Feeling Reflexive…

It was a short week on Wall Street with most of the headlines focused on the scope and spread of the Coronavirus. The delta between those who think it's a big deal and those who say it's nothing to worry about gets wider by the day. We are on the side of concern, which should make us more bullish because if we are right, the Federal Reserve is right there with liquidity to keep the wild asset ride going higher. If it sounds like we are a broken record, I don't think we are alone.

We mentioned 'getting reflexive' in the open because this moment in time reminds us very much of how markets react when a narrative takes hold, and by virtue of its acceptance, it actually becomes a reality. We know there is some nuance in the meaning of George Soros' Theory of Reflexivity, but it's the closest thing we can think of that helps us understand the markets these days.

The Cycle

The problem with all of this is that while everyone pretty much agrees this pattern exists, nobody knows for certain where we are. And as they say in the business, 'they don't ring the bell at the top'. Which is what is frightening us this time because of the multitude of factors that have come together to juice things this seemingly late in the cycle. And every week it seems another potential negative, turns out positive. Which is exactly what Soros had in mind when he turned the phrase 'myth into reality' into a foundational theory for markets.

George Soros

Markets & Momentum

For the first time in a while, like 4 mounts worth of a while, the momentum the markets have been experiencing appears to be fading ever so slightly. Given the levers at play right now, it's hard to know which one triggered it. And to be perfectly honest, given the complete parabolic move that has been exhibited by the indexes, this might be a situation where the rockets ran out of fuel, at least for now. If 30% moves in the Nasdaq in four months becomes the new normal, anyone running a long/short portfolio is going to have their work cut out for them in terms of staying relevant.

