CORBETT ROAD

MACRO MUSINGS

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GROWTH REMAINS ON TRACK, BUT MARKET OVERDUE FOR A PAUSE

SUMMARY

- Economic activity remains constructive. An interesting indicator called the Chemical Activity Barometer suggests continued growth.
- It has been almost 200 days since the market dropped at least 5%. This is the third longest period without a 5% drop since 2009, suggesting a pullback is coming sooner than later.
- Be cautious of any story that suggests the market is impacted by the President's approval rating. This serves as a good example of a situation where "correlation does not imply causation."

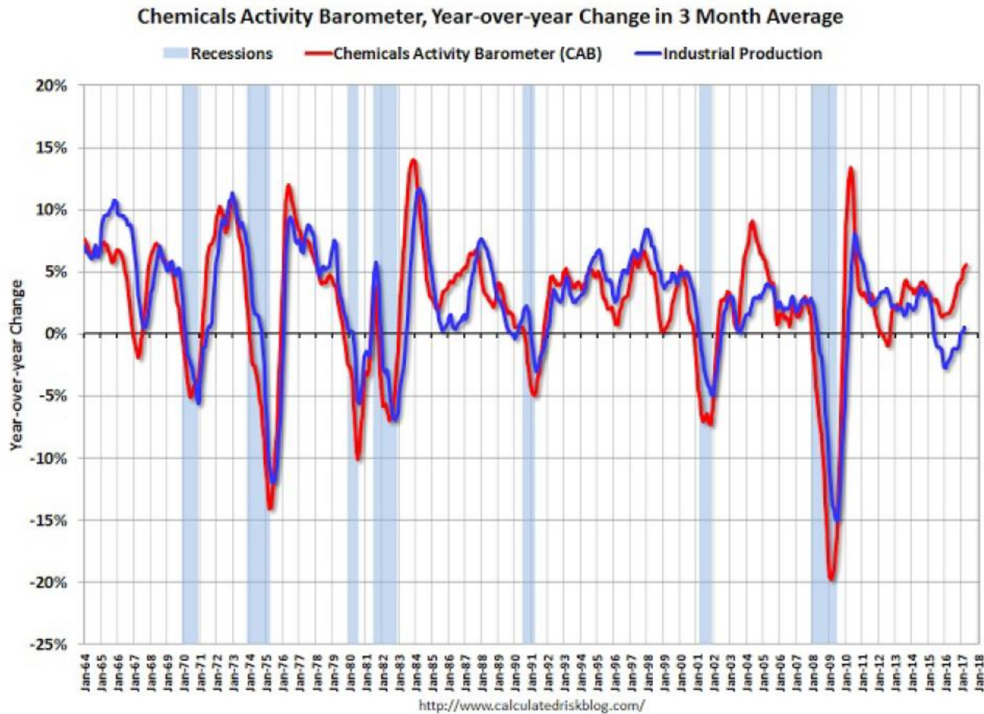
CHEMICALS ACTIVITY BAROMETER SUGGESTS CONTINUED GROWTH

The latest data suggests the economy is comparable to where it has been the past several years. Growth is slow but consistent enough to keep unemployment down while limiting inflation. We are not seeing anything in the data that suggests growth is about to pick up—or fall—for that matter.

One interesting indicator is the Chemical Activity Barometer (CAB). Below is a description from the website of the American Chemistry Council (ACC):

American chemistry is essential to the U.S. economy. Chemistry's early position in the supply chain gives the American Chemistry Council (ACC) the ability to identify emerging trends in the U.S. economy and specific sectors outside of, but closely linked to, the business of chemistry. The Chemical Activity Barometer (CAB), the ACC's first-of-its kind, leading macroeconomic indicator will highlight the peaks and troughs in the overall U.S. economy and illuminate potential trends in market sectors outside of chemistry. The barometer is a critical tool for evaluating the direction of the U.S. economy.

The CAB tends to lead industrial production, and it has been rising lately:



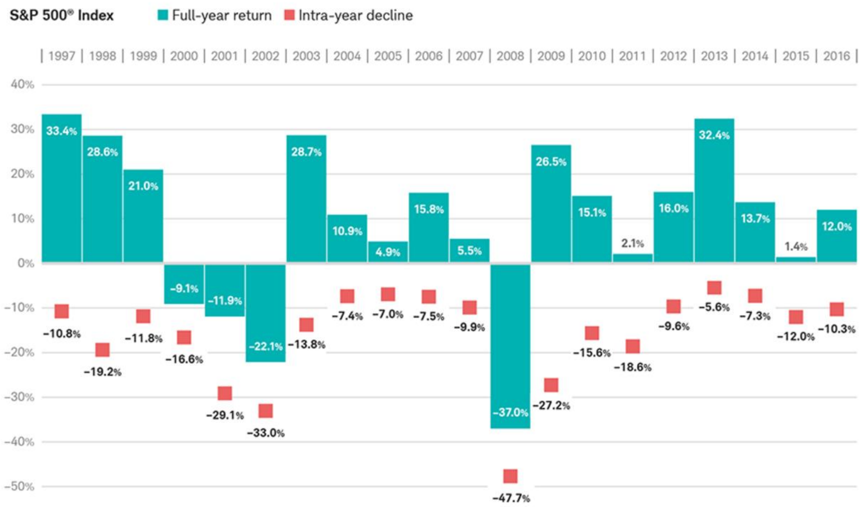
The CAB is consistent with other economic data points we are looking at. A peak in the business cycle is unlikely over the next year.

