# WALL STREET STRATEGIES

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| June 3 2019 | Payne's Perspective<br>Sell in May and Go Away |
|---|---|

"Sell in May and Go Away"

Investors following the above statement have regretted it every year since 2012, but this year- man, it was spot-on. Of course, I never want anyone to trade or invest based on an old saying, even ones with great track records, like buying small-cap stocks in January.

May 2019 was a different situation than most, considering how much the market was already up for the year, and the unforeseen events on trade and the Federal Reserve policy.

**Federal Reserve**

The May sell-off began on May 1st when Jay Powell made excuses for inaction by the Fed, which has yet to achieve its inflation goals. Still, he was reluctant to say they were going to cut rates.

Remember this answer from Jerome Powell during the May 1, 2019, Federal Open Market Committee (FOMC) press conference:

*So, first, we are strongly committed to our 2 percent inflation objective and to achieving it on a sustained and symmetric basis. As I mentioned, we think our policy stance is appropriate at the moment, and we don't see a strong case for moving in either direction.*

*I would point out that inflation actually ran—including core inflation—actually ran pretty close to 2 percent for much of 2018. As you point out, both headline and core, though, did come in on the soft side in the first quarter, and that was not expected as it relates to core. So we say in our Statement of Longer Run Goals and Monetary Policy Strategy that the Committee would be concerned if inflation were running persistently above or below 2 percent.*

*So "persistent" carries the sense of something that's not transient, something that will sustain over a period of time. And in this case, as we look at these readings in the first quarter for core, we do see good reasons to think that some or all of the unexpected decrease may wind up being transient.*

By latching onto the notion that low inflation is transitory, and driven by unique but temporary exogenous factors, Jay Powell dashed Wall Street hopes of an imminent rate cut, and in the process, sent the stock market reeling.

| **May Day**<br><br>May 1, 2019 | Open | Close |
|---|---|---|
| **Dow Jones Industrial Average** | 26,639 | 26,430 |
| **S&P 500** | 8,132 | $8,049 |
| **NASDAQ** | 2,952 | 2,923 |

Last week, the revision of to first quarter Gross Domestic Product (GDP) saw the personal consumption expenditures (PCE) deflate to 0.4% from 0.6%. The same day, Fed Vice Chairman Richard Clarida made comments that could be the first from the Fed officials greasing the wheels for a rate cut, even before September, which is why there is an overwhelming conviction on the Street that rates will be lower.

*If the incoming data were to show a persistent shortfall in inflation below our 2% objective, or were it to indicate that global economic and financial developments present a material downside risk to our baseline outlook, then these are developments that the committee would take into account in assessing the appropriate stance for monetary policy.*

The developments at the Fed are getting a short shrift in the media. Otherwise, it would mitigate downward pressure on markets. That's fine because the door is now open. Although I do think the Street is tripping about looking for a rate cut this year, I think it's going to happen.

**Trade War(s)**

Donald J. Trump

*On June 10th, the United States will impose a 5% Tariff on all goods coming into our Country from Mexico, until such time as illegal migrants coming through Mexico, and into our Country, STOP. The Tariff will gradually increase until the Illegal Immigration problem is remedied…*

As the U.S. - China trade talks drift farther away, a new wrinkle has emerged. It could be a new tsunami if it evolves into a worst-case scenario. That's because threats of 5% tariffs on Mexican imports into the United States could escalate to 25%.

On Friday, the U.S. Dollar rallied 2.7% versus the Mexican Peso, which mitigates the cost of potential tariffs. On that note, here's how increased tariff costs are spread out.

Everyone pays, but export countries take and feel the most pain, as American consumers can put discretionary purchases on hold.

