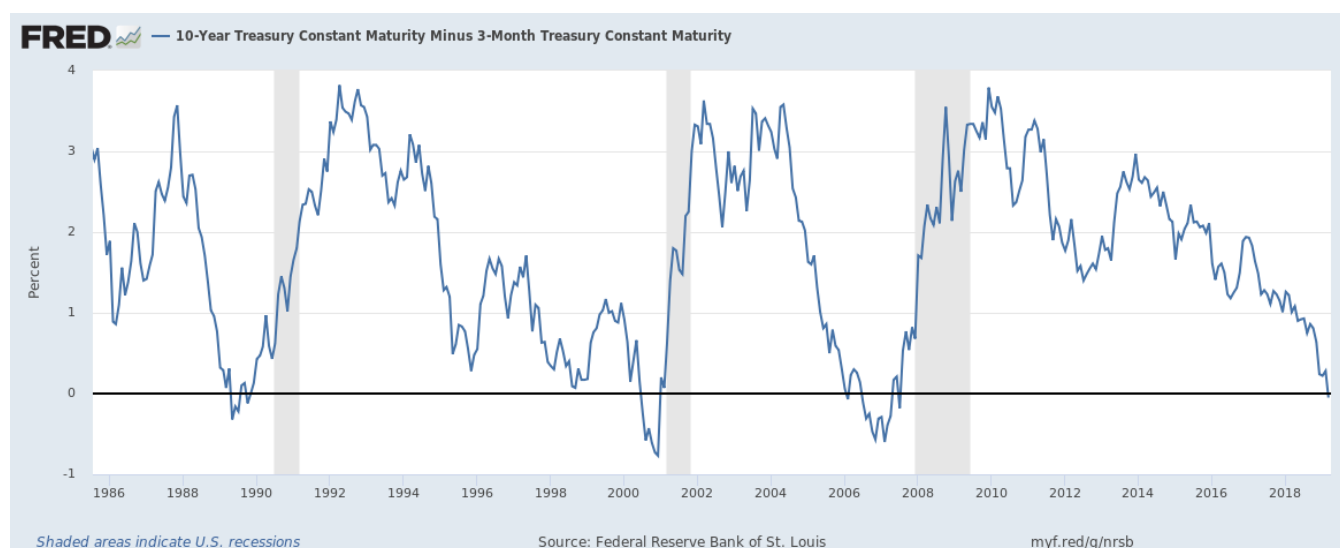


This Week In...

Economics

The yield curve inversion has always been a third rail for the market, as it has a scratch record at causing recessions. We just didn't know that it was the third rail of economic prognostication until now. Want proof? Google "Yield Curve Inversion" and you will hit the Wall Street talking head jackpot. Ding, ding, ding....

