

The Fiscal Freeze Is Coming

In mid-March, the government is expected to hit the debt ceiling. As has seemingly become the norm, dire threats from both political parties will start shortly. However, despite the fiery rhetoric, they often get resolved before the government shuts down. Might the coming fiscal standoff be a little different? Our colleague Greg Valliere, a long-time Washington DC insider, explains why a shutdown may be more likely this time. Greg starts his latest article by asking the following: *Democrats Are Asking: why should we give Republicans the votes they need to pass a debt ceiling extension in mid-March?* He follows:

THE FRUSTRATION AMONG ALL DEMOCRATS and some Republicans over Elon Musk is palpable; a shutdown, perhaps for a few weeks, would send a message to House Speaker Mike Johnson that he doesn't have the votes for many of the Trump-Musk proposals.

OUR BOTTOM LINE is twofold: first, the confusion and litigation will continue, and second, fiscal policy is headed for a deep freeze. It's increasingly clear that monetary policy will be on hold for months to come; fiscal policy is likely to stay very restrictive for the foreseeable future.

The following quote from above caught our attention: *Fiscal policy is headed for a deep freeze.* Furthermore, we would add that the Republican Freedom Caucus may pose problems as they favor deep fiscal spending cuts that Donald Trump and the majority of Republicans may not want to cede.

Over the past few years, excessive government spending has sufficiently boosted the economy. Consequently, the US avoided quite a few quarters of negative economic growth. Therefore, DOGE-related spending reductions and the potential for a prolonged government shutdown could spell trouble for the economy. Furthermore, the Fed appears unwilling to cut rates. A handcuffed Fed and fiscal freeze could create economic and market problems. As we share, the odds of a government shutdown in the betting markets are significant.



Government shutdown this year?



63% chance ▲ 34.9 ⓘ

Kalshi



What To Watch Today

Earnings

| Friday Feb 14 | EPS | Consensus | Previous | Revenue | Consensus | Previous | MarketCap | Fiscal | Time | | |
|---|-------|-----------|----------|---------|-----------|----------|-----------|--------|------|---|--|
| Southern Copper <small>SCCO.US</small> | 1.12 | 0.58 | 0.58 | 2.9B | 2.3B | \$75.32B | Q4 | PM | ★ | 🔔 | |
| Crown Castle International <small>C</small> | 0.45 | 0.83 | 0.83 | 1.64B | 1.67B | \$38.84B | Q4 | PM | ★ | 🔔 | |
| Ingersoll Rand <small>IR.US</small> | 0.85 | 0.86 | 0.86 | 1.93B | 1.82B | \$36.83B | Q4 | AM | ★ | 🔔 | |
| FirstEnergy <small>FE.US</small> | 0.71 | 0.62 | 0.62 | 4.36B | 3.2B | \$23B | Q4 | PM | ★ | 🔔 | |
| Moderna <small>MRNA.US</small> | -2.73 | 0.55 | 0.55 | 995.44M | 2.8B | \$12.54B | Q4 | PM | ★ | 🔔 | |
| Balchem <small>BCPC.US</small> | 1.14 | 0.95 | 0.95 | 241.79M | 228.7M | \$5.21B | Q4 | AM | ★ | 🔔 | |
| Portland General Electric <small>POR1</small> | 0.34 | 0.68 | 0.68 | 663.4M | 725M | \$4.13B | Q4 | AM | ★ | 🔔 | |
| Sensient Technologies <small>SXT.US</small> | 0.66 | 0.51 | 0.51 | 374.6M | 349.3M | \$3.2B | Q4 | PM | ★ | 🔔 | |
| Arbor Realty <small>ABR.US</small> | 0.38 | 0.51 | 0.51 | 148.81M | 188.89M | \$2.59B | Q4 | PM | ★ | 🔔 | |

Economy

| Friday February 14 2025 | | | Actual | Previous | Consensus | Forecast | | |
|-------------------------|----|-------------------------------------|--------|----------|-----------|----------|--|--|
| 07:30 AM | US | Retail Sales MoM JAN | | 0.4% | -0.1% | 0% | | |
| 07:30 AM | US | Export Prices MoM JAN | | 0.3% | 0.3% | 0.3% | | |
| 07:30 AM | US | Import Prices MoM JAN | | 0.1% | 0.4% | 0.3% | | |
| 07:30 AM | US | Retail Sales Control Group MoM JAN | | 0.7% | 0.3% | 0.4% | | |
| 07:30 AM | US | Retail Sales Ex Autos MoM JAN | | 0.4% | 0.3% | 0.3% | | |
| 07:30 AM | US | Export Prices YoY JAN | | 1.8% | | 2.3% | | |
| 07:30 AM | US | Import Prices YoY JAN | | 2.2% | | 2.8% | | |
| 07:30 AM | US | Retail Sales Ex Gas/Autos MoM JAN | | 0.3% | | 0.2% | | |
| 07:30 AM | US | Retail Sales YoY JAN | | 3.9% | | 3.7% | | |
| 08:15 AM | US | Industrial Production MoM JAN | | 0.9% | 0.3% | 0.3% | | |
| 08:15 AM | US | Capacity Utilization JAN | | 77.6% | 77.7% | 77.4% | | |
| 08:15 AM | US | Industrial Production YoY JAN | | 0.5% | | 0.9% | | |
| 08:15 AM | US | Manufacturing Production MoM JAN | | 0.6% | 0.1% | 0.2% | | |
| 08:15 AM | US | Manufacturing Production YoY JAN | | 0% | | 0.8% | | |
| 09:00 AM | US | Business Inventories MoM DEC | | 0.1% | 0% | -0.1% | | |
| 09:00 AM | US | Retail Inventories Ex Autos MoM DEC | | 0.4% | 0.2% | 0.2% | | |

