Intrinsic Investors

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 kafuffles 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.