Gulp

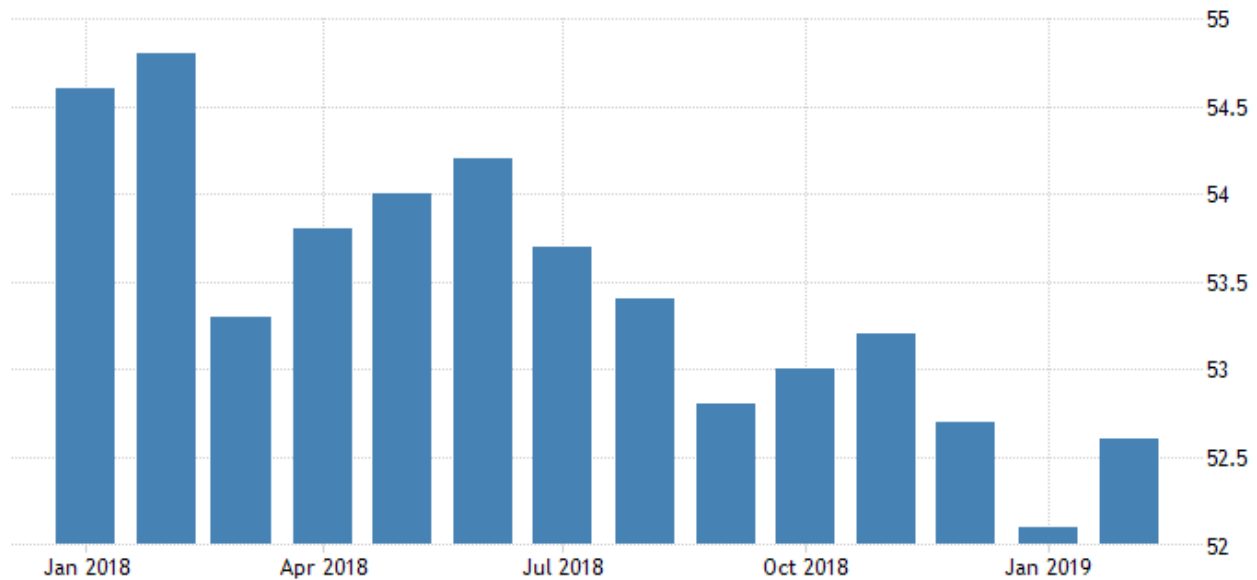


Source: St. Louis Fed

For all the talk of it predicting a recession, curve inversion is more a cause of recession, and here's why. Banks make money by borrowing short and lending long. When borrowing short and lending long occurs at a similar level, the model breaks down, as does lending.

Our call is that a recession is drawing close, and without the promise of central banks coming to the rescue, we have stormy seas ahead. Look to global PMI as one more marker that confirms this reality.

Global PMI



Source: Trading Economics

Jim O'Neil, the former chief global economist at Goldman Sachs, and the man who came up with the name BRIC, sees global slowing, but with pragmatic central bankers on the scene.

Fifteen to Two

Real GDP growth revised down

Year-on-year, %. Arrows for 2018 and 2019 indicate the direction of revisions since September 2018.

	2018	2019	2020*		2018	2019	2020*
World	3.7	3.5	3.5				
G-20	3.8	3.7	3.7				
Australia	3.1	2.9	2.6	Argentina	-2.8	-1.9	2.3
Canada	2.1	2.2	1.9	Brazil	1.2	2.1	2.4
Euro area	1.9	1.8	1.6	China	6.6	6.3	6.0
Germany	1.6	1.6	1.4	India ¹	7.5	7.3	7.4
France	1.6	1.6	1.5	Indonesia	5.2	5.2	5.1
Italy	1.0	0.9	0.9	Mexico	2.2	2.5	2.8
Japan	0.9	1.0	0.7	Russia	1.6	1.5	1.8
Korea	2.7	2.8	2.9	Saudi Arabia	1.7	2.6	2.5
United Kingdom	1.3	1.4	1.1	South Africa	0.7	1.7	1.8
United States	2.9	2.7	2.1	Turkey	3.3	-0.4	2.7

Source: OECD

In what we can only describe as one more showing at the Theater of the Absurd, president Trump's nominee for a Fed governorship, the Heritage Foundation's

Steve Moore, owes \$75,000 in back taxes and related penalties. We would say this is shocking, but nothing seems to shock us these days.

“I owe what?!?”



