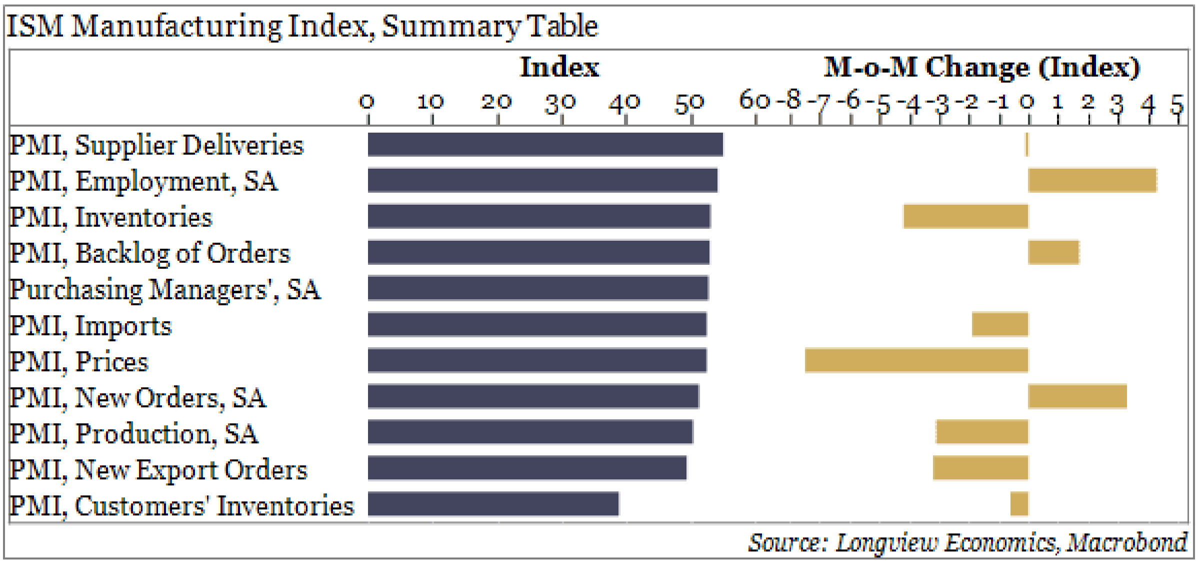
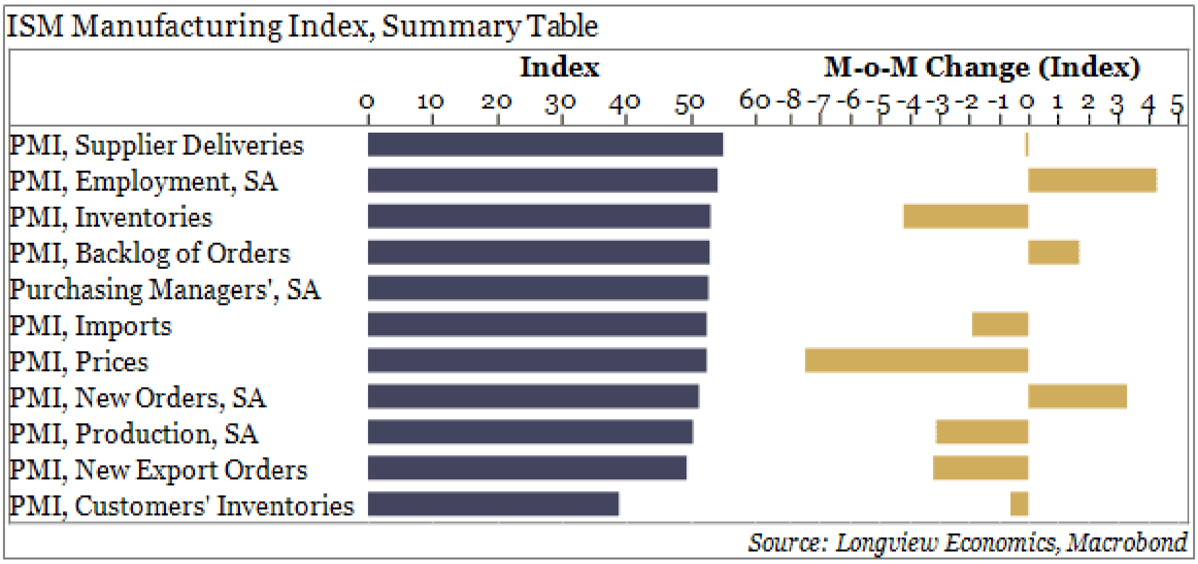
Good News May Not Be Good For Investors

