

# WALL STREET STRATEGIES

*Wall Street Strategies- providing independent stock market research since 1991 through a balanced approach to investing and trading*

**September  
16  
2019**

## **Payne's Perspective The Music Still Playing**

*A long, long time ago*

*I can still remember how that music used to make me smile*

*And I knew if I had my chance*

*That I could make those people dance*

*And maybe they'd be happy for a while*

*But February made me shiver*

*With every paper I'd deliver*

*Bad news on the doorstep*

*I couldn't take one more step*

*I can't remember if I cried*

*When I read about his widowed bride*

*But something touched me deep inside*

*The day the music died*

*-Don McLean - "American Pie"*

...But Fear Itself

Suddenly, the demise of the U.S. economy has receded among the list of worries facing Americans, although, for some, there was no fear that the music was dying. Interestingly, Main Street is grappling with anxiety over tariffs, with the vast majority having the incorrect assumptions of their impact on the economy. The greatest risks are people acting on the worst-case outcomes promoted by the media.

Michigan Consumer Sentiment	Sep 2019	Aug 2019	Sep 2018
Index of Consumer Sentiment	<b>92.0</b>	89.8	100.1
Current Economic Conditions	<b>106.9</b>	105.3	115.2
Index of Consumer Expectations	<b>82.4</b>	79.9	90.5

The good news is the Index of Consumer Sentiment rebounded higher than Wall Street anticipated, even though 38% made spontaneous references to the negative impact of tariffs, which is the highest percentage since March of last year. Those same folks had a more negative view of the economy, inflation, and unemployment.

The concern is mostly in the top one-third income households and folks under 49. These concerns will decline even further as the United States and China take calmer steps.

### Retail Sales

The headline number of +0.4 is 100% better than anticipated, and July was also revised higher.

#### Highlights

- Motor Vehicle Sales (I've pointed this out, despite limited data)
- Building Materials
- Sporting Goods (I think that's a dash for guns as politicians talk about confiscation)
- Internet, Huge: \$64.2 billion

#### Disappointing

General Merchandise: \$61.1 billion -0.3 and Department Stores -1.1 m/m -5.4 y/y

Retail and Restaurant Sales	M/M	Y/Y
Headline	0.4	4.1
Motor Vehicle	1.8	6.8
Furniture	-0.5	0.1
Electronics	0.0	-3.5
Building Materials	1.4	1.0
Food (at home)	-0.2	4.3
Health & Personal Care	0.7	3.7
Gas Stations	-0.9	-2.3

Retail and Restaurant Sales (Cont.)	M/M	Y/Y
Sporting Goods	0.9	2.1
General Merchandise	-0.3	1.0
Department stores	-1.1	-5.4
Miscellaneous	0.3	4.7
Internet	1.6	16.0
Food (away from home)	-1.2	1.1

### Inverted No More

The week of better economic data sent bond yields soaring, with the ten-year yield up 30% from the September 4th low. It's still too early to say this, and a long way from the bond bubble popping, as the chart continues to be mired in its long-term downtrend.



### Message of Market

It was about rotation from growth and momentum stocks to low beta losers early in the week. By the closing bell on Friday, chips were back, stocks with big shorts were back, and buyers were dabbling everywhere, except in very expensive Real Estate names.

S&P 500 Index	+1.13%
Communication Services (XLC)	+1.06%
Consumer Discretionary (XLY)	+0.90%
Consumer Staples (XLP)	+0.24%
Energy (XLE)	+3.20%
Financials (XLF)	+2.99%
Health Care (XLV)	+0.59%
Industrials (XLI)	+2.44%
Materials (XLB)	+2.60%
Real Estate (XLRE)	-1.74%
Technology (XLK)	+0.23%
Utilities (XLU)	+0.44%

### Why is China Making Nice?

#### Xi's Long March

I'm old enough to remember when Japan was going to take over the world, including the United States. High-profile acquisitions included the famed Pebble Beach Golf course and the Rockefeller Center amplified the unofficial coronation of the new preeminent economic power in the world.

And then it all changed, as Japan's economic miracle went puffing as their population plunged, and their young adults balked at working 80 hours a week.

