INVESTMENT NOTES: WEEK OF NOVEMBER 25 - DECEMBER 1, 2018

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This will be a big week in the investment world as the G20 meeting could be one of the most consequential in many years. Over the last few weeks we have written that we expect some sort or truce or agreement between China and the US regarding trade to be announced. If Angela Merkel is to make one final mark upon the world as a globalist, she would need to introduce thinking at this meeting (which is rumored). President Trump will also take the opportunity to strengthen ties to Brazil and Colombia since just like the Central American are considered to be a problem for the USA, Venezuelan immigrants are a problem for Colombia and Brazil.

Another big economic indicator will be the holiday sales numbers which so far appear to be strong- especially on the internet which should help our holdings in Amazon and Alibaba. US Personal income and spending data are released on Thursday and will receive more importance than normal due to the holiday season.

The Fed will also be busy this week as Vice Chairman Clarida will speak on Tuesday, Chairman Powell speaks on Wednesday and minutes are released on Thursday. Five other Fed Governors are scheduled to speak this week also. The Fed Funds futures market is looking for two hikes in 2019 versus the median Fed projection of three.

Last but not least, Theresa May will begin her campaign to get the Brexit deal through Parliament. Betfair odds of the UK leaving the EU at the end of March are 53%. May to face a no-confidence vote - 50%. Reuters is giving a 75% chance that Parliament will reject the plan. The market has not priced in May's Brexit deal failing. We are still short the UK equity market and the currency as we believe politicians will act in their own interest and force a no-confidence or an election although few want to see this before Christmas.

We are still expecting a Santa Claus rally, however our view for 2019 has turned bearish for the US economy. Our view is due to the following factors: The domestic real estate market is weaker than expected. ARMs that were locked in 3-4 years ago are being re-set at much higher rates. We also believe a less benign credit environment will develop in 2019 as corporate earnings growth peaks, funding costs for firms begin to rise on tighter monetary conditions, and the U.S. High Yield maturity wall begins to grow.

As we have written before, leverage in corporate credit markets has increased to extreme levels since the Great Recession, and the past 3 years have been a boon to corporate borrowers. The stress will emerge as refinancing costs are reset. BBB/BBB- bonds outstanding have grown from $1.5 trillion in 2013 to almost $4 trillion today with BBB and BBB- comprising almost 50% of the investment grade market up from 34% in June 2008. Over 10% of BBB/BBB- credits have leverage of 4x and if one includes BB that percentage increases to 20%. The high yield maturity wall begins to build in 2019 and does not abate until 2023.

Therefore we will use the Santa Claus rally to sell our US stocks and buy VIX as we did in October. We will also short the high yield market. We continue to analyze the oil market as we believe the medium term fundamentals are stronger than the market is indicating and the short term weakness might be the result of Russia and Saudi Arabia positioning before the G20. President Trump also doesn't want oil to fall much further as that will hurt the highly leveraged fracking industry in the USA. We continue to analyze the emerging markets as we believe they could outperform next year due to their steady high growth.

Jane Siebels