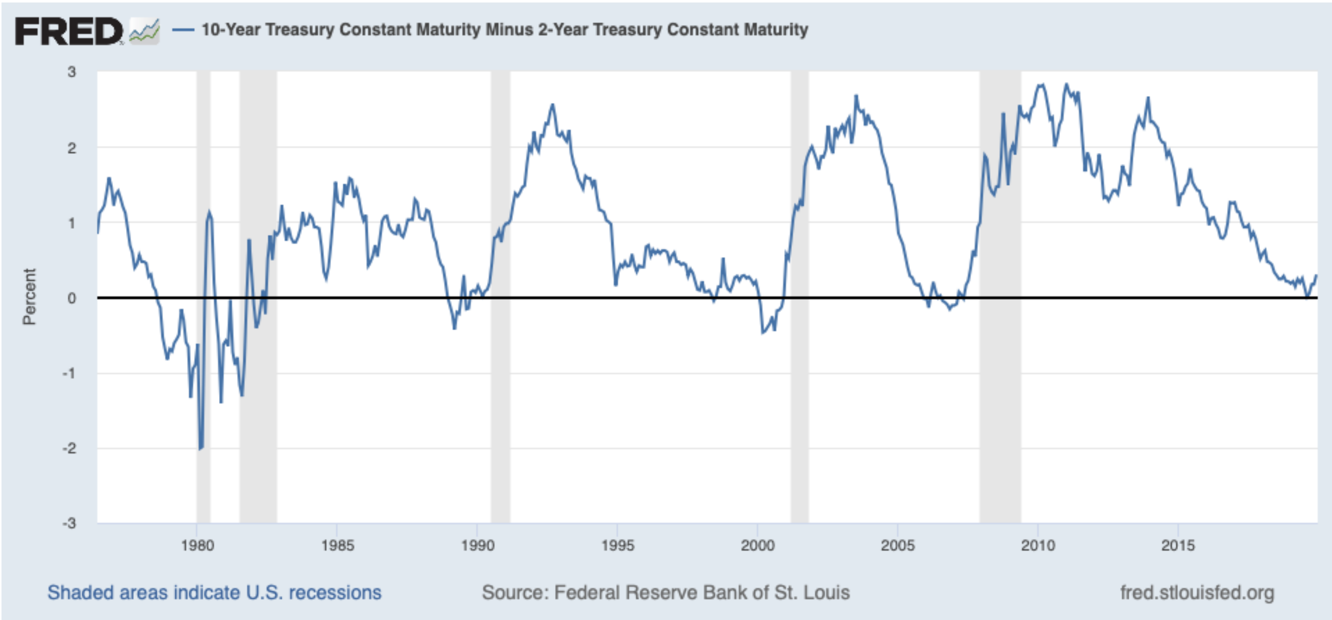
The Timex Market…

Take's a licking and keeps on ticking!

As we begin to close out the year, it is notable that this will be the first decade in the last five without a recession. Some of us, self-included, thought last year that the streak would continue. After all, almost every global indicator was flashing yellow, and the market was looking very wobbly. But the Fed did its business, and Trump is like a Timex watch, he takes a beating, but keeps on ticking.

The Yield Curve & Recessions



In the near-term, the yield curve continues to say things are getting better, when they weren't even that bad to begin with. The bottoming that occurred in September and October of this year lit the risk-on rally like a match to bone dry tinder, and it continued to do so this week, setting up a sixth straight week of gains. Great for the bulls, head scratching for others.

Risk (Really) On!

Side note, *This Week in the Markets* is taking a week off to let the digital pen rest, and the writer a chance to recharge, after all, this will be the 124th edition of one of Wall Street's most insightful, and at times irreverent commentary there is. Happy Holidays, Merry Christmas, Happy New Year, and everything else you can throw in there. A toast of any and all variety to everyone.

