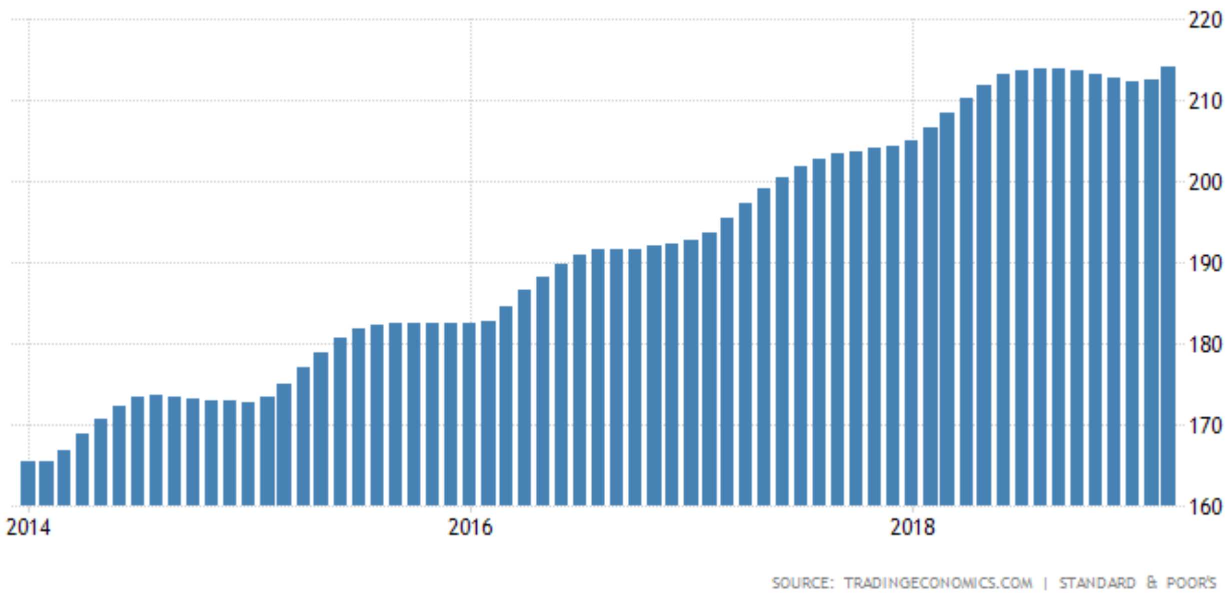
It was a short week in the markets. A short one in economic and corporate news. And a good week to be short stocks. The bond market, not so much. Read on….

The Economy

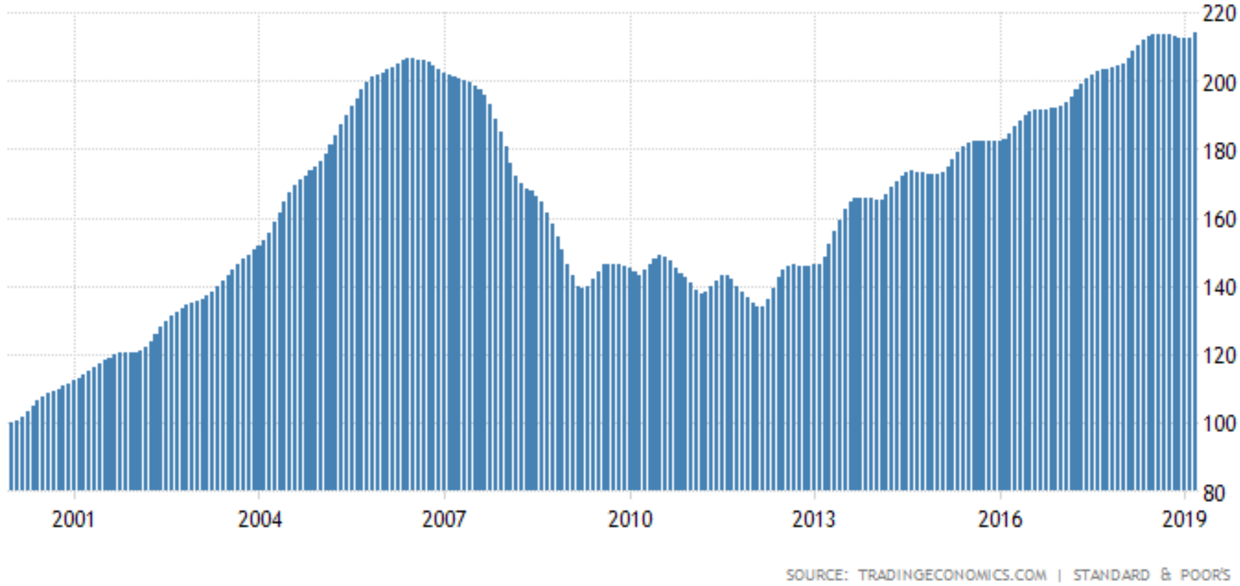
Aside from the relatively small revision to first quarter GDP, it was a quiet week for the top-down. That being said, the releases that did occur were 'residential real estate forward'. First the good news, according to the Case-Shiller 20 city home price index, prices are picking up after six months of trending sideways.

