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In this week's *Highlights*, Ryan Grabinski discusses the Fed meeting, the strong consumer, earnings, and trade.

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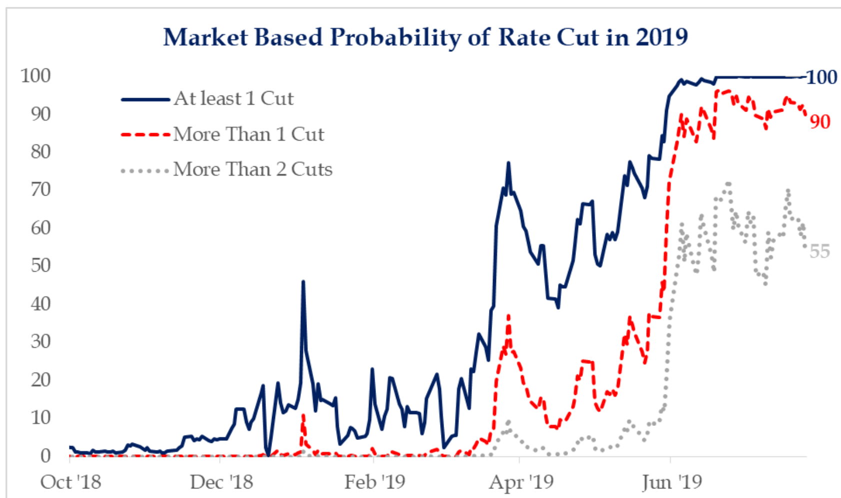
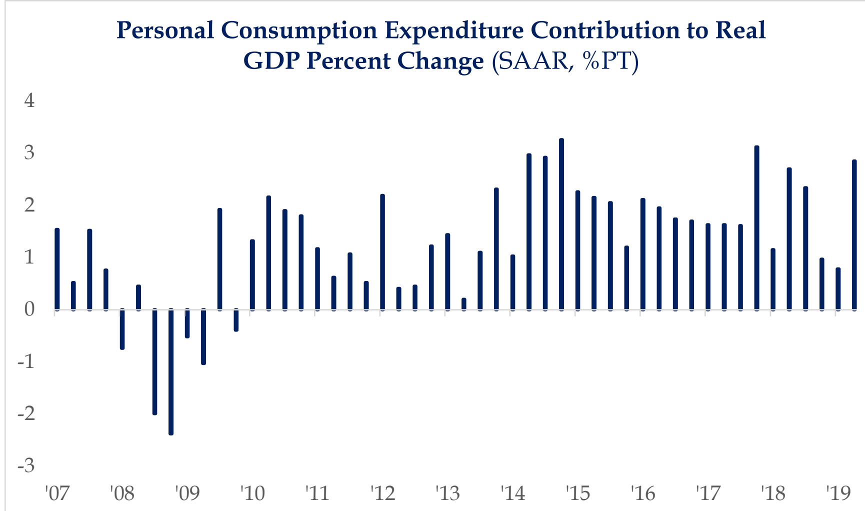
THE BULL THAT KEEPS 'GOING AND GOING'

Some may think of the iconic energizer bunny mascot when they hear that phrase; others may not, but the point is that the market keeps '*going and going*' higher. With equities just off fresh highs, all eyes are on the Fed as today is the start of a two-day fed meeting where the market all but guarantees a rate cut. (The current probability of a rate cut is 100%.) We all know the word "guarantee" is frowned upon in this business, but the futures markets are guaranteeing a cut, suggesting investors may be caught off guard if they decide not to.



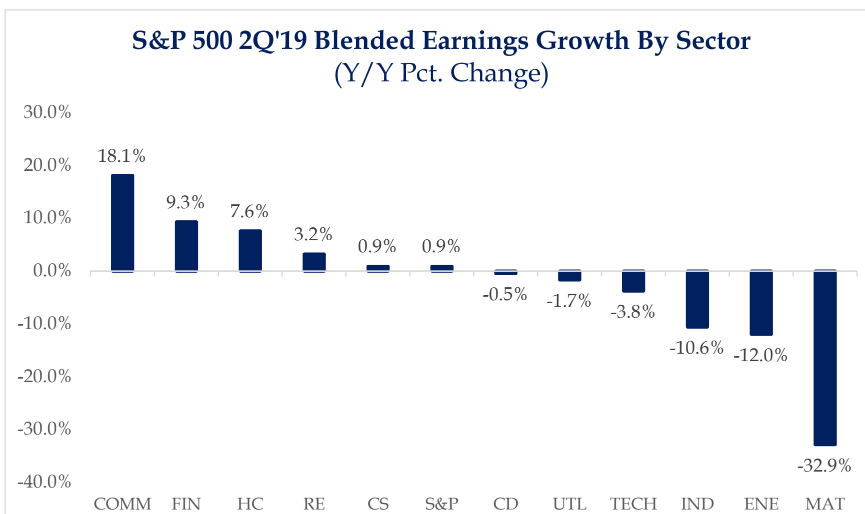
Source: Bloomberg

Last Friday, the GDP report was released showing better than expected economic growth in the second quarter with the reading coming in at 2.1% Q/Q AR versus the consensus expectation of 1.8% Q/Q AR. The consumer continues to be a workhorse, contributing 2.9% with government spending also providing a boost of 0.9%. The drag was primarily from inventories (-0.9%) and trade (-0.7%). I witnessed this first hand over the weekend when my wife and I took the ferry from Bridgeport to Port Jefferson. There was no additional room for cars both going and returning. In addition, we stopped at one of the local farms to buy an always-delicious peach cream pie. The line was the longest I can remember over the past few years and the supply for the day was gone; in fact, we were forced to place an order for pick up on our way home. With a round trip ferry ticket running $160 and pies costing $35, I believe it is safe to say consumers remain in a good place for the time being.