Cheers to You

Conspiracies Everywhere

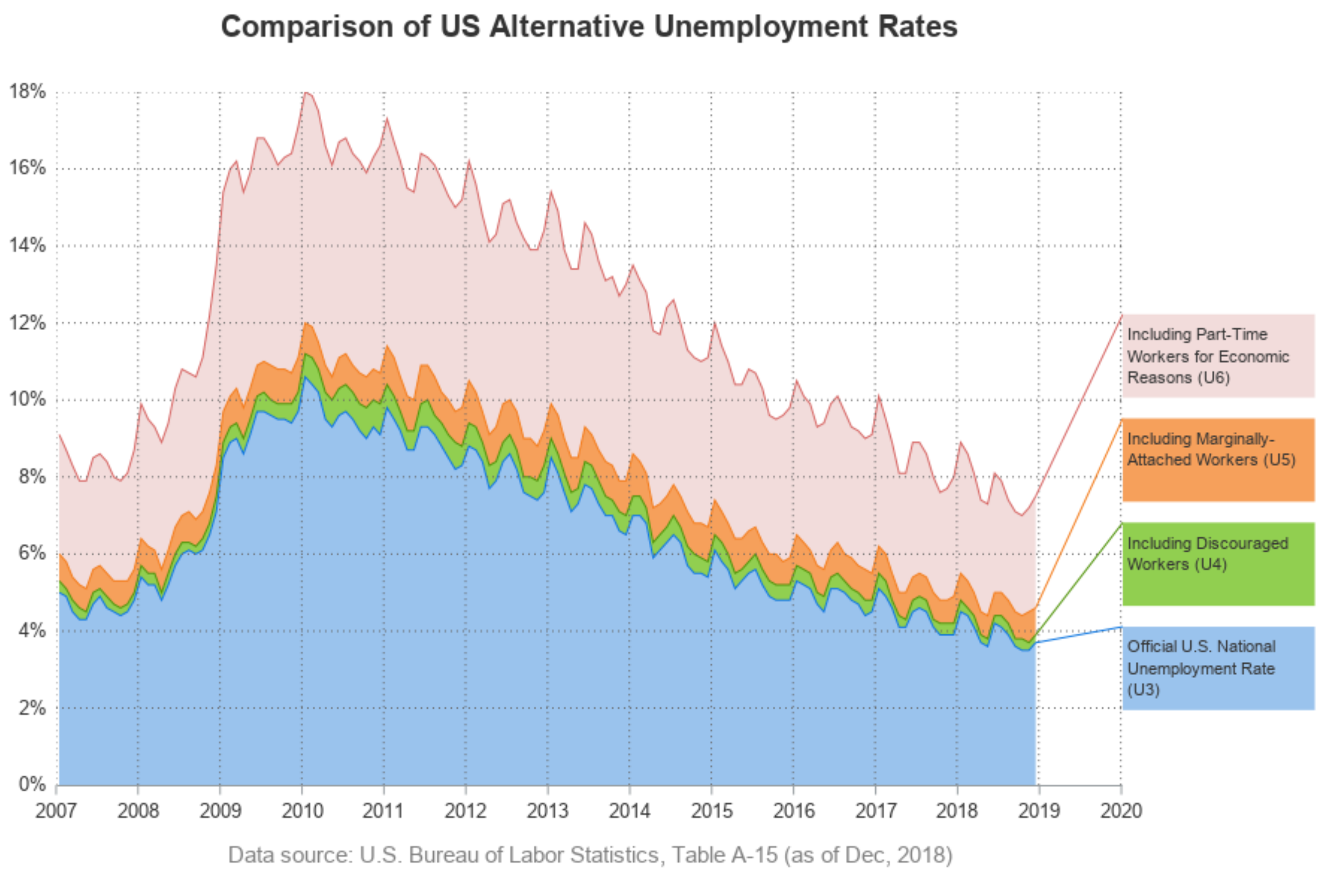
The last few weeks we have been fielding questions about the validity of the data the market is relying on to price the health and resiliency of the economy. Those who think that everything is a conspiracy are referred to around here as 'Grassy Knollers', a reference to the hill in Dealey Plaza where JFK's second gunman was allegedly hiding.

The Grassy Knoll

So, with that, here is our humble opinion about what's real, and what is not in a world that seems to get stranger by the minute, hour, day, week, month, year, and decade. Too much? If we have one wish for the New Year, it's that the trend reverses itself a little in 2020, or at least slows down. Onward.

