There are two important areas of the market that have historically been good leading indicators of the strength, or weakness, of the markets and the economy. Oil and retail. Currently, both areas are sending warning signs that should not be readily dismissed. First, with respect to oil, the bounce in oil following the crash in prices that began in 2014 resulted not only in the bulk of the decline in earnings initially but also the recovery in earnings with the bounce. However, that bounce has now faded but forward earnings expectations have likely not been revised lower. Per FactSet, the energy sector is expected currently to post a 396% gain in earnings on a year-over-year basis. Given the recent fall in oil prices, there is a huge risk of disappointment

The biggest issue facing S&P 500 earnings going forward is the analyst community's *"miss"* on oil price estimates for the bulk of 2017, not just the second quarter.•According to FactSet's estimates, analysts are expecting the following average prices per barrel for WTI crude for the yet-to-be-reported final three-quarters of 2017:

- *2Q17: $51.96*
- *3Q17: $54.29*
- *4Q17: $55.72*

With oil prices closer to $45 than $50, this could be a problem as, according to•FactSet, **analysts made the smallest cuts to Q2 earnings-per-share estimates in three years ahead of the reporting season.** Retail is also sending a warning that, despite surging consumer confidence surveys, consumers are not rushing out to *"crack open"* their wallets. Per Bloomberg Intelligence survey:

- *Retail 2Q sales results may be impaired by weak traffic, as consumers still prefer digital, and they swap shopping for travel, dining out or outdoor recreation*
- *Shopping less in-store continues to hurt retailers? ability to prompt unplanned purchases*
- *In the week ending July 1, footfall at luxury retailers was down 9.7%, 8.3% weaker at apparel stores*

Considering that retail sales make up roughly 40% of Personal Consumption Expenditures (PCE), which is roughly 70% of the GDP calculation, you can understand why this may well be an issue for the markets going forward. As Tom Lee from BofA noted:

> *"We have a nominal GDP problem.* ***If real growth is only 2 and inflation expectations are falling, that means nominal growth is only going to be 3. Earnings growth is really essentially going to be 3%, and I think when you see estimates out there that look for 12% growth next year, it?s grounded on this view that inflation picks up and real growth picks up and if neither takes place, then earnings are too high,*** *which is the reason we think estimates are actually way too high out there."*

The risk of disappointment is rising as the hopes for "tax cuts/reform" continue to fade. As Lee concluded:

> *"I think the problem today is that market growth, the rise in the market has way been ahead of GDP growth."*

Yep. It's a problem. In the meantime, this is what I am reading.

Politics/Fed/Economy

- **Central Banks To Investors: I Know Nothing!**•by Danielle DiMartino-Booth via Money Strong
- **CBO Gets Obamacare Reform Estimates Wrong, Again** by Diana Furchtgott-Roth via MI
- **Tax Collections Point To Weaker Growth**•by Lee Adler via Daily Reckoning
- **No, The Fed & Bond Market Aren't•Interchangeable**•by Caroline Baum via MarketWatch
- **The Fed Follows Script That Doesn't Play**•by Daniel Moss via Bloomberg
- **4-Signs The Economy Is Stalling**•by Stephen McBride via Mauldin Economics
- **The False Premise Of GOP Tax Cuts**•by Editorial via New York Times
- **The Big Problem With The "Stress Tests"**•by Craig Wilson via Daily Reckoning
- **FOMC Minutes Say Nothing New**•by Peter Boockvar via The Boock Report
- **Minimally Convincing**•by Bryan Caplan via Econolog

- **Confidence Boomed, Economy Hasn't** by Neil Irwin via NYT
- **Fed Has No Ability To Manage Outcomes** by John Tamny via Forbes

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Markets

- **Dr. X's Bubble Detector** by Steve Hanke via Forbes
- **Bond Market Signals Trouble** by Jeff Sommer via NYT
- **Has U.S. Shale Wrecked Its Own Recovery** by Zainab Calcuttawala via Oil Price
- **S&P - A New Price Regime** by Sam Ro via Yahoo Finance
- **First Step Toward End Of The Bull Market** by Akin Oyedele via BI
- **Stocks Don't Look Very Expensive** by Gary Smith via RCM
- **Oldest Stock Market Indicator Sends Buy Signal** by Market Hulbert via MarketWatch
- **Markets Are Blindly Ignoring History** by Joe Ciolli via BI
- **Tech Weakness Hasn't Killed The Bull Market** by Michael Kahn via Barron's
- **PIMCO: We're Reducing Risk Across The Board** by Tyler Durden via ZeroHedge
- **Yusko: Get Out Of Index Funds Now** Mark Yusko - Via Harvest
- **Show Me The Money** by Ed Yardeni via Yardeni Research
- **Might Not Have Seen The Peak, But We're Close** by Doug Kass via Real Clear Markets
- **The S&P 500 Is Becoming One Giant ETF** by Tyler Durden via ZeroHedge

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Research / Interesting Reads

- **Auto Sales Sag** by Wolf Richter via Wolf Street
- **The Fast Track To "Carmageddon"** by David Stockman via Daily Reckoning
- **Residential Rental Vacancy Inflection Point** by Mark Hanson via MHanson.com
- **Replies To Questions Not Asked Enough** by Joe Calhoun via Alhambra Partners
- **2017 First Half Takeaways** by Macroman via Global Macro Monitor
- **Investors Have Lost Sight of Purpose Of Indexes** by Aaron Brown via Bloomberg
- **Low-Income Families Spend 40% On Luxuries** by Leslie Albrecht via MarketWatch
- **Sovereign Debt: The Next Minsky Moment** by Alberto Gallo via Bloomberg
- **Old Age & The Need For Savings** by Ben Stein via The American Spectator
- **More Unsurprising Minimum Wage Evidence** by Eric Fruits via Truth On The Market
- **Leverage Will Make Any Correction Quick!** by Jared Dillian via Maulding Economics
- **Nope, You're Not Ready To Retire (Signs)** by Katie Brockman via Motley Fool
- **Speculators Ignoring Reality** by John Hussman via Hussman Funds
- **Small Change In The Market?** by Dana Lyons via Tumblr
- **Helene Meisler: Good Ole' Technical Analysis** by Jesse Felder via The Felder Report

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> ***"If you are in a poker game and after 20 minutes you don't know who the patsy is, then you?re the patsy." -*** *Warren Buffett*

Questions, comments, suggestions ? please email me.