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SOMETHING PHENOMENAL

Markets started last week "grinding in place." Much of the grind and downside bent was due to what is turning out to be an annual Greek bailout drama along with a daily/weekly/monthly banking crises in one or more of Europe's largest banks – this week it was Italy's largest bank, Unicredit, posting a massive $14.5 billion loss. Hard data from earnings and actual economic news continued to miss the mark, while even soft data (consumer polls) showed worries about the future.

By Thursday, all of the weaker data was moved to the sidelines when a single quote from President Trump, made during a meeting with top airline executives, sent stock buying computer programs into a jubilant and ever-increasing rally, regardless of the complacency in the rest of the economic news.

The quote referenced something coming out in the next two to three weeks "that will be phenomenal in terms of taxes." That's all it took to spark a misguided frenzy in stocks.

Another quote, this one from James Bullard – an influential yet non-voting member of the Federal Reserve – further emboldened stocks by stating that "fiscal uncertainty should put the Fed on hold" from raising rates at its next meeting in March.

It appears that stock investors and traders will be staying in risk assets (stocks and commodities) and the financial media will have everyone believe that a portfolio stuffed to the gills with stocks – with nothing to alleviate or balance their portfolios – is a good investment strategy. When investors are so far on one side of the trade, it often pays off to take a more measured approach.

Economics 101 has been thrown to the wayside, with formerly fundamental indicators apparently no longer needed or heeded. Now, all that is necessary to put risk indicators into a deep and prolonged sleep is a well-placed quote. After the Trump "phenomenal" quote, markets looked casual and unassuming and volatility levels hit all-time lows. Strangely enough, volume levels – which are a show of conviction or lack thereof – were up to 50% lower.

Goldman Sachs – the same bank that Trump's financial adviser Gary Cohn migrated from – offered some helpful reminders over the weekend. They cite that any fiscal boosts, if they even happen, would be a mostly 2018 story. Second, while bipartisan cooperation looked possible, recent developments point to the political climate being more polarized than ever. Of interest will be whether or not Trump's own Republican party, many of whom hoped to totally eliminate budget deficits within a decade, will approve a fiscal policy/budget plan that isn't balanced.

Real news last week brought worrisome developments in the oil patch, as oil inventories grew by 13.8 million barrels for the fifth straight week of increases. This comes at a time when world production was supposed to be slowing. North American drilling rig counts continue to increase while year-over-year gas demand is trending down to concerning, possibly recessionary levels.

It is important to try to gauge where growth over the next quarter may emanate from. The Atlanta Federal Reserve, which keeps tabs on Gross Domestic Product, has already ratcheted down first quarter growth estimates from 3.4% to 2.7%. For government entities looking for American consumers to binge on credit cards and go back to cash-out refi's, much was left to be desired. December marked the slowest pace of consumer credit expansion since February of last year while mortgage refinancing sits at its lowest level since 2009!

The biggest corporate news was the possible resurrection of Sears, which announced that its fourth quarter sales tanked and still saw their shares soar 25% on the heels of a leadership announcement that they have a plan to cut costs! Even after that gain, their share price is down 31% for 2017, 63% year-over-year, and 90% for the last five years. Earnings from Twitter, Pandora, Walt Disney, Coca Cola, and General Motors all disappointed to the downside.

While keeping these economic reports and gauges in mind, it is hard not to notice that market sentiment tells another story. It beckons investors to abandon risk management and instead teases them to buy compromised European banks, Greek debt, consumer-related U.S. stocks, and over-valued U.S. stocks with the hope that upcoming legislation will fast track a big pick-up in growth.

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http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

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