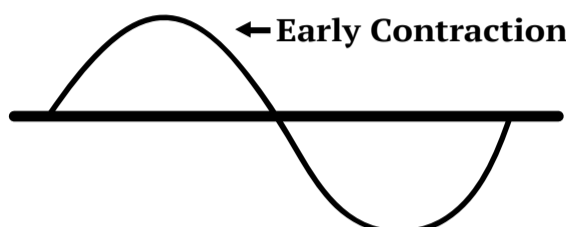


Month in Review

The S&P 500 Index gained 2.0% in October despite dropping nearly 5% in the first three days of the month when both the widely-followed service-sector and manufacturing surveys missed by a mile. The news was so bad that paradoxically investors were hopeful the Federal Reserve would lower interest rates for the third time to boost the economy and the markets. The Fed did indeed lower rates and the “policy panic” we predicted last month pushed the stock market to new highs. It’s time to check our indicators to see how the Fed riding to the rescue has affected them. I have also provided a brief summary of my thoughts on the market going forward.

I. CREDIT CYCLE

PHASE III: EARLY CONTRACTION



Credit markets are beginning to thaw as financial conditions ease, credit spreads stabilize, and recession risks recede. This is reflected in the recent rotation from defensive sectors like utilities and consumer staples to economically sensitive groups like technology, industrials and financials, and from bonds to stocks. Global manufacturing typically turns up nine months after Central Banks start easing-- which for this cycle began in January 2019. We’re not out of the woods yet, but we may be close.

II. RISK LEVEL INDICATORS



US STOCKS: LOW

The Risk Level for **U.S. Stocks** dropped two notches to **LOW** in response to the Fed’s resumption of printing money and buying financial assets (QE) after a 5-year hiatus. The Swing Indicators have swung positive and all systems are go. While QE is good at raising asset prices on Wall Street, it is unable to generate growth on Main Street, so the danger of blowing an asset bubble is high and must be monitored.

INTERNATIONAL STOCKS: LOW

As noted above, the global economy typically turns up nine months after Central Banks start easing. The tightening cycle peaked in January 2019 and right on schedule the Risk Level for **International Stocks** has dropped to **LOW** for the first time since June 2018. Time to get back in the water!

US HIGH QUALITY FIXED INCOME: GUARDED

The Risk Level for **US Fixed Income Quality** remains **GUARDED** but the relative strength ranking is declining. At the height of the recession scare earlier this year, bonds benefited from the “flight-to-quality” trade that drove fearful investors out of stocks and into the perceived safe havens of cash, bonds, and gold. As financial conditions improve and fear subsides, bonds are vulnerable to profit-taking and a reversal of those flows.

III. LOOKING AHEAD

“It’s the Fed, Stupid” So says BoA’s CIO Michael Hartnett, who last month predicted policymakers would soon panic and flood the markets with stimulus. The surge in the stock market has come on the back of the Fed “hosing liquidity into the banking system,” says Albert Edwards, global strategist at French bank Societe General, as the Fed is adding \$60-\$100 billion in liquidity every month. Wall Street pundits who just last week were calling for a market top are now worried about a market “melt-up” and a possible overshoot of the S&P to 3333. In the short-term, investor sentiment has swung from fear to greed and a pullback is overdue, but the momentum has clearly shifted to the upside. This Thanksgiving investors can add the Fed to their list of things to be thankful for!

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