Case-Shiller 20 City Index



Home prices have now surpassed their last highwater mark, which was in 2006. That's right, more than twelve years after the last top, we are finally back in the black. While it's good to have history in the rearview mirror, it doesn't hurt to keep it close enough to remember what it looks like.

A Rollercoaster 20 Years



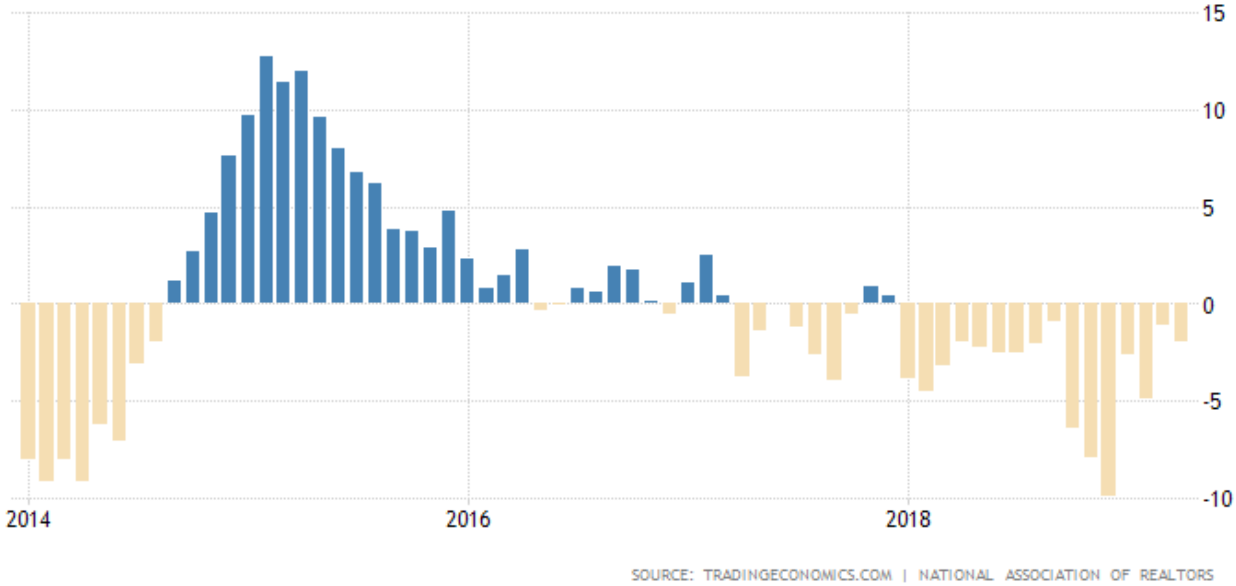
The second piece of good news, while prices have plateaued, the cost of money to buy a house has dropped significantly in the past six months. Rates on a 30-year conventional mortgage have fallen 80 basis points, a 15% decline, from their October 2018 high. This should help shore up a part of the economy that had people on edge.

30-Year Fixed Mortgage Rates

Source: Macrotrends

While prices have held up, the number of pending homes sold has gone down for 22 of the last 24 months. A trend that should be worrisome as the affordability gap continues to grow and the risk of a possible recession remains on the market's mind.

