BBA Monthly Promontory

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Squinting Through the Big Muddy

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At least our cousins across the pond still have a sense of humor. *The Guardian* recently reported the European Union has penciled in April Fools' Day 2020 as the best option for Britain to debut its independence from the bloc - assuming the UK government can broker more time from Brussels to negotiate its departure.

And that's just one of the hazard signs - from corporate earnings season to US-China trade to nuclear diplomacy - that frustrates our view of the markets. As our friends at Blackrock put it recently, "For the stock market to build on gains seen since the start of the year, investors will need to work past several big 'milestones' over the next six to eight weeks." We agree, and while we remain confident the markets will transcend the mire before us, for now the soup has only thickened.

First, earnings—after several straight quarters of earnings growth, it appears gravity is poised to re-impose itself. A survey from FactSet Research reported that estimated earnings declined for the S&P 500 in the first quarter of the year by -3.4%, a forecast that, if redeemed, would mark the first year-over-year decline in earnings for the index since the second quarter of 2016. That's quite a letdown after 15% earnings growth in the fourth quarter 2018 and 20% plus growth in the previous two quarters.

Whether investors stay the course depends on how they interpret a return to a low-interest rate environment. As *Forbes* put it last month, "The question going into April might be if [low rates] help stocks or how low rates signal economic storms ahead." Watch earnings and payrolls to answer that question, along with fourth-quarter GDP growth, personal spending and manufacturing data.

Then there's Brexit, the royal mess. We have long been EU skeptics and though England is not a part of the euro zone we are sympathetic with the Brexiteers.

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We do, however, anticipate an eventful transition to independence. It behooves the Brits to buy as much time from Brussels as possible in negotiating the divorce rather than giving in to a potentially chaotic "no-deal" departure. If that means tossing the hapless PM Theresa May under a double-decker bus, so be it.

Would that mean Britain was the only basket case in Europe! A year ago France was celebrating its World Cup victory; now the streets of the fifth-largest economy are under siege by violent protest. Germany, the continent's economic turbine, is flirting with recession - so much so that the European Central Bank last month announced new cheap loans for banks to counter the "pervasive uncertainty" from a slowdown in global trade. It also hinted it would postpone scheduled interest rate hikes in response to weaker than expected inflation.

Speaking of trade, it's worth noting a *Seeking Alpha* analysis that concluded "trade growth patterns play a key role in the path of global equities and are going to be key in determining what comes next in the market cycle." It also warned that "global trade indicators have struck a particularly soft tone in the past couple of months."

Which brings us to China—stock markets last month, both in the US and Asia, celebrated the resumption of trade talks between Washington and Beijing, so you can imagine how investors would react to an actual deal. While we expect an agreement, it would pack a bigger punch if accompanied by a rigorous stimulus package. Overlooked in the hoopla of trade-related news was a report from the National Bureau of Statistics that earnings at China's large industrial firms cratered in the first two months of the year due to lower factory-gate prices and slower sales. Industrial profits meanwhile fell 14% in the January to February period, extending a 1.9% decrease in December.

For his part, Chinese Premier Li Keqiang late last month announced China's domestic economy showed signs of stability amid targeted stimulus support. Like his European counterparts, however, he acknowledged challenges posed from weakness in global demand.

If China is the Giant Panda in the room of the global economy, North Korea is its crazy lady in the attic, or so it seems. In fact, Pyongyang is crazy like a fox while acting like a hedgehog, for all of you Isaiah Berlin fans out there. It is a master of brinkmanship and it will announce itself in reckless fashion until it gets normalized relations with the US government. As this is unlikely to happen any time soon, odds are good for a market-rattling confrontation, particularly before the bedlam of presidential campaigning pre-empts even the prospect of nuclear annihilation. In the meantime, our money remains on the redoubtable US consumer to lead us through the bog.

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