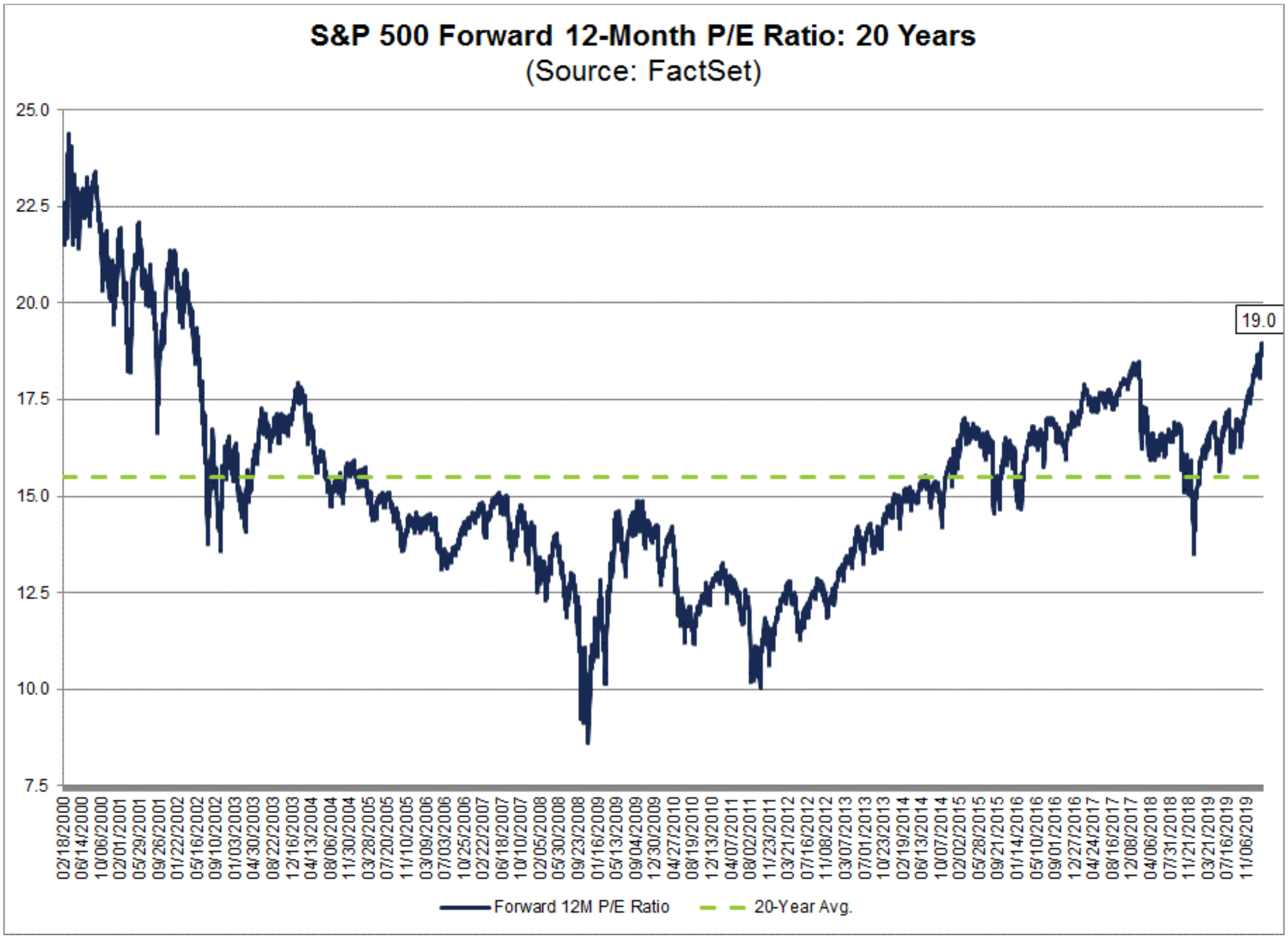
Nasdaq

One place the momentum isn't fading, is in the cascading fall of treasury bond yields, as we are sitting ten basis points away from an all-time low. On Friday, the 30-year did just that, trading to 1.889%. This move started back in October and was a big reason, along with a powerful move higher in the size of the Fed balance sheet, for the huge rally in risk assets. President Trump's guy on the economy, Larry Kudlow, was out last Friday saying market participants should not read too much into the move, as the fundamentals of the economy remain strong in his opinion.

30-Year Treasury

A little less than a year ago, Warren Buffett said that stocks are 'ridiculously cheap' if bond yields stay at the level they were then. Turns out, they were even more ridiculously cheap than he thought. And now a bunch of economic geniuses at the Fed are saying that low rates have had only a 'modest' impact on stock prices. It's hard to believe that's even a real thing. This week, the S&P 500 hit a forward P/E of 19 times, the highest since 2002. Gulp!

No Correlation? Really?

