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Ugly Start to 2019

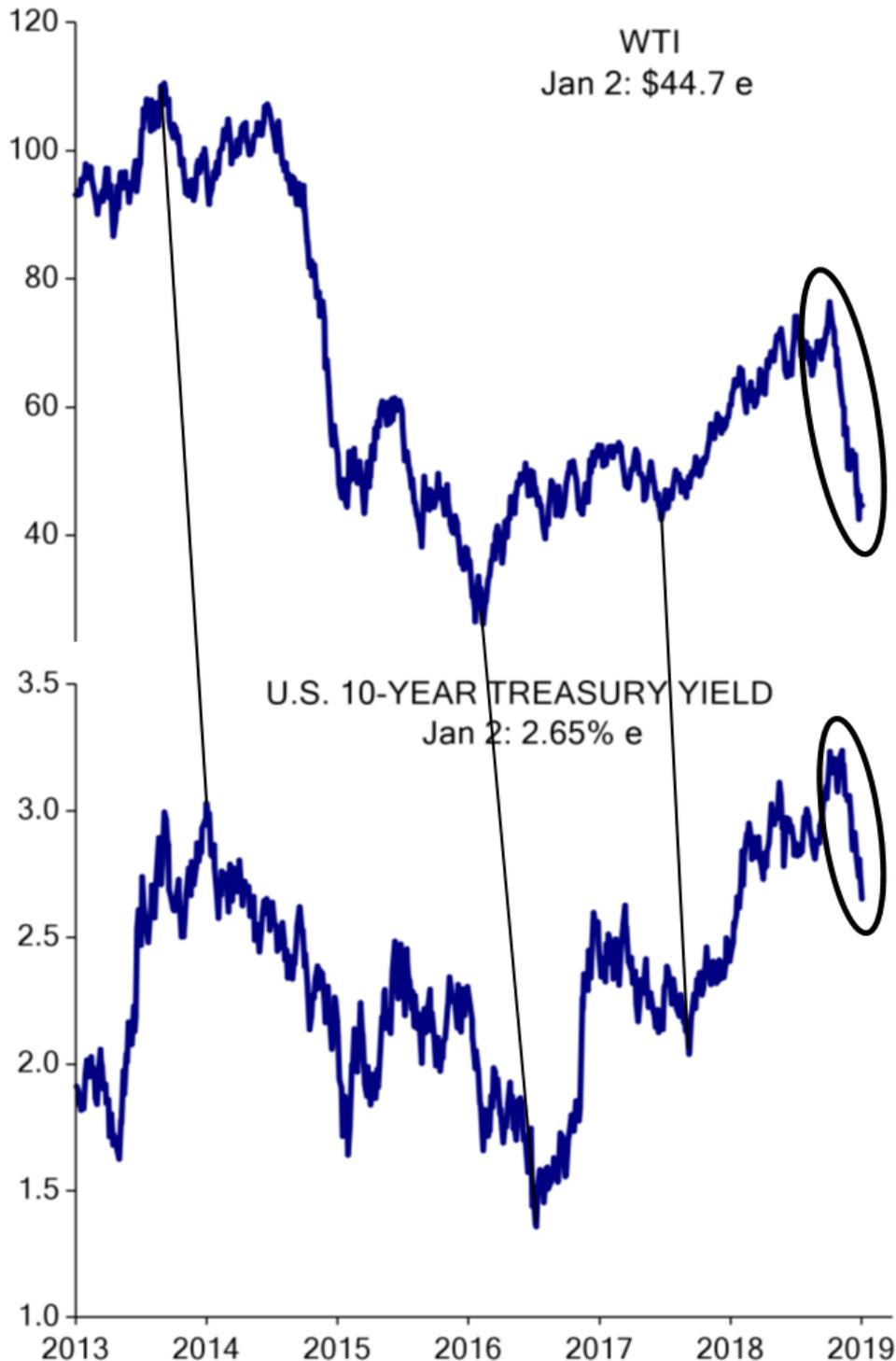
- S&P futures down -43 points.
- SHCOMP down -1.2% to a new low.
- German bond yields down to 15bp.
- Japanese bond yield down to -0.1bp.
- Gasoline futures down to \$1.29. Retail gasoline is headed to \$1.99.
- China mfg PMI down to 49.7%.



