

This Week...

The markets have entered into a policy driven no-mans-land, with fourth quarter earnings are all but wrapped up. The Fed has signaled its intention to holster their rate pistol, and presidents Trump and Xi are realizing that a trade war is doing neither side any good. Renaissance Macro Research believes the equity market would be trading 10% higher if the China v. U.S. fray would go away.

In light of this positive macro news, the bias to the market has been strongly upward. Whether this means that future good news will be sold rather than bought, remains is to be seen.

‘They’re selling? Then Buy’



Source: YouTube

In honor of the Academy Awards this Sunday, *This Week in the Markets* is ‘film forward’ this week. None of which we mentioned or used came within a country mile of winning an Oscar, and we are totally okay with it.

Economics

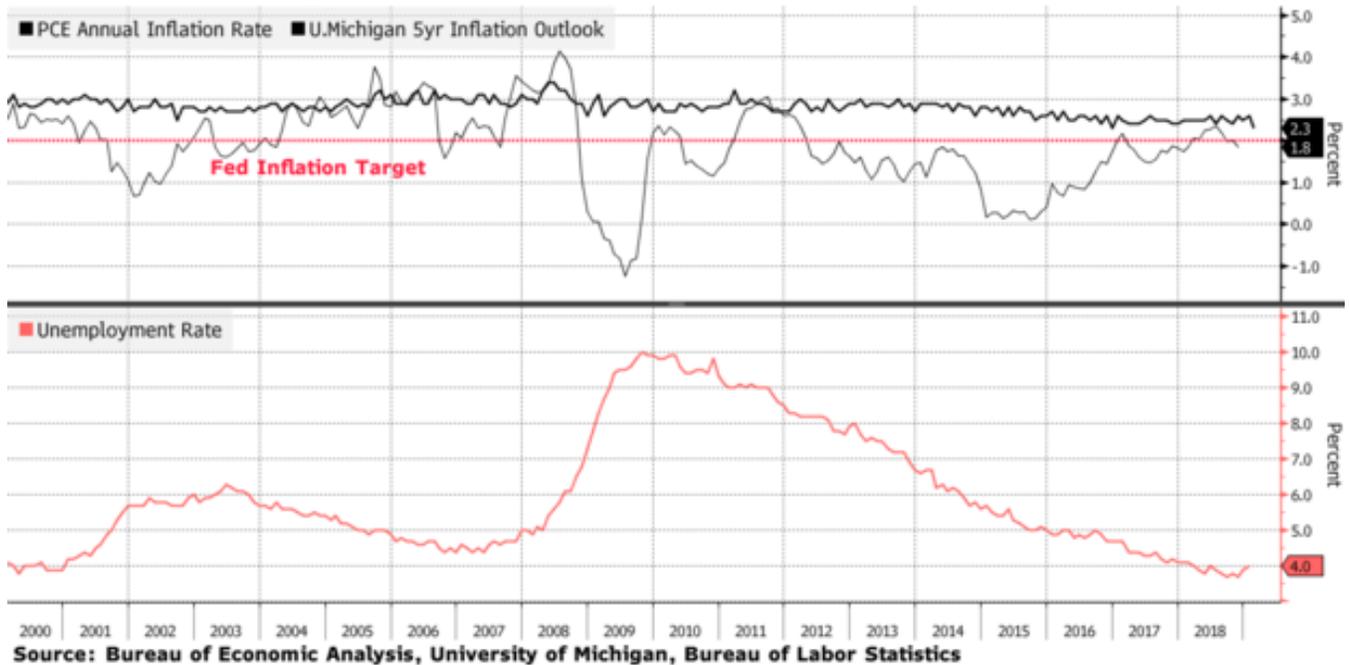
The Federal Reserve released the minutes from the open market committee meeting held in late January, and the take-away was not a surprise. The Fed sees something out there that it's not entirely certain of, and in light of that doesn't really feel the need to power ahead with further rate hikes at this time.

