An interesting thing has begun to occur in the market which is more a symptom of exuberance than prudence as there seems to be nothing that can derail the market advance to new highs. However, as Doug Kass noted recently in his diary, the ingredients to shock market participants are already in place.

- *•Speculative activity is on the rise (materially so in the case of Tilray (TLRY) and others in the space).*
- *•Investor complacency (not a soul, save permabears, are looking for anything like a large markdown in market).*
- ***Rising interest rates -- with the pace of the yield climb now accelerating to the upside.***
- *Trade and tariff risk is rising.*
- *An extreme change in the market structure -- much like portfolio insurance in 1987, (ETF and Quant strategies and products dominate the market) -- in which participants are all on the same side (long) of the boat.*
- *Social unrest as the benefits of monetary and fiscal policies failed to trickle down.*
- *Weak market seasonals.*
- *Technical divergences.*

The market is currently ignoring, in my opinion, two of the biggest risks to the fundamental underpinnings of the market which are earnings growth and valuation. While the market has been rising on stronger rates of earnings growth, due primarily to tax cuts and share buybacks, that effect will begin to roll off in the months ahead. Tariffs and higher interest costs are a direct threat to bottom line profitability, particularly when combined with higher labor costs. Today, however, I•want to focus on the interest rate issue as it is the biggest threat the markets currently face if rates do indeed continue to rise further. The following video takes a deep dive into rates and historical outcomes.

(Subscribe to our [YouTube channel] for daily videos on market-moving topics.)

? But this is THE chart you should be paying attention to:

There are several important points to note in the chart above:

1. *In the past 40-years, there have only been seven (7) other occasions where rates were this overbought. In each case, it was a great time to* ***buy bonds*** *and* ***sell stocks.*** *(When rates got oversold, it was time sell bonds and buy stocks.)*

2. *There were only two (2) other periods where rates were this extended above their long-term moving averages. The one that occurred between 1980-1982 began the long-term decline in bond prices.•*
3. *Economic growth has peaked every time rates got this extended. (Which shouldn't be a surprise.)*
4. *Whenever rates have previously pushed 2-standard deviations of their 2-year moving average - bad things have tended to occur such as the Crash of 1974, Crash of 1987, Long-Term Capital Management, Russian Debt Default, Asian Contagion, Dot.com crash, and the Financial Crisis.*

While the markets are currently ignoring the risk of higher rates, even a cursory glance at the chart above suggests that we are near the point where *"rates will matter."* I suspect the *"Magic Number"* is likely no higher than 3.25%. But we will only know for sure when the *"rabbit pops out of the hat."* Just something to think about as you catch up on your weekend reading list.

Economy, 2008 & Fed

- **Fed Officials Are Playing With Fire** by Caroline Baum via MarketWatch
- **Burying Our Heads In The Sand** by Hunt Lawrence via American Spectator
- **Further Tax Cuts, Further Fiscal Irresponsibility** by Committee For A Responsible Federal Budget
- **Tax Reform Promised A Deluge, We Got A Drip** by Omri Marian via The HIll
- **Trade War Escalates - Markets Shrug** by Matt Phillips via NYT
- **6-Signs We're Closer To A Recession Than You Think** by Sean Williams via Motley Fool
- **Wages Are Low And Workers Are Scarce** by Annie Lowrey via The Atlantic
- **The Casualties•Of The Trump's Trade War** by Steve Chapman via Reason.com
- **Economic Bump Due To Stimulus** by James Macintosh via The New Yorker
- **Can American Be A Successful Low-Tax Society** by Grover Norquist via Ozy
- **Who Really Creates Value In An Economy** by Mariana Mazzucato via Project Syndicate
- **A Decade Later, Is The Global System Safer** by Knowledge@Wharton

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Markets

- **Edwards: Next Recession Only 6-Months Away** by Tyler Durden via Zerohedge
- **This Market Indicator Most Inflated Since 2000** by Mark Hulbert via MarketWatch
- **TSLA: Headed To The Graveyard** by Shawn Langlois via MarketWatch
- **A Warning From Europe** by Anne Applebaum via The Atlantic
- **It's A Nightmare Scenario For The Markets** by Wolf Richter via Wolf Street
- **The "Junkie Market" Is Back Again** by Dana Lyons via The Lyons Share
- **Central Banks On Gold Buying Spree** by Simon Constable via Forbes
- **Emerging Pieces From The EM Decline** by Seth Levine via The Integrating Investor
- **Markets Don't Care About Trade Wars** by Ryan Vlastelica via MarketWatch
- **When Is The Next Recession & Bear Market** by Jesse Colombo via Forbes
- **The End Of The Incessant Bid** by Kevin Muir via The Macro Tourist

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Most Read On RIA

- **The World Diverges From The U.S.** by Lance Roberts
- **Buffett: A Walking Contradiction** by Michael Lebowitz
- **The Ingredients Of An "Event"** by Lance Roberts
- **80% Of Americans Face A Retirement Crisis** by Lance Roberts

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Research / Interesting Reads

- **The Confidence Game Being Run At Salesforce** by Ben Hunt via Epsilon Theory
- **2/3rds Of Americans Believe The Stock Market Hasn't Risen** by Tyler Durden via ZeroHedge
- **A Decade Later: How The Recession Changed Everything** by Liz Wolfe via Playboy
- **How The Next Downturn Will Surprise Us** by Ruchir Sharma via NYT
- **5-G Will Change Everything** by Gary Shapiro via Real Clear Markets
- **Statistics Say The Financial Crisis Is Behind Us, They're Wrong** by David Leonhardt via NYT
- **The Biggest Economic Change In A Decade** by John Stepek via MoneyWeek
- **Is The Stock Market Overvalued?** by Knowledge@Wharton
- **Retirement Is In Peril For Most Americans** by Ted Knutson via Forbes
- **Fed Should Go Lower For Longer** by Janet Yellen via Brookings
- **The Will Be The Mother Of All Minsky Moments** by John Mauldin via Mauldin Economics
- **What We Should Have Learned From 2008, But Didn't** by Carmen Reinhart via Foreign Affairs

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> ***"It's all fun and games until someone gets their eye put out.?*** *-Every Mom In History*

Questions, comments, suggestions ? please email me.