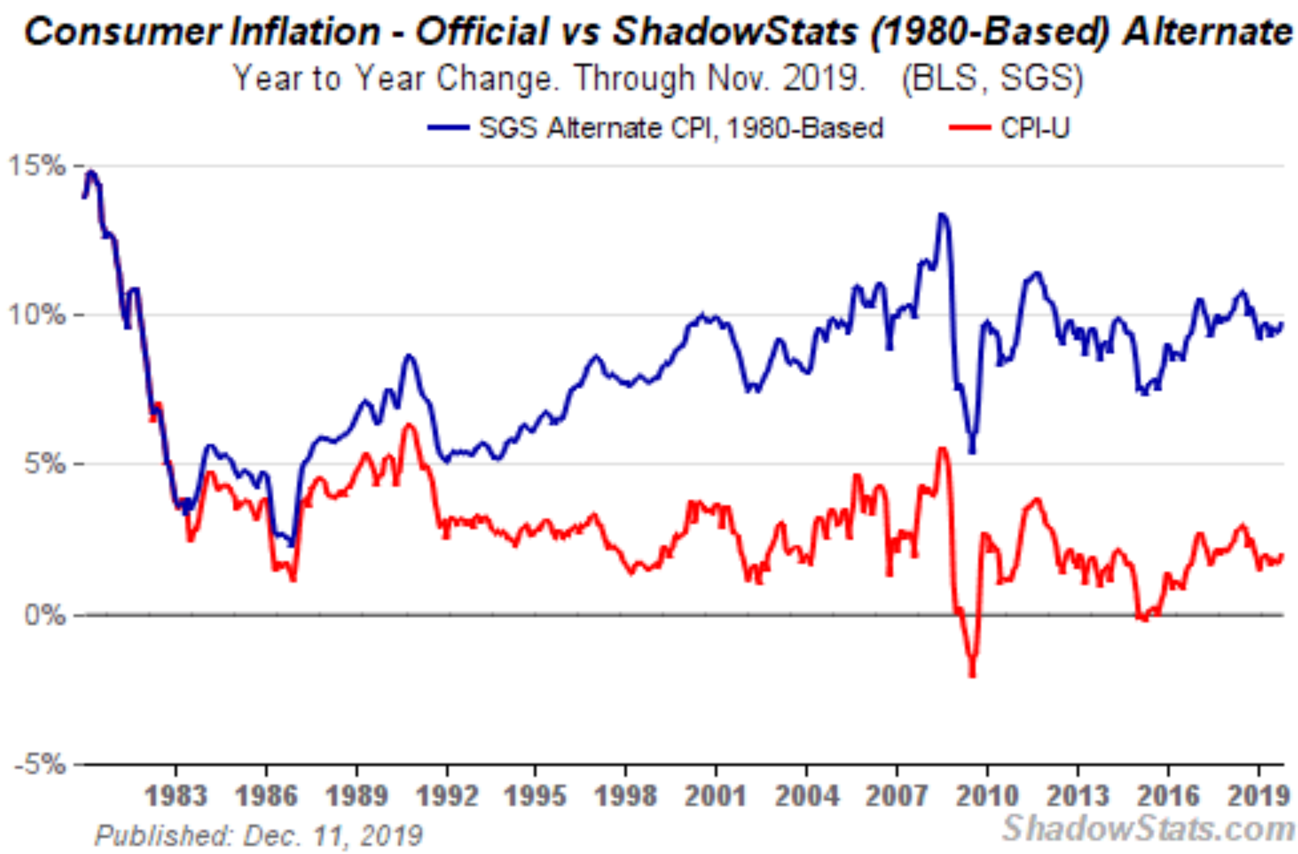
First up is the data we get from the Labor Department on jobless claims and the unemployment rate. On this one we say the numbers are legit and don't think they are manipulated. First off, the surveys are run by a group that are career government employees. They don't care who is in office as long as they get paid on the 1^{st} and the 15^{th}. What is more interesting to look at are the different classifications of works from U3 up to U6. The variances in these are where people start to debate what the 'real' number is.

Unemployment Rates



A second area where there is room for discussion around manipulation of data is in things like CPI. And consumer prices are important because the Fed has stated that if there is a significant rise, they will get back on the rate hike train. While we would not call ourselves conspiracy theorists, we do believe that as currently determined, the rate understates inflation, and the government has a very good reason to error on the low side. While the article is dated to 2014, Perianne Boring penned a great piece for Forbes laying out the case behind its significance.

Shadowy



Last one, and this is where things get interesting. There is group out there, ourselves included, who think that there might, just might, be a bunker somewhere in the Treasury building in D.C. with a Bloomberg terminal, trading lines that can't be traced, and access to trillions of dollars' worth of capital. And sitting in a captain's chair is none other than Treasury Secretary Steve Mnuchin, and he is not afraid to buy every SPY he can find, and then tweet about getting deals done. So as a close friend of ours in the hedge fund business once said, if you see Mnuchin, Paulson, Greenspan, or Dick Cheney buying them, in your mind or otherwise, don't be the dumbass who keeps taking the other side.

Fade Me, I Dare You

And with that, you now have our answer to the question. Should you be paranoid? To some extent yes, as it keeps you asking questions and staying intellectually curious. But at the end of the day, there is less 'fake news' in the markets than you think. Even though right now it feels very much like there is.