[ad_1]

Following Powell?s hawkish speech last Friday, investors are not happy. Their concern is that Powell will raise rates more than expected and keep them there longer than expected. Accordingly, investors are looking for signs that either affirm Powell?s plan or might get him to back off. In other words, good economic news is bad, and bad economic news is good for investors. It?s perverse but logical, given that Fed liquidity drives markets. On Thursday, we had a good batch of economic news. Jobless claims fell to 232k. Claims peaked at 261k six weeks ago and are slowly declining.

More good news came from the ISM manufacturing report. The index was unchanged at 52.8 and above expectations for 52.0. More importantly, the employment component rose sharply to 54.2 from 49.9. The problem with good labor news is the Fed is worried that tight labor markets are driving inflation. Not surprisingly, given the new paradigm, the market?s reaction to Thursday?s good news was bad.


ISM Manufacturing Index, Summary Table
Index
M-o-M Change (Index)
0 10 20 30 40 50 60
-8 -7 -6 -5 -4 -3 -2 -1 0 1 2 3 4 5
PMI, Supplier Deliveries
PMI, Employment, SA
PMI, Inventories
PMI, Backlog of Orders
Purchasing Managers', SA
PMI, Imports
PMI, Prices
PMI, New Orders, SA
PMI, Production, SA
PMI, New Export Orders
PMI, Customers' Inventories
Source: Longview Economics, Macrobond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What To Watch Today

Economy

- 8:30 a.m. ET: **Nonfarm Payrolls**, August (300,000 expected, 528,000 prior)
- 8:30 a.m. ET: **Unemployment Rate**, August (3.5% expected, 3.5% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, month-over-month, August (0.4% expected, 0.5% prior)
- 8:30 a.m. ET: A**verage Hourly Earnings,** year-over-year, August (5.3% expected, 5.2% prior)
- 8:30 a.m. ET: **Average Weekly Hours All Employees**, August (34.6 expected, 34.6 prior)
- 8:30 a.m. ET: **Labor Force Participation Rate**, August (62.2% expected, 62.1% prior)
- 8:30 a.m. ET: **Underemployment Rate**, August (6.7% prior)
- 10:00 a.m. ET: **Factory Orders**, July (0.2% expected, 2.0% prior)
- 10:00 a.m. ET: **Durable Goods Orders**, July final (0.0% expected, 0.0% prior)
- 10:00 a.m. ET: **Durables excluding transportation**, July final (0.3% expected, 0.3% prior)
- 10:00 a.m. ET: **Non-defense capital goods orders excluding aircraft**, July final (0.4% prior)
- 10:00 a.m. ET: **Non-defense capital goods shipments excluding aircraft**, July final (0.7% prior)

