Macroeconomic Overview

Sell-off Spurred by Low bond yields

The major indices have been steadily selling off for a little over a week now and that has been driven primarily by the falling 10-year treasury rates. The flattening of the yield curve indicates a reduction in inflationary expectations which is what drove rates up and was boosting the market post-election. Inflation, which is the expected byproduct of Trumps fiscal policy, isn't expected to rise as fast as previously forecasted because of the apparent inability of our government to push through new policy as fast as expected. Ultimately, the primary indicator pointing to expected economic growth is now pointing towards slower growth which will undoubtedly cause the Fed not to continue to raise rates and now that Trump has expressed new interest in keeping rates low is more of a possibility. The slew of weak economic data in the first quarter of the year indicates that we are off to a slow start but historically Q1 has been softer than the rest of the year so there is also reason not to be concerned because you could argue that it is just a secular trend that will shift more growth to later in the year. Going forward, the key metrics to keep an eye on will be the 10-year rate, business loan activity, employment rate/participation rate (which continue to improve), and also watch the Fed and their statements. The Fed plans to raise the federal funds rate 3 more times this year which signals they expect higher growth and inflation but if their position becomes dovish and they don't decide to continue on the same path of raising rates, it is likely that markets will sell off.

Geopolitical Risk Continues to Grow

Tensions are rising between the US and North Korea, Syria, Russia, and ISIS in the middle east. The President has begun to take action by launching a few missiles with targets in Afghanistan and Syria which has slightly increased tensions with Russia but helped our negotiating strength with China. I do not believe the conflict with North Korea will have any impact on the markets unless a nuclear bomb actually detonates. At this point in North Korea is slightly irrelevant from an economic standpoint but does give us negotiating leverage with China. On the other hand, our relationship with Russia due to these strikes is starting to head south; Russia has stated that they condemn the actions taken by the US. This is a relationship that could potentially hurt us if direct conflict breaks out and I am not in a position to say what is most likely to happen but we need to keep a close eye on talks with Russian officials and feel out the tone to make sure the possibility of real conflict will remain low.

Not only do we have military conflicts possibly arising but we still have major elections happening throughout Europe and the uncertainty pertaining to these elections is being discounted by the markets. Especially in France, the race is close and each candidate will bring the country in a different election. There is a possibility that the EU will not exist in a few years is a potential result from candidates like Le Pen, especially after the UK has already begun to finalize their departure. The EU is in a fragile state because it is mostly a group of underperforming countries being artificially propped up by a few outperforming countries including Germany who could also potentially leave the EU following the result of their upcoming election.

The Start of Earnings Season

Earnings season will be in full swing the upcoming week with major banks like BofA and Goldman reporting this week. As we go through this week we want to pay attention to the guidance they give because ultimately, they are on the "front lines" and are a definitive sign of what is actually going on. From the banks we want to see loan growth in the private sector and continued cost discipline. The flattening of the yield curve is cause for concern for the banks as the spread between the rates they borrow at and what they loan out is where they make a large portion of their money. The downfall of brick and mortar retail is in progress and we will be able to see how bad things actually are for them on the back of Amazons current success.