**US real GDP growth in 2018 was likely +3.3%.
We expect +1.75% in 2019 and +2.0% in 2020.**

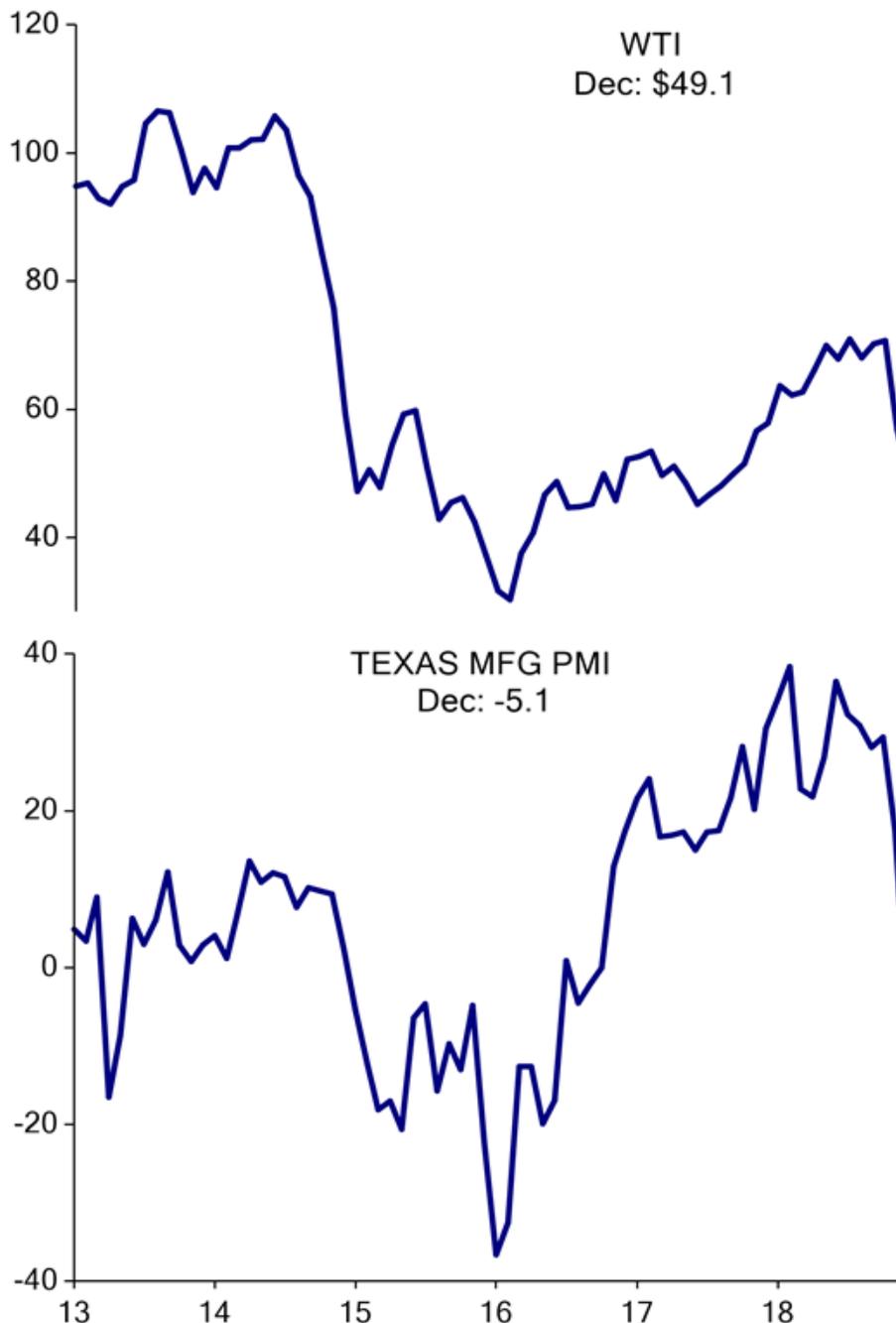
Dr. Oil

The recent plunge in oil suggests a “*Synchronized Global Slowdown*” as well as a string of lower inflation readings. There has been a tendency for oil to lead yields. And Rich Ross believes that increases in oil and bond yields would be positive for his “*tactically bullish*” call on the S&P.