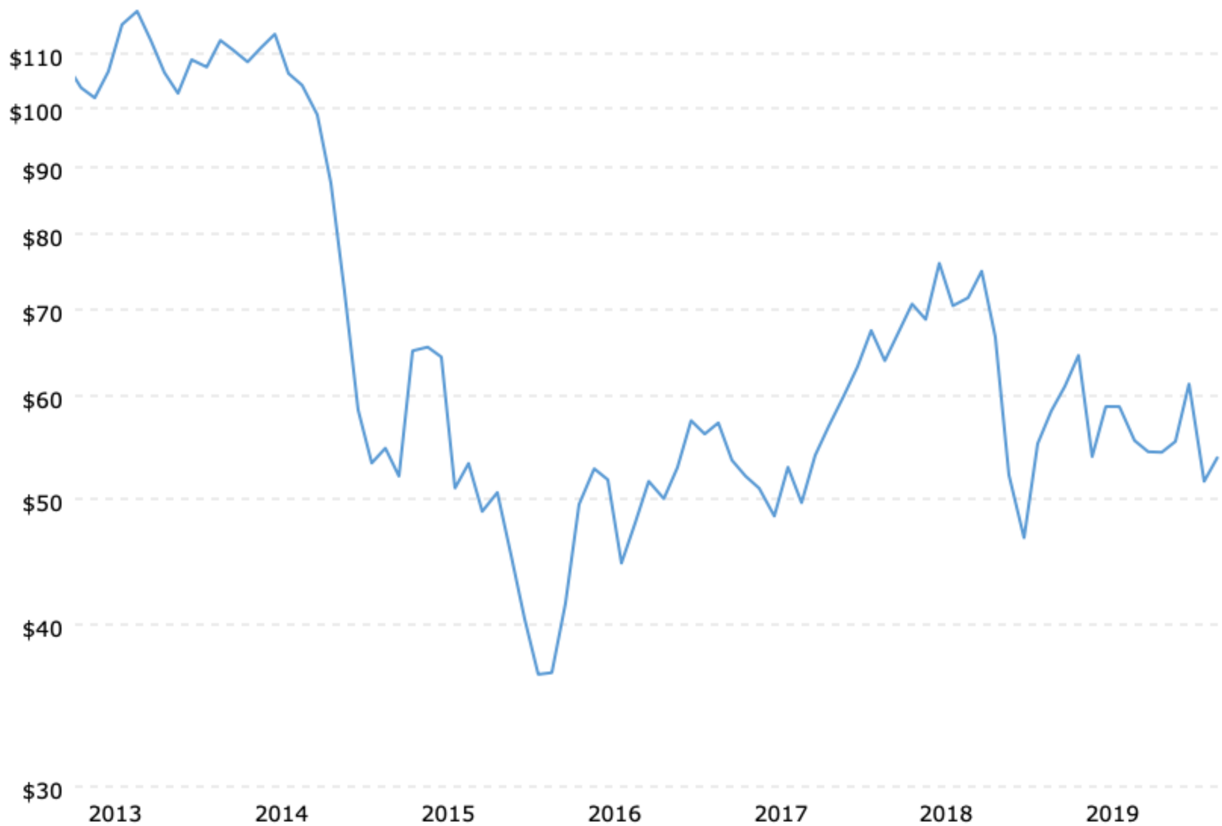


Another interesting chart of note is that of gold. For gold bugs, the commodity has always been promoted as a store of value at a time of increasing inflation. But this 30% move higher can't be explained as the the factor keeping the Fed's guns loaded for bear. This week, the Wall Street Journal ran an article that attributed the move to the commodities safe haven status, which is ironic, given that safe havens and risk assets rarely rally together. But maybe it is indeed different this time.

Gold

Finally, we take a look at our old friend crude oil. We say old because the price movement in what should be considered a global barometer for growth, is looking more and more like a geriatric. Synchronous global growth, crude trades at a $55 average. Number two Iranian in the organization killed, crude trades at a $55 average. Coronavirus threatens to shut down global plane traffic, crude still trades at a $55 average. As some long-time bears suggest, we may not see $100 WTI ever again. Sadly, for an industry we have an affinity for, this is probably the case and we remain selectively short companies that call it their business