Earnings

- *No notable companies reporting earnings*

Market Trading Update

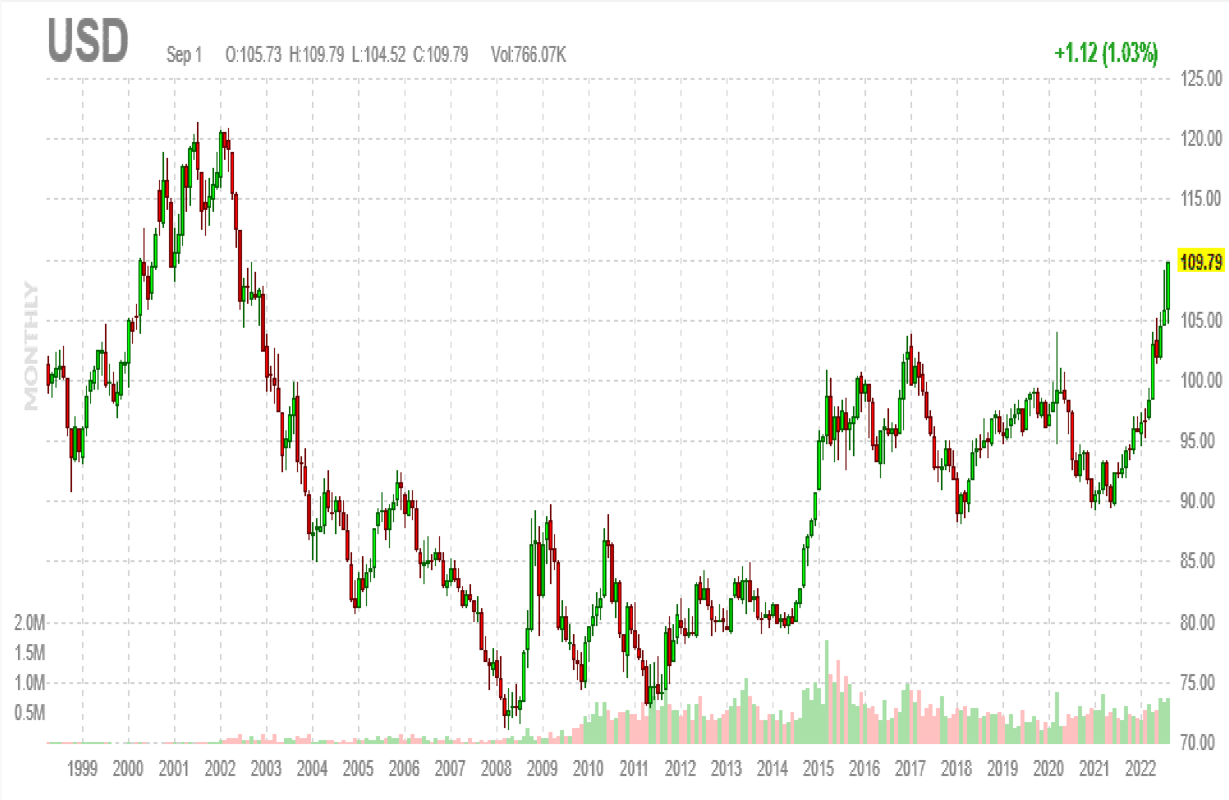
As noted yesterday, it was not surprising to see the market attempt an intraday rally with the market very oversold short-term. As we have discussed recently, the break of the 50-dma is important and increases the downside risk to investors. Furthermore, with the MACD sell signal intact, any short-term rallies should get used to reduce risk and raise cash for the time being.

