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 Stephen Schwarzman:

"There are no patents in finance. Everything has a decay curve, in terms of its margins."

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 15, 2018

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.

Well, it happened. The Federal Reserve decided to raise interest rates this week, and the stock market did not seem to mind much at all. In fact, on Thursday, the Nasdaq closed at an all-time high, and the broader S&P 500 is close to a three-month high.

The big headline from the Fed meeting is that Mr. Powell & Co. now plan on raising rates two more times this year. Their earlier projection had been for one more increase. This is a good example of the headlines being narrowly true, yet missing the larger picture. The fact is that the Fed's long-term path for interest rates has not changed one iota.

The Federal Reserve Hiked Rates

The Federal Reserve met again this week and, for the seventh time this cycle, the central bank decided to raise overnight interest rates. The new target range for Fed funds is 1.75% to 2.00%. This move was widely expected. The Fed had been quietly signaling to financial markets that a rate hike was coming. The futures market in Fed funds was nearly unanimous that rates were about to rise.

Even though this week's move was expected, there were a few interesting items I wanted to highlight for you. First off, Chairman Jay Powell said that he will hold press conferences at all FOMC meetings starting next year. That is good to hear. The current schedule has him holding press conferences at every other meeting. This is another sign of more transparency from the Fed.

I also like how Powell speaks in plain English. I like to tease Fed officials for lapsing into "Fedspeak," which is my pet name for their official-sounding econo-babble. Alan Greenspan once said, "I guess I should warn you, if I turn out to be particularly clear, you have probably misunderstood what I have said." Not with Powell. I think it is noteworthy that he is a lawyer by background and not an economist. Powell speaks clearly and to the point. We need more of this.

For example, the Fed cut way back on the length of its policy statement. I have been calling for this for years. There is no need for a policy statement to run on for several hundred words.

Just tell what you did, why you did it, and move on.

This week's policy statement said that the jobs market is strong, consumer spending looks good, and inflation is holding near 2%. The previous statement said that economic activity is rising at a "moderate" rate. Now it is rising at a "solid" rate. (Yes, there are people whose job it is to freak out about these minor changes.) Let me boil it down for you—the key takeaway is that things are slowly getting better, and the Fed is going to continue raising rates.

That is fine for us. The Fed is still some distance away from harming the market or the economy, but the danger zone is no longer purely theoretical. The recession was a long time ago. While the recovery has been uneasy, it has been stable. With this meeting, the Fed updated its economic forecasts. This is what I was most interested in.

The media reported that the Fed's forecast was more "hawkish," meaning more willing to raise interest rates to fight off inflation. This is true, but I think a lot of investors were led astray by the headline. It is true that the median forecast on the Fed now sees the need for two more rate hikes this year. However, when we look at the individual forecasts, only one vote changed. So, while there is indeed a majority on the Fed that sees the need for two more hikes this year, it is a majority by a single vote. Let us remember that the Fed's forecasts are typically overly hawkish early on, and they tend to correct to the dovish side as time goes by. That could easily happen again.

The median Fed member now sees two more increases this year, plus three more next year (again, by one vote). That would bring the range on Fed funds to 3.00% to 3.25%. This would be followed by one more rate increase in 2020.

Let me make clear that the idea of forecasting rate hikes so far in advance is utter folly. But the important point for us is that the 2020 forecast is the exact same forecast we saw at the previous Fed meeting. In other words, the Fed has not changed its target for rate hikes; it merely altered the path slightly. Yet, some traders mistook this for a bigger deal that it really is.

Here is where we stand. Let us say the Fed hikes again in September. That will bring real rates all the way up to 0%. The real short-term interest rate is one of the strongest variables in determining the direction of stock prices. The earliest we would have to worry about the Fed causing havoc is probably still a year away.

The housing market still looks good. The labor market is strong. The Atlanta Fed pegs Q2 GDP growth at 4.8%. That is huge, but it is just an estimate. The 2/10 Spread, a key finance metric, got down to 35 basis points on Thursday. That is the narrowest in nearly eleven years, but still positive. Tuesday's inflation report showed that core prices rose 2.24% in the last year. That is pretty good.

Overall, this is close to the sweet spot for the economy and the market.

The biggest challenge for us is that the market has been rewarding lower-quality stocks.

That is why the Nasdaq has been so strong lately. The Nasdaq Composite is already up more than 12.4% this year.

Around here, we favor high-quality stocks, and those have not been reaping the market's big gains. Do not be tempted by the easy profits in lower-quality shares! Low quality typically has its day in the sun, but it usually ends badly.

There is not much on tap for next week in terms of market news, although we will get some key reports on housing. On Tuesday, the housing-starts report comes out. Then, on Wednesday, we will see existing home sales. I will be curious to see if higher rates have had an impact on the housing market. So far, the evidence is pretty thin.

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 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/2018/06/cws-market-review-june-15-2018.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, weare 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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