Weekly Market Review

***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 William Bernstein, an American financial theorist who conducted research in the field of modern portfolio theory.

"It is human nature to find patterns where there are none, and to find skill where luck is a more likely explanation."

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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Bob Weir, CFA
Director of Research

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June 9, 2017

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.

Next week is the big Federal Reserve meeting. Wall Street has already convinced itself that the central bank will again raise interest rates. I am afraid they are right. As I have said for the past few weeks, I think a rate hike now is a mistake. How big of a mistake is still to be determined. In this issue, I will discuss what the Fed's move means.

The good news is that the low-volatility rally continues to roll on. In the last 15 trading sessions, the S&P 500 has risen 11 times. The Index's single biggest decline was a mere 0.28% drop. That is barely a nick.

Here is a great stat I saw from Callie Bost. She noted tha,t since 1990, there have been 15 trading days where the difference between the daily high and low was less than 0.28%. Four of those have come in the last month.

There seems to be an odd paradox. The world appears to grow more volatile while the stock market grows more serene. Or, perhaps this is not the paradox it seems. Maybe investors are retreating from news of terrorism and missile tests for the relative comfort of stock investing. Whatever the cause, my top concern is an overly zealous Federal Reserve that looks to contain inflation, which is hardly a problem.

Get Ready for a Fed Rate Hike

On Tuesday and Wednesday of next week, the Federal Reserve gets together for another policy meeting. The two-day affair usually gets a lot of attention because it is followed by a press conference from Fed Chair Janet Yellen.

Much of Wall Street has this meeting circled on their calendars. They figure that, if the Fed is going to strike, it will do it in June. At this two-day meeting, the Fed also updates its economic projections. These are more often referred to as "the blue dots" in honor of the Fed's scatter plots.

Earlier this year, the consensus on the Fed was that it would raise interest rates three times this year plus three more times in 2018 and 2019. I thought this was nuts. I reassured readers that the Fed always starts out sounding as hawkish as it can but then gradually gives way. This time, it hasn't.

During this cycle, the Fed first raised rates in December 2015. They followed that up with another raise in December 2016, and again in March 2017. Traders in the futures market think there is a 93.5% chance that the Fed will hike next week. If they are right, that would move the target for the Fed funds rates from 1% to 1.25%.

What about after that? Traders see the Fed standing pat for a few months. I think that is right. But, by the December meeting, another rate hike is in play. Right now, the odds are very nearly even money for a December hike.

I will briefly restate my opposition. The Fed should only move once there are signs that inflation is heating up. Those signs are not here yet. The commodity markets are not rallying. Oil has been falling lately. The latest CPI reports have been very tame. We will get the May CPI report on Wednesday, the morning of the Fed's announcement.

Last week's employment report was not terribly strong. The U.S. economy created just 138,000 net new jobs. Economists had been expecting 185,000. The numbers for March and April were revised lower. The growth in wages is actually decelerating slightly. The yearly growth number fell from 2.51% in April to 2.46% for May.

I do not want to sound overly alarmist. There have been improvements in the economy. The last earnings season was quite decent. But, as far as interest rates go, I think the Fed needs more time. I am particularly concerned to see long-term interest fall. After the election, long-term yields soared on the prospects of greater economic growth. To be fair, yields at the long end had been rising since the summer.

We heard a lot about the Trump Trade, but that started to unravel in December. Three months ago, the 10-year Treasury was yielding over 2.6%. Lately, it has got close to 2.1%. If the Fed follows through with its rate hike, the famous Two/Ten Spread will probably fall below 70 basis points. That would be a nine-year low. That is still not in the danger zone, which is 0.00, but it is getting close. The hidden story here is that the Fed's "ceiling" for rate increases is probably a lot lower than folks want to admit.

What effect will the Fed have? Higher short-term rates would come as a relief to many financial stocks.

The big news next week will be the Federal Reserve meeting on Tuesday and Wednesday. The Fed's decision will come out at 2 p.m. Wednesday afternoon, and it will be followed by a press conference by Fed Chair Janet Yellen. The Fed will also update its economic projections (i.e. the "blue dots"). That morning, we will also get the CPI report for May. I doubt we had much in the way of inflation last month.

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

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BW: In the rest of the newsletter, Eddy reviews the earnings announcements of the companies on his Buy List. You can read about them and the entire article by clicking on the following link:

http://www.crossingwallstreet.com/archives/2017/05/cws-market-review-may-26-2017.html

Named by CNN/Money as the best buy-and-hold blogger, Eddy Elfenbein is the editor of Crossing Wall Street. His free Buy List has beaten the S&P 500 for the last six years in a row. This email was sent by Eddy Elfenbein through Crossing Wall Street.

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

ABOUT THE AUTHOR

Welcome to Crossing Wall Street

I started this Web site 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're 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. Todayis 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've spent several years collecting my list of the best companies to own. This is my current Buy List. I've 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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