



Can you stand more (potentially) “fake” news?!

I think a possible pragmatic outcome. After all, markets are stable, in a distinctly unstable world.

Comments welcome.

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*September 14, 2017*

MARKET INTELLIGENCE REPORT

\$ ¥ 元 £ CHF € PYB R \$

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QUOTE OF THE DAY

*“It is easy to sit up and take notice, What is difficult is getting up and taking action.”*

Honore de Balzac

➤ A U.S. POLITICAL RE- ALIGNMENT? WHAT IT MIGHT MEAN FOR THE ECONOMY/MARKETS

If the first salvo in President Trump’s sudden departure from Republican orthodoxy, doing a budget deal with Democrats was not enough, he now has the establishment’s wheels turning by inviting bi-partisan Congressional groups over for dinner. There is much howling going on among the Republicans about this. Their naysayers are convinced Trump gave away his negotiating position in December. But I am told Senator McConnell placed a line in the budget bill which allows the Treasury a lot of leeway in moving funds/bills around, so that it could be months after December before the Treasury runs out of money. So the budget crisis which is supposed to appear in December won’t, leaving the markets free to price through the end of 2017. This also makes me wonder if the President and the Republican leadership are as “off side” with each other, as the media is portraying.

The Republican leaders seem to think they elected Trump. In my view, they didn’t. To become the nominee, Trump beat seventeen other Republicans, virtually all of them establishment politicians and he won a new coalition of voters by appealing to groups which Republicans typically never tried to approach in a serious way. I would not describe him as the leader of the Republican Party. He is the leader of the government. And in the branding game which is going on, he has just scored big. Congress has approval ratings of around 8%-13%. McConnell’s ratings in Kentucky are about 18%. Trump’s numbers are 36%-45% depending on which poll you look at, but his numbers are rising. The military has 70% approval ratings and that is who Trump has aligned himself with. The more Trump pushes for military spending and against establishment political positions, whether they are Democrat or Republican dogma, he wins.

In a Rasmussen poll on Wednesday, September 13, 66% of likely voters surveyed welcomed Trump’s outreach to Democrats. Only 19% believe Trump should rely on Congressional Republicans to pass his agenda. (1)

So the tide of voter approval is moving his way. This will force the Congress to move faster, which is what he wants, instead of Congress doing nothing. A tax cut becomes much more likely. A military build-up is starting. He will pretty much have his way with Fed appointments. Trade? The low Dollar is America’s best weapon in the trade wars. Let it fall, until the other side of the trade is more willing to deal. North Korea? I no longer believe there will be a war. There will be plenty of noise, but no war.

The markets are obviously pricing something and with so many gurus on the tape warning of the evil day ahead, it must go higher. I expect the U.S economy will follow with an upside surprise, which pushes corporate earnings toward \$150 on the S&P 500. At an 18x multiple that suggests the market will price the 2,900-3,000 level and that’s without the benefit of a lower Dollar than we have now - and that too is on the way.

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Source: 618034 Ltd.

A fundamental re-alignment of the U.S. political dynamic is not priced, not by the economy or by the markets. If we do away with the notion the economy cannot grow at more than 2%-3% and change economic policies so it does grow at 3% plus, everything changes. Entitlements, Social Security, the debt problem can be addressed and the whole idea that children can have a better life than their parents did, renews. I was there in the late 1970s when the mood of the country was not dissimilar to today, when young people felt they may not have the life their parents did. When mortgage rates were 14% and they were in 1982-1983, one could be forgiven for thinking home ownership was unattainable. The Kemp-Roth tax cut in the early 1980s, deregulation, an economy growing at 4% and an optimistic President who presented a vision of America which informed the public debate for years, were the key elements. Reagan did all that with the Reagan Democrats, some of the same groups of people Trump is now courting and did court during the election. Trump is not the leader of the Republican Party, he is the leader of the country. He can wield immense power and with the Democrat leadership co-operating rather than resisting on every issue, things can get done in Washington. Is this the dawn of an American economic boom?

**U.S. Economy – 7-8 Years and the Cycle Typically Ends/This is Year 8**



Source: <https://fred.stlouisfed.org/series/GDP>

Sources:  
 (1) Rasmussen Reports 13 September 2017  
 618034 Ltd. Paul Nesbitt  
 FRED St. Louis Federal Reserve. Gross Domestic Product <https://fred.stlouisfed.org/series/GDP>

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