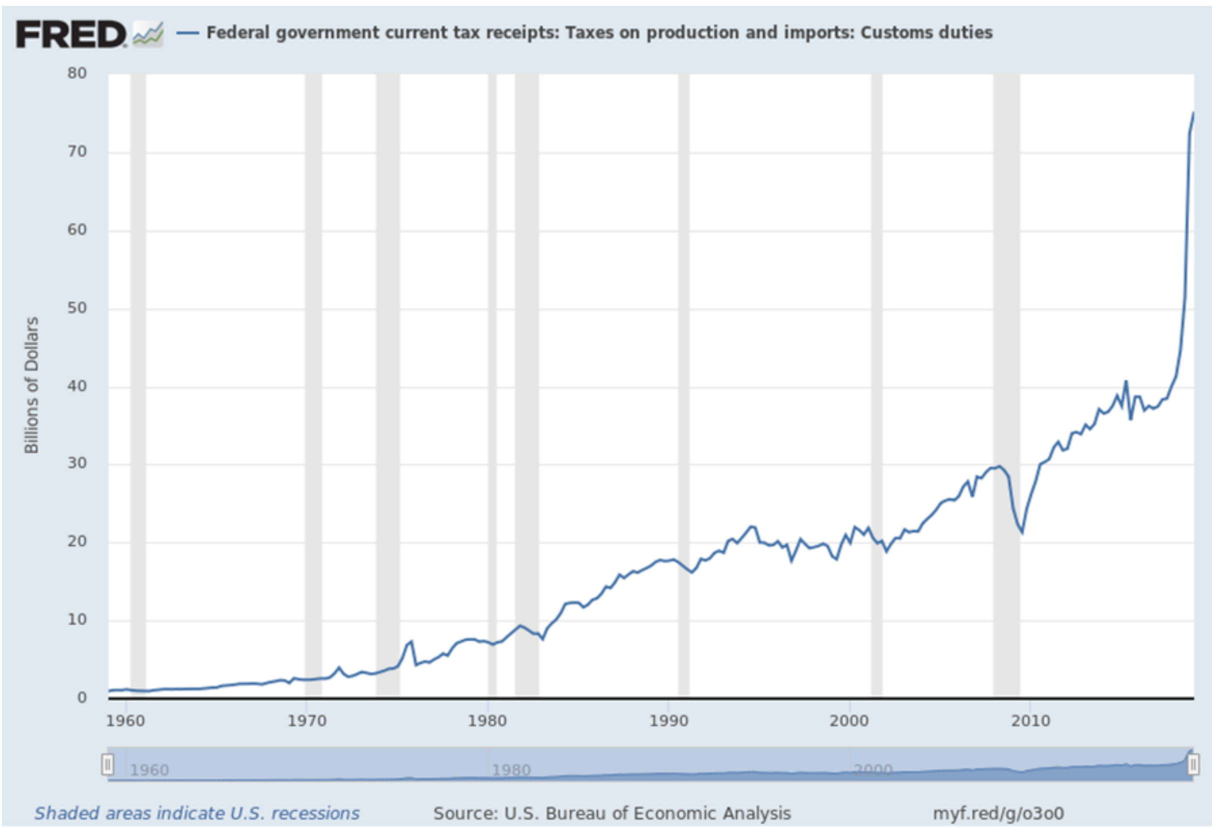
China & Mexico

- Exporters lower prices (no one wants to be left with a warehouse of widgets they can't sell)
- Currency adjustments mitigate increases

United States

- Importers (pay the actual duties)
- Vendors (must put the skin in the game)
- Businesses (why the stock market is getting hammered)
- Consumers (prices are going up, but not commensurate with increased levies)

Tariffs against Chinese exports have resulted in a massive surge in revenue to $75 billion for federal government coffers.




***Ironically, the new trade tiff with Mexico has several Wall Street firms talking up Fed rate cuts with Barclays saying there will be three this year and JP Morgan modelling for two cuts.***

**Canary in a Coal Mine?**

There is much talk about the inverted yield curve that sees the 3-month yielding, more than the ten-year bond. I prefer the correlation between the two and ten-year bonds. Be that as it may, I'm still not in the camp this action presages a recession.

| Bond Siren Call | Yield | Change |
|---|---|---|
| *3 Months* | 2.345 | -0.027 |
| *2 Year* | 1.924 | -0.131 |
| *10 Year* | 2.138 | -0.085 |
| *30 Year* | 2.576 | -0.077 |

**Watch List**

Health Care (XLV) stocks have been hammered from political pressure from the current administration and several Democrats currently running for the White House.

Centene Corporation (CNC) is a great American success story, founded in 1984 as a nonprofit Medicaid plan by a former hospital bookkeeper. Elizabeth “Betty” Brinn started operations in the basement of Family Hospital in Milwaukee with an approach by Betty’s experience growing up in a Milwaukee County orphanage.

Since then, the company has grown with operations in 32 states and two international markets. The company’s 48,100 employees service 14.7 million managed care members.

One could argue the second birth for the company was March 23, 2010, when the Affordable Care Act came into existence. The stock was changing hands at $5.88 and rallied to $73.00 last August for a gain of 1142%.

Traditional Valuation Metrics

- Forward Price-to-Earnings (F/PE): 11.8
- Price-to-Earnings-Growth (PEG): 0.87

Earnings estimates are climbing, and 5.7% of the stock is short.

The stock is very attractive. There has been a series of lower lows and lower highs, establishing clear potential breakout points. A close above $60.00 should lift the stock 10% longer-term. There is a potential climb to $75.00. Note: the stock climbed above its 50-day moving average and has since picked up steam.


**Economic Calendar**

This week, economic data will have a chance to usurp headlines and speculation. The biggest release happens on Friday with the jobs report. However, each day, investors will get a chance to assess the macroeconomic backdrop.

We will also hear from several Fed members, and I suspect we'll hear more about potential rate cuts.

Monday

- PMI Manufacturing Index
- Construction Spending
- ISM Manufacturing Index

Tuesday

- Motor Vehicle Sales
- Factory Orders

Wednesday

- MBA Mortgage Applications
- ADP Employment Report
- PMI Services Index
- ISM Non-Manufacturing Index
- EIA Petroleum Status Report
- Beige Book

Thursday

- International Trade
- Jobless Claims
- Productivity and Costs

Friday

- Employment Situation
- Wholesale Trade
- Baker-Hughes Rig Count
- Consumer Credit

Charles Payne
Founder, CEO, & Principal Analyst
Wall Street Strategies

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**111 Town Square Place Suite 1510 – Jersey City, NJ 07310 - Phone 212.514.9500**