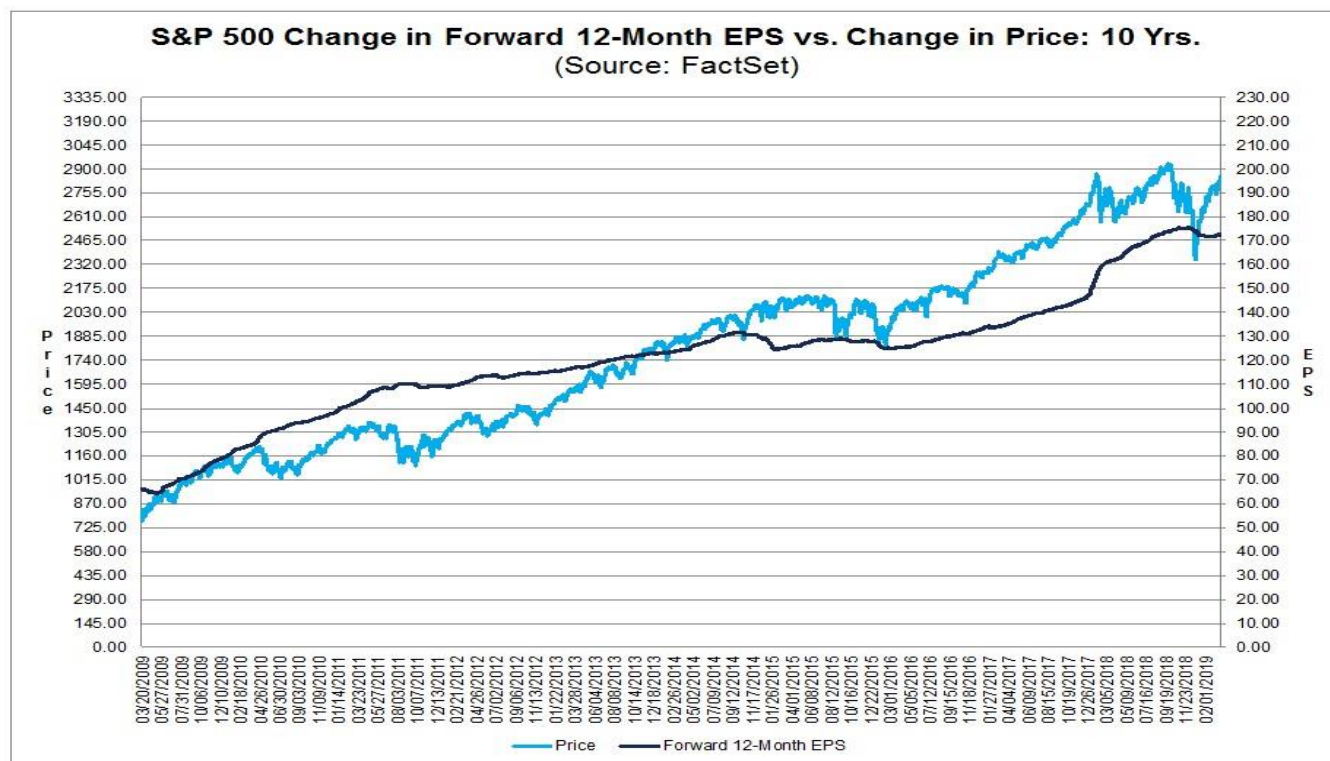
Source: CNBC

On a personal note, politics aside, we always thought Mr. Moore gave a pretty good interview, and was directionally accurate with pro-economic view. That said, he seems to have veered off course as of late, calling for Jerome Powell's resignation following the last rate hike in December. As *Bloomberg* reports, there is likely enough support in the Senate to see a successful appointment.

Companies

The first quarter of 2019 wrapped up for companies on Friday, and all we have to say is that it better be a good one for earnings or the market has some serious downside risk. Stock prices have once again moved considerably higher than the earnings that support them. Only one problem, this time the EPS growth is flat lining.

S&P Price v. S&P Earnings



Source: FactSet

In a sign of exuberant times, Lyft went public this week, and Wall Street couldn't get enough. Emotion was running high going into the IPO, and continued as the stock opened up with a 20% premium, even with the increased offering price of \$72. The company raised \$2 billion in cash that will hopefully lead it to profitability. Right now it's running at about a \$1 billion loss on \$2.2 billion revenue.

Dual class listing, 10 times revenue, losing money, what's not to like? Forbes provides a look at why the company is worth \$20 billion, and why Warren Buffett says the IPO is great for the holders of the stock before the offering, but he counsels investors to pass on the publicly traded shares. Keep in mind, this is also the same guy who still uses a flip phone even though his Berkshire Hathaway owns a huge slug of Apple.