Pending Home Sales

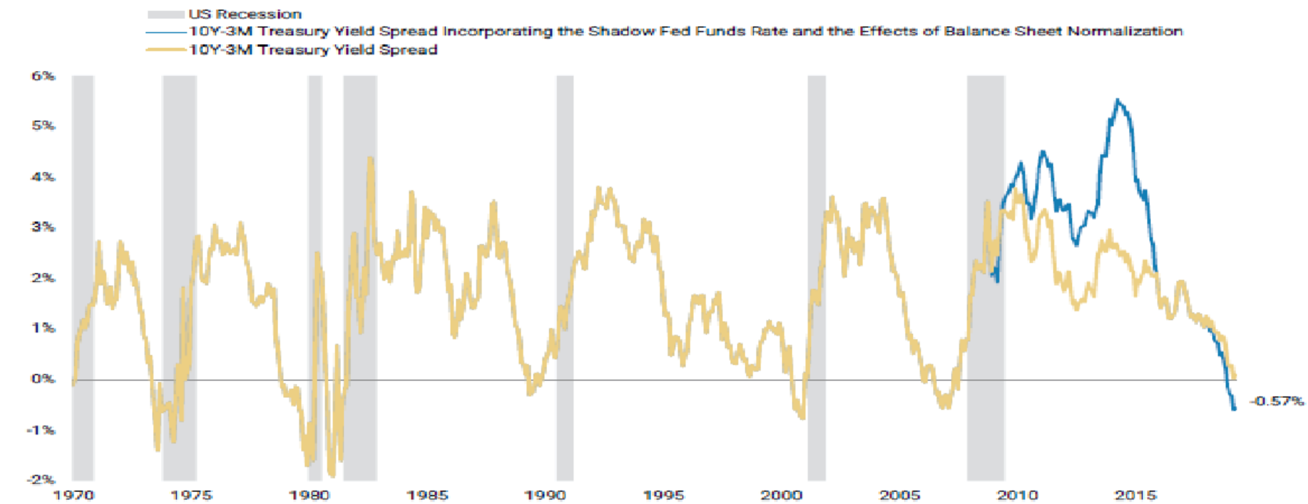


The bad news in all of this is with the drop in rates on the long bond, the yield curve continues to invert, a condition that has preceded every recession for the past 50 years. An inversion happens when you get a higher yield on short term credits, than long term ones. In a normal healthy economy, the opposite should be true.

This week, *Forbes* contributor Frances Coppola, reminded us why the Fed should take curve inversion seriously. Morgan Stanley's chief strategist, Mike Wilson, went a step further when he said that the conditions expressed by the curve 'clearly spells downturn'.

