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In this week's Highlights, Ryan Grabinski suggests the U.S. economy is still slowing, trade deals remain in limbo, and liquidity continues to drive the markets.

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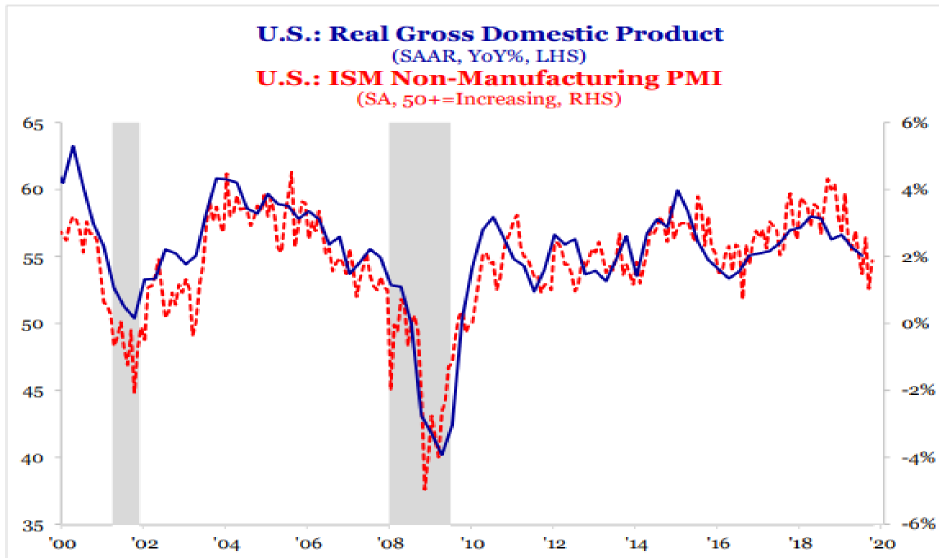
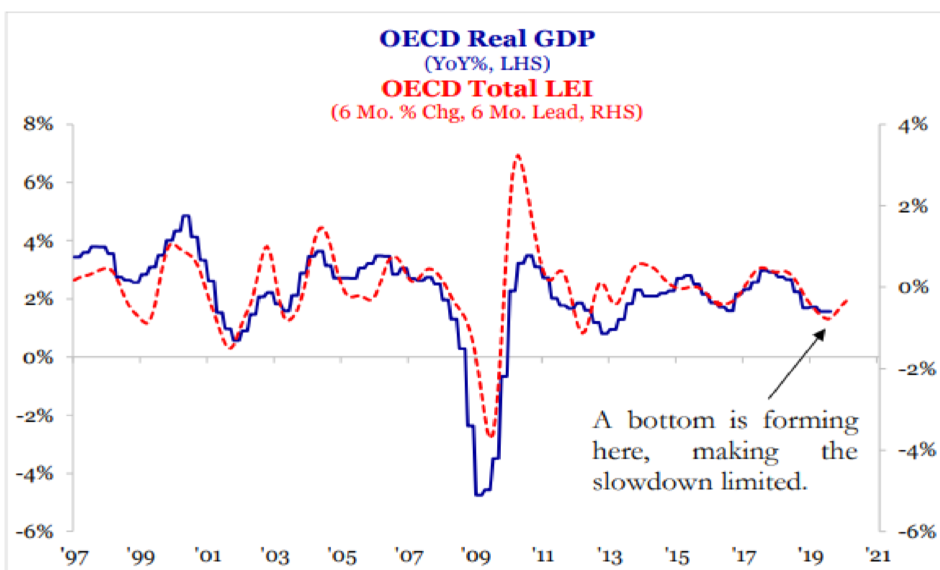
U.S. Economy Still Slowing but Global Growth May Be Bottoming