Bloomberg points out that for now the Fed has achieved what it wants to, full employment with constrained inflation. But beware, that very slight uptick in the unemployment rate, because historically, there is a strong correlation with recessions when the rate bottoms and begins to move up

Nirvana for the Fed

Stable Prices, Low Unemployment

Inflation is hovering around the Fed target and joblessness is low



Source: Bloomberg

In news that was not so Nirvana'ish, the manufacturing sector of the economy is showing some strain, as evidenced by this month's purchasing managers index (PMI) release. A reading above 50 indicates the manufacturing economy is in expansion mode, a reading below that means just the opposite.

PMI Directionally Challenged



Source: Trading Economics

Rounding out this week’s relevant economic releases, was January’s existing home sales. This number confirmed what the markets already knew, there has been a decrease in demand that began in mid-2018, and has accelerated since. If this is a run of the mill cooling of an otherwise hot trend, look for home sales to pick up this spring. If it’s something bigger, it can be added to the list of trends that are not the economy’s friend.

Existing Home Sales



SOURCE: TRADINGECONOMICS.COM | NATIONAL ASSOCIATION OF REALTORS

Source: Trading Economics

Even in the land of milk and honey, there has been a market shift with inventory building up and stratospheric prices beginning to plateau. We will see what happens for deals like this, where you can own your own 1,400 square feet of Palo Alto residential real estate for a cool \$2.4 million.

2256 Bowdoin, Palo Alto



Source: Zillow

Markets

Renaissance Macro Research provided their analysis of how much president Trump's trade skirmish with China has cost the market. The answer, by their estimation, was 11% of the value of the S&P 500. So far in 2019 we've made up for a whole slew of bad news. So much so that we are a little over 100 S&P points away from a new high on the index.

What a Short Strange Trip

What December?

U.S. stocks erase most of September-December loss



Source: Bloomberg

Morgan Stanley's take on the rise in risk assets and the fall in fear is that that very little bad news is being priced into the markets. A casual, or well dressed for that matter, observer of the VIX 'fear' index would agree

Volatility Crashes in 2019

Too Calm

Stocks seem unconcerned about potential trade risk, MSWM says



Source: Bloomberg

Companies

There was some seriously scary news out this week from companies, both big and small. Some of the injuries were inflicted by changes in the consumer preferences, while others occurred when long-standing contracts were cancelled. The biggest physical injury was the one on the hardwood court, in one of the most venerable venues in college basketball.

In news known to anyone who watches five minutes of Sport Center a day, Nike suffered a major public relations blowup on Wednesday when college basketball's biggest star, Zion Williamson, blew out his shoe, and nearly his knee in a game that saw in-state rival North Carolina take it to the Blue Devils at Cameron Indoor Arena. The Raleigh News & Observer went in-depth to get to the bottom of what really happened when the sneaker failed.

The Lion of Zion



Source: The Raleigh News & Observer

Nike stock took it in stride, sliding a whopping 1% on the news, as it hovers near an all-time high. Don't worry too much about the 6'7" 275 Mr. Williamson, something tells us, and every other observer, that he will be just fine. Look for similar dunks to these when he begins his NBA career next year.

Knick, Cavs, or Bulls?