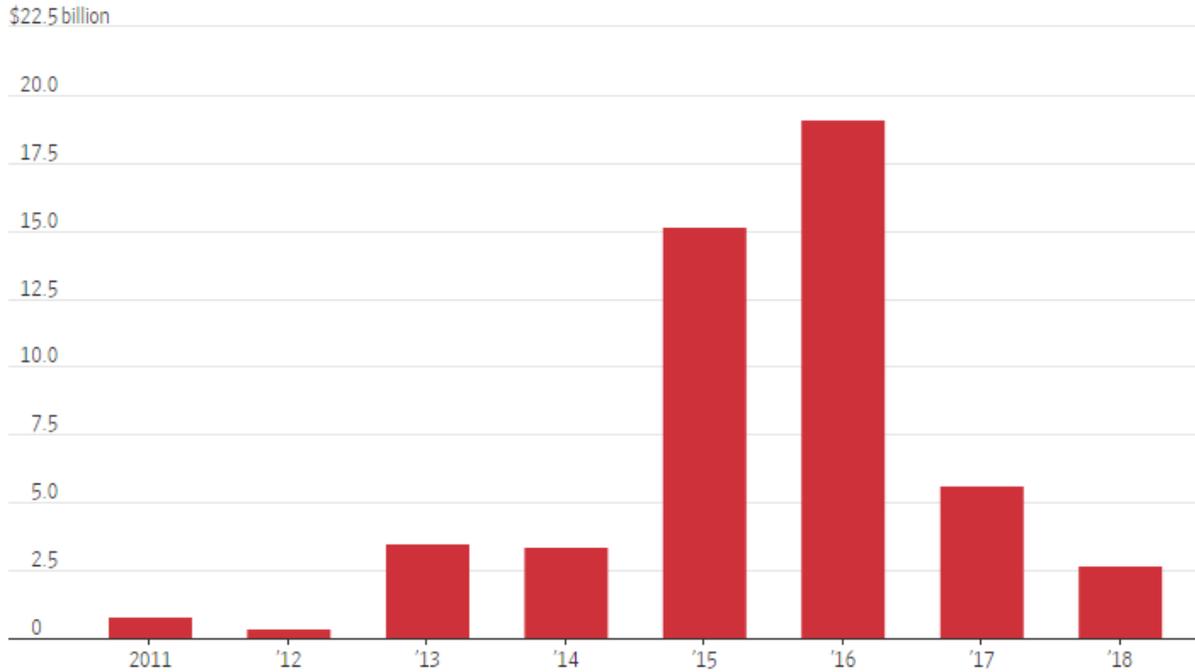
Fast forward thirty years and China's economy is erupting, and observers say it's only a matter of time before it overtakes the United States. A part of that thinking was linked to how rapidly China was buying America, including the purchase of the Waldorf Astoria for \$1.95 billion in 2015.

China's purchases of American real estate topped out in 2016, and after selling \$845 million in U.S. property in the fourth quarter of 2018, net purchases tumbled to the lowest level since 2012.

Last week, one of China's largest insurance companies was forced to sell iconic American hotels, including the famed Essex House in New York City. The company essentially broke even on the purchase. While they still own the Waldorf, its sale would be the final blow and eerily like Japan, having to sell back its portfolio of American properties.

## Cutting Back

Net purchases of U.S. commercial real estate by Chinese investors last year was the lowest since 2012.



Note: Based on transactions of properties or portfolios \$2.5 million or greater

Source: Real Capital Analytics

## Why Are Americans Promoting the Myth?



Mao in 1935

I know there has been a lot of mythmaking about China's ability to fight this trade war for the next 100 years, but that's folly.

Sure, I get the idea of rallying China to remember the Opium Wars and the humiliation following the Boxer Rebellion.

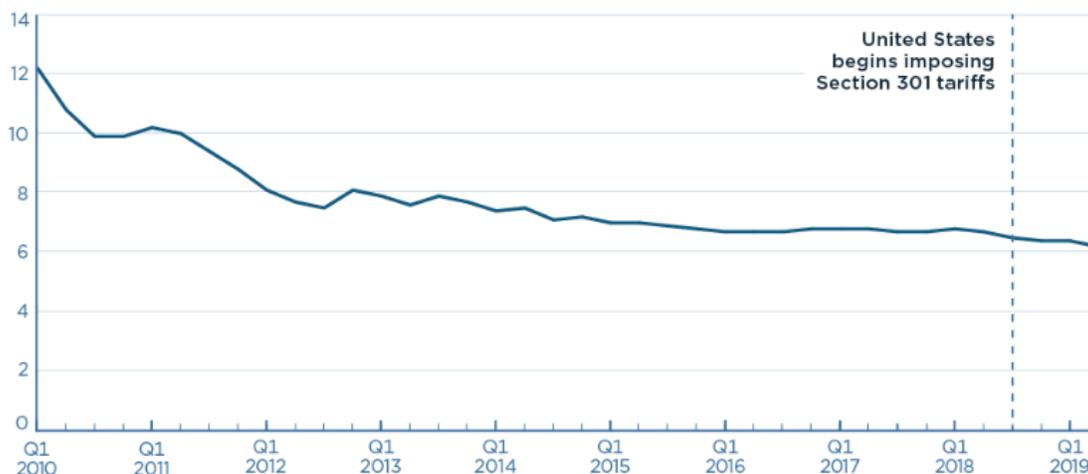
That humbling period of China's history fueled the rise of Mao, which got a boost from his grit during the Long March in 1935.

