

PENNOCK IDEA HUB

eResearch Corporation is pleased to feature an investment article by Edward Pennock, who is a seasoned investment professional. He, together with other experienced investment specialists, has formed a comprehensive investment website known as **Pennock Idea Hub**.

One of the features of the website is **The Morning Call**, a daily article that features an insightful commentary on the market.

Today's article begins on the following page, and is entitled:

Oil, Politics, China, and the Yield Curve

You can access the **Pennock Idea Hub** website at the following link:

<http://pennockideahub.com>

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Bob Weir, CFA
Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by eResearch Corporation, are strictly those of the Author and do not necessarily reflect those of eResearch Corporation.



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Research Reinvented

Tuesday, March 21, 2017

The Morning Call

Oil, Politics, China, and the Yield Curve

As a friend pointed out recently, the Hedgies have been pretty wrong. Hedgies made a record level of long dispositions of 84mm bbls. Shorts increased by 70 mm bbls. The Longs are down to 230mm bbls. That is down from the recent record of 951mm bbls. The Long/Short ratio is down to 4.4 : 1. The peak was at 10.3 : 1 on February 21st. The total amount of oil has fallen from 1.05 B bbls to 102 mm bbls. That is the lowest since late 2014. This is a classical "Crowded Trade". The elephants are now trying to get out through the proverbial "Port Hole". Cramer said it. Oil is not coming back anytime soon.

Political risk in Europe seems to be on the decline. The first televised debate in France was NOT won by Marine Le Pen. Her centrist opponent came out "Unscathed". The Dutch confirmed the Centre. In the U.K., May announced that she was about to trigger Article 50. To most people's surprise, the Pound rallied almost a full point (1.2468.). Greece is back on the bubble. This time it has lost its shock value. We believe any impact for a Grexit will be short lived. No one cares anymore.

China has some interesting economic showings. Real Estate prices appear to be on the move up again. Inflation seems to be picking up again. Consumption is rising. Cam Hui's latest piece about China is convincing. They are the world's second largest economy.

Financial Services are lagging the S&P. They are up +4.3%. It is the worst of the 11 sectors. The Index is up 6%. We think that it was because of the flattening of the Yield Curve. The difference in yield between the 2-year and the 10-year Treasury has fallen to +1.18%. Our view is that, as the U.S. economy continues to grow, the yield curve will steepen. That will bring back performance by the Financials.

Oil, down or at least flat. Political concerns in Europe, down. China consumers, up. Yield Curve, up.

Invest the Money.



BW: *We received yesterday's article too late to include in our Subscriber Alert, so here it is.*

Monday, March 20, 2017

The Morning Call

Lucky Number Seven, or Not?

This week is FED week. Not last week.

Seven Fed governors, including Yellen, will speak this week. We cannot imagine that somehow they don't collectively muddle the message.

Charles Evans of Chicago speaks today (Monday), this evening at the NYC Association of Business Executives.

Tuesday, Esther George and then Loretta Mester speak.

Wednesday is silent.

There are three speakers on Thursday. Yellen speaks in Washington in the Morning. Neil Kashkari will speak in Washington at noon. Kaplan speaks in Chicago that evening.

Charles Evans speaks on Friday. Bullard wraps up the week in Memphis.

We cannot believe that, with all these players, there won't be differences in interpretation.

This is because there is concern about the "Three Steps and a Stumble" Rule. In our view, we are still normalizing. The Fed bent over backwards to down-play the potential of future hikes. Their Inflation expectations are conservative by some counts. Kaskari dissented on the vote. Was the act dissipated and qualified away? The USD went down. Gold went up. So did Bonds and Stocks. This is the complete opposite of their intent and normal expectations.



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We and others are just “fed” up with the FED. There has been an inconsistent “follow through” over several years. The messages have been mixed. The markets have laid out the table for them on more than one occasion. They demurred to participate. Whatever the message they tried to deliver ended up being garbled. With a deluge of FED speakers this week, what will happen?

PCE is almost at the 2% target. “Inflation is still below our target. While there are some signs of Inflation slowly building towards our target, it isn’t happening rapidly, and inflation expectations appear well anchored”, wrote Kashkari. We only regard the FED moves as being returning to “Normal”. We are not at “Three Steps and a Stumble”. YET.

We do think that Yellen is behind the curve. This is like the mid-1990s. As rates went up, so did the stock market. The economy was growing, as it is now.

Invest the Money.

Today in 1602 the Dutch opened the first public Stock Exchange.

Regards,

Edward Pennock CFA, Founding Partner

ABOUT PENNOCK IDEA HUB

We are creators of independent equity research. The Pennock Idea Hub team members are veterans of the investment industry. Much of our team has spent their careers at Merrill Lynch, Deutsche Bank, RBC Capital Markets, and Wood Gundy. We have taken every aspect of research back to the studs and returned to first principles. The Pennock Idea Hub marries the interests of the sell- and buy-side.

We offer the best research for institutional investors by: only publishing research from veteran Analysts; eliminating the inherent conflicts of the traditional sell- and buy-side relationship; ensuring team accessibility; and collaborating with clients to nurture our collective success.

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