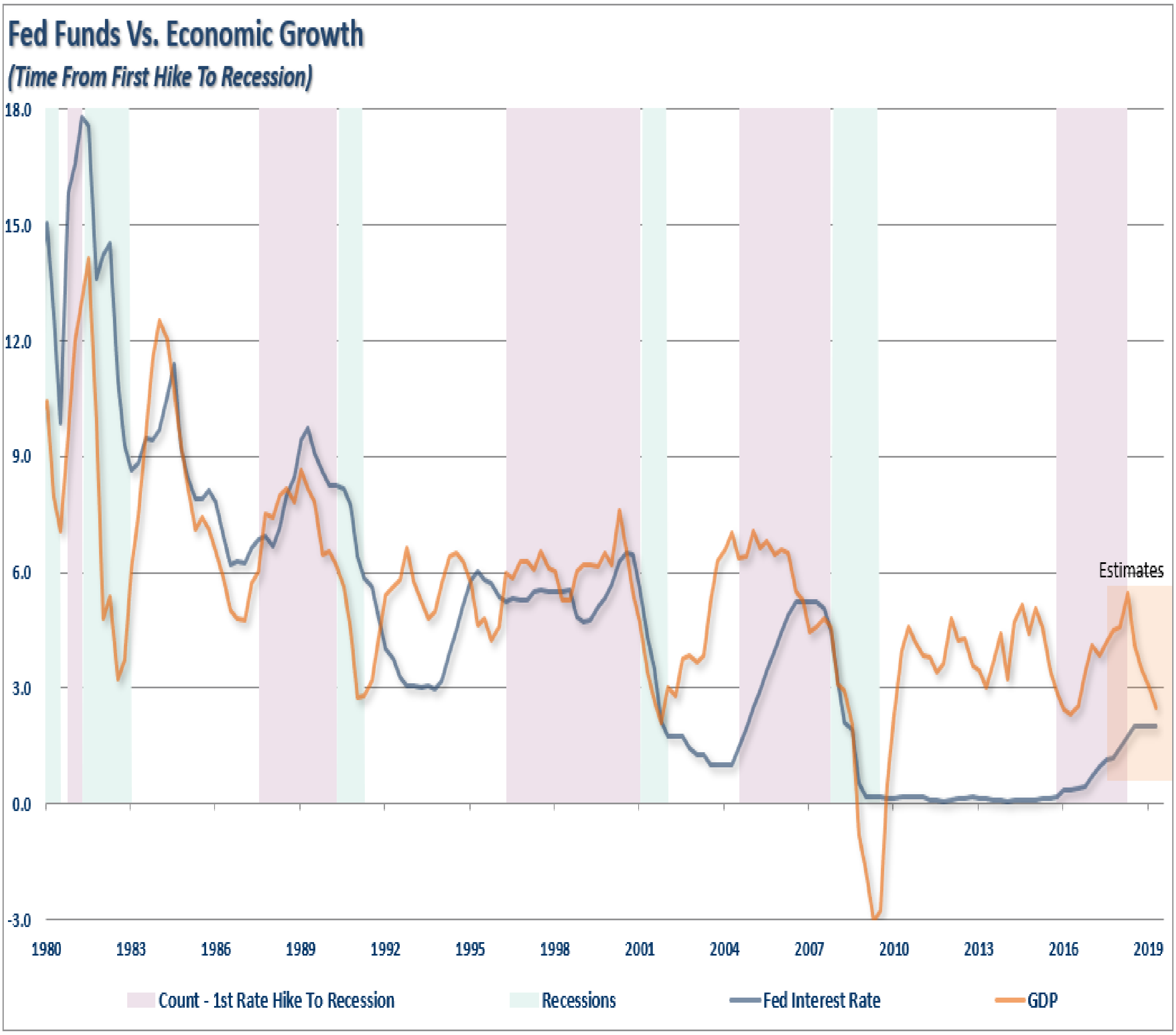
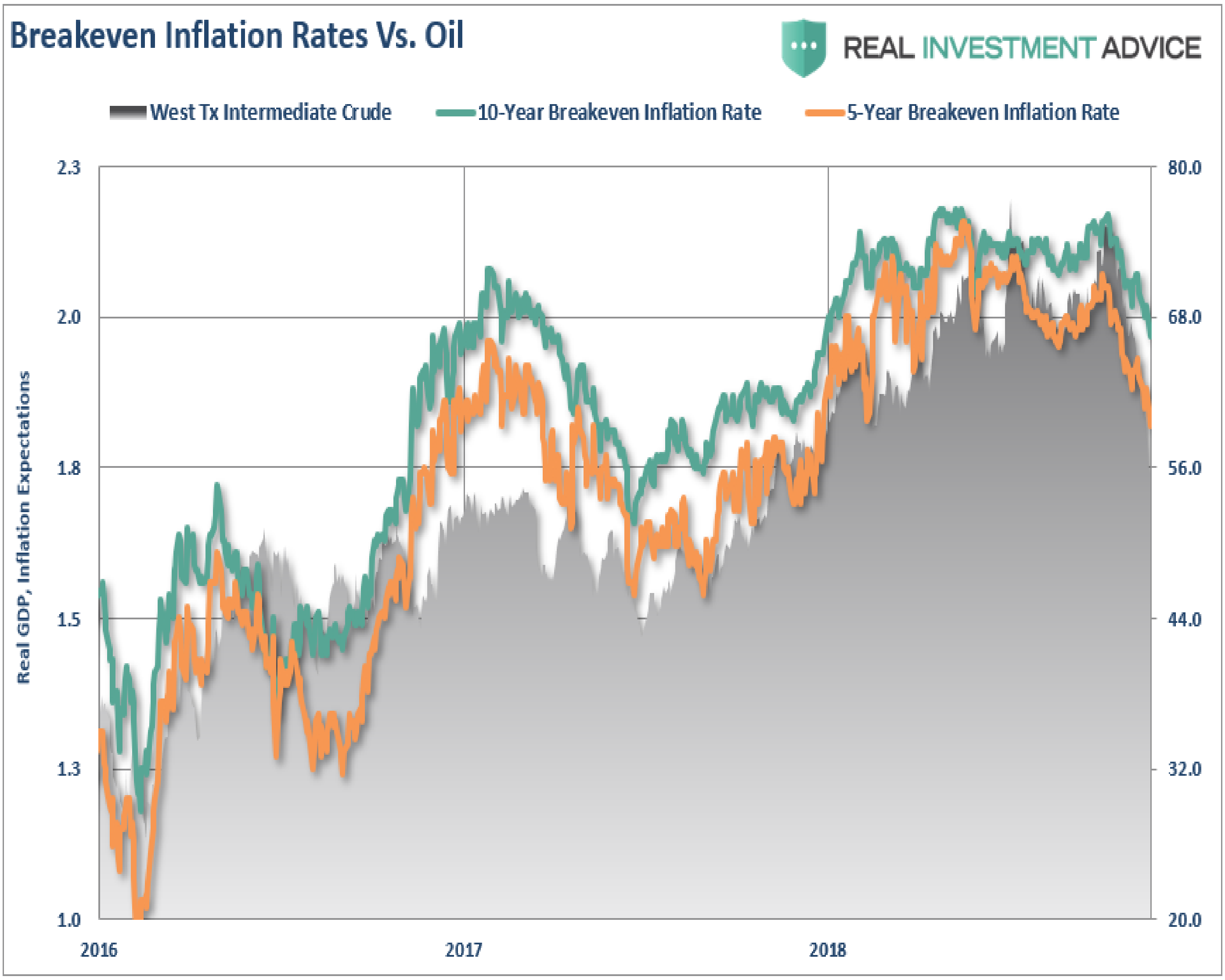
All it took was two 10% stock market corrections in a single year and some heavy *"browbeating"* from President Trump to reverse Jerome Powell's hawkish stance on hiking interest rates. On Wednesday, Powell took to the microphone to give the markets what they have been longing for - the ***"Powell Put."*** During his speech, Powell took to a different tone than seen previously and specifically when he stated that current rates are *"just below"* the range of estimates for a *"neutral rate."* This is a sharply different tone than seen previously when he suggested that a *"neutral rate"* was still a long way off. Importantly, while the market surged higher after the comments on the suggestion the Fed was close to "being done" hiking rates, it also suggests the outlook for inflation and economic growth has fallen. With the Fed Funds rate running at near 2%, if the Fed now believes such is close to a *"neutral rate,"* it would suggest that expectations of economic growth will slow in the quarters ahead from nearly 6.0% in Q2 of 2018 to roughly 2.5% in 2019.



