

To say 'there is a lot going on' right now in the world of finance, the economy and markets is like saying New York City is a quaint coastal town on the Atlantic Ocean. For this month's Market Axxcess there is a 'ying' of what is happening inside the wiring of the most important companies in the world, to a 'yang' of what is driving a dizzying top down. Come with me then on a trip through both in a world that is having trouble figuring out which is which at times.

*Source: LinkedIn*

I want to start off with a disclosure and request that needs to be made. As a once successful asset fund manager on Wall Street, an analyst, journeyman of sorts, a writer, and observer of much in 30 years in the business, I've never seen one person become the sun in the galaxy of financial planets like Donald Trump has become. That's simply how it is.

*Source: New York Times*

Covering this moment in history is tough as there is constant risk of offending someone, or everyone, as you try to decipher and report on what's happening inside the 'brilliant minds'. I can't avoid it, and in fact I have no choice.

With that all I ask is that you ride along with me loose in the saddle. I'm here to help navigate charts like the one below and get everyone into the barn safely. Does rising 'disapproval' of the man who calls 1600 Pennsylvania Ave mean the consumer starts sitting on their wallet? So far, that has not been the case. In fact, the opposite has happened. But there are a world of possibilities out there that could happen.

If you are right leaning, maybe righter than others, you are probably loving this moment as the 'mandate' was to shake things up. To see things differently, and act accordingly. To make America even greater than it was. If you are on the other side of the scale, it's time to take shelter from the storm of your century. You knew it was coming but didn't think it could possibly be this big.

But deep breath, if you take out Nixon and Bush II, you've seen high teens returns through almost every administration. And there is reason to think this time will be no different. Who knew Jerry Ford put up such a 'banger'.

*Source: Reuters.*

There is a phrase 'top down & bottom up' that explains the way things are looked at on Wall Street. Top down refers to economic and monetary factors. The bottom up is how companies and sectors are performing.

I would far rather talk about the former not the latter. But like it or not, the top down can influence markets overall more than the bottom up. For example, the lower the Fed Funds rate, the better the market does. Notice the massive outperformance when rates are below their historical average and going lower.

After last Friday's Bureau of Labor Statistics (BLS) employment reports, it looks like rates are indeed headed lower, or at least closer to heading lower. And while markets sold off hard on the 'slowdown' risk, they rebounded nicely as the path to more Federal Reserve rate cuts has been set.

But still, the overall unemployment rate remains at a very low level. On its own, no reason to bring down the Fed Funds rate to borrow.

But let's not bury the lead here. After the employment report was released, and Donald Trump took offense, he fired the person in charge of creating the stat. Yes, the president of the United States took the time and interest to sack the person who he could most easily blame for a number that shows the economy is, or might be, slowing.

When I did some looking around to make sense of the headlines, I found that there were indeed some reasonable reasons to question the quality of the BLS labor statistics. When I saw it was none other than Ray Dalio, founder of

Bridgewater the world's biggest hedge fund agreed with the controversial firing, I knew there was something more there. In a social post Dalio said this...

Notice in what he wrote that there was a not small problem if economists, executives, central bankers, business owners, the investing public, as well as mom and pop, started seeing economic stats truly manipulated to serve the purpose of anyone. Let alone the President of the United States. I can see about a million problems in this as well. But if it follows the pattern described in the Theory of Reflexivity, the stage has been set for myth to become reality, and a reality to become myth. It's similar to the thing that inspires bubbles as well as financial crisis of confidence.

*Source: George Soros*

Regarding bubbles, I've seen my fair share. Since I started in the business in 1996 there have been many. By my reasonable estimation, and this is in no way financial advice, if we are in one it's early to middle innings. A lot of the common characteristics are there, but the 'fear of missing out' isn't painful enough yet to have things get out of hand. Don't get me wrong, asset prices are at scary levels, but a true bubble requires something more. While not perfect, I think the chart below reasonably shows where we are.