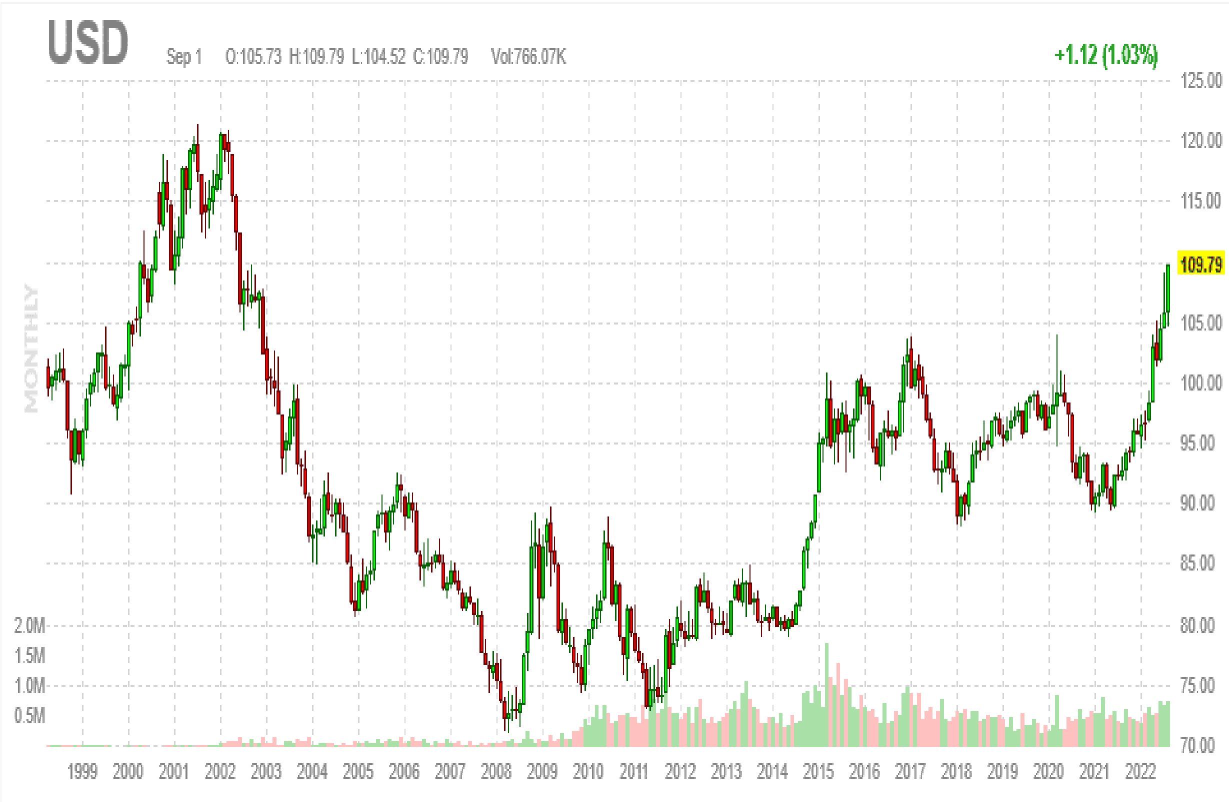
Yesterday?s rally attempt suggests buyers exist at current levels, so a short-term rally either today or early next week to challenge the previous support at the 50-dma will not be surprising. Importantly, if the bulls are to regain market control, the 50-dma needs to be retaken very soon. Otherwise, I suspect the bears will have a shot at retesting the July market lows.

TradingView

The Dollar is Soaring

The dollar is soaring to the detriment of most other assets. A very hawkish Fed, coupled with rising trade and political tensions with China, is pressuring stocks, bonds, and many commodity prices. More important, from a macro view, many foreign borrowers borrow money in dollars. If they do not hedge their principal and interest payments, they will owe more as the dollar rises. A rising dollar makes interest and principal payments more expensive. In such circumstances, borrowers will protect themselves by paying off the loan, which requires them to buy dollars or just buy dollars to hedge their risk. As such, dollar strength may beget dollar strength.





Bear Market Wealth Management

On Wednesday, we published Bear Market Wealth Management. The article served as a simple reminder that limiting losses in a bear market greatly benefits growing long-term wealth. Unfortunately, we stumbled upon the graph below after we published it. The chart further highlights the benefit of reducing stock holdings in a bear market. As it shows, if one only missed the ten worst days in the last 20 years, their wealth would be double that of a simple buy-and-hold S&P 500 strategy. Realize, however, that sitting out for too long can also be a problem. Missing the ten best days would leave you with half the wealth of the S&P 500 buy-and-hold strategy.

Effect of Missing the 10 Best or Worst Days in the S&P 500 Total Return, 1/2/1998 – 12/31/2019

Daily Frequency
Source: Y Charts, Blue Square as of 1/29/2020
The S&P 500 Total Return index price represents the total return that includes both changes in price and the effect of dividends reinvested. References to indexes are hypothetical illustrations of aggregate returns and do not reflect the performance of any actual investment. Investors cannot invest in an index and do not reflect the deduction of the advisor's fees or other trading expenses. Past performance may not be indicative of future results.