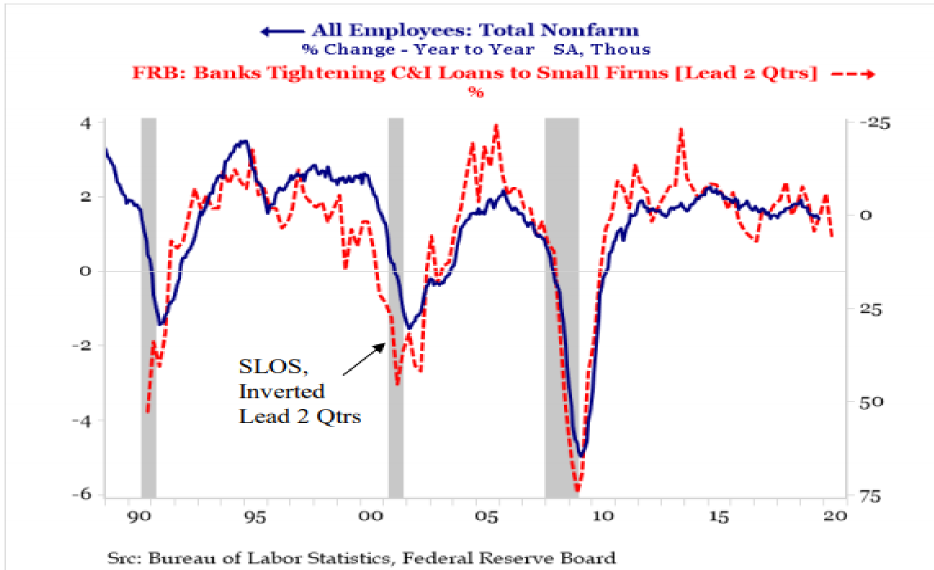
- A soft landing in the U.S. is our base case but it may take until 2020 to form a clear bottom.



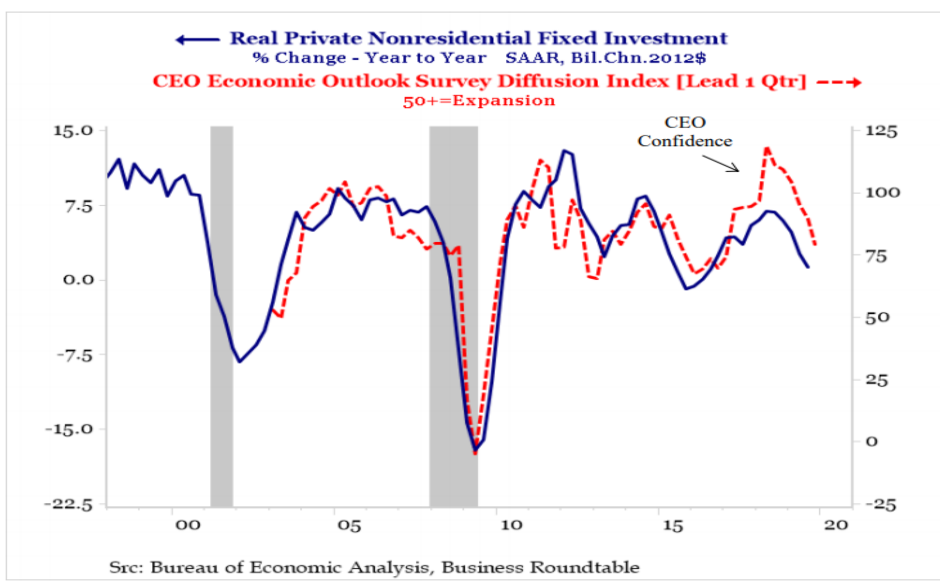
- The OECD's global leading economic indicators show the global soft patch ending. With the LEI turning up, a further slowdown in the global economy may be limited.



- The Fed's senior loan officer opinion survey showed banks mildly tightening lending standards for C&I loans in the 4th quarter. Lending is worth monitoring because it is consistent with muddle-thru employment growth in the U.S.