THE MARKET IS DUE FOR A DIP

Despite a positive MACROCAST™ score and decent economic growth, the market is overdue for a pause. The S&P 500 has gone 200 days without a 5% drop in price. That is the third-longest stretch without a 5% decline since the bull market began in March 2009.

Since the election, the market is up almost 15%. Those gains have come with limited price fluctuations on a day-to-day basis. This lack of volatility often leads to indifference. Investors forget what it is like for the market to fall, even if it is only a little bit.

So, what better time to show the chart highlighting market declines during a calendar year?



Source: Charles Schwab

Over the past two decades, the minimum correction was 5.6%, while the maximum was 47%. Even though MACROCAST™ is not signaling conditions for a bear market, history suggests a decline is probable in the coming months.

It is important to remember that corrections are a normal occurrence in the market and typically last 100 days or less. As such, they should not bring the same level of concern that a substantial extended bear market does.

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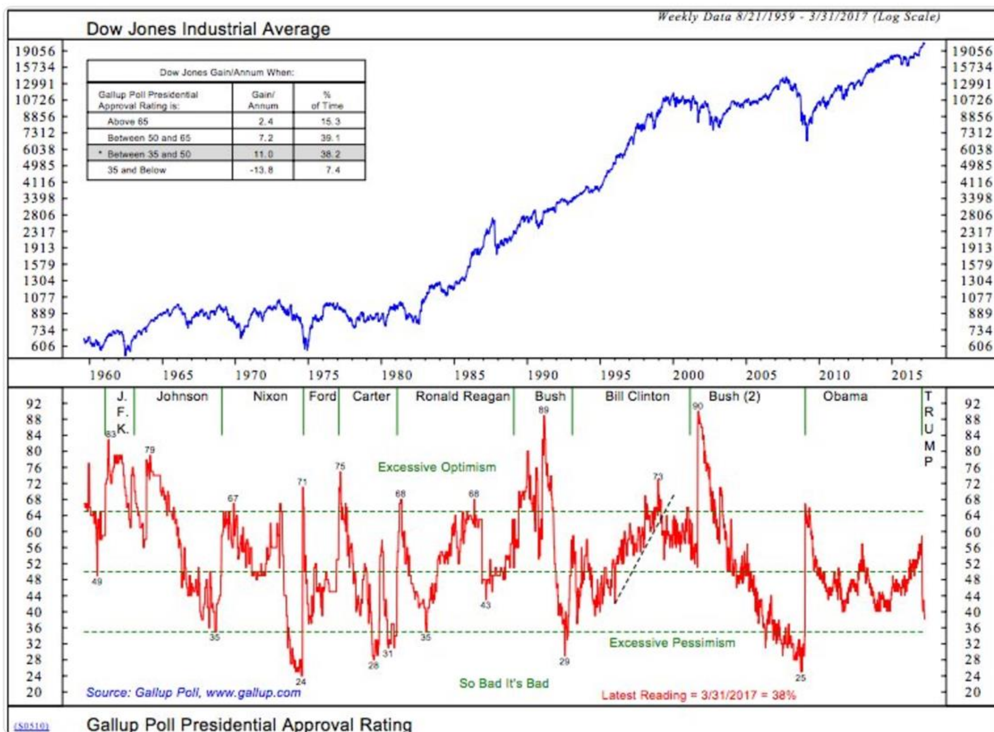
PRESIDENTIAL APPROVAL RATINGS AND MARKET PERFORMANCE:
NOTHING TO SEE HERE

Last month, the investment firm Ned Davis Research (NDR) sent out the following tweet:

Ned Davis Research
@NDR_Research

Following

Ned: Presidential approval rating, as measured by @Gallup, has not hurt #stocks unless it falls to 35% or below. March 31 reading 38%.



Dow Jones Gain/Annum When:		
Gallup Poll Presidential Approval Rating is:	Gain/ Annum	% of Time
Above 65	2.4	15.3
Between 50 and 65	7.2	39.1
* Between 35 and 50	11.0	38.2
35 and Below	-13.8	7.4

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Ned Davis puts out great research, but we disagree with the premise of the tweet. It seems that NDR is suggesting President Trump's approval rating dropping below 35% would yield a negative outcome for the market. We believe this is a good example of when "correlation does not imply causation."

One can easily spin a narrative of why the market might be impacted by a president's approval rating. A low rating might suggest an inability to get things done, getting things done that are unpopular, or lost confidence from investors. All of these could lead to poor market performance.

We do not believe it is this complicated. We believe approval ratings decline because the market and economy go down, not the other way around. Simply put:

1) The worst market declines tend to occur during recessions.
2) During recessions, economic activity slows, then contracts. People lose their jobs, stop spending, and default on loans.
3) When the economy is struggling, someone is going to get blamed. The President is the easiest target, even though presidents have limited impact on economic growth.

Presidents Johnson, Nixon, Carter, Reagan, and Bush (both) saw some of their worst approval ratings during periods of great economic stress. If Clinton or Obama had recessions begin under their presidencies, their ratings most likely would have suffered as well.

If President Trump's approval rating falls, we will look to MACROCAST™ to help guide our decisions. If MACROCAST™ remains positive, then we believe risk assets are the place to be, regardless of how popular or unpopular the President is.

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