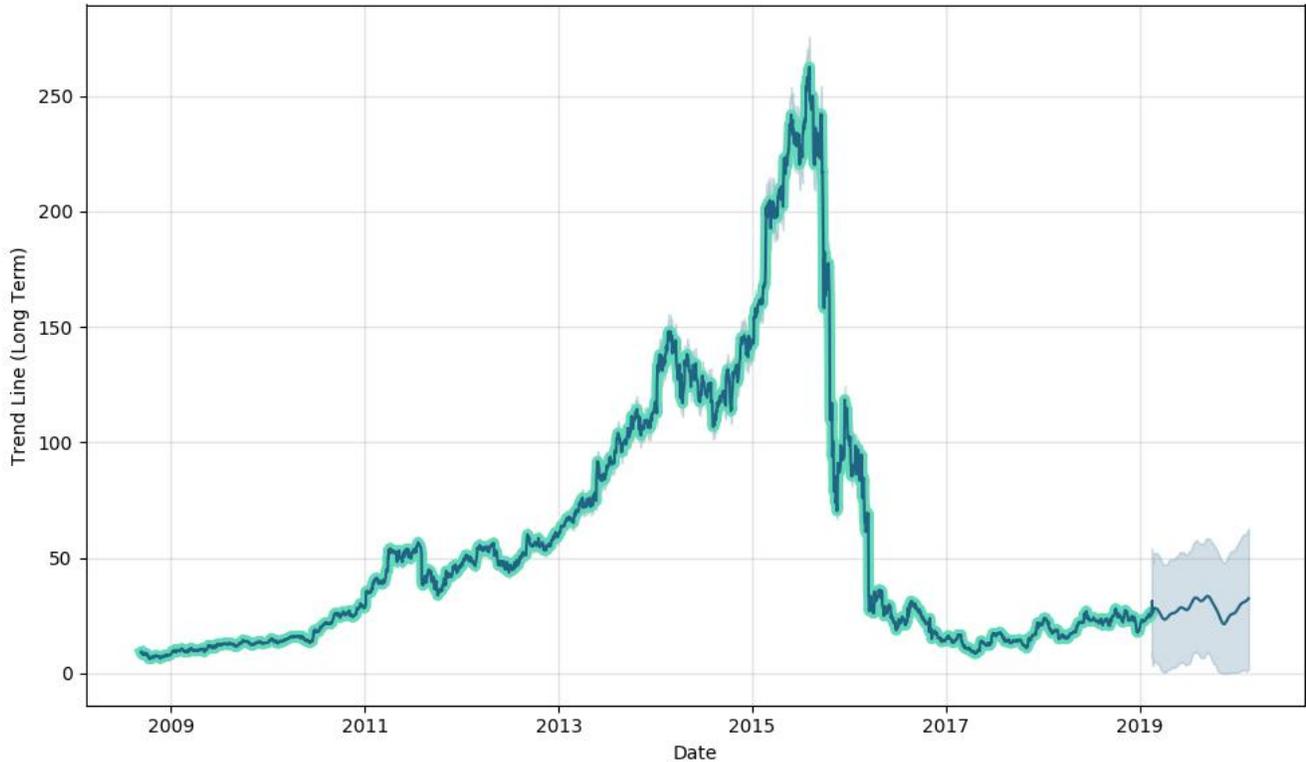


Source: Fadeaway World

The New York Times ran a rather scathing piece this week that shined a light on McKinsey & Co's hedge fund holdings and how the firm profited from its own advice. These allegations continue a less than flattering string of news that paints the most prestigious management consulting firms in a difficult light.

When it became clear that McKinsey's fingerprints were all over the Valeant implosion, the media struck down with great vengeance upon thee. Turns out a scorched earth pharma acquisition plan isn't that hard to come up with, and tends to have a bad outcome when you get to the end of the runway.

Valeant



Source: Wallet Investor

In what might go down as this year's single biggest one-day price implosion, the shares of Stamps.com lost 50% of their value between the close on Thursday and the market open on Friday. The cause was the breakdown of the long-standing relationship with the U.S. Postal Service where Stamps was the soul source for corporations looking for discounted rates and automatic access to postage.

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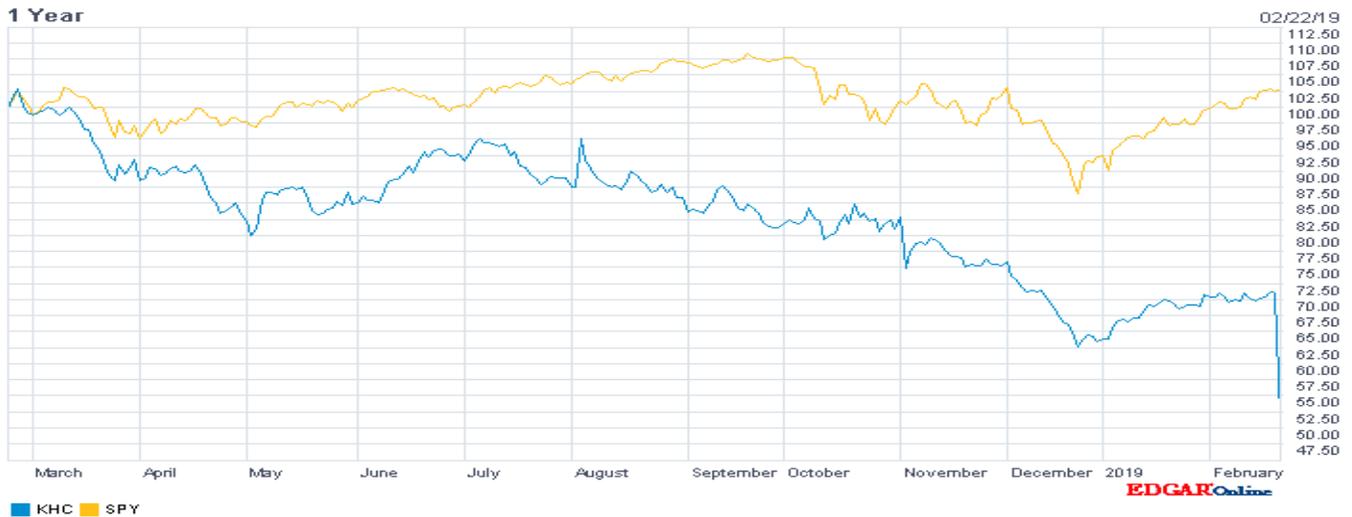