Crude Oil



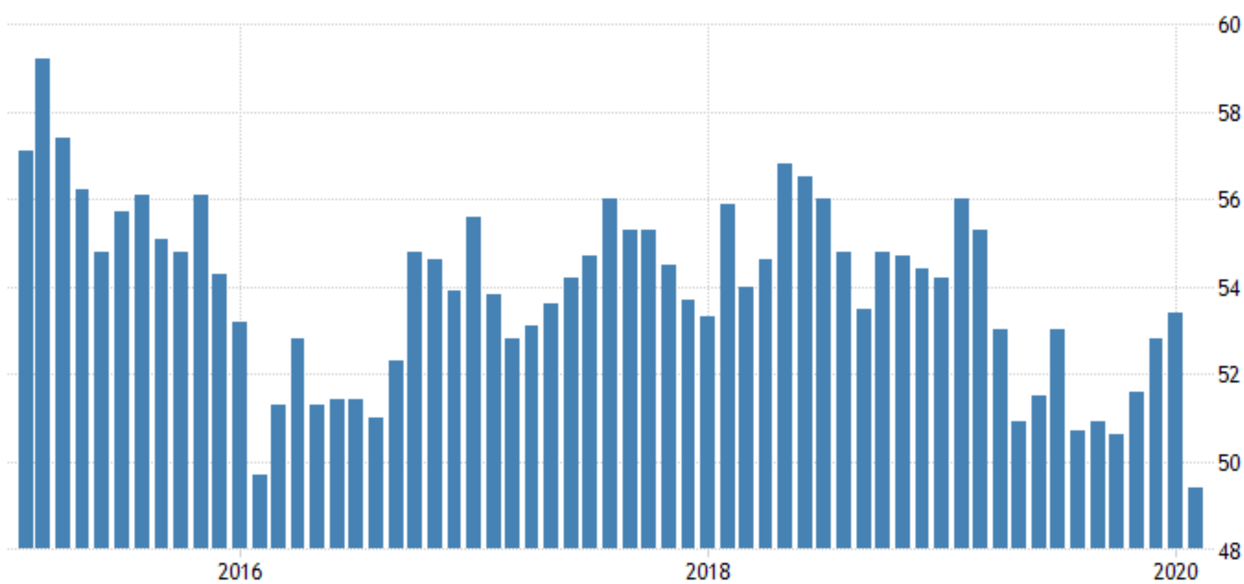
All of which has Wall Street analysts worried about the long-term longevity of super-majors like Chevron and Exxon. The challenge, is that these shares are part of a large contingent of stable dividend paying focused ETFs. Indications that the continued growth of the payout is in jeopardy would have them continually sold out, putting a long-term lid on the shares.

The Big Sunset

The Economy

The only news of note in terms of hard data last week was the release of the HIS Markit's version of the PMI reading. The reading of 49.4 was of note, because it was the first contraction since February 2016. Around that time there were several other readings that were flashing yellow in terms of the economy. Trump's election, and subsequent tax cuts and pro-business policies boosted the mood and PMI has averaged a 54 reading through mid-2019 when the slowdown risk reared its head again.

IHS Markit PMI



Outside the real numbers there was a modest amount of Fed speak and analysis of the January meeting minutes release. Two things the market keyed in on were the new threat of the Coronavirus, which was to be expected. The other was the confirmation that QE4 and the greasing of the repo market would end after April. If that's the case, we will likely be looking at a far different market at that time. Dallas Fed President, Robert Kaplan, gave us the standard 'data dependent' outlook everyone else on the Fed is shilling. Right now, the outlook is 'solid' in his opinion, and he sees no change in rates this year.

Deep in the Heart

Earnings

Boston Beer choked on its spiked seltzer last week, when it reported earnings that included the negative headwind of the buildout cost to support demand for the company's Truly brand. The upside is that sales of the uber popular bubbly helped drive a 34% increase in revenues. Bottom line in this case, they simply didn't make it up on volume. The stock is still up 40% over the past 12 months, even with an 8% earnings related dip.