The '90s Are Calling

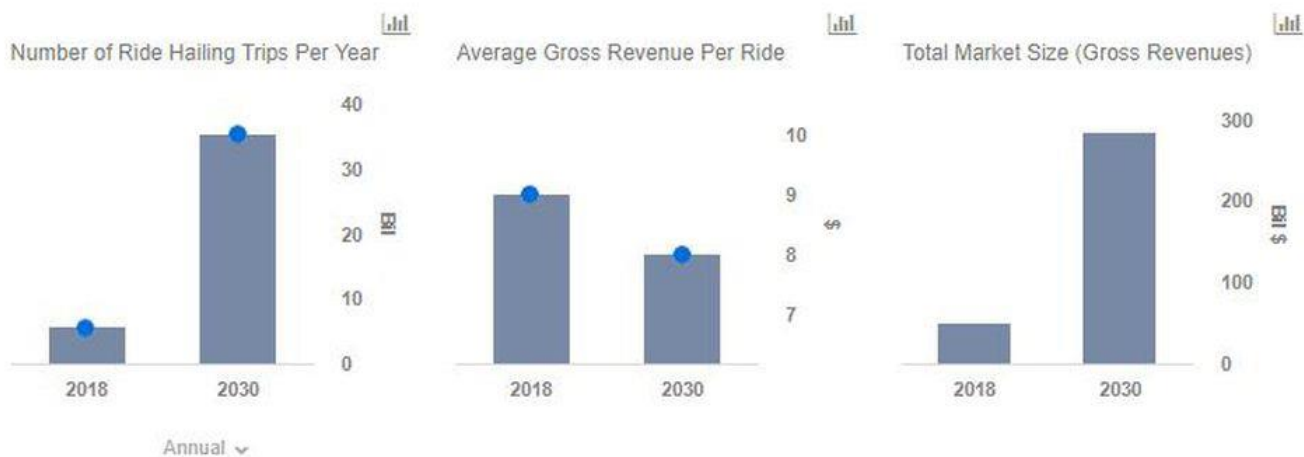


Source: TecMundo

Fidelity's \$120 billion, with a 'b' and an 's', Contrafund is one that owns the private shares. Will Danoff, who runs the fund, has been increasingly making bets on private companies, a move that was unheard of ten years ago. Google's also made a killing, doubling its \$500 million investment in 17 short months.

Make it up on Volume

✓ Ride Sharing Market Is Likely To Reach \$285 billion By 2030



Source: Forbes

In other unicorn news, the window to get well valued private tech companies out the door and into the public domain, is wide open. Right or wrong, investor appetite is very strong right now. *The New York Times* provides a look at those

who stand to make the most from Uber, Lyft, Pinterest and Postmates. In a world seemingly on edge, it's always nice to remember to laugh. Keep in mind, rhinos are just chubby unicorns.

“When’s *my* IPO?”



Source: Animalstime

Markets

With the third quarter wrapped up, it's time to hand out awards. The big one goes to risk, and everything associated with it. Equities, crude, and high yield credit, they all walked away big winners. And why not? They just came off the worst quarter in a century in Q4 2018. Nothing like a little volatility in your life to keep things interesting.

Buy ‘Em

Bumper Quarter

Assets from crude to the S&P 500 had the best first quarter in years

Asset	YTD performance			Best since
S&P 500	<div style="width: 13.07%;"></div> 13.07%	▲		1998
WTI crude	<div style="width: 32.44%;"></div> 32.44	▲		2002
U.S. high-yield credit	<div style="width: 7.04%;"></div> 7.04	▲		2003
Emerging-market dollar bonds	<div style="width: 5.28%;"></div> 5.28	▲		2012
U.S. investment-grade credit	<div style="width: 5.23%;"></div> 5.23	▲		1995

Source: Bloomberg

Note: Compares percentage-point gains with previous first quarters

Bloomberg 

Source: Bloomberg

Putting away the hyperbole and theatrics, the S&P 500 has returned a whopping 5.75% over the past five quarters. When we did the math, and saw the meager return, we re-calculated the number...five times. Welcome to a new reality, where muted returns come with volatile journeys to get there.

S&P, DJIA, Nasdaq



Source: Nasdaq

Wall Street

It was another tough week on Wall Street as white shoe firms continue to trim headcount, once heralded hedge funds shut down, and the college admissions scandal claims another captain of the universe. Trust us, if there was great news to report, we would be doing so.

