Cues to Markets: Buy!

08-30-2019

The expression commonly attributed to Longfellow that *for those whom the gods would destroy they first make mad* should be updated for current conditions, in this period of decay, by substituting *stupid* for *mad*. It's not that people are stupid, it's really just an assumption by the gods that it's not working. And that is why an alternate ending of the famous saying could retain the word while changing its meaning from insanity to a ferocious anger.

Trump broke new ground cueing the markets just before the Monday opening by saying he got a call from China informing him that they want to resume trade talks. That led to an excellent market day even though all of his previous cues had proven to have nothing behind them. But this one was special because China never even made such a call.

One might expect that the following day all of the previous session would be lost, along with much more, after sensible traders considered their fool of president must be hiding some really bad news behind his idiocy. But there was only a moderate decline and the week brought a recovery for August after China before an Asia market opening, following Trump's cue, announced they would not increase American tariffs in response to the president's trade belligerence.

The purchase of corporate stocks is an investment predicated on the expectation of healthy profits. According to the Bureau of Economic Analysis the last peak in business cycle profits was 14 years ago, and since then the overall **total** of after tax net income is 9.7% -- less than one percent a year. The Dow was about 14,000 five years ago, now it's almost twice that. Stocks are up more than 81% since 2012 while earnings are down more than 8%.

As stated a number of times in these writings, bubble markets have been created around the world as a kind of reverse loss leader in which the real economy is sold at a loss (mergers and acquisitions, cuts in fixed asset investment and research and development; large dividends and stock buybacks) in order to create the illusion of prosperity in the only thing these sick states can get to grow. It's like capitalism can only get one plant to grow -- and it happens to be poisonous.

Economics Info

-- The flip side of stock is bonds, and while the former says everything is grand, the latter says it's time to duck and cover. The US 10 year yield ducked under the 2 year earlier in the week and has so far remained below it and all the lesser term bonds. It's said that the 3 months is more indicative of recession and it has been inverted for 5 months. Worldwide $17 trillion is invested in negative yield securities (it pays governments to hold their money in safekeeping).

-- Another (now normal) anomaly is the rapid rise of gold to above $1500. Gold is supposed to be a hedge against inflation, something the Fed has repeatedly promised but has not currently, or in the foreseeable future, been able to deliver. The Fed's favored PCE (Personal Consumption Expenditure) was 1.38% in July, well below the desired minimum of 2%, which it only surmounted eight times in 2018 and has now been beneath that number for nine consecutive months. This makes it most likely that gold is up for the same reason security prices have risen while yields have declined -- safety. Gold investors are willing to risk future losses just to have something solid and safe in their hands. Besides, if there is a turn for the worse they can always use it to make jewelry and fill teeth.

– The synchronized slump is advancing (descending) around the world. Industrial production in June fell by almost 4%; the 6 month average is – 2%, and beginning in 2019 the descent appears to be accelerating. Japan, like many of the developed countries, is trying to improve the domestic market to make up for foreign weakness. Total hours worked in May and June experienced a severe decline; the six month average is – 2.6%; the lowest since 2009.

– The Chicago Fed's National Activity Index (of 85 economic variables) fell 0.36% in July. In the last 8 months only one has been above zero.

– China has tried to stem the slide with a temporary VAT reduction and several reductions in bank reserve requirements. The VAT reduction for car sales briefly slowed sales declines from double to single digit.

– Sources report that total US credit market debt now stands at $73.1 trillion, up 33% since 2009. The debt to GDP ratio is now 347%. At such an extremity any rate rise may result in a debt meltdown.

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