President Xi refers to this and the Long March all the time, even before the United States decided to fight back against the unfair economic relationship.

The fact of the matter is the only long march going on right now is the decline in China's Gross Domestic Product (GDP) over the past decade. I don't think Xi could survive a sharper decline in China's economic fortune even with his Maoist rhetoric.

## China's growth began slowing long before the trade war

Quarterly year-over-year GDP growth, percent



Source: National Bureau of Statistics of China.

China has some advantages of being a quasi-dictatorship that controls the media and can rail about the horrible treatment at the hands of "imperialists" of the past. President Xi promised prosperity not to go back in time. No one in China is ready to lose their jobs or live in the mountains in 2019.

### Oil That Is...Texas Tea

Going into the weekend, I looked at the oil patch for opportunities. It's a huge coincidence that a drone attack in Saudi Arabia has taken out 5.7 million barrels a day in crude oil and gas production capacity. In the most recent data, Saudi was pumping 9.8 million barrels a day, so this is a significant chunk for the oil kingdom and 5% of global capacity.

U.S. Secretary of State Mike Pompeo blamed the attack directly on Iran, which has backed the Houthis in a proxy war in Yemen. The stakes and the stress are only going to get higher from here, and we should see a reaction in the oil patch, which had become immune to typical geopolitical hijinks in the region.

Before the weekend news, Energy was showing life, even as oil sloshed around in a tight trading range. Even at current levels, it appears oil stocks are oversold, and it's time to put several on your radar.

### Value Investments

This year, West Texas Intermediate (WTI) is up 13.2% and year-to-year, but the Energy Index (XLE) is up only 6.5% and most oil companies have seen their share prices get hammered.

There are two ways for investors to have exposure to the oil patch. For me, it's owning one of the largest giants in the industry that pay healthy dividends or focus on the hot names in the hottest spot of the industry- the Permian Basin (PBT).

## XLE

Published on TradingView.com, September 13, 2019 21:30:35 UTC  
BATS:XLE, D 61.08 ▲ +0.48 (+0.79%) O:61.00 H:61.40 L:60.74 C:61.08



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## Pioneer Natural Resources (PXD)

I consider this company to be the best pure play in the Permian Basin located in the sweet spot of Midland, Texas, where drilling yields.

- Higher quality oil
- Higher oil percentage
- Lower development costs

The company has 680,000 net acres and often fetches prices closer to Brent crude than WTI.

- 62% oil
- 20% (NGL Pipelines)
- 18% gas

Management has begun to focus on the business side of the company as much as the drilling side with the goal of returning more to shareholders. In addition to cost, there has been a 25% reduction in the workforce, while the dividend has climbed more than 2,1000% and buybacks have gotten larger as well.

## Stock Potential

Last week, the fiscal year estimates for 2019 edged higher to \$7.94 from \$7.93, so we could see more upside momentum and reversals in consensus for 2020. Meanwhile, the stock is bouncing off a perfect double bottom. A big session last Friday, the stock rallied 3.9% for the day, and it's now up 3.0% for the year. If there is a breakout through \$140, I think the stock will rally at least 20 more dollars, but possibly 30 more dollars, depending on how rapidly West Texas Intermediate (WTI) rallies.

Published on TradingView.com, September 15, 2019 02:55:35 UTC

BATS:PXD, D 135.43 ▲+5.08 (+3.9%) O:132.31 H:135.97 L:131.35 C:135.43



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## Macro view

I think all major indices would have finished the week at all-time highs, except for the hit in shares of Apple (AAPL). Keep in mind that there is always anxiety associated with these kinds of milestones, and recent good news on the economy means less intervention by the Federal Reserve.

Ultimately, the fundamentals of the economy are great, and the stock market can rally substantially higher to reach true overvaluation. There could be turbulence from the geopolitical activity and general angst. This is the time to be looking to buy dips and certainly not get hit by them.

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