Market Trading Update

As noted yesterday, there have been two days of inflation data, and the market has continued to do well as investors look past the short-term volatility in the data and focus on the longer-term trend, which remains lower. As expected, the PPI did rise as the business front ran tariffs and pushed short-term prices higher. However, those actions will be offset later as inventories have to be liquidated. Notably, the bond market rallied sharply following both inflation reports and recovered all the previous knee-jerk losses on the initial CPI report reading. Furthermore, money flows remain positive into TLT for the time being as we are seeing accumulation by buyers.



TradingView

The stock market continued to perform well after the inflation reports. With the latest report, the market broke out of the recent consolidation range, with money flows remaining rising, pushing markets back toward all-time highs. Furthermore, buying has kept the MACD *sell signal* from triggering. The bullish bias has been very strong and surprising, given the recent headlines from tariffs to the Fed to economic data.



While cautious, we continue to keep our allocations at target weights, as noted yesterday. Furthermore, the market has rotated back into the mega-capitalization companies, and we are seeing better performance in those assets.

Continue to manage risk. The last half of February tends to be weak, so we are watching market action closely.

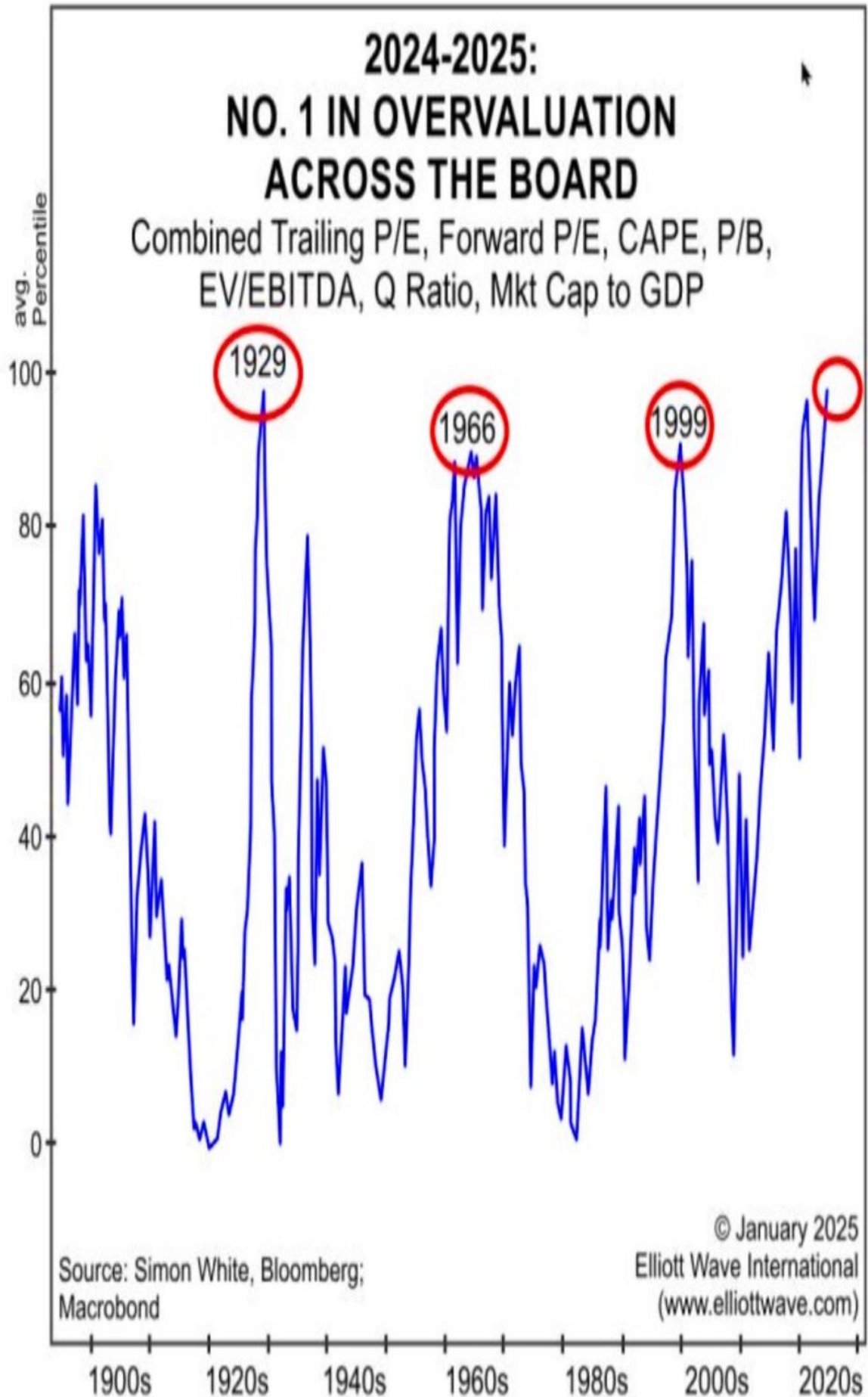


Buyer Beware