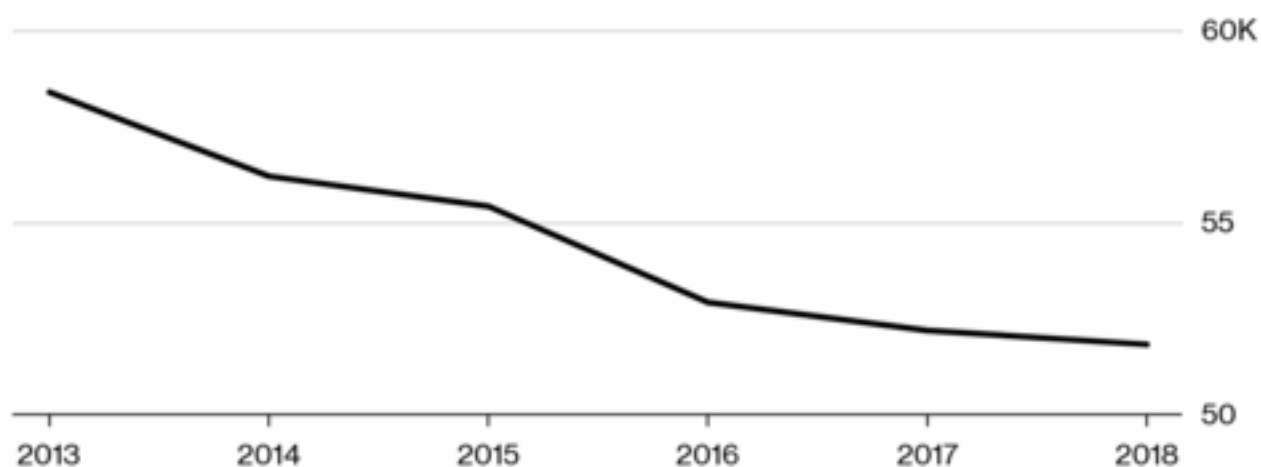
JP Morgan followed suit with Nomura this week with their annual pruning of the dead branches, cutting a swath of people worldwide. This comes two weeks after UBS CEO Sergio Ermotti said that the first quarter was “one of the worst” in recent history.” The company saw trouble in European investment banking as well with wealth management, the latter being a surprise.

They say a picture tells 1,000 words, this one isn't the kind any Wall Streeter wants to see. Those seats at the big well paying investment banking table are gone, and not coming back. As a longtime friend in the business said to me last week, “I miss the good old days”. To which I responded, in the kindest way I could, “No shit, who doesn't?”

Your Bonus is Your Job

Empty Desks

Total investment-banking and trading employees at the 12 largest banks globally



Source: Coalition Development Ltd.

Bloomberg

Source: Bloomberg

The complete mess that is the college admissions scandal continues to take down the prominent careers of some of the biggest names on Wall Street. Two weeks ago, it was Bill McGlashen who managed TPG's \$2 billion high profile Rise Fund. This week the co-founder of venture capital firm Lightspeed, Chris Sheape, was forced to step down. McGlashen used his checkbook to get his kid into USC, while Sheape chose Texas. Which, by the way, was a heck of a good football game.

“He’s going for the corner..”