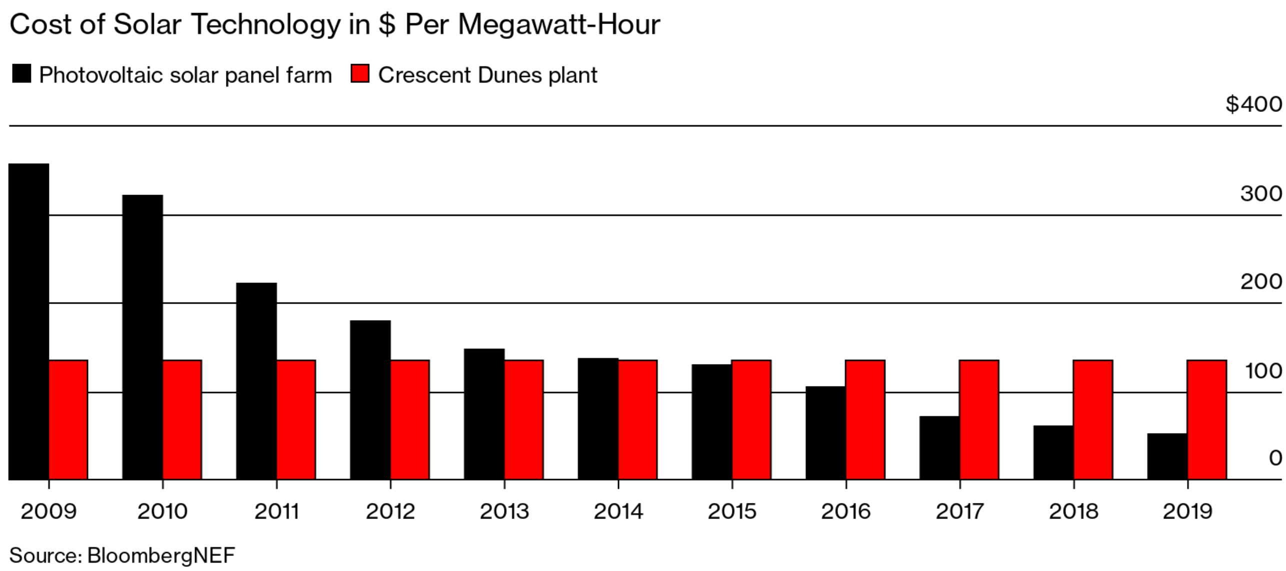
Move Over…Claw

First Solar, the solar-panel with the extremely volatile stock, reported a loss last week while Wall Street was expecting sometime on the positive side of the ledger. The earnings problem stems from weakness in their solar farm-building business. We mention this as prelude to the story about the now defunct Ivansolar farm that sits about an hour outside Las Vegas that you can neither miss by car or airplane. The thing is huge, and the orbs at the top could not be looked at for more than a few seconds.

Boondoggle Gone Bad

We mention this from a sheer intellectual curiosity standpoint, as this is a great example of a good idea gone terribly bad. The technology used at the facility is called concentrated solar power, and was lapped rather quickly by far cheaper solutions. The result, obsolescence even before it opened, an April 2019 shutdown, and now a conservator type situation. Bloomberg earlier this year published a great piece on how the project went from the future of solar, to an enormous billion dollar flop.