Such will also correspond with a drop in inflationary pressures, as [we noted previously,] which is already occurring with the drop in energy prices.

*"**More importantly, falling oil prices are going to put the Fed in a very tough position in the next couple of months as the expected surge in inflationary pressures, in order to justify higher rates, once again fails to appear.** The chart below shows breakeven 5-year and 10-year inflation rates versus oil prices."*



But here was the key comment that suggests the recent blasting by President Trump hit home:

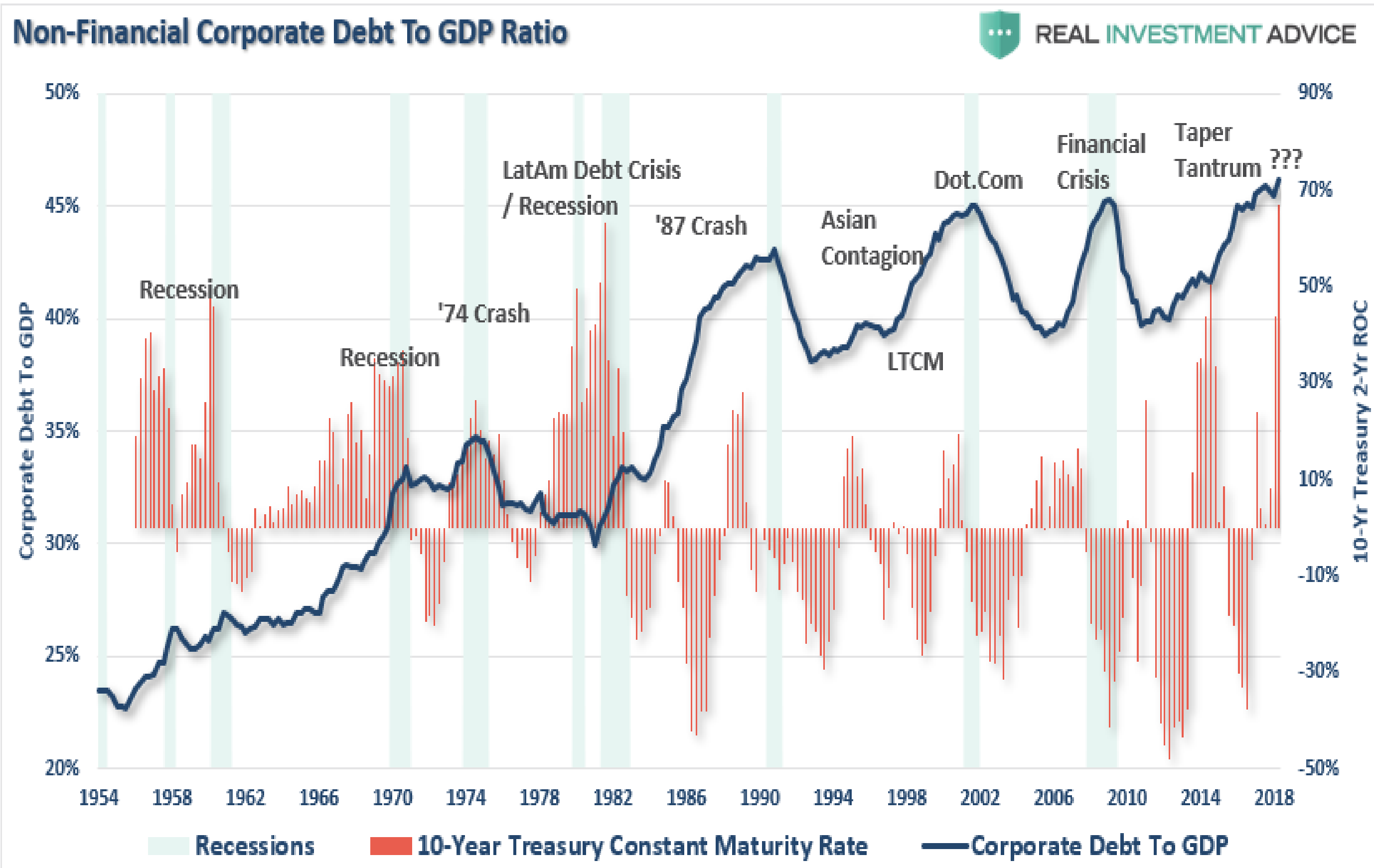
> *"**Powell says moving too fast would risk shortening U.S. expansion,** moving too slow could risk higher inflation and destabilizing financial imbalances."*

