
WERE JANUARY GAINS JUST A BEAR MARKET RALLY?

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On last week's "Behind the Markets" podcast, Liqian Ren and I hosted a macro-focused episode, discussing both the latest political events and the global macro environment with Greg Valliere, Chief U.S. Policy Strategist for AGF Investments, and Simon White, managing editor of Variant Perception.

Trump avoided another government shutdown at the last minute in reality TV style while also declaring a national emergency to build his border wall. Valliere believes this will go all the way to the Supreme Court to be decided.

We also discussed the trade deal with China. Trump knows he needs a happy stock market to get re-elected, and the markets clearly are pushing him to a deal, likely sometime this spring.

Valliere believes the "next political crisis" will come from Robert Mueller's investigation. He sees more indictments ahead that will raise political uncertainty for the markets.

Valliere's worldview: while a lot of noise and craziness emanate from Washington, the underlying fundamentals are in good shape. He sees modest [inflation](#), a tremendous employment market, modest GDP growth and good corporate earnings despite all the dysfunction in Washington.

Variant Perception

White consumed research from the big banks when he was a proprietary trader and noticed there were flaws across this research. He described Variant Perception, an independent research firm, as a group of generalists focused on delivering an "outsider" perspective with a data-driven, indicator-based process that is not a subjective "guru" insight.

Variant Perception's Outlook

Currently, asset markets are telling a strong "[reflation](#)" narrative, predicated by strongly rising equity markets driven by lower [interest rates](#) and tempered [Federal Reserve \(Fed\) rate-hike](#) expectations, yet nothing on Variant Perception's indicator dashboard confirms this view. Rather, Variant Perception sees recent gains as a [bear market](#) rally with even more pain to come.

Recession Watch

Variant Perception believes recessions are caused by feedback loops between soft data (such as market data and survey data like ISM reports) and hard economic data (such as initial unemployment claims and GDP reports). The end of 2018 witnessed very stressed soft data, and antennas are watching for hard economic data to follow suit, which would create a feedback loop compounding sentiment and economic survey data even further.

Variant Perception's leading indicators for the world outside the U.S. were pointing negative for much of 2018, with only a few pockets of the U.S. actually being negative: autos, manufacturing, and housing—the more interest-rate-sensitive segments of the market. The firm believes that is changing for 2019, and now the U.S. indicators are pointing even more negative.

[Monetary policy](#) acts with long and variable lags, so the three years of hikes from the Fed are now affecting the economy while its [balance sheet](#) is also contracting.

The European economy is slowing down primarily because of Germany, and Germany is ultimately being affected by China slowing down. White does not believe Europe will regain momentum without China picking up as well.

Please listen to our full conversation with Simon White and Greg Valliere below.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Inflation: Characterized by rising price levels.

Reflation: The term is used to describe the first phase of economic recovery after a period of contraction. This period is typically characterized by the act of stimulating the economy through accommodative central bank policies and reducing taxes, to bring growth and inflation back up to the long-term trend.

Interest rates: The rate at which interest is paid by a borrower for the use of money.

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Bear market: A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Monetary policy: Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Balance sheet: refers to the cash and cash equivalents part of the Current Assets on a firms balance sheet and cash available for purchasing new position.