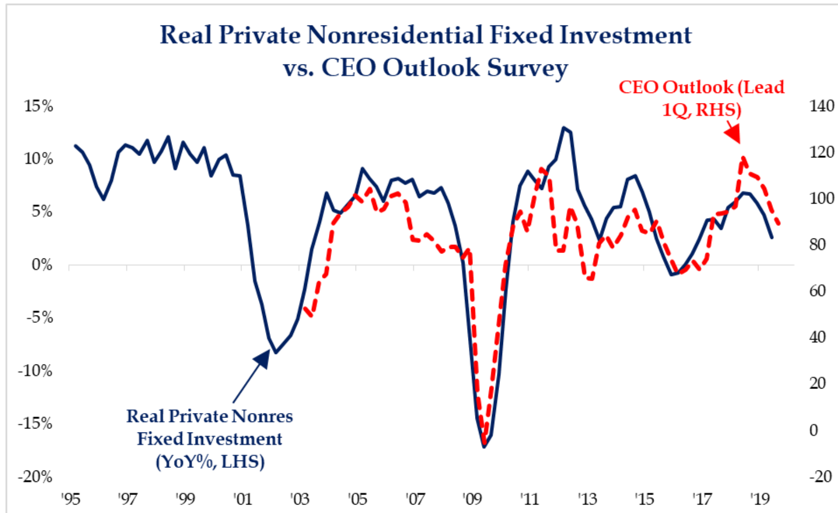
Source: Bureau of Economic Analysis

Financial companies also suggested that the consumer finance divisions were powering earnings. While this is good for the economy, it worries me a bit from an equity standpoint that perhaps this is as good as it gets. The base effect deriving from the Tax Cut and Jobs Act passed at the end of 2017, made the prospect of year-over-year declines in earnings growth possible if not likely in 2019. However, earnings continue to grow, albeit a bit slower than initial expectations. With 2Q earnings season about halfway over, I/B/E/S data from Refinitiv shows 0.9% growth Y/Y for the 2nd quarter. This could still change as some of the bellwethers have yet to report but the longer the market can hang in on flat earnings growth the better the prospects will be for next year with easy comps.



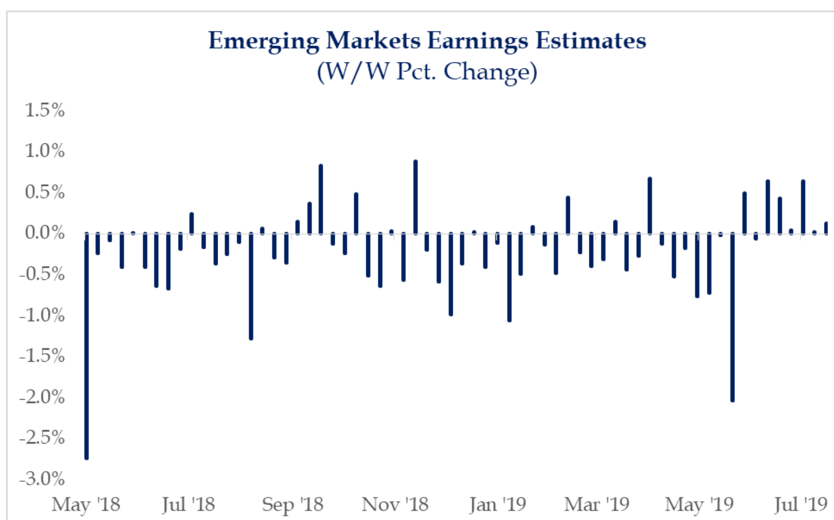
Source: I/B/E/S data from Refinitiv

Trade continues to be front and center and is often cited as one of the reasons why companies are not spending on capex. The good news is U.S.-China trade talks are set to resume; the bad news is they now seem to be more about building trust than reaching an actual agreement. European trade issues are not going away either. The negative impact trade has on c-suite sentiment is difficult to quantify into lost capex dollars but the clear relationship between fixed investment and the CEO outlook survey shows uncertainty is weighing on investment decisions.



Source: BEA, Business Roundtable

While most of this note focuses on the domestic market, I do have one noteworthy observation about Emerging Markets. Earnings Estimates have steadily increased over the past six weeks and, in fact, this is the longest consecutive streak of upward estimates since early 2018.



Source: Bloomberg

Of course, I probably jinxed the market as one that will keep going and going but we all know that batteries die at some point. Lower rates are likely here to stay for an extended period and it just may mean equities are the best place to be.

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