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 James Surowiecki, an American journalist:

"If being the biggest company was a guarantee of success, we would all be using IBM computers and driving GM cars."

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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December 7, 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.

Apparently no one told Wall Street that it is Christmastime. Of course, there are certainly a lot of grinches in well-tailored suits wandering the canyons of lower Manhattan but, this week, they were running the show in charge. On Tuesday, the Dow shed 800 points. Then, on Thursday, the Dow plunged another 785 points. (BW: It is down a lot again on Friday.)

At 11:30, the market hit bottom and then commenced a furious rally. By the closing bell, the Dow had only lost 79 points, and the Nasdaq actually finished in the green. Get used to this kind of volatility. This is what happens when Wall Street is caught between two narratives and is trying to make up its mind.

In this issue of *CWS Market Review*, I will break it all down for you. The good news is that this latest hiccup paradoxically reflects some underlying strength in the economy.

The Bond Market Is Vetoing The Fed

All things considered, the investing climate still looks quite good right now. Inflation and interest rates are still low. Inflation is not much of a problem. The jobs market looks pretty good, and wages are finally improving. For next year, Wall Street expects earnings growth of 10%, give or take. That sounds about right.

What about the Fed? I think their rate-hike plays are too ambitious, and I strongly suspect that they will have to pare back their plans for three increases next year. In fact, I think it is very likely that we will get only one rate hike in 2019 from the Fed. (Two, maybe.)

This comes after the rate hike I am expecting when the Fed meets again on December 18-19. At that meeting, the FOMC members will update their economic forecasts for the coming few years. These forecasts are usually pretty bad, but at least it gives us a window into the Fed's thinking.

On Monday, the stock market rallied on news that the Trade War appears to be headed towards some sort of détente. What that could be is still an open question, but all the good vibes melted away on Tuesday. The market started out in a bad mood, and things got worse

from there.

The best way I can describe Tuesday is that it was almost like the month of October shoved into one day. If you recall, October was a tough month for the market, and it hit cyclical stocks particularly hard.

We saw investors rush towards safe assets like bonds. The yield on the 30-year Treasury has fallen for five straight days, and the yield is down to 3.14%. In early November, it was at 3.46%. The 10-year yield is now down to 2.87%. Bear in mind that yields in much of the developed world are microscopic, or even negative.

We even had a brief glimpse of the yield curve inverting this week. Specifically, the yield on the five-year Treasury actually dropped below that of the two- and three-year. In this case, it is not that short rates are rising to the longer rates; it is that the longer rates are falling. This usually reflects concerns about the economy, as well as a desire to find a place to hide.

It is interesting to note that riskier parts of the market are suffering the most. For example, the Russell 2000, a benchmark for small-cap stocks, is now down more than 15% from its high close. So is the S&P 500 High Beta Index. Both may soon hit 20%, which is the traditional definition of a bear market.

As conservative investors, we do not have much to fear from Wall Street taking a more skeptical view of the economy and the Fed. We just have to be aware that the shift will involve some volatility and, in the short-run, that may not be pleasant. What is basically happening is that the bond market simply is not buying the Fed's outlook. This skepticism seems to have grown slowly over the last few months, and then surged in a wave over the last week.

I am writing this to you ahead of the November jobs report. Wall Street expects that 190,000 net new jobs were created last month. There is a chance the unemployment rate could dip down to a 50-year low, which would make it the lowest peacetime rate in 70 years.

Don't be unnerved by this latest round of selling.

Next week will be fairly quiet as far as economic reports go, although I will be curious to see what Wednesday's CPI report has to say. So far, inflation has been cool. Let us see if that continues. We will get another jobless-claims report on Thursday. Weekly jobless claims have been below 300,000 for 196 straight weeks. Then on Friday, we will get industrial production and retail sales. I will be curious to see how strong consumer spending was 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*! next week.

- 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/2018/12/cws-market-review-december-7-2018.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