

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:

The Art of the Deal

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

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Wednesday, March 22, 2017

The Morning Call

The Art of the Deal

Maybe the title should have been, "I knew it".

There has been a steady barrage of opinion that we were going to have a correction. We think that this end to the 109-day streak is grounded in expectations for Trump. There have only been 11 streaks of 100 days without a 1% pullback. This last one started on October 11th 2016. Yesterday, the Dow was down -1.24%. For perspective, the Dow broke out in 2013. The big trade of Long the USD and Short Treasuries is unwinding. Some argue that the whole Trump trade is over.

Central to this is whether he can get his Repeal and Replace legislation through Congress? If he cannot, the market is going to question what he can do for the rest of his Agenda. Taxes and Infrastructure. The U.S. market was leading the way since his election. No longer. It has fallen behind MSCI E/M index. The USA up +6.2%. The MSCI up +12% YTD. Commodities, particularly Oil, look bad. WTI is \$47.58 (-1%). 528mm bbls in storage. That is 37% above the 5-year average. Shale production continues to rise. It is no wonder that the TSX is now down YTD. So is the Russell 2000. Golds broke out above \$1240, and is trading at \$1250.

The FED hiked on the 15th. As we saw, Gold is up. The 10-year Treasury yield dropped. The Bank stocks have come under huge pressure. If short rates go up, and, if long (5 to 10 year) rates go down, Banks' gross margins get compressed. The conclusion then from the market is that the U.S. recovery is not as strong as we thought. You would expect USD weakness along with weakness in the commodity sector. So there is the call.

Specific Trump concern is about tax reform. If the reform package is included with the Budget legislation, then a simple majority will pass it. Should the Trump Team decide that it is so important that it should stand alone, then it would take 60 votes in the Senate.

All of this is still speculative. We were having a very unhappy Bull market. The Banks



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are pivotal. However, if one looks at the Financial Select sector SPDR ETF, it closed at 23.78. It is very close to a 3-month support Level. It is important that it holds here.

However, generally, large one day moves in the Indices are usually "Counter Trend". Too many people were calling for this. Even if we broke then we would expect the market would rally back to where it broke down. Gives one a second chance to sell.

Invest the Money.

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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