Press Clips: Global Trade, Transport and Manufacturing Slump, Apple Vulnerable to Retaliation

WSJ May 24 - **Freight Market Shifts into Lower Gear**
Sagging prices and mixed economic signals are casting a cloud over the U.S. freight market as bad weather and trade concerns bog down the spring shipping season. Prices on the spot trucking market, where businesses book last-minute transportation, were down 16% in April compared with the prior year, according to online freight marketplace DAT Solutions. The Cass Freight Index for shipments dropped 3.2% in April, the fifth straight month in negative territory. Cass Information Systems Inc., which handles freight payments for companies and produces the monthly index, says the weakening numbers could signal a possible broader economic contraction.

WSJ May 24 - **Maersk Swings to Loss, Warns Trade Tensions Hitting Shipping Demand**
The Danish shipping giant swung to a first-quarter loss and warned that rising trade tensions between the U.S. and China could cut container growth by up to a third this year. Maersk's warning adds to an increasingly bleak outlook for the container shipping industry, which now expects the tariff-filled trans-Pacific dispute to be a significant drag on earnings. Demand for shipping consumer goods, manufacturing parts and other anchors of global trade is waning at the start of the season when retailers typically stock up for the year-end holidays. Maersk, a trade bellwether controlling nearly 20% of container-shipping capacity, reported a net loss of $659 million, compared with a $2.73 billion profit a year earlier.

FT May 24 - **Eurozone Manufacturing Declines Amid Trade Angst**
Manufacturing in the eurozone contracted in May, with an influential gauge indicating that activity remains weak as producers grapple with the intensifying US-China trade war and a slowing global economy. The single currency area is struggling to recover from the slowdown that began almost a year ago, according to the euro-zone manufacturing purchasing managers' index, which remained below the crucial 50 level in May. The flash manufacturing reading, which gives an indication of broader export sentiment, hit a two-month low of 47.7, just below April's reading of 47.9. Export growth has been under pressure since mid-2018, affecting manufacturers across the region, including Germany. Another poll, the Ifo Institute's business climate indicator, which reflects business sentiment in Germany, fell to 97.9 in May, the lowest level since 2014.

Yahoo Finance May 24 - **The Grimmest Sentence About The Economy We Heard This Week**
Manufacturing activity is collapsing, and "worse may be to come," said Chris Williamson, IHS Markit's Chief Business Economist. This grim statement came on Thursday in response to the latest IHS Markit Flash U.S. Purchasing Managers Index (PMI) report, which showed growth among U.S. manufacturers and services businesses plunged to a three-year low this month. Specifically, the composite output index dropped to a low of 50.9 from 53.0 in April. Any reading above 50 signals growth, which means the index is very close to signaling an outright contraction in activity. Williamson's statement is a stark contrast to other forecasts suggesting that the unfavorable business conditions stemming from the trade war would be transitory. He explained his gloomy outlook by noting "inflows of new business showed the smallest rise seen this side of the global financial crisis."

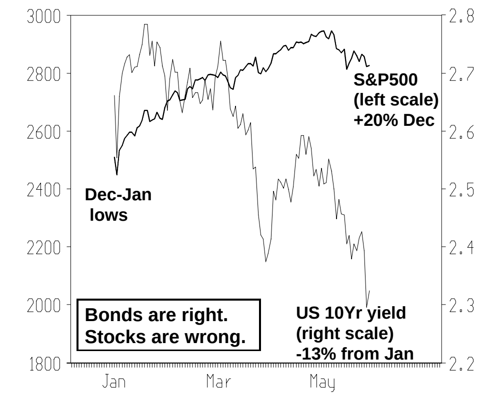
FT May 24 - **Emerging Economies Feel Chill Winds Of Shifts In Global Trade And Supply Chains**
Reliance on manufacturing becomes a weakness as the US and China turn inwards. For the past three decades, many emerging economies have relied on their role in global trade and supply chains to drive growth — but disruption is biting them as the trade war between the US and China intensifies. The fallout is hitting growth projections across the globe, from commodity producers in Latin America to clothing and electronics manufacturers in Asia. The intensifying trade war has proved a boon for some emerging economies, such as Vietnam, South Korea and Taiwan, as companies shift manufacturing away from China. However, it is not proving enough to offset the overall impact of the global trade slowdown and China's stuttering economic growth. Global trade fell by 1.9 per cent in February from a year earlier on a rolling three-month basis, according to the Netherlands Bureau for Economic Policy Analysis, the third consecutive month of contraction and the biggest such fall since the financial crisis. "The headwinds against emerging markets are gathering force," said Hung Tran at Washington's Atlantic Council.

CNBC May 23 - **Apple's Earnings Would Drop By Nearly 30% If China Bans Its Products, Goldman Sachs Says**
The U.S.-China trade war could take a big chunk out of Apple's bottom line if China retaliates by banning its products, according to an analyst at Goldman Sachs. Analyst Rod Hall said in a note to clients that Apple's earnings could drop by 29% if the company's products were banned in mainland China. Apple's China business accounted for more than 17% of its sales in its fiscal second quarter, coming in at $10.22 billion. The company also sells billions of dollar worth in iPhones every year in China. "Should China restrict iPhone production in any way we do not believe the company would be able to shift much iPhone volume outside of China on short notice," Hall said. "We believe that Apple is near its annual rapid ramp of new iPhone production to prepare for new device launches in the Fall so even a short term action affecting production could have longer term consequences for the company."

Reuters May 23 - **New Tariffs On Chinese Goods To Cost Typical U.S. Household $831 A Year: NY Fed Research**
The newest round of U.S. tariffs on Chinese imports will cost the typical American household $831 annually, according to research on Thursday from the Federal Reserve Bank of New York.

Internal Market Implosion

S&P500 vs. US10Yr Treasury Yield Dec 2018-Now



Beneath the placid surface of the stock market, individual stocks are getting annihilated. The victims are mainly cyclical stocks, which suggests the global economy is headed into a recession. Last week the S&P500 was down just -1%, the Nasdaq 100 was down -3%, while the SMH semiconductor index was down -6%. Tech stocks are going into liquidation. ***Sell and short semiconductors and tech stocks.***

The damage is more severe in economically-sensitive cyclical groups. Last week our US trucker index (top short) was down -9% (YRCW -12%, WERN -13%). Steel stocks (top short from our list) were down big (AKS -13%, ATI -7%, X -7%). US retailers on our sell list (top short) were decimated (KSS -20%, JCP -18%, JWN -10%, LOW -13%, FL -21%). A stock on our European retailer sell list was down -67% (Rallye). European airline stocks on our sell list were thrashed (Easyjet -10%, Int Air Group -8%, Air France-KLM -8%). Leading European tech stocks (top shorts) were slammed (STMicroelectronics -12%, Infineon -9%). Most notably, US-listed Chinese tech stocks on our sell list were smashed (WB -18%, SINA -18%, SOHU 14%, BIDU -11%, BABA -9%, Tencent -9%).

Our model forecast suggests the carnage will continue. This is the same