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Market/Investor: Crossing Wall Street June 21, 2019

Weekly Market Review

DISCLOSURE: *The contents of this report were researched, analyzed, and written by Eddie Elfenbein, founder of* **Crossing Wall Street**, *and were put into this report format, and published and distributed by* ***e*Research Corporation**.

***e*Research Corporation** is pleased to provide a review of the markets by Eddy Elfenbein of Crossing Wall Street.

Mr. Elfenbein introduces his commentary with the following quote from Fed Chair, Jerome Powell:

"*Many FOMC participants now see that the case for somewhat more accommodative policy has strengthened.*"

Read Mr. Elfenbein's analysis and market comments on the following pages.

Information about Eddy Elfenbein and **Crossing Wall Street** is provided at the end of this article. You can also learn about **Crossing Wall Street** by going to its blog website at: http://www.crossingwallstreet.com/.

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June 21, 2019

Crossing Wall Street: Weekly Market Review

by Eddy Elfenbein

BW: We have taken only an extract of Mr. Elfenbein's latest weekly article. If you wish to read the entire article, which includes stocks in his recommended portfolio, there is a link provided below.

That little statement above by Fed Chair Powell sparked a party on Wall Street. What it means, basically, is that the Fed is leaning towards cutting rates. Wall Street responded with a big rally. On Thursday, June 20, the S&P 500 closed at a brand-new all-time high.

In this week's *CWS Market Review*, we will take a closer look at what the Fed's plans are. Let us look at what the Fed had to say this week or, more accurately, what they are no longer saying.

The Fed Is Patient No More

The Federal Reserve met on Tuesday and Wednesday of this week. This was an important meeting because there has been growing pressure on the Fed to help out the economy. The central bank decided against lowering interest rates.

Going into this meeting, there was some speculation that the Fed could surprise us with a rate cut. Alas, that did not happen, but the Fed appears to be more open to cutting rates in the future. In fact, one member, St. Louis Fed President James Bullard, voted to cut rates immediately.

In the Fed's policy statement, the Fed noted the overall strength in the economy. Importantly, the Fed removed a key sentence. The words "In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal-funds rate may be appropriate to support these outcomes" were absent from this statement. Previously, the "patience" referred to the need to raise interest rates.

The statement contained this sentence: "The Committee continues to view sustained expansion of economic activity, strong labor-market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes." And it added: "but uncertainties about this outlook have increased."

That is telling. The FOMC debates these words carefully. There are clearly Fed members, in addition to Bullard, who want to see rates go down soon.

The Fed also released its economic projections for the coming few years. Here is where things get interesting. Despite the market's desire for rate cuts, a slim majority at the Fed sees no need to cut rates this year. After that, they only see one rate cut coming next year

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Wall Street is far from this view. Very far. According to the latest futures prices, a cut at next month's meeting is a foregone conclusion. I am not exaggerating. The futures market has the odds of a cut priced at 100%. You cannot get much more certain than that! One month ago, the odds were at 20%.

On top of that, they see the odds of a cut at the following meeting, in September, at 87%. I am puzzled by this level of certainty. In fact, futures traders see a third rate cut coming before the end of the year.

While it is true that the Fed appears to have shifted its stance towards being more open to rate cuts, I think the market is greatly over-estimating the Fed's willingness to cut rates once, or even a few times. Whenever there is a disagreement between market prices and a committee of economists, it is usually a good idea to take the market's opinion with greater weight. This time, I am not so sure. It is one thing to take back a wrong-headed rate hike in December. It is quite another to cut rates by 1% over the coming year.

For their part, the bond market is all on board for rate cuts. This week, the yield on the 10-year Treasury dipped below 2%. The yield is now back where it was before President Trump was elected more than two-and-a-half years ago. In the last seven months, the yield has dropped 120 basis points.

What this means is that the financial markets are very concerned about the sustainability of the economy. The most interesting part of the yield curve is the area around two to three years out. Yields here have plunged very low in anticipation of Fed rate cuts. But it appears that investors are not expecting a prolonged cycle of lower rates. The yield curve starts to rise again after three years out.