President Trump has been adamant that Powell's aggressiveness was jeopardizing the economic recovery. More interesting was when Powell reiterated they see ***"no major asset class, however, where valuations appear far in excess of standard benchmarks"*** as of September 13, 2018; data since 1990 for CFO and FCF, 1976 for all others

	Aggregate Index		Median Stock	
Metric (Aggregate index)	Current	Historical %ile	Current	Historical %ile
EV / Sales	2.4 x	97 %	2.9 x	99 %
Cyclically adjusted P/E (CAPE)	28.6 x	90	NA	NA
EV / EBITDA	12.1 x	90	12.3 x	97
Price / Book	3.5 x	89	3.5 x	100
Cash flow yield (CFO)	**6.9 %**	**89**	**6.9 %**	**97**
Forward P/E	17.1 x	84	17.4 x	89
Free cash flow yield (FCF)	**4.0 %**	**56**	**4.0 %**	**56**
Median		**89 %**		**97 %**

Source: Compustat, FactSet, Goldman Sachs Global Investment Research

I am not sure which benchmarks the Fed looks at exactly. **The real risk to the market is not valuations at historically high levels by virtually every measure, but rather the risk of a credit related event due to the impact of higher rates on an abundance of lower-rated corporate debt.**



Nonetheless, in the short-term, the *"bulls"* got their Christmas wish as noted by Bloomberg economists

> *"Tim Mahedy and Yelena Shulyatyeva: 'Powell?s comment that rates are just below neutral is* ***a step back from his comments earlier in the fall implying the FOMC still***

> ***has a ways to go**. This could be the first sign that the pace of rate hikes is set to slow next year.'*

However, not all economists got the same dovish message as noted by Greg Robb via Marketwatch.

> *?I really don?t think he was dovish, not really. He didn?t say inflation was weaker or the economy was weaker than we thought. It is a bit of a market overreaction.? -Paul Ashworth, chief U.S. economist at Capital Economics. "The Fed has said they wanted to go above neutral. If they wanted to be neutral, they could have walked that back. He gave no hint of a pause in December." - Avery Shenfeld, chief economist at CIBC*

