WALL STREET STRATEGIES

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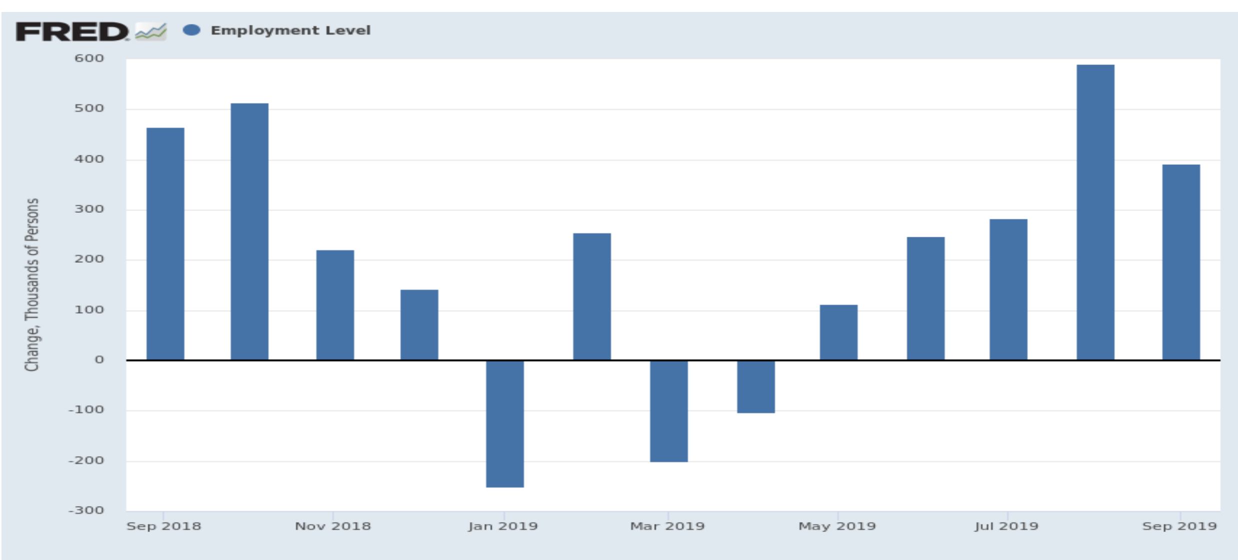
October 07 2019	Payne's Perspective Not As Slow As They Say

The September jobs report came in slightly less than expected. After the Automatic Data Processing (ADP) results earlier in the week, there were whispers of less than 100,000. As it stands, the overall tenure of the jobs report contradicts the notion that the economy is slipping into a recession, although decidedly, there is a slowdown.

Household Survey

The monthly employment report from the federal government's Bureau of Labor Statistics (BLS) is comprised of two separate surveys: household and establishment. Recently, the household survey has shown a dramatic jump in monthly employment gains.

Two Employment Pictures	Household	Establishment
June	247,000	178,000
July	283,000	166,000
August	590,000	168,000
September	391,000	136,000



There has been a fair amount of academic work on what the household survey says about the job's situation and the overall economy. It often suggests stronger consumer confidence. Without a doubt, the last four months have been extraordinary for employment based on households.

More Upside?

The jobs report was very impressive. The 3.5% unemployment rate is at its lowest since December 1969, when this classic ruled the pop music chart: "Someday We'll Be Together" by Diana Ross & The Supremes

- Black: 5.5%
- White: 3.2%
- Asian: 2.5%
- Hispanic: 3.9% (5.8%, Jan 2017)

Those numbers are impressive, despite the media trying to suggest it was a yawn or disappointment. In fact, for decades, economists suggested anything under 4.0% was full employment. I think we can get much higher.

Using employment to the population as a gauge, we are now at 61.0%, the highest level since December 2008. Americans continue to come back to the labor force, especially women 16+ years old; +103,000 of the 117,000 September totals. The employment-to-population ratio reached its highest point of 64.7 in April 2000.

Employment Concerns?

There was a sharp decline in retail jobs: 11,000 (total loss of 197,000 since January 2017). A lot of those folks are moving into other employment sectors, such as transportation and warehousing, where jobs have increased by 208,400 since January 2017.

Weekly earnings

- Retail: $510.42
- Warehousing: $856.92

However, I'm a little concerned about oil industry jobs as a ton of rigs have come offline. Some of that has to do with structural issues in the Permian wages that increased by 2.9%, which is solid and ahead of inflation, but I'd like to see that improve. I think it will as we head into 2020.

