



What's Up with the Market – November 2019

Market News (<https://dreamwork.financial/category/market-news/>)

Published November 25, 2019

After being stuck in a trading range for months, the S&P has finally shown a significant breakout above the 3000 level. We have been trying to break and hold this level since July and it has finally occurred thanks to strong corporate earnings and better than expected guidance.

Last month (<https://dreamwork.financial/2019-10-whats-up-market/>) I ended with:

“We are sitting at the same spot we were last month wondering if we could break out to new highs. All of the bad news has lowered expectations for this earnings season to the point where companies are able to report that things aren't as bad as they seem... Now with the Fed not being as much of a factor, I feel that we are in a healthier environment. All we need now is some good corporate earnings, an actual trade deal or both.”

I feel this is what happened as expectations for corporate earnings were low and companies delivered better than expected results across the board. The breadth of this rally has been, perhaps, the most impressive as it's indicative of a strong economy and a healthy consumer. All this is really setting us up nicely for a year-end rally as long as no major news comes out that could disrupt it.

Anyways, here's what I have my eye on now:

Trade War:

Right now it appears that the market is pricing in this 'Phase One' deal as a done deal. Every time there is a headline that suggests the deal has hit a snag, the market drops initially only to brush it off and rally back. I have made it known in the last few newsletters that I think we will definitely make a deal with China, but most likely at a time it benefits President Trump's re-election chances the most.

If you follow the market closely, it just seems like as market sentiment starts getting negative, rhetoric around a trade deal gets more positive. And as the market sentiment turns positive, rhetoric starts to turn negative. Now that we have broken out to new highs, it will be interesting to see where these talks go. However, one thing is for sure, if the deal falls through, the markets are going to get hammered as they don't seem prepared for that scenario.

Impeachment:

The hearings around a possible impeachment of President Trump have been underway this past week. This whole situation is an absolute mess and I definitely don't want to get political with my newsletter.

I'll just leave it that if it starts to look like he is going to get impeached, expect the market to have a serious selloff. As I have stated many times, "the market HATES uncertainty," and this scenario would certainly cause chaos across markets.

Federal Reserve:

As I mentioned last month, "I feel like the Fed is out of the equation, at least temporarily. The market seems to have gotten as much out of monetary policy as it can. Don't get me wrong, the stock market loves lower interest rates, but I think we are at a rational point where good news is good news again. We no longer need to look for bad news to help our chances of a rate cut."

I still agree with those comments and these most recent Fed minutes seem to back it up. They cut rates last month as expected but now are going to take a wait and see approach with their policy. They have signaled that they likely won't need to cut rates again unless things get drastically worse for the economy. Basically, the market can stop looking to the Fed for any more favors.

Technical Levels:

The technical levels have been very significant. I like to look at technical patterns to get signs of when to buy or sell. This most recent breakout above 3000 was very significant showing us the next direction the market is wanting to go. Now that we are above 3100, we can look to 3000 as our major support level. Any moves that would send us back below 3000 would be extremely worrisome and would give the bears plenty of momentum to really put the pressure on.

Going Forward:

Personally, I feel like this latest move may be placing us in the final innings of this bull market. Better-than-expected corporate earnings and optimism around a trade deal with China have led us to all-time highs. I'm afraid that hitting these market highs has led to serious FOMO (fear of missing out) for the investors who have missed out while calling for the recession. It seems like just yesterday everyone was freaking out over the inverted yield curve and couldn't get out of the market fast enough. Now all of a sudden we hit new highs and people are rushing to buy. These are the scenarios that make me nervous.

Bottom Line:

We're at all-time highs backed by a strong consumer going into the time of year when a strong consumer can really deliver when it comes to corporate profits. The Fed still seems to have the market's back while no longer being needed. And President Trump is fully expected to announce a Phase One deal with China. What could possibly go wrong?

My concern is that if the market knows all of this then what is going to happen NEXT?

If companies are expected to deliver strong earnings, their prices should reflect that now. If a Phase One deal is expected to happen, that is reflected now. You don't get to run up twice on the same piece of news.

In my opinion, it's about time to start thinking about what things are going to look like once the holiday season winds down. I think that's when all eyes are going to turn to the election. Investors are going to have to start coming to grips with the fact that we may have a new President like Elizabeth Warren who may scare the daylights out of Wall Street. Will the markets feel optimistic about what a second-term Trump can do?

I think President Trump is about to have to stop “dangling the carrot” of a trade deal and actually sign it. And what kind of a deal actually gets signed? Will it be just for optics or will it have actual substance? There’s a chance that the deal he signs puts us in the exact same place we were pre-Trade war. Then what?

There seems to be too many headwinds on the other side of December, so I feel it’s important to begin working on an exit strategy. But in the meantime, I’d still expect this upward momentum to continue with FOMO investing helping to lead the way. Just don’t be caught with your head in the sand.

Hope you all have a Happy Thanksgiving! Please let me know if I can help with any of your investment needs.

Until next time,

Clint