Effect of Missing the 10 Best or Worst Days in the S&P 500 Total Return, 1/2/1998 – 12/31/2019

Got Newmont?

Newmont Mining (NEM) is the largest gold miner sporting a market cap of $32 billion. The chart below shows the price of NEM has been cut in half over the last few months and is back to levels last seen during the covid meltdown in 2020. It is also approaching a major support line. The previous time NEM traded at $40, gold was nearly $300/ounce cheaper than it is today.


Newmont Corporation · 1W
O43.02 H43.74 L40.27 C40.69 −2.53 (−5.85%)
Volume 36.79M
92.00
88.00
84.00
80.00
76.00
72.00
68.00
64.00
60.00
56.00
52.00
48.00
44.00
40.69
36.00
32.00
28.00
24.00
2018
Jun
2019
Jun
2020
Jun
2021
Jun
2022
Jun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52.00
48.00
44.00
40.69
36.00
32.00
28.00
24.00
2018
Jun
2019
Jun
2020
Jun
2021
Jun
2022
Jun

Investing in gold is problematic given that real rates are rising and the Fed is very aggressive. Such circumstances have not boded well for gold in the past. That said, NEM and other miners are down much more than gold over the last month or two. Might they be approaching a bottom even if gold continues to decline? NEM has an attractive risk/reward setup, especially with a stop loss limit slightly below the trend line. Additionally, the dividend yield on NEM is up to 5.3%.

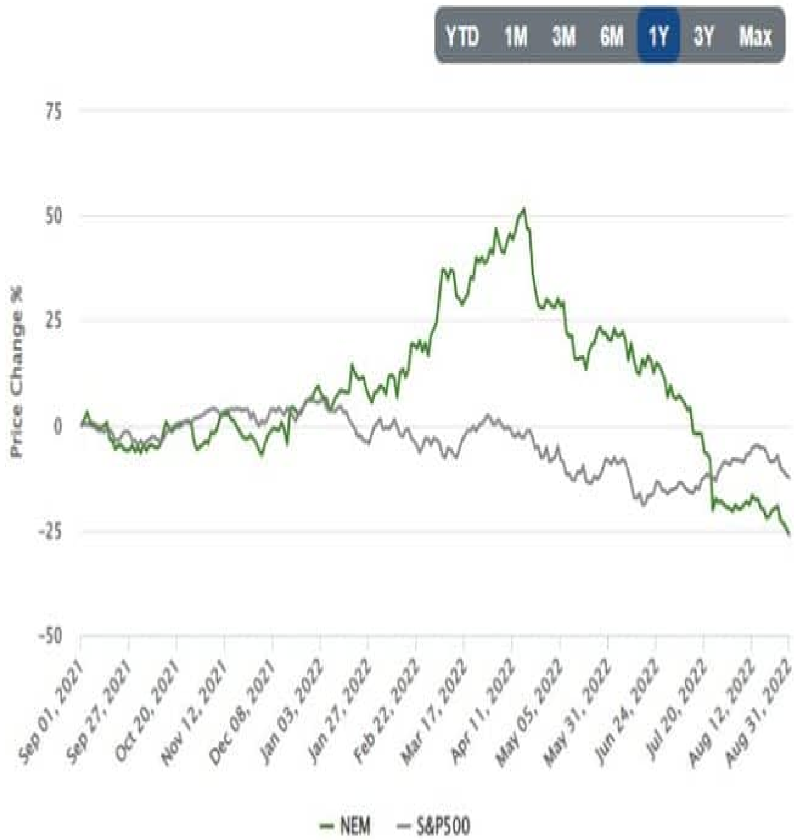
Newmont Corporation (NEM) - Gold

Description

Newmont Corporation engages in the production and exploration of gold. It also explores for copper, silver, zinc, and lead. The company has operations and/or assets in the United States, Canada, Mexico, Dominican Republic, Peru, Suriname, Argentina, Chile, Australia, and Ghana. As of December 31, 2021, it had proven and probable gold reserves of 92.8 million ounces and land position of 62,800 square kilometers. The company was founded in 1916 and is headquartered in Denver, Colorado.

