

## "The Great Flood"

Noah had lived to a very great age when the flood of waters came upon the earth. And God said to Noah:

Come into the ark, you and all who are with you. Seven days from now I will cause it to rain upon the earth for forty days and forty nights. And every living thing I have made, I will destroy from off the face of the earth.

And Noah did all that the Lord had commanded him. He entered the ark with Shem and Ham and Japheth, his sons, his own wife and the wives of his sons. Birds and beasts and creeping things of every kind came to Noah and went into the ark, two by two, the male and the female, as God has commanded.

The Lord shut Noah in the ark, and the waters of the flood were upon the earth. All the fountains of the great deep were broken up and the windows of heaven opened. The rain fell upon the earth forty days and forty nights. The waters swelled and lifted the ark above the earth.

The flood spread and the waters continued to rise upon the earth, and the ark floated upon the water. . . . Every living thing that moved upon the earth died; birds, cattle, beasts, every creeping thing that creeps upon the earth, and every man. All in whose nostrils was the breadth of life, every man, every living thing, which was upon the face of the ground was destroyed. Only Noah, and those who were with him, remained alive.

. . . *Genesis*

So, I am sitting here in downtown Saint Petersburg, Florida at 7:30 a.m. Sunday morning awaiting the "great flood." It was just a few days ago the computer models had hurricane Irma heading up the east coast of Florida, but Irma changed her mind. As we said in last Friday's verbal strategy comments, "Batten down the hatches and rig for heavy weather!" As we write the storm is slated to hit Saint Petersburg early Monday morning with diminished winds of 80 – 110 MPH with subsequent power blackouts, so this may be the last missive of the week. We have done all we can do to protect ourselves and our property. The hurricane shutters have been put up on the lower level of our house (I do not climb on ladders anymore because I know too many friends that have been seriously injured from falling off of ladders, so the upper level of our house will just have to weather the storm on its own), the generator works, the bathtubs are full, the boat is tied down, and we have umbrellas.

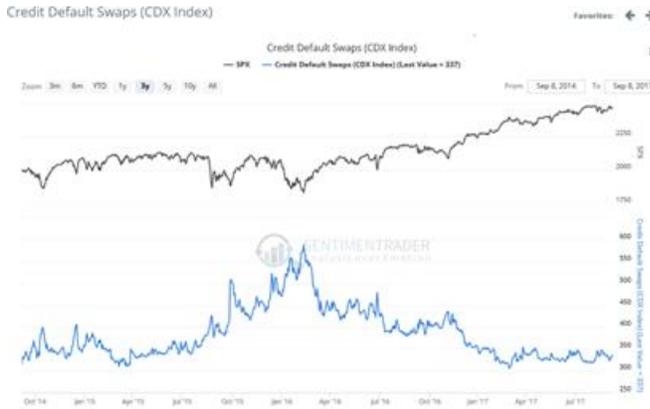
We still are of the belief that investors need to break out their collective "umbrellas" on a near-term basis, for our short-term timing model has flipped back to a bearish configuration suggesting that if there is going to be a pullback the next two weeks are the likeliest timeframe. Longer term we think such a retracement is healthy for the continuation of the secular bull market that should have years left to run. And with that we leave you with these thoughts from Mick St. Amour of the esteemed firm of Robert Thompson and Associates. To wit:

Market indicators suggest some short-term hesitation or lack of risk appetite with equities, but any pause or short-term pullback that could develop in the coming weeks most likely confined to the 2300-2400 zone for the S&P 500 before we begin a year-end rally.



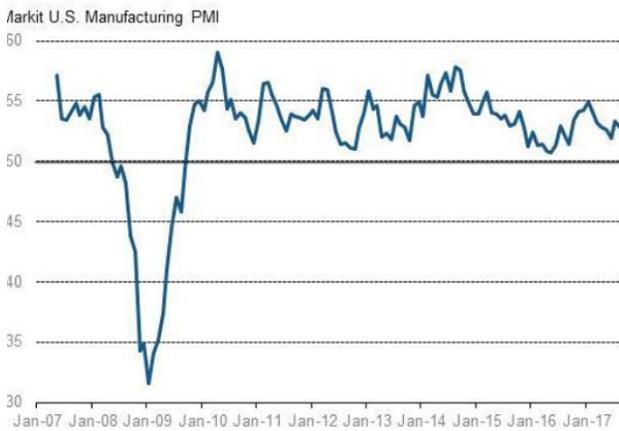
Risk appetite for equities typically follows credit markets. Lately credit markets show some hesitation when we look at high yield debt and demand for credit default swaps. Strong risk appetite for equities typically occurs when demand for CDX is trending lower but as you will see below CDX is no longer trending lower and perhaps beginning to trend higher.





But PMIs above 50 and strength in industrial metals suggest an economy that remains in expansion and potential for upside surprises for earnings per share so [the author believes] any short-term equity market weakness should be bought.

**IHS Markit U.S. Manufacturing PMI (s. adjusted)**



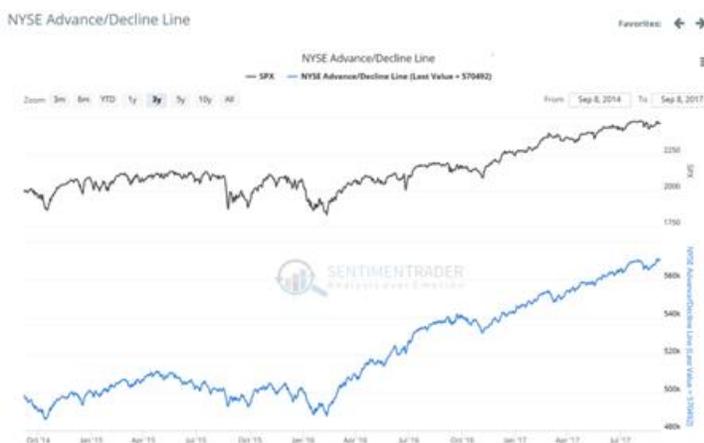
Source: IHS Markit.



A weaker dollar is a tailwind for earnings.



Stock market breadth when we look at the NYSE Advance/Decline Line suggest more shallow pullbacks for equities. In fact the Advance/Decline line (blue line) is starting to outperform the S&P 500 (black line) suggesting strength beneath the surface.



**BOTTOM LINE:** Credit market indicators suggest some short-term hesitation with equities. But PMIs and strength in industrial metals along with a weaker dollar suggest potential upside surprises for earnings the rest of the year. Stock market breadth indicates strength beneath the surface and [the author believes] whatever short-term weakness we could see in the coming weeks should be bought. [The author believes] odds are pullbacks likely to be shallow for equities and expect a year-end rally most likely to start around the beginning of the 4<sup>th</sup> quarter as it usually does.

Preferred sectors right now are healthcare (where we are most overweight in our models), technology, basic materials, industrials, home construction, and utilities. In the short term we may be looking to flip our exposure in financials to utilities. Utilities and other interest sensitive groups seem to be rallying on the assumption that higher rates are less of a concern right now given diminished prospects for fiscal stimulus before the end of the year and expectations that additional Fed hikes most likely pushed into 2018.

We concur with the wisdom offered above. Otherwise, outside of any short-term pause and or pullback we might see for equities in the coming weeks the main and bigger move for global equities remains higher so stay bullish!

**The call for this week:** If there is going to be a short-term pullback the next two weeks are the likeliest timeframe.

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