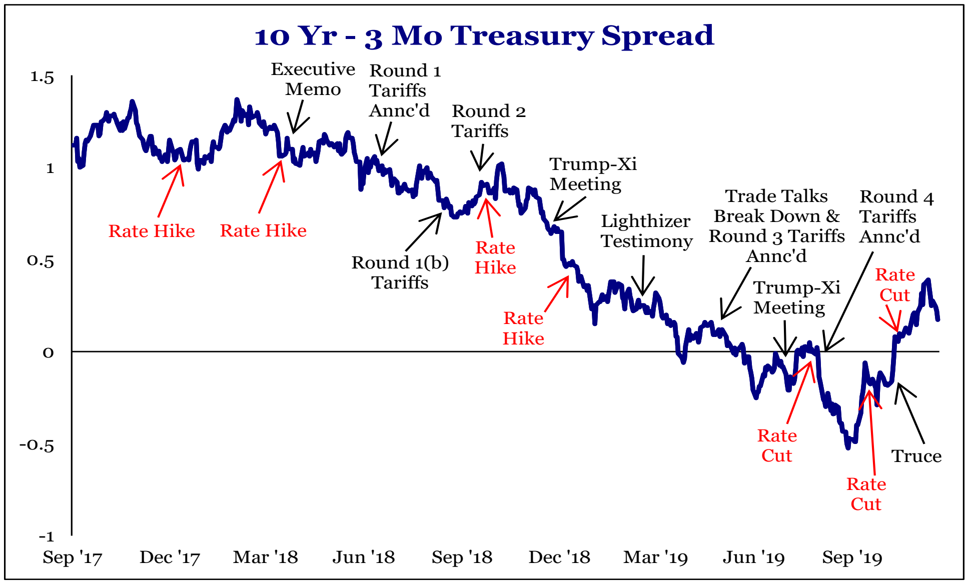


- We continue to believe it's doubtful we get a "V" bottom in CEO confidence, since 2020 has its own set of uncertainties coming (U.S. election, impeachment, Brexit again, etc). Our hope is for a "U" bottom after a U.S./China trade truce in late 2019. Our risk case remains that we get an "L" bottom (ie, flat). The recovery shape is vital for capex going forward.

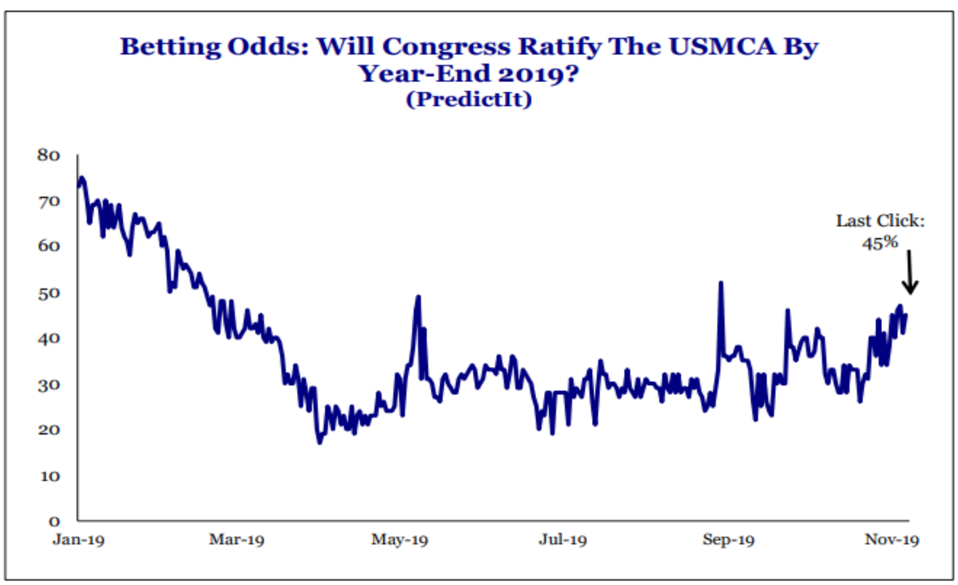


Investors Are Lowering Their Probability of A U.S.-China Trade Truce & Repricing Escalation

- While the S&P 500 is near all-time highs, our China trade indicators have rolled off considerably since November 12th when President Trump spoke at the NY Economic Club. Most notably, the yield curve has flattened after "uninverting" following the US-China trade truce in October.