I think manufacturing got ahead of itself with its miraculous run in 2017 and 2018. Changes to automatic new aged factories, coupled with demand, should see a return in manufacturing. The trade war won't be resolved overnight, but there should be movement that generates more confidence among those manufacturers that are battling their inner John Galt.

Earnings Season

It's back with 21 companies posting results thus far in another earnings season, where the experts are promising year-over-year decline. Overall, Wall Street sees a -2.7% decrease in third-quarter earnings, and -0.8% when energy is backed out.

Revenue

- 57.1 beat (Long-Term (LT) average 60%, past four quarters 59%)

Earnings

- 90.5% beat (Long-Term (LT) average 65%, past four quarters 74%)

Paging Jay Powell

During the week, Wall Street's consensus of a rate cut later this month spiked to 91% before settling to 76.4% over the weekend, while the odds of a December rate cut has dipped to just 41.7%. A month ago, it was 20.2%.

Course Change?

When the market was in full sell-off mode, I knew it would thrust a great light on the Federal Reserve. In fact, circumstances were very reminiscent of late December/early January. It was January 4th of this year when Powell shared his great epiphany.

Let's look at recent history, which may serve as precedence for what could happen later this month and the rest of the year.

Full Speed Ahead

December 19, 2018

Jay Powell & Fed hike interest rates and suggest there will be at least two more rate hikes in 2019. Chairman Powell says the Fed is on "auto-pilot."

The Dow Jones Industrial Average was hammered 352 points, extending a month-long rut. By the end of trading on Christmas Eve, it closed at a session low 21,792, having lost 1,883 points because of the rate cut and the Fed policy's rigid nature.

Sees the Light

January 4, 2019

Jerome "Jay" Powell sees the light and makes a complete course change. Ironically, on the same day the jobs report comes in significantly better than expected showing 312,000 jobs created in December, Powell changes his mind.

Stating the Fed would change course "significantly if necessary," and making the much-needed observation that wage inflation doesn't equate to price inflation, he opened the door for a monster sigh of relief rally.

The Dow rallied 747 points on January 4th, and by April 23rd, it was up 3,970 points to 26,6565.

Powell Speaks

On Friday, Jay Powell gave a statement and took questions, revealing two very critical concerns:

Avoiding the low inflationary disaster of the rest of the world

"In this review, we are examining strategies that might better allow us to symmetrically and sustainably achieve 2% inflation…doing so would help prevent inflation expectations among consumers, businesses, and investors from slipping too low, as they appear to have done in several advanced economies."

Keeping the economy and job miracle alive

"the importance of sustaining our historically strong job market that many more Americans are benefiting as a result."

Bottom Line

Jay Powell is determined to prevent a recession on his watch. He has already suggested a willingness to overshoot on inflation (north of 2%), which means taking extraordinary actions to prevent the end of this economic expansion. Of course, the Fed knows it's better to take action to maintain rather than emergency actions amid a deflationary and economic swoon.

Can These Organizations Save the Day?

The big government entities created to message economies - or in some cases, save them - have been falling short of their stated goals and many wonders if these days, they make things worse.

The International Monetary Fund (IMF) looks inept after lending Argentina $56 billion just weeks before the country elected a political ticket that is sure not to repay the loan. This wouldn't be the first time Argentina defaulted on an IMF loan. I interviewed Kenneth Rogoff, former Economic Counsellor and Director, Research Department of the IMF. He is calling for massive changes.

He would like to see tougher terms, which would be difficult in an era where emerging nations blame developed nations for their problems, and China is crisscrossing the globe with gobs of money and far less accountability.

IMF Key Periods

Key Periods	IMF Shaping Global Economy
1944 to 1971	Cooperation & Reconstruction
1972 to 1981	End of Bretton Woods
1982 to 1989	Debt & Painful Reforms
1990 to 2004	Societal Change for Eastern Europe & Asian Upheaval
2005 to present	Globalization & the "Crisis"

Meanwhile, the European Central Bank (ECB) Balance Sheet continues to swell, even as the economic needle in Europe remains stalled:

- $697 billion: Dec 1998
- $3.10 trillion: June 2012
- $2.04 trillion: August 2014
- $4.64 trillion: September 2019