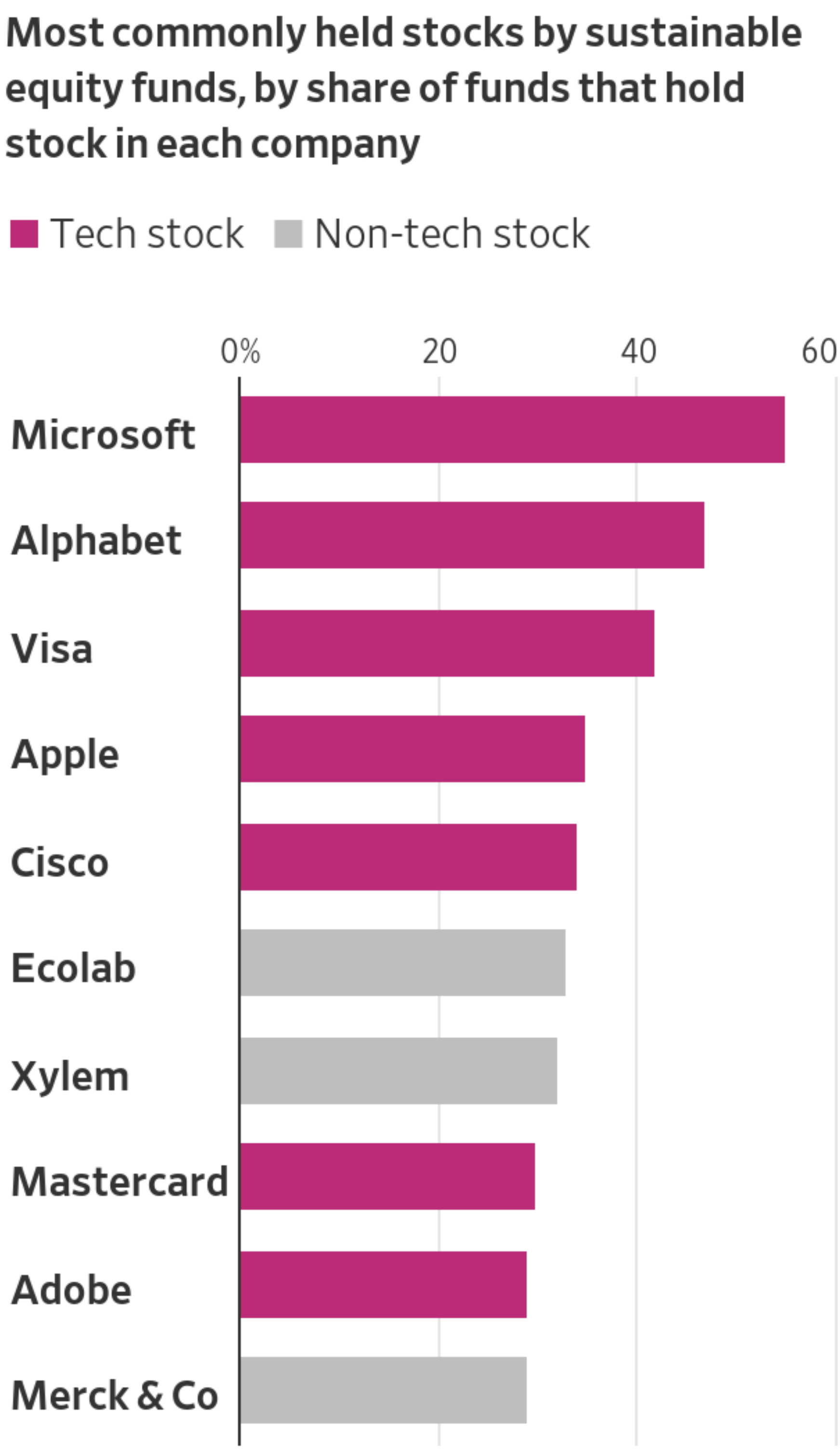
Say Goodnight, Alice



ESG-A-Palooza

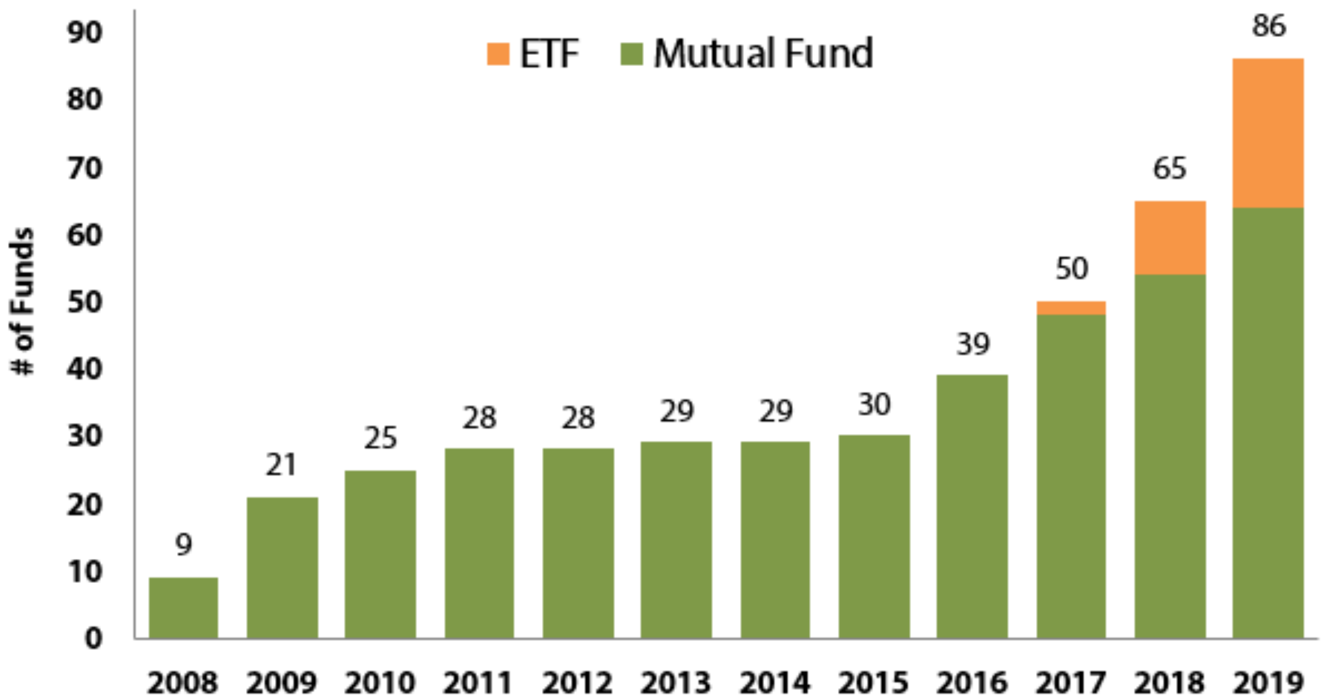
As has been reported by every business news outlet with a pulse, ESG investing and the products around them have been white hot the past year, and that trend looks to continue in 2020. While we are bullish on the idea of doing better by doing good, we have to say that a lot of ETFs and active funds are looking frightenedly like the large indexes. As the Wall Street Journal reported, Microsoft, Google, Apple, Cisco and Adobe sit high on the list of holdings.