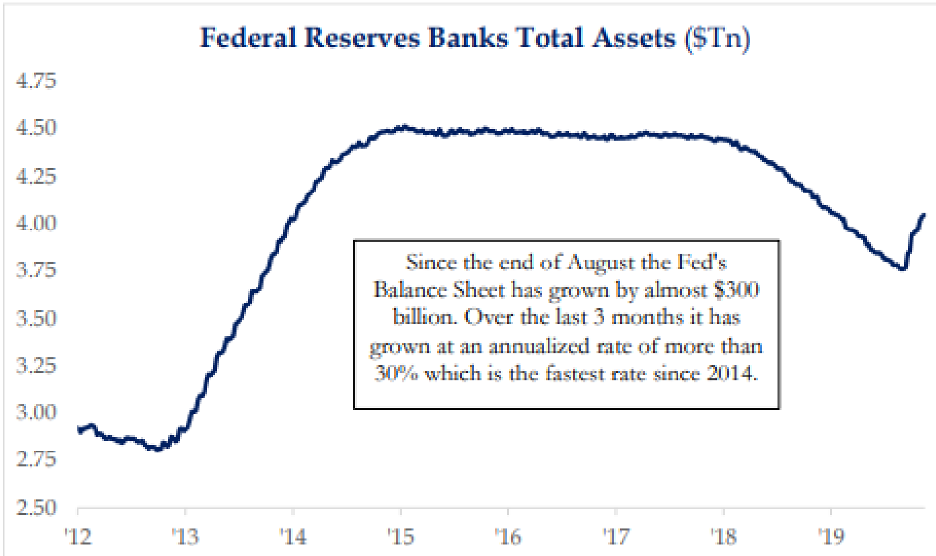


- NAFTA has a better chance of completion in the short run as Democrats come to the end of negotiations. However, the unions told the Democrats supporting NAFTA 2.0 they are not ready to move ahead with passage. Unions seem to be running a death-by-delay strategy.