GET STARTED

Source: MarketWatch

Rounding out this week’s quartet of bad news, Kraft Heinz reported awful earnings, cut its dividend, and announced that the SEC was looking into “agreements, side agreements, and changes or modifications to its agreements with its vendors.” Anytime you are being investigated by the Securities and Exchange Commission for ‘side agreements’, it’s never a good thing.

FUGLY



Source: Nasdaq

Kraft-Heinz was the 2015 love child of Brazil's 3G Capital and Warren Buffet's Berkshire Hathaway, the latter of which was \$4 billion lighter on Friday morning.

To begin with, if you are a non-equity owning employee of a company and 3G shows up, you had best get your resume ready as their practices to improve efficiency by cutting costs make all others efforts to do so look like child's play.

Second, and more importantly, take a gander at the Kraft-Heinz consumer brands lineup to see how out of step they are, literally, with the changing tastes of consumers. From Maxwell House, Miracle Whip, Jett Puffed, Velveeta, TGI Fridays, Capri Sun, Cheese Wiz, the list goes on and on.

Bear Market in Cheez Wiz



Source: Money

Careers

A Friday morning article posted by the *New York Times Magazine* titled 'American's Professional Elite: Wealthy, Successful, and Miserable', inspired us to include a short new section this week with a focus on careers.

Perhaps our interest in the story has its roots in the frustration of watching our well pedigreed colleagues get marginalized by the corporate machine. Or the daily conversations we have with contemporaries who are only into their jobs for the paycheck.

Either way, what the author, Charles Duhigg wrote, resonated with me. If you are lost in a mid-life career crisis and need a little misery to love your company, this piece will oblige.

Office Space, 1999



Source: Pinterest

Diversions

Yosemite National Park's annual showing of the 'Firefall' is once again upon us. The natural phenomenon, that involves no fire whatsoever, occurs when the setting sun's light hits the water of Horseshoe Falls in such a way, that it gives the appearance of flowing lava. The imagery varies from year to year, depending on the water level. This should be an interesting firefall, as the Sierra Nevada range is soaked.

Firefall, YNP



Source: Weather.com

Earlier this month, the Peterson Automobile Museum in Los Angeles opened a yearlong exhibition of the iconic Porsche brand. The experience itself is titled "The Porsche Effect". We took a preview of the showing and it is truly inspiring for anyone who longs for the brand, proving once again that what Tom Cruise said in the 1983 classic Risky Business, 'Porsche, there is no substitute'. Of course he *was* the "U-Boat Commander" after putting his dad's 928 into Lake Michigan.

The Porsche Type 64



Source: The Robb Report

After a few days of boots on the ground time in Silicon Valley, the author took some shore liberties on Friday to check Swans Oyster Depot in San Francisco off the list of Life's culinary experiences.

The San Francisco Chronicle's 'expose' on the secret menu built for regulars prepared me for the experience. The place opens early, so you would be well served to make the 10:30 open.

In honor of my societal hero, Anthony Bourdain, I check myself off the list of 'stupid people' and sampled the brains and fat of the Dungeness crab cap. Needless to say, liquid courage was necessary to complete the journey.

Swans Oyster Depot, San Francisco



Source: The San Francisco Chronicle