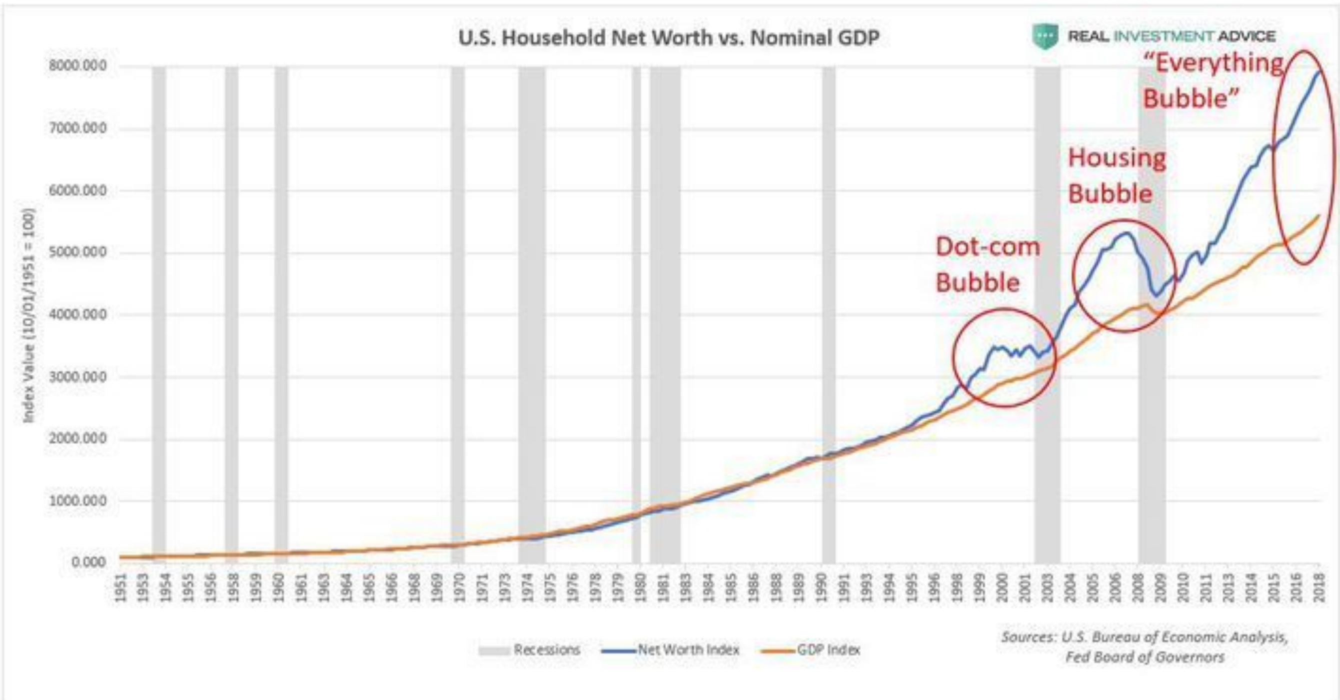
The Markets

Peter Coy, the economic editor for Bloomberg Businessweek, wrote a very thoughtful and cautionary piece this week in his fine publication. It highlights the risks in these markets, and that is our narrative as well, so we thought best to include it. While we were already 'slightly lipped', as they say in fishing. The fourth paragraph down was the full 'hook set'.

"There's a bigger issue here than whether stock and bond prices are too high. The more serious question is whether the economies of the U.S. and other wealthy nations can no longer grow without producing destabilizing bubbles—spikes in asset prices unjustified by fundamentals. Or, worse yet, whether the bubbles themselves are crucial to generating economic growth."

Whether you call it a theory, an explanation, or a narrative, it's all the same to us. We firmly believe that 'Bubblenomics' is the name of the game these days, as it has been since 2009 when the great global reflation trade began to take place. That's not to say don't look a gift bubble in the mouth. It's simply to remind anyone who will listen that risk and reward are highly related. And when you see this much risk being put on, this deep in an economic cycle, it creates a fear that the Fed is going to do what it is used to doing, and that is let bubbles build, and bust, on their own. They can't control the former, yet they are good at picking up the pieces from the latter.

Spread Widening



One of Wall Street's most legendary traders, Stan Druckenmiller admitted this week that while he was well positioned for 2019, he was still far too timid. The results? He only recently crept into double digit gains. His biggest concern has been the unpredictable nature of what's coming out of Washington D.C. Specifically from the house that sits on Pennsylvania Ave and is devoid of color. We would counsel anyone with the aforementioned intellectual curiosity to grab a strong cup of coffee, or nice glass of fermented grape or distilled cactus, and enjoy the hour-long interview with a Master of the Universe.