Watch List: Don't Believe the Hype

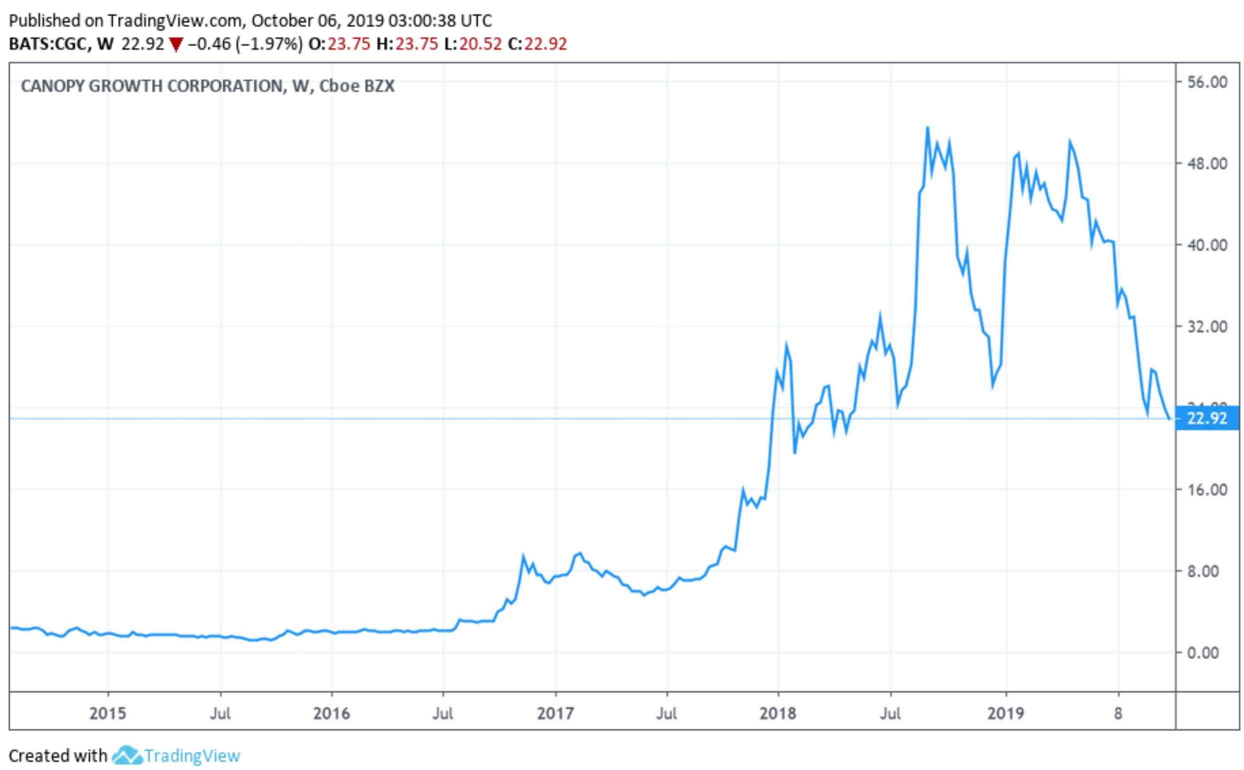
During the week, Constellation Brands (STZ) posted financial results that seemed perfect. Beating on earnings and hiking guidance as the company's portfolio of 100 brands sparkled. The stock, however, crashed more than 5% and erased hard-fought gains made throughout the summer.

So, what happened? The stock went up in smoke, as its big weed investment continues to hit the company hard. The marijuana craze probably has brought more non-stock market investors into the stock market than any other craze since the tech bubble era.

It's easy to understand the excitement. As the stigma of weed fades, the notion of the medical cure-all, along with other uses, has created an enormous demand. According to one estimate,legal marijuana was $11.9 billion in 2018, and it should swell 24% Compound Annual Growth (CAGR) to $66.3 billion by 2025.

When Constellation Brands took its 38% stake in Canopy Growth Corp (CGC) in November 2017, it was considered a stroke of genius. Last quarter, the investment lost $484 million. The fair value of the investment decreased by $839 million.

Canopy Growth



In my recent book, *Unstoppable Prosperity*, I talk about these areas of hype that seem so good that a lot of folks dived into the stock market. Most don't do any real analytical work to determine the best ideas because they have little experience or skills to evaluate and value.

This is what's happened in the marijuana wild west.

The good news is that there will be a bottom; and at some point, the industry will live up to the hype. I have several names I'm looking at in addition to Canopy Growth (CGC), Tilray (TLRY), and Aurora Cannabis (ACB), but it's too early to share them.

Our Week Ahead

I think there is a great chance after U.S. and China officials meet with the administration, it could delay the October and December tariffs. Along with a Fed rate cut, it could be the one-two punch that sparks a rally into the end of the year.

The other factor is earnings releases.

I think fence-sitters should be ready to build their portfolios.

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