Latest Price (Sep 1, 2022, 2:56:04 PM)	Last Close	Open	Volume	Annual Div.	Mkt Cap (mn)
$40.91 ▽ (-$0.46) (-1.10%)	$41.36	$40.79	9,212,238	$2.20	$32,465.52

52 Week Range	Day Range	Avg. Volume (3m)	Div. Yield	Beta
$40.27 – $86.37	$40.27 – $41.24	8,617,426	5.32%	0.26



Total Return		Earning Per Share - Actuals		Earning Per Share - Estimates	
% Total Return WTD	-5.34%	Last Quarter	0.60	Current Quarter	0.91
% Total Return MTD	-8.97%	Prior Quarter	0.89	Next Quarter	0.96
% Total Return QTD	-31.44%	Last Year	3.77	Current Year	3.27
% Total Return YTD	-33.02%	**Revenue - Actuals**		**Revenue - Estimates**	
% Total Return 1 Year	-26.97%	Last Quarter	3,058 m	Current Quarter	0 m
% Total Return 2 Year	-35.29%	Prior Quarter	3,023 m	Next Quarter	0 m
% Total Return 3 Year	10.72%	Last Year	12,222 m	Current Year	16,394 m
		Prior Year	11,497 m	Next Year	16,258 m

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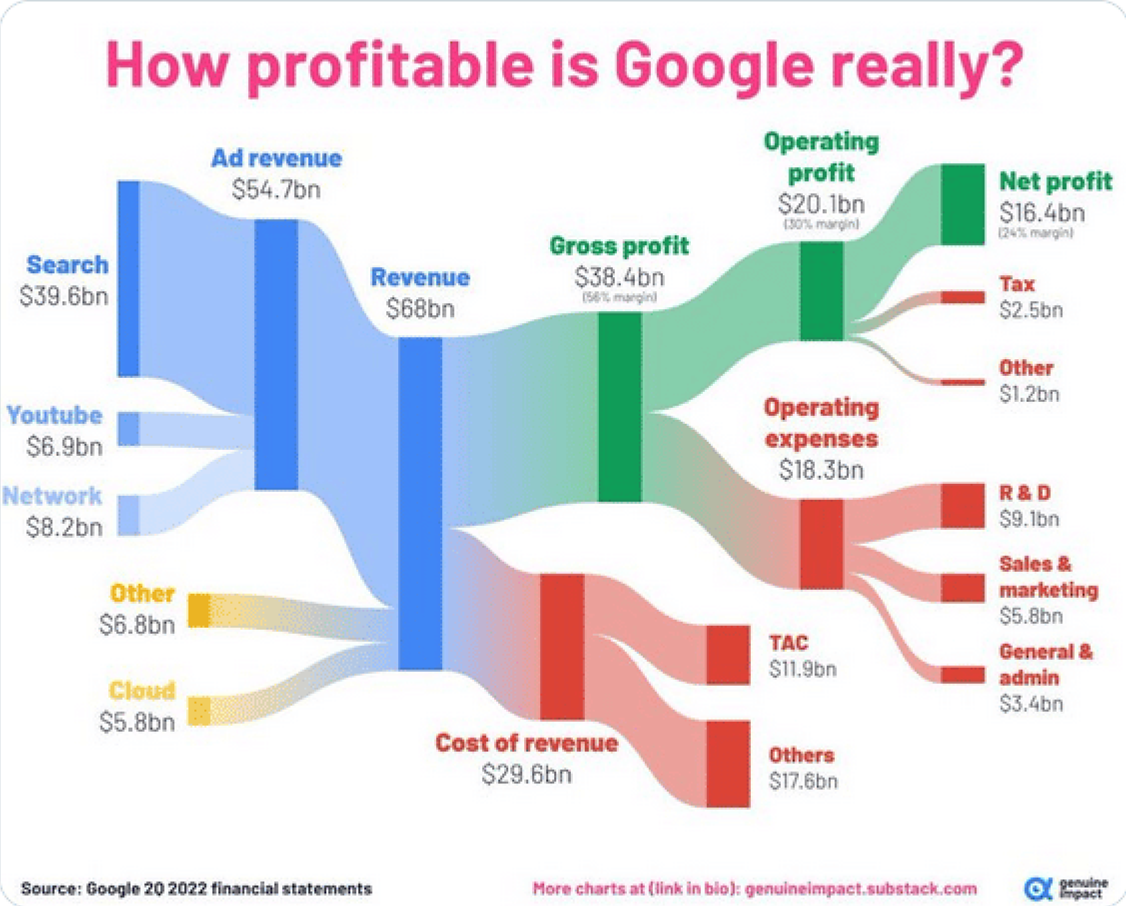
Tweet of the Day

