Weekly Market Review

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***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 John Kenneth Galbraith:

"*The conventional view serves to protect us from the painful job of thinking.*"

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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March 29, 2019

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.

After ten years, the yield curve has finally gone flat. Ironically, this was caused by good economic news. A flat curve is a natural response to a growing economy, but the flat curve has some important implications for the economy, the stock market, and our portfolios.

In this week's *CWS Market Review*, we will take a deep dive into all things yield curve, so let us look at what the yield curve has to say.

What Does the Flat Yield Curve Mean?

Wall Street has been in a tizzy over the yield curve. As we know, Wall Street loves to stress about something, or anything. Wall Street's favorite mode is being "concerned." If need be, this can be upgraded to "distressed." Most of the time, I tell you that this week's "concern of the year" is over-rated and not to worry about it.

This is different. An inverted yield curve truly is a big deal. The hitch is that it is not immediate. Let me take a step back. By yield curve, I mean the difference between short-term and long-term interest rates. Normally, the yield curve is upward sloping, meaning you get paid more the longer you lend your money. That makes sense but, every so often, the yield curve goes flat, or even gets inverted. That is when short-term rates rise above long-term rates.

An inverted yield curve is one of the few good predictors of a bad economy. For a field with lots of stats, we still have little idea of how well the economy is doing at the moment. Economists have a terrible track record of predicting recessions, but the yield curve could have won a few Nobel Prizes based on its track record. The spread between the 2-year and 10-year Treasuries has been an omen of bad times consistently for the last 35 years.

Check out this tidbit from *MarketWatch*:

> *Researchers at the San Francisco Fed say the 3-month/10-year curve is the most reliable indicator, while Cleveland Fed researchers note that inversions of that measure have preceded the past seven recessions with only two false positives — an inversion in late 1966 and a very flat curve in late 1998.*

That is way better than most economists.

To show you how much things have changed, in 2011, the 2/10 Spread reached 291 basis points. It is now down to 16. The spread between the 10-year and 3-month yield is currently negative by four basis points.

While the yield curve is important, I will caution you that it is not an instant tripwire. Let us look at some recent history. The 2/10 Spread inverted in May 1998. It then went back before becoming very inverted in 2000, but the recession did not officially begin until 2001. Even in the last recession, the 2/10 Spread inverted in late 2005. The recession did not start for two more years.

It is a mistake to dismiss the yield curve as a technical indicator like the 200-day moving average. The yield curve has real world ramifications. A few years ago, I ran the numbers and found that the stock market does much better when the spread between the 3-month and 10-year Treasury yield is 121 basis points or more. If you are a bank, an inverted curve means it is not profitable to borrow short and lend long. (And yet, starting a bank in 2010 was probably one of the most profitable things you could do.)

In the 12 months following a negative 2/10 Spread, the economy has been in recession about 50% of the time. There is, however, the chance that the yield curve may have lost its predictive powers with the advent of the Fed's new policies. These things can change. When we had a gold standard, inverted curves were the norm.

I don't have any plans to alter our investing strategy. Most stocks are stronger than what a yield curve can do. With a flat curve, I would expect to see better valuations among defensive stocks. Think of it this way: an inverted yield curve is like rougher seas. If your ship is sturdy, then it does not matter.

Next Week: The first quarter ends with the close of trading today. This looks to be one of the best quarters for the stock market in years. (BW: For the S&P 500, the best since 1998.) The second quarter starts up next week. On Monday, we will get the ISM and retail sales reports. Tuesday is durable goods. Then, on Wednesday, we will see the ADP payroll report. That leads up to the March jobs report on Friday. The last report was quite low. I will be curious if it gets revised higher.

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 his Buy List and reviews any of the stocks that are in the news. You can read about them and the entire article by clicking on the following link. <Ctrl-Click>

https://www.crossingwallstreet.com/archives/2019/03/cws-market-review-march-29-2019.html

ABOUT THE AUTHOR

Eddy Elfenbein is a Washington, DC-based speaker, portfolio manager, and editor of the blog, **Crossing Wall Street**. He was named by CNN/Money as the best buy-and-hold blogger, His free Buy List has beaten the S&P 500 for the last seven years in a row, and by 47% in the last thirteen years.

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

Welcome to Crossing Wall Street

I started this website 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 are 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. Today's 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 have spent several years collecting my list of the best companies to own. This is my current Buy List. I have 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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