The graph below hits on a theme we have been raising for a while. Stock market valuations are very high. The graph, courtesy of Elliot Wave Internation, combines seven standard valuation techniques to show that current valuations are on par with those at significant market peaks. Today's Tweet of the Day shares another valuation chart with a slightly different message. It warns that valuations may be extreme for the largest market cap stocks, but many smaller stocks are trading with fair valuations.

Both graphs serve as a warning. Consequently, we advise you to pay attention to market fundamentals and technicals to assess how long high valuations can last. Furthermore, just because the market is expensive doesn't mean every stock is expensive. Moreover, no rule says that current valuations can not get more expensive. However, if you are passive and do not pay close attention to market dynamics, now might be a good time to reduce your level of risk. Or,

given plenty of stocks have fair valuations, now may be a time to consider rotating from the largest-cap stocks to those offering more value.



The Definitive Guide To Managing Risk In Your Investment Portfolio

Managing risk is one of the most critical aspects of successful investing. While all investments carry some degree of risk, effective investment portfolio risk management can help you preserve wealth, achieve financial goals, and weather market fluctuations. Understanding and employing strategies such as diversification, asset allocation, and hedging can significantly reduce your exposure to potential losses.

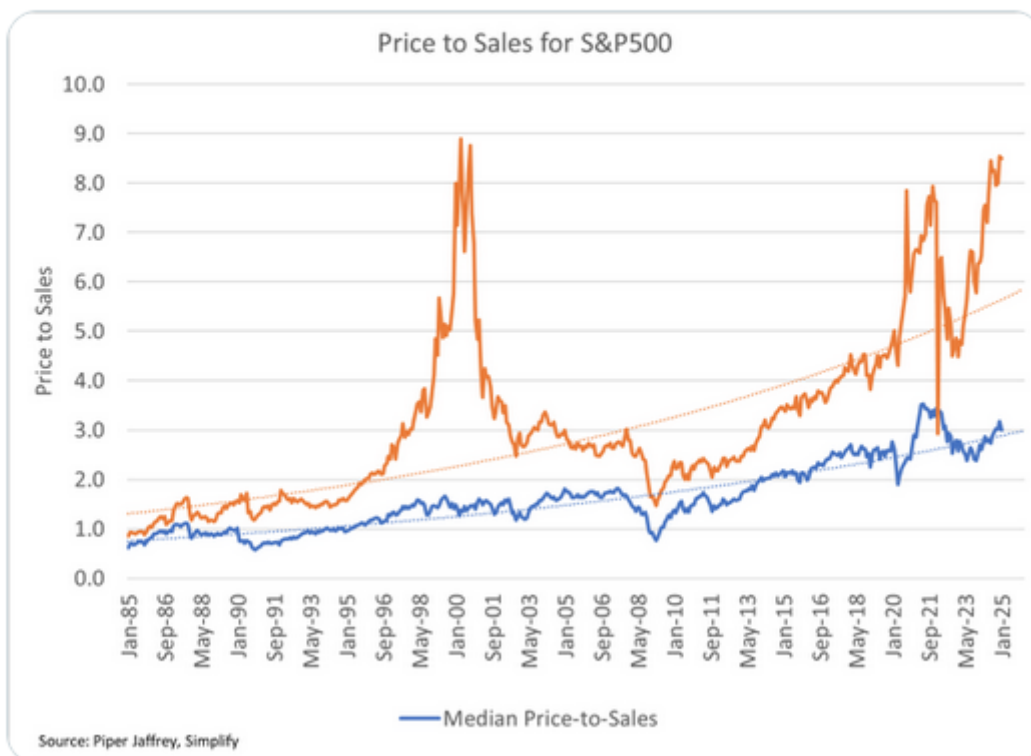
This guide explores the concept of risk management, strategies for [reducing investment risks](#), and tools to safeguard your portfolio during market uncertainties.

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