The Yield Curve

Exhibit 3: Adjusted Yield Curve for QE and QT Suggests the Clock Is Ticking

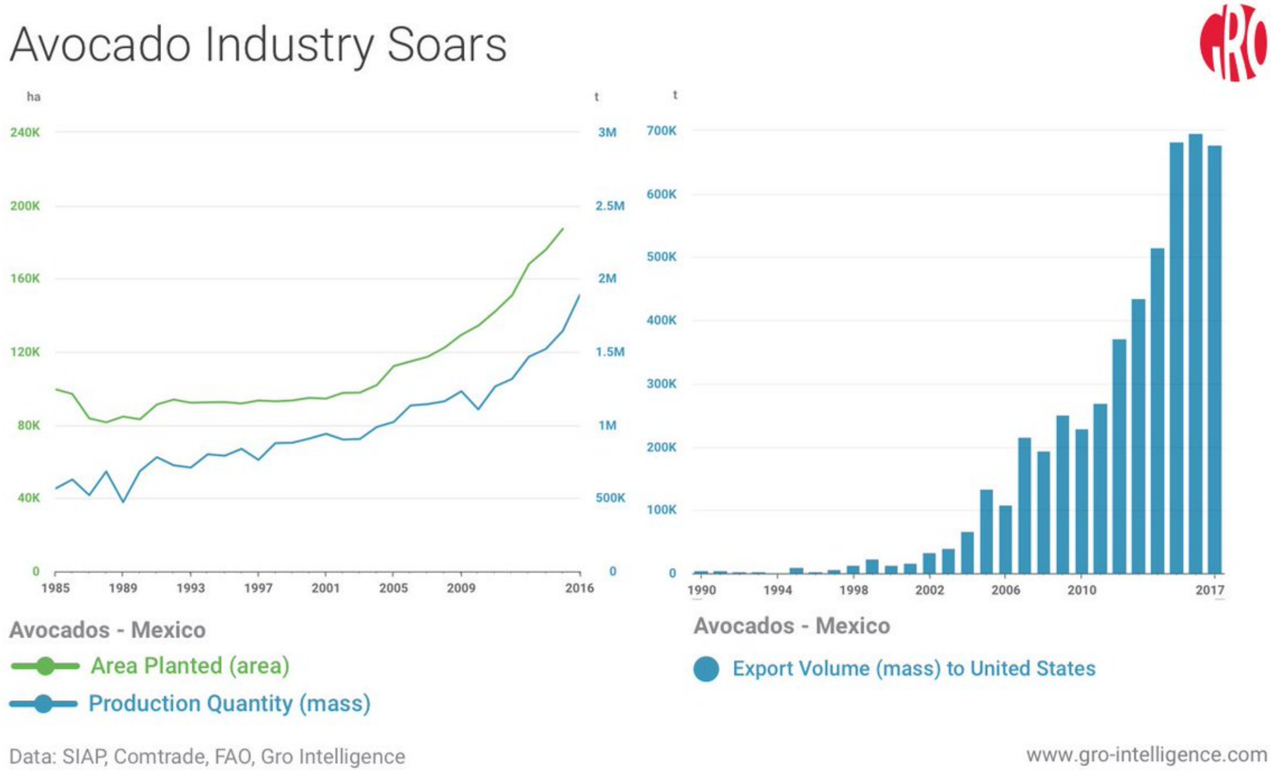


Source: Morgan Stanley Research as of April 30, 2019. Note: Shadow Fed Funds rate from Atlanta Fed replaces 3M yield from 2009-2015. Starting October 2017, 3M yield is adjusted for effects of Fed balance sheet reduction– every $200B that rolls off balance sheet equates to roughly a 0.25% rate hike based on estimates from various Fed officials. Note that this is an approximation.

The Markets

Late Thursday, President Trump announced that he was going to pull out the tariff bazooka on Mexico if they didn't do something about the 'insurgency of illegals' on our southern border. The very scary Peter Navarro called the move by Trump 'brilliant'. The tariffs start at 5% and will go to 25% by October if our amigos down in Old Mexico don't get in line. Sadly, if you like avocados, like we like avocados, your grocery bill is about to go up.

Holy Guacamole!



An editorial in China's largest newspaper, the *People's Daily*, made headlines this week with the ominous quote, 'Don't say we didn't warn you', emphasizing China's resolve in the trade matter. As *CNBC's* Sara Eisen points out, this is only the third time in seventy years the paper has used the phrase, emphasizing the seriousness of the situation.

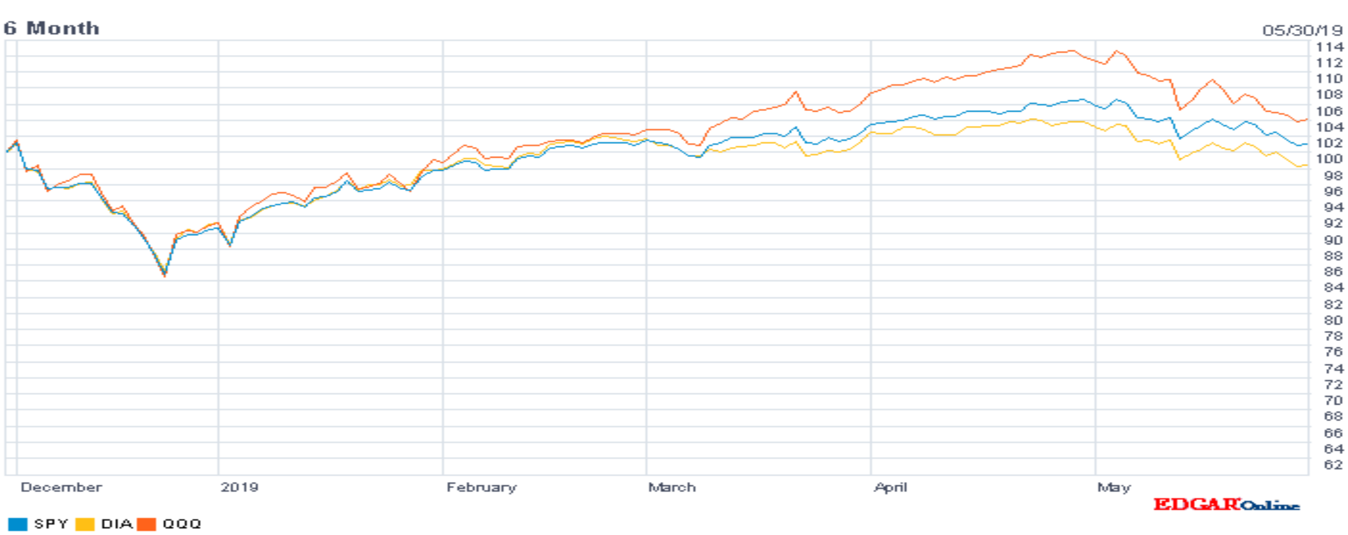
Sara Eisen
@SaraEisen
Follow

The phrase "Don't say we didn't warn you" was only used two other times by the People's Daily in history — in 1963 ahead of China's border war with India and in 1987 right before China went to war with Vietnam.

