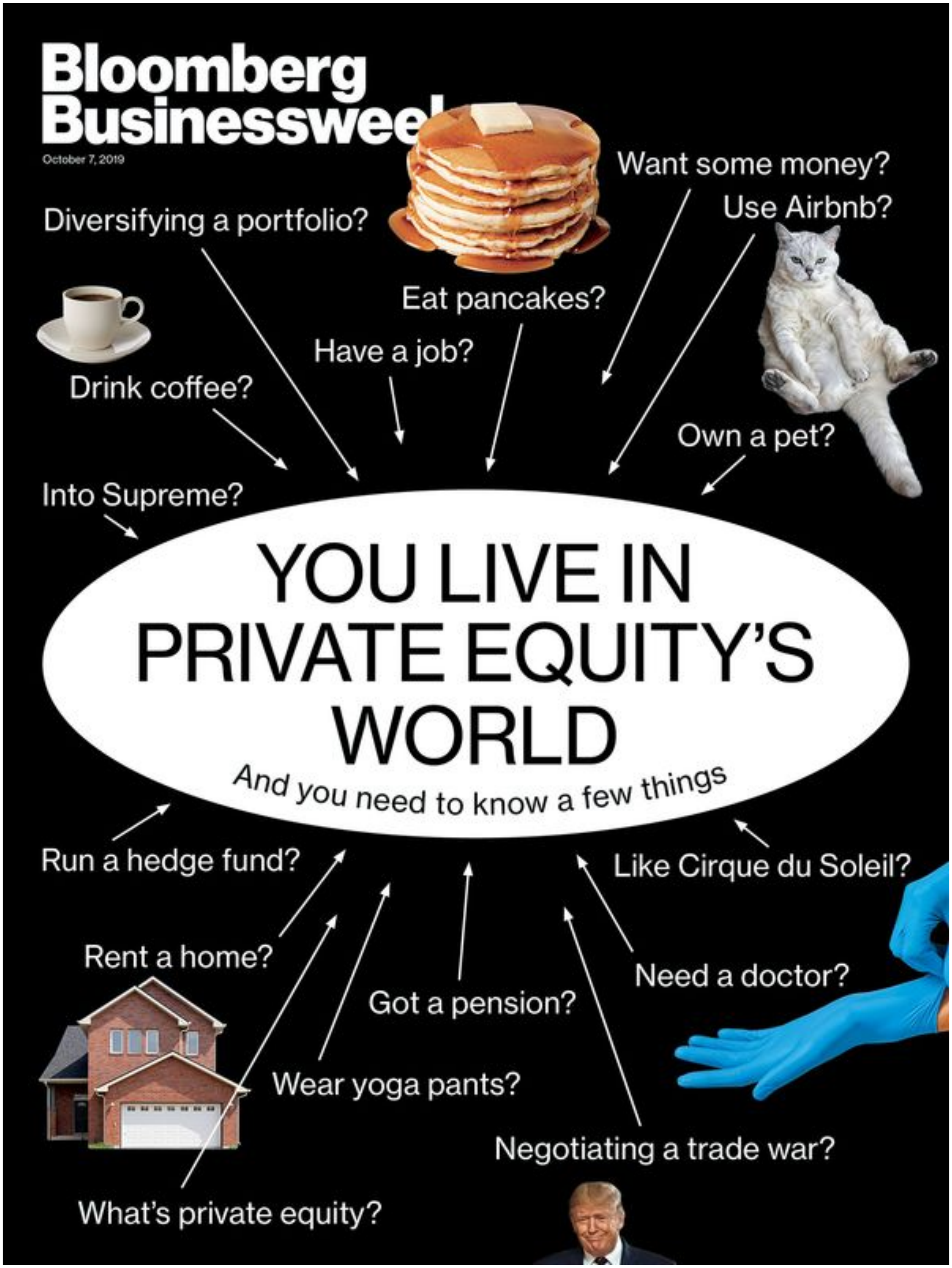
Spread Widening



Source: FactSet

Up and Down Wall Street

Last week, Bloomberg ran a great piece describing how private equity has taken over Wall Street. The story lays out how the past decade has seen a perfect storm of cheap money, ample opportunities, and a favorable regulatory environment. Is there a bubble brewing? Nobody will know until it pops. That said, this one is beginning to feel a little bit like fast money chasing fewer and fewer fat pitches.


Bloomberg Businessweek
October 7, 2019
Want some money?
Use Airbnb?
Diversifying a portfolio?
Eat pancakes?
Have a job?
Drink coffee?
Own a pet?
Into Supreme?
YOU LIVE IN PRIVATE EQUITY'S WORLD
And you need to know a few things
Run a hedge fund?
Like Cirque du Soleil?
Rent a home?
Need a doctor?
Got a pension?
Wear yoga pants?
Negotiating a trade war?
What's private equity?

Ken Fischer probably wants a few minutes of his life back after the over the top comments he made at the Tiburon Security Advisors. Reporting on the story, Forbes wrote, “Fisher inappropriately referenced genitalia, Jeffrey Epstein and “tripping on acid.” Wealth manager Rachel Robasciotti attended the event and told Bloomberg that Fisher, a former longtime Forbes columnist, compared building client trust to “trying to get into a girl's pants.”

Dour Mr. Fischer

Robert Greenfield, the man in charge of NASDAQ from 2003 to 2016, wrote a great eulogy to WeWork, and what the breakdown of its IPO means for the fate of the rest of the unicorns born into the market recently. In the piece, Greenfield skewers the notion that putting a ‘.com’ style veneer on a pedestrian product, somehow makes it special. In this case its office sub-leasing, that is really just a commodity.

Charles Schwab, the man not the brokerage, added insult to money losing injury by saying he would never buy these money losing companies that are going public these days. CNBC provided a roundup of what other prominent investors think about the fate of the current IPO market.

Rolling Over…Again

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