Heavy on Mega Caps



To which we can only say, buyers of these funds beware, there is greenwashing everywhere. To those who short stock, be smart and avoid these large holdings, as there is a tidal wave of buying coming through every day.

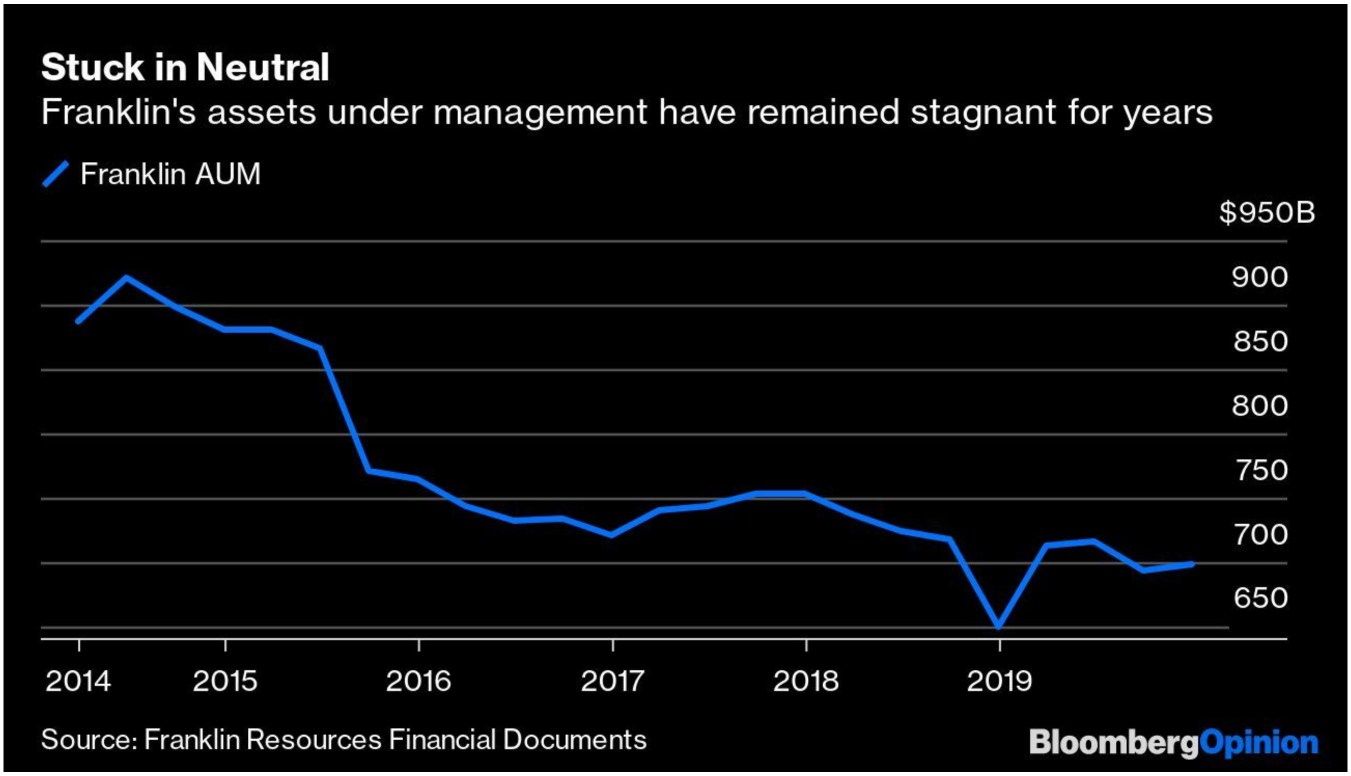
ESG Fund Growth



Asset Managers

As has been well documented both here and in every other news outlet, active asset managers have fallen on hard times. So much so, that we think they have turned into junkies looking for their next fix. And we like to short junkies. That said, we got too close to one of them and wound up getting sucker punched…again. This week, mutual fund giant Franklin bought Legg Mason for a 25% premium, and once again we were short the stock. While the punch hurt, it didn't take us out. As much as a 100-basis point one day setback isn't our idea of fun, we still like the way we are setup if turbulence once again shows up. The solace we find is the gain we booked earlier this year on a Franklin short.

Getting One Side Right



Diversions

With mortgage rates falling through the floor, it’s time to fire up the early spring real estate selling season. And with that, we take you on a tour of homes of architectural significance. Some dating back almost 300 years. Others include a jail you could repurpose and one of the most iconic ranches in Montana.

Wicked Cheap Money

Our resources for finding these old homes of distinction are the good people at Historic Properties and CIRCA Old Houses First up is the Stone Home that dates to 1730 and sits in the historic town of High Falls, New York, in the Hudson River Valley. For $839,000 you can own a sizeable 3,800 square feet of home on 4 acres. Do yourself a favor and click through to the link. This most certainly is a ‘if these walls could talk’ residence.

290 Years of History

Sticking with our stone theme, there is this 4 bedroom and 6 bath residence that sits above San Francisco Bay in the Berkeley Hills. Buyer beware, you are a short twenty-minute walk from 'Bezerkly' and their perpetually bad football team. But you are just a ten-minute walk from the globally famous Chez Panisse. At 3,400 square feet, the asking price of $2,195,000 seems downright cheap for Bay Area standards. And to be clear, I'm a Ucla Bruin fan and our squad has fallen into the perpetual category as well, and not in a good way.

Go Bears!

If you are looking for something truly unique, in Bedford Pennsylvania there is a local jail that dates to 1895 that can be yours for $394,000. It's up to you to decide what to do with the 8,000 square feet of space. I'm guessing Andy Dufresne could get a decent break on the price. Get busy living or get busy dying!

Locked Up

Down South Carolina way sits this Greek Revival Bordeaux Hall home that dates to the pre-Civil War era. For $649,000 you get 3 bedrooms, 2 baths, and a full five acres of land. Each column of in the front is believed to be made of something to the tune of 3,000 bricks.

Bordeaux Hall

We end with the historic Beartooth Ranch on the Stillwater River in Montana, for which this this fine establishment was named. This is a genuine working ranch consists of 12,000 acres. The upside for you city slicken hedge fund managers from New York is that the ranch is located 45 minutes from Billings and is easily accessible. At $28,000,000 million you will probably be flying in and out private style, which is okay as Logan Field can accommodate up to a G-6. And wait for it, wait for it…'a river runs through it'.

Beartooth Ranch

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