CNBC @CNBC
'Don't say we didn't warn you' - A phrase from China signals the trade war could get even worse cnb.cx/2I66ids

Byron Wien, a legend on Wall Street who is now calling Blackstone home, provided a balanced look at the China situation, saying on Thursday that the trade war won't cause a recession or a bear market. His counsel was to take it seriously, but don't read too much into the 5% pullback the broad markets have seen in May. His prediction for the year is a 15% return for the S&P 500, we are currently sitting at 10%. Not bad, for the first five months

S&P, Dow, Nasdaq



Companies

In a move we saw coming, yet didn't fully capitalize on, sales of LaCroix water are in "free fall", according to Guggenheim analyst Laurent Grandet. His reasons were our same reasons when we detailed the idea last year. Bottom line, once the innovator innovates, and competitive barriers to entry are small, a flood of new product comes to market, and the party is over for the first mover. It's no different this time. In terms of missing some of the opportunity, as our mentor Mark Strome once said, 'it's easier to call them than to trade them.'

'Water, Water, Everywhere'

Source: The Rebel Chick

The importance, or lack thereof, of stock buybacks made the news a few times this week. From *Bloomberg* there was a headline that read the buyback hysteria may be overstated. The main piece of evidence being they are only a small percentage of overall market volume. The more important point is buybacks are indicative of a healthy company, with strong free-cash-flow.

Better by 65%

Around Wall Street

With a pickup in late cycle fear, and increased market volatility, ETFs designed to navigate around those conditions are seeing cash pile in like never before. Both BlackRock's 'buffer' exchange traded fund, USMV, and Invesco's SPLV, have outpaced the market over the past two years. That being said, both are loaded up with utilities and high dividend paying companies that tend to do poorly when rates rise. But for now, Blackrock and Invesco are looking to make as much hay as possible while the sun is still shining.

Making Hay

Source: Tornado Marketing

Diversions

The timepiece Jack Nicklaus wore on his wrist for the past 50 years is going to auction later this year. And no, Jack doesn't need the money. Proceeds from the sale of his Oyster Perpetual Day-Date Rolex, which is expected to net at least $20 million, will benefit the Nicklaus Children's Health Care Foundation.

The Golden Bear let *Maxim Magazine* inside the ropes for a sit-down talk about the timepiece. Interestingly, he never played with it on. Instead, it sat in his golf bag until the round was over and then went right back on his wrist for the trophy presentation.

Jack's Oyster Perpetual Rolex

Source: Maxim

When is too much, too much? When it's the growing inventory of ultra-high-end 'giga-mansions' for sale in the Santa Monica mountains near Los Angeles. From Pacific Palisades to Hollywood, the canyons and hilltops are now filled with properties in the $50 to $200 million price range. *The Wall Street Journal* calls it an ultra-high-end spec home bubble, we can't disagree.

Some of the worst offenders are those developed by Nile Niami, who is putting the finishing touches on "The One", a 100,000 square foot Bel-Air monstrosity set upon three acres that will be asking $500 million when finally listed. The "Billionaire", another Bel-Air over-reach, took a 25% haircut last year and can be had for $150 million. It remains unsold and in 'bid wanted' condition.

"The One"

Source: KCRW

Graduation season is once again upon us, and with it the sometimes-laughable list of who is speaking where. Our friends at Graduation Wisdom provide the 2019 Commencement Graduation Speakers List. Some of the highlights include, Katie Holmes at the University of Toledo. JJ Watt and Jennifer Garner at their respective alma matters, Wisconsin and Denison. *The Wall Street Journal* provides a compilation of the best moments of 2019 so far.

Tim Cook is doing double duty this year with an appearance at Tulane in May, and Stanford in June. German Chancellor Angela Merkel took her appearance on the podium at Harvard to skewer President Trump's view of the world with a 'tear down the walls of ignorance and narrow-mindedness' comment. For those at Morehouse College, the top prize is already in. Commencement speaker, billionaire Robert F. Smith, announced he was going to cover the student debt of every graduate.

Robert F. Smith at Morehouse

Source: KUT