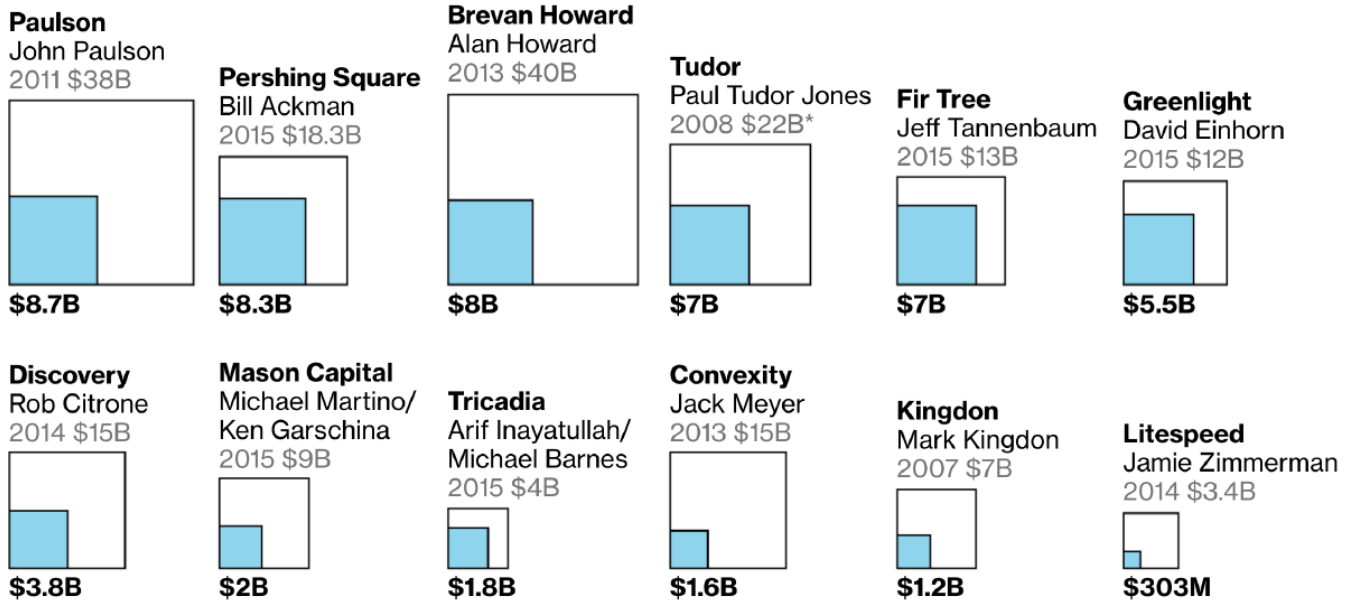


Source: Sporting News

Finally, the once untouchable macro trader, Martin Sze, handed back his client's last \$100 million, eight years after opening his Hong Kong based hedge fund. Sze was once Goldman Sachs' highest paid trader, making him able to attract \$2 billion in investor cash when he walked off the desk to start Azentus. As *Dealbreaker* reported, in his heyday, Sze would take home in one year the same amount he just handed back. Add his name to the list of those either throwing in the towel or managing a fraction of what they once did.

The Tombstone of the Golden Age

Assets Under Management: □ Peak ■ Current



Source: Bloomberg

After that barrage of sour news from all corners of Wall Street we leave you with the thoughts and reflections of Chauncy Gardner. “In the garden, growth has it seasons. First comes spring and summer, but then we have fall and winter, following with spring and summer once again. Yes. There will be growth in the spring!” And that, loyal readers of *This Week in the Markets*, is something to look forward to.

Chance the Gardner



Source: Marketwatch

Diversions

Next weekend is a special one in golf, as the hallowed grounds of Augusta National will host the Women's Amateur, marking the first time a major women's tournament has been played on the course. NBC, and host Mike Tirico, have the weekend coverage. The annual spring ritual, the Masters, will be held the following weekend.

Azalai Season at Augusta



Source: Golf News Net

If you happen to live in Southern California, coverage of the “Super Bloom” has been harder to miss than traffic on the 405. You can now count us in as having shared with you the story, and the images.

Anza-Borrego State Park



Source: Los Angeles Magazine

This year's phenomena is the result of the perfect combination of a very wet winter and an abnormally cold February. The former provided the moisture to set the trigger for the bloom, the latter locked it in. With a nice warm spell coming in, the desert landscapes have now exploded, as have the flock of visitors looking to take in the splendor. Some claim the traffic is too much. To which we say, it's the desert for God's sake. If you aren't going to get out and enjoy it now, when will you?

Walker Canyon



Source: Channel 3000

Attention Star Wars geeks, you are about to enter nirvana as Disneyland prepares to open “Star Wars, Galaxy's Edge” later this spring. The 14-acre site takes over where Tomorrowland used to be and will include every ounce of Disney magic, including a droid factory, the visual spectacle of going into hyper space aboard the Millennium Falcon, and sipping a futuristic drink in the Star Wars Bar.

In anticipation, every Disneyland hotel is sold out on May 30th, the day before the opening. Which means every marginal “Magic Castle Motel” within 20 miles will

be sold out as well. At least the park is cracking back on the stroller problem. The struggle is real.

(Very) Pre-Open



Source: ABC News

As we are not ones who like to provide only front page news, but also the gritty things you have to dig around for, we wanted to share with you the story, as told by the *Los Angeles Times*, of the semi-secret social societies that roam the different “lands” within Disneyland. If you just can’t get enough, *Vice* wrote a similar story on the gangs titled “The Young, Tattooed, Obsessive, Fans Roaming Disneyland.”

The Neverlanders



Source: Vice

The story the *Times* published includes a paragraph that described a lawsuit one gang laid on another that is truly not to be believed. It should be exhibit A for those who think that these people have taken it too far.

“The plot (of the suit) revolves around the Main Street Fire Station 55 Social Club, whose leaders claim they have been bullied and terrorized by the head of the White Rabbits Social Club.” The Fire Station 55 versus the White Rabbits? And we thought the Bloods v. Cripps were bad.

Hells Angels...Move Over



Source: The Paw Print