Stan the Man

Companies

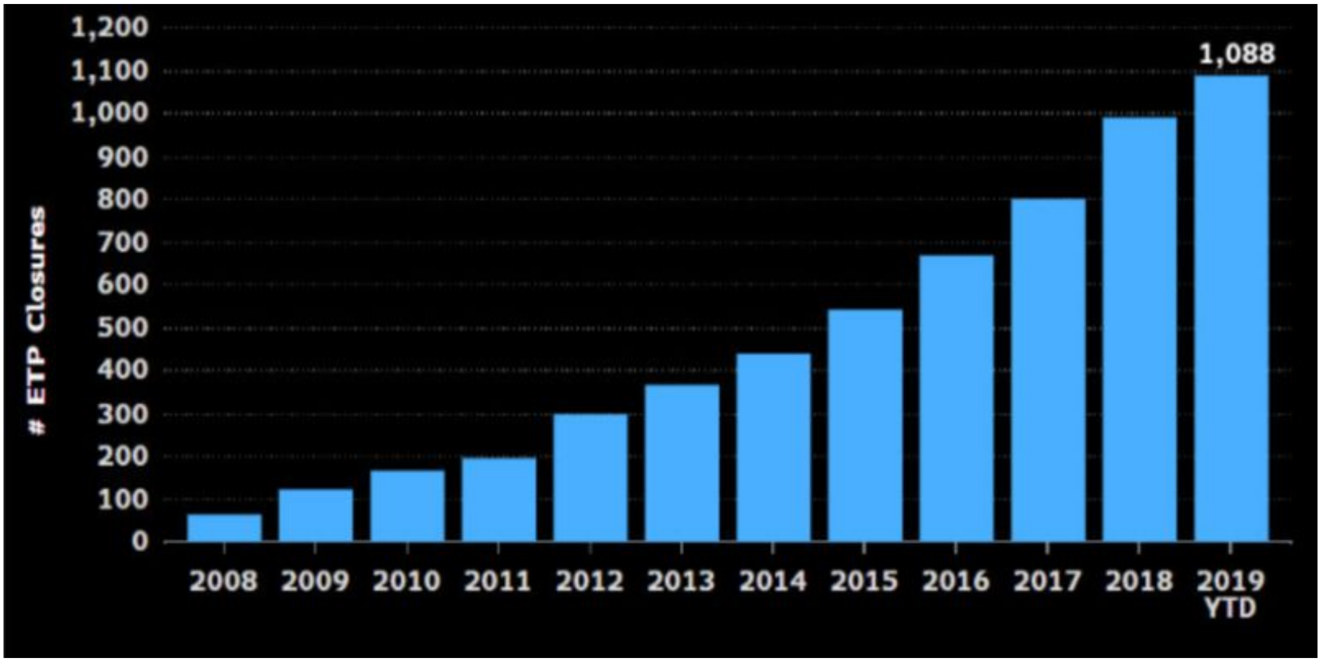
FedEx is getting the Amazon treatment, big time. The company reported earnings this week that came in well below what the Street was looking for. The logistics and delivery giant is stuck between slowing international air shipments, its bread and butter business, and the heavy spending its having to do to catch up with Amazon in domestic ground delivery. To add insult to injury, Amazon banned third party sellers from using FedEx until the company raises its level of service. We have been short the shares.

Midnight Run

Up & Down Wall Street

When confronted with the option of taking the bad news before the good, we always say yes. So this week we are doing just that. First up, was the opining by PGIM's David Hunt that 80% of ETFs and mutual funds were managed by 'Zombies Firms' that had little if no future. This follows on the heels of news that the 1,000th ETF has now closed. Which is apparently a reason to celebrate. We agree and can't wait for the bacchanal for the 2,000th.

High Mortality Rate



As if the Wall Street analyst community needed another reminder that the glory days are gone, and are never coming back. Turns out one in three have lost their job over the past seven years. Chances are good that the number will be one out of two by 2022 as the ranks are thinning at a far faster pace these days. The good news, the job isn't even a fraction as enjoyable or lucrative as it once was.

Quit Now

And now the payoff pitch for those that stuck around looking for good news. On Thursday, Bloomberg provided Wall Street with the Optimist Guide to 2020. In it they talked about all the reason bullishness and positivity were the best medicine for a world filled with fear and angst.

Diversions

Instead of handing out another list of gift idea for those late in the game, or a year end recap that you might make it lightly through, we are going to save our dry powder for the year end 'All Diversions' special. Think of it as the best of everything we can come up with.

The Best of Everything

For now, we wish you all glad tidings, and a wonderful Christmas, wherever that may be. See you back here in a week with all kinds of great thoughts and ideas for the New Year, and every one thereafter.

Feliz Navidad

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