If you are looking for places where there might be a bubble, residential housing is a decent place to start. The Case-Schiller Home Price Index is one of the best data sets to look at for signal. And in this case the signal is saying that the place you might want to call home, the American dream if you will, has gone up 50% in five years. Rates seemingly no longer matter as cash buyers and investment banks are picking off inventory left and right

Keep in mind, home prices almost doubled from 2002 to 2006. It then took 14 years to make new highs after the bubble burst. Not a prediction, not even close. Simply an observation. I bought in 2007 and got out flat eleven years later. Then the place doubled in short order. Cash buyer on the second trade from Minnesota, did it sight unseen. I've slept like a baby ever since. Waking up every two hours...crying.

Back to the bottom up, which is where it's often best to start. One of the biggest reasons why the market has been so resilient to all the signal and noise coming out elsewhere is that earnings expectations for this year have not only held steady, but they've also started to go up. Generally, markets don't correct or stagnate when earnings are growing. The only way this has happened in the past is if there is an 'external event' or a 'shock'. They are very tough to predict, hence the shock hook.

I spent the better part of my career as an analyst and my favorite measure of a company's health was the free cash flow it generated. FCF is what is left when you subtract capital expenditures from cashflow from operations. When I found companies like this and put them in the portfolio it was like showing up at Senior Prom with the attractive, rich, put together girl.

*Source: Corporate Finance Institute*

All the junk bond guys on the trading desk were sorting through mods and goths smoking Marlboro Lights searching to find the best one to bring along.

*Source: Blunt Magazine*

I mention this because it's important and helps tell you what is going on inside the health of corporations and therefore the economy. You can also follow the trail and see where capex is headed. One interesting thing going on right now is the war for AI talent and expansion is drawing down FCF at four of the biggest technology companies: Microsoft, Amazon, Meta, and Alphabet. And I would not be surprised that it stays at these lower levels, or even goes lower, over the next few years. If you have a war chest and don't use it, do you really have a war chest? The question answers itself.

Take FCF one step further and compare it against the valuation of the S&P 500. The picture it paints is one of healthy growth for both, but also a disconnect the

size of which has not been seen in a while, if ever. And while Chicken 'the sky is falling' Little I am not, when I see charts like this I get concerned. It's been a terrific run for equities, but fundamentals do matter.

There is so much more to talk and think about right now in the economy and markets, but never enough time. I'll leave you with this, August has always been the slowest month on Wall Street. Everyone needs a break, and this is when the lords, ladies, princes, and princess of finance do so.

It's also the time for the world's bankers to gather in Jackson Hole, Wyoming to talk all monetarily things big and small. Ready yourself for ties off, tailored jackets pantsuits still on, and pictures like this. Two years ago it was the presidents of the ECB, Bank of Japan, and Federal Reserve in front of this majestic backdrop.

*Source: Kansas City Fed*

While I don't know who holds ultimate jurisdiction over the event, it is hosted by the Federal Reserve Bank of Kansas City. One of several under the Fed's umbrella. Over time there has been a strong 'globalism' theme to the event.

*Source: Kansas City Fed*

With President Trump leading the charge for a new reality of 'America first', I think the event's days are numbered. It simply is what it is. Even money that next year we are looking at vistas of flamingos and the Atlantic Ocean, and not those of the Grand Tetons. At this point, everything is possible...everything.

On a personal note, the Jackson Hole 'meet up' in August always gave me the feeling that I was involved in some form of sophisticated, intelligent, and thoughtful industry. There were some historical moments like in 2012 when Fed President Ben Bernanke told the world that QE2 was on its way following the Global Financial Crisis. A thing so big it became a proper noun.

But it was Fed President Paul Volker's love of fly fishing that brought everyone together in Jackson. Its days are probably numbered, but it was a good run. A very good run.

*Source: The Denver Post*

Life goes on, always does. Now, who's up for a little bone fishing on the fly in the Florida Keys?

*Source: Outdoors Magazine*