All the *"bulls"* need now is for President Trump to *"cave in"* on his demands on China, a problem he created in the first place, at this weekends G-20 summit. I would expect a deal that is well short of any original objective as China agrees to issues which are economically unimportant to them. However, such will *"look like a win"* for the Trump administration and should clear the way for *"Santa to visit Broad and Wall."* After that, it's anyone's guess, but the real issues plaguing the economy and the markets have not been resolved. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **US Economy Is Strong - 3 Signs It Won't Last** by Lydia Depillis via CNN Business
- **Why US-China Ceasefire Is Coming Soon** by Anatole Kaletsky via Project Syndicate
- **Levered Companies Layer Loans Over Loans** by Sally Bakewell & Kelsey Butler via Bloomberg
- **Is The US Economy TOO Strong?** by Joe Calhoun via MyPersonalCFO
- **The Fed's Cheat Sheet** by Eric Cinnamond
- **Why Economists Insist Powell Wasn't That Dovish** by Greg Robb via MarketWatch
- **Fed Warns Of "Large Plunge" In Markets If Risks Materialize** by Jeff Cox via CNBC
- **The Scariest Economic Chart Is Coming From China** by Pedro de Costa via Forbes
- **Fed's Speech Sends Stocks Soaring, But Should It?** by Mike Shedlock via Mishtalk
- **Jerome Powell Sends Markets Soaring** by Binyamin Appelbaum via NYT
- **GM & Trump Go To Blows** by Bruce Yandle via Washington Examiner
- **GE's $15 Billion Money Pit** by Katherine Chiglinsky via Bloomberg
- **The Smashing Effects Of A Trade War** by Seth Levine via The Integrating Investor
- **10-Years Later - Did Bailouts Work** by Kevin Williamson via National Review
- **The Fed Finally Blinks** by Kevin Muir via The Macro Tourist

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Markets

- **Was Yesterday The "All Clear" Or "More Noise** by Bryce Coward via Zerohedge
- **Don't Blame The Strong Dollar** by Mark Hulbert via MarketWatch
- **Bull Market Is More Fragile Than It Looks** by Stephen Gandel via Fortune
- **History Says FANG Feast Is Finished** by Dana Lyons via The Lyons Share
- **Blue Chip Companies Are Piling On Debt** by William Cohan via NYT
- **October Sucked, What Now?** by Cliff Asness via AQR Capital Management

- **Did Powell Just Push Investors Into A "Bear Trap"** by Barbara Kollmeyer via MarketWatch
- **The Uphill Struggle For Equities** by Louis-Vincent Gave via Evergreen Gavekal
- **Hope, Fear & Reality** by Jamie Powell via FT Alphaville
- **What You Need To Know To Sell Before It's Too Late** by Jared Dillian via MarketWatch

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Most Read On RIA

- **Rising Rates Are Killing The Housing Market** by Lance Roberts
- **Lessons From Thanksgiving Dinner** by John Coumarianos
- **Why We Sold AAPL Stock** by Vitaliy Katsenelson
- **GM Cuts Jobs As Auto Bubble Begins To Burst** by Jesse Colombo
- **15-Surprises For 2019** by Doug Kass
- **The Difference Between A Bull & Bear Market** by Lance Roberts
- **UTX Faces Reality - Will Other Companies Follow Suit** by Michael Lebowitz
- **The Fallacy Of The Positive Impact From Falling Oil Prices** by Lance Roberts

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Watch

Research / Interesting Reads

- **Goldman Sachs 2019 Economic Outlook** via Goldman Sachs
- **What Will The Next Financial Crisis Look Like** by Daniel LaCalle via The Epoch Times
- **GM: A Case Study To End Share Buybacks** by Patrick Hill via The Progressive Ensign
- **21-Quotes From Henry Hazlitt** by Gary Galles via FEE
- **Ray Dalio's Principles For Dummies** by Matthew Walther via American Affairs
- **Why MSFT Is A Better Bet Than AAPL** by Paul La Monica via CNN Money

- **Overparenting In America Created Generation Of Snowflakes** by Shawn Langlois via Marketwatch
- **Paul Volcker's Wisdom For America** by John Cassidy via The New Yorker
- **Why GM Killed Cars & Jobs** by Nathan Bomey via USA Today
- **US Corporations Are Winning Their War On Capitalism** by Jonathan Tepper via Bloomberg
- **When Next Recession Hits, Will Benefits Be Enough?** by Gary Burtless via Real Clear Markets

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?There is nothing like price to change sentiment." - *Helene Meisler*

Questions, comments, suggestions ? please email me.