Compounding Quality
@QCompounding

How profitable is Google really?



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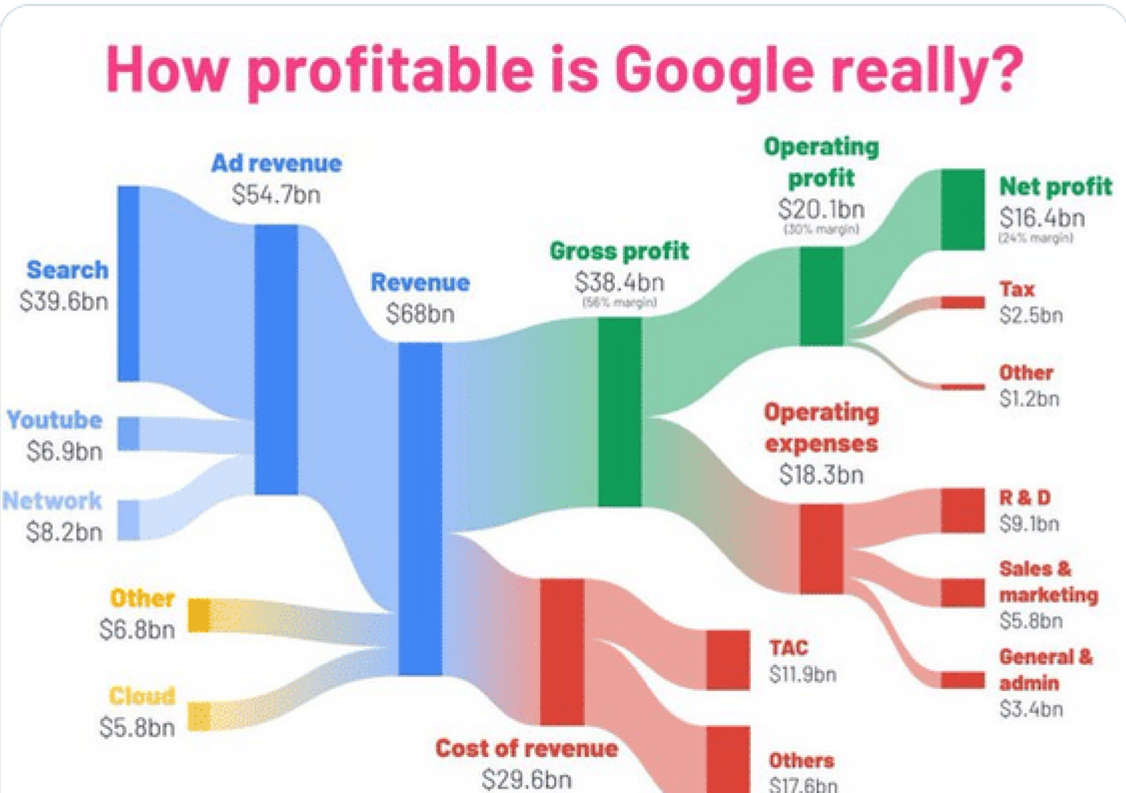

***Please [subscribe to the daily commentary]* to receive these updates every morning before the opening bell.**

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