On Thursday, the price of gold had its best day in three years. Gold is now at a six-year high.

Wall Street seems convinced on three points: (i) we need three or four rate cuts, (ii) the Fed will oblige us, and (iii) these cuts will be successful. Frankly, I am a doubter on all three.

What to do now? The Fed's policy change has been very good for share prices. So far, this has been the best June for the S&P 500 since 1955. Despite my skepticism regarding the Fed's willingness to help us out, we have been doing very well.

There has been a shift in the rally. Starting in June, the low-volume sectors started to lag. This comes after a few weeks of trouncing the market. In June, tech has done well, while areas like financials have lagged. This makes sense as banks like higher interest rates.

Investors should continue to focus on high-quality stocks.

Next Week: Next week is the final trading week of the first half of the year. We will get a few important economic reports. On Tuesday, the new-home sales report comes out, along with consumer confidence. On Wednesday, we will get the latest report on durable goods. On Thursday, the government will update the Q1 GDP numbers. The last report showed that the U.S. economy grew, in real terms, at a 3.1% clip in the first quarter.

Be sure to keep checking the blog for daily updates, and I will have more market analysis for you in the next issue of *CWS Market Review*!

- Eddy

BW: In the rest of the newsletter, Eddy reviews his Buy List and reviews any of the stocks that are in the news. You can read about them and the entire article by clicking on the following link. <Ctrl-Click>

https://www.crossingwallstreet.com/archives/2019/06/cws-market-review-june-21-2019.html

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ABOUT THE AUTHOR

Eddy Elfenbein is a Washington, DC-based speaker, portfolio manager, and editor of the blog, **Crossing Wall Street**. He was named by CNN/Money as the best buy-and-hold blogger, His free Buy List has beaten the S&P 500 for the last seven years in a row, and by 47% in the last thirteen years.

BW: Additional information on Eddy Elfenbein and Crossing Wall Street follows on the next page.

Welcome to Crossing Wall Street

I started this website to help individual investors. I have to admit that I love the stock market. I think I must be an addict. In my opinion, the stock market is one of the greatest inventions in history. The stock market is simply the most consistently successful way to make money over the long term. Even after the financial crisis, stocks have still beaten every asset category over the long haul—bonds, commodities, and real estate.

While the stock market may bounce around from day to day, and even month to month, the long-term trend has always been higher. Over the last 35 years, stocks have gone up 35-fold. And since the end of World War II, the stock market is up an amazing 120,000%. I wish I had been around! That was the beginning of an American financial revolution. Today, we are at the beginning of a global financial revolution. That is why I think the next 70 years will be even better.

The key to doing well on Wall Street is actually very simple: Buy and hold shares of outstanding companies. But too many investors never learn this valuable lesson. Or if they do learn it, they learn it the hard way. That is where I come in. I want to help investors avoid the mistakes that separate successful investors from those who always find themselves spinning their wheels.

There are lots of pitfalls on Wall Street. From shady companies that are more popular than they are profitable to a mutual fund industry that is more interested in its fees than serving investors. Today's investors must be careful.

At **Crossing Wall Street**, I give investors my free and unbiased view of the market. I probably analyze dozens of companies every week. I am always looking over income statements and balance sheets. I have spent several years collecting my list of the best companies to own. This is my current Buy List. I have included a description of each company and its current share price. These are the ones that I make the most effort to follow on the site, but please feel free to ask me my opinion on any stock. I don't receive compensation from any of the stocks I recommend. Also, I don't "short" any of the stocks I criticize. At any time, I may own the companies on my Buy List. All of the information on this site is free and unbiased. I also have a section for Frequently Asked Questions that will help you learn more about **Crossing Wall Street**.

Please feel free to e-mail me. I enjoy getting feedback from investors. I am happy to give you my opinion on any stock or investing in general. I should warn you that I cannot give out personal portfolio advice, but all other topics are fair game. You can also check out some of my favorite links.

- Eddy Elfenbein

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