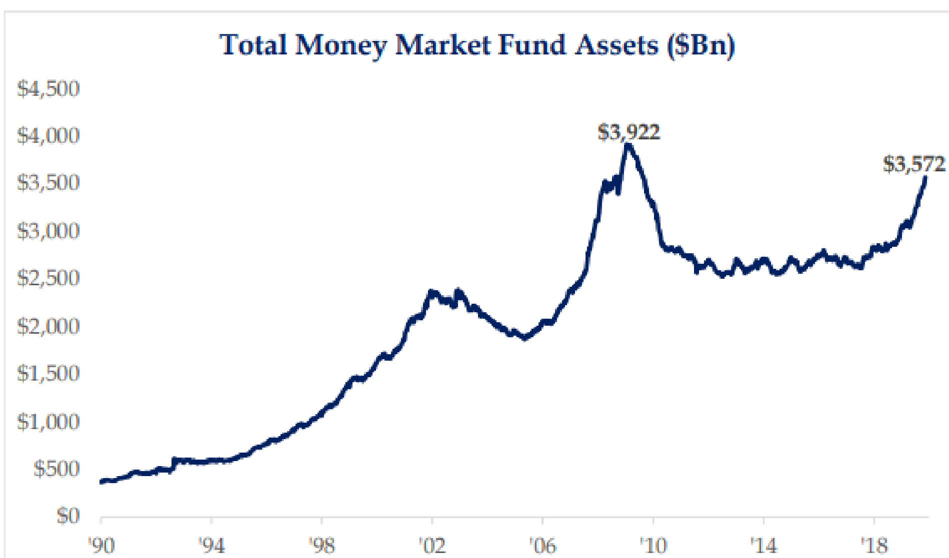


Liquidity Driven Market Remains For Now

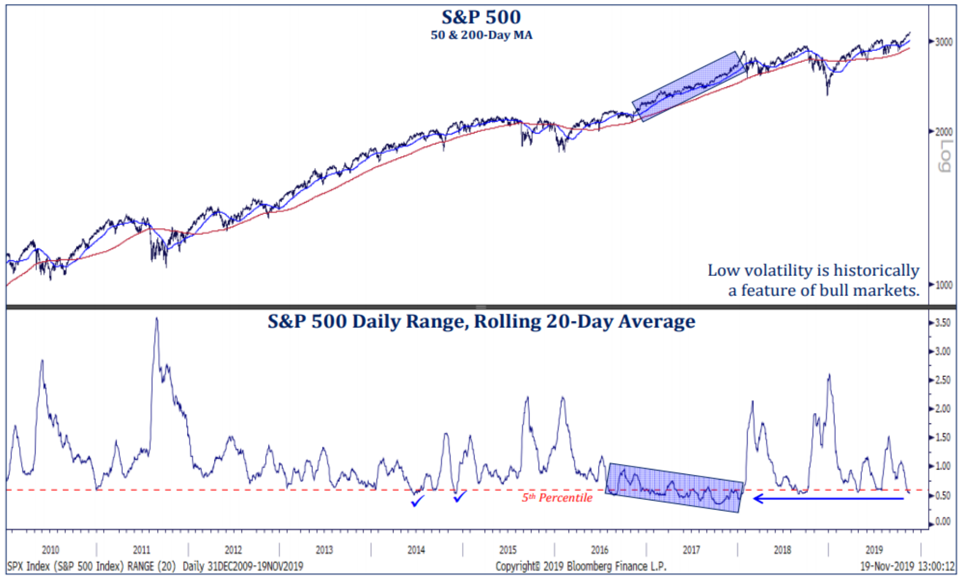
- The Fed's balance sheet has grown by 31% over the last three months. This growth is the highest percentage increase since January of 2014. While there is some debate about whether or not to call this another round of QE, we would argue that this is a distinction without a difference for owners of risk assets. Don't fight the Fed.



- There is currently $3.6 trillion in money market mutual funds today, up 22% year over year. The figure is just shy of the high in money market funds witnessed at the depths of the bear market in 2009. Along with net redemptions from domestic equity ETFs and mutual funds since the bull market, current cash levels are another indication we are far from the euphoric stage that signals a significant bull market top.



- It is quiet and currently the low volatility stretch resembles 2017. Historically low volatility is a feature of bull markets.



- From an asset allocation standpoint, we increased our overall allocation to equities from 65% to 68% by reducing cash to 5% from 8% and maintained our recommended underweight to fixed income. With the shift in asset class exposure, we tilted our portfolio positioning toward Value over Growth and International over Domestic.

Strategas Recommended Asset Allocation (Nov'19)

	Equities			Bonds			Cash		
		68%	+300 bps		27%			5%	-300 bps
B'mark	MSCI ACWI	60%		Barclays Agg	38%		Cash	2%	
			M/M CHG			M/M CHG			M/M CHG
	Domestic	37%	-100 bps	Core Credit	26%		Cash	5%	-300 bps
	International	31%	+400 bps	Extended Credit*	1%				
		68%			27%			5%	
Overweight	Dev AC Core	23%	+100 bps	TIPS	1%		Cash	5%	-300 bps
	US LC Value	11%							
	US LC Growth	10%	-100 bps						
	US MC Value	3%	+100 bps						
Neutral				IG Corporates	10%				
	US LC Core	7%		Agencies	2%				
	EM AC Core	8%	+300 bps	ABS/CMBS	1%				
	US MC Growth	2%	-100 bps	US Dollar EMD*	0%				
	US MC Core	2%		Local EMD*	0%				
	US SC Core	1%		High Yield*	0%				
Underweight				US MBS	9%				
				U.S. Treasuries	3%				
		68%			27%			5%	

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