



The Month in Review

May Takeaways

- Stocks reversed course in May, slipping into *pull-back territory* at the end of the month. The technical picture of the market, including our new downtrend signal, confirms the negative short-term prospects for equities. We will continue to monitor it to determine whether or not it is *actionable* once stocks reverse their current course.
- As mentioned in last month's missive, May has a reputation for being a cruel month for equities, I also noted that from a [Relative Value](#) standpoint, stocks were *fairly priced* for the year, based on the historical cumulative average long term rate of return. The market is undervalued at current levels.
- While there was plenty of market-moving news in May (industrial production slowing, mixed news on housing, uncertainty about interest rates, etc.) the "*bombshell*" came at the end of the month when the President announced *new tariffs* on Mexico, not for economic reasons (they are one of our largest trading partners), but over illegal immigration. Not sure where this one is going. Economics and politics make poor companions.
- The Prussian general, Carl von Clausewitz famously wrote that "*war is the continuation of politics by different means.*" In modern times, tariffs seem to have replaced bombs and bullets (hopefully). Professionally, we don't take sides on political questions. Our job (fortunately) is to manage money. So much easier...
- Despite the string of current kaffuffles dominating the headlines, *in the real world*, we still see *earnings performing well*. *GDP* continues to *expand*. *Unemployment* remains at *record lows*. One thing I have paid closer attention to lately is inflation. Last Friday's PCE Index (Personal Consumption Expenditures) was subdued showing *modest inflation* in April. Most people focus on the CPI (Consumer Price Index) for inflation news, but economists generally recognize the PCE as the more accurate measure of inflation.
- Finally, the yield curve inverted again (*decidedly*) in May, which ratcheted up concerns over the prospects of recession. While it flashed a warning light in our [Recession Predictor](#), the Yield Score indicator is only half of the model. Our Probability Model needs to play catch up to confirm the signal. The blended model jumped 9 points last month, raising the chance of recession to 82%. No need to panic. It needs to be at or over 100% to be actionable. At that point, historically, it has taken an average of 8-9 months before actual recession hits. That should give us plenty of time to react.

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