Here We Go Again

The 2015 experience suggested that the plunge in oil hitting the energy sector was more of a negative than the lift to consumer spending was a positive. Of course, in 2015 there were also fears of a China hard landing and a “*Synchronized Global Slowdown*”.



Unusual Divergence

The unusual divergence in 2018 between S&P earnings, up +24%, and S&P price, down -7%, was in large part due to these 5 factors:

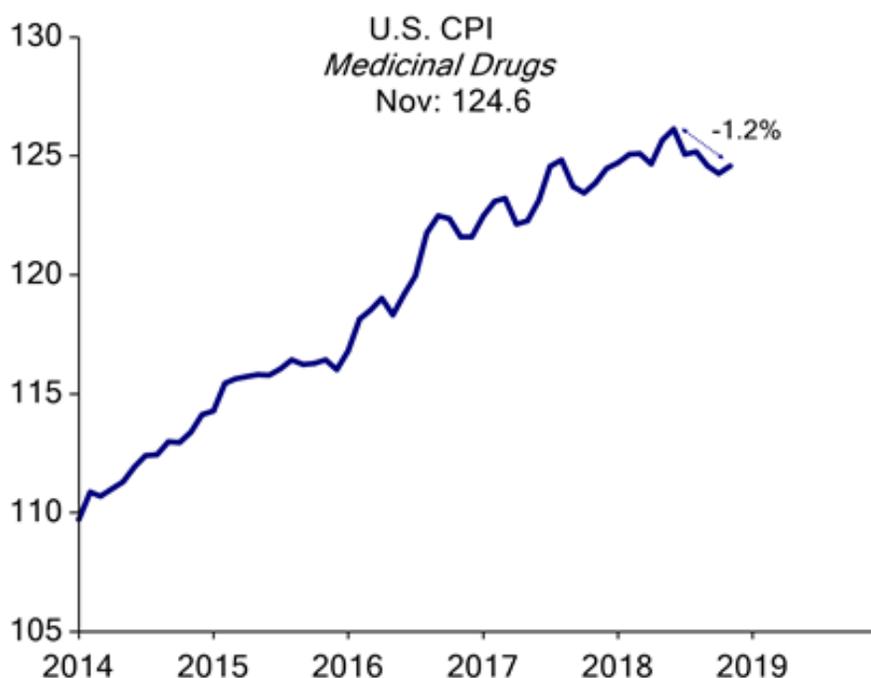
1. Trade tensions
2. Fed tightening
3. Oil plunging
4. Global slowdown
5. Trump uncertainty.

Here are three other years (1973, 1994, 2002) with S&P earnings up significantly and S&P price down.

	<u>S&P Earnings</u>	<u>S&P</u>	
1973	+27% ✓	-17% ✓	OPEC embargo, inflation, Vietnam War.
1976	+28%	+19%	
1979	+21%	+12%	
1984	+19%	+1%	
1987	+30%	+2%	
1988	+19%	+12%	
1993	+29%	+7%	
1994	+18% ✓	-2% ✓	Fed tightening, Orange County.
1995	+19%	+34%	
1999	+17%	+20%	
2002	+19% ✓	-23% ✓	Post 9/11, Enron, WorldCom.
2003	+19%	+26%	
2004	+24%	+9%	
2010	+47%	+13%	
2018	+24% ✓	-7% ✓	Trade, Fed, oil, global slowdown, Trump.

U.S. Drug Prices Set to Lift U.S. CPI in Jan/Feb/Mar

Due to a regulatory issues, about 75% of US drug prices will increase in 1Q by roughly +3.5%. The weighting of drugs in CPI is roughly one third that of gasoline.



Drug prices, which dropped -1.2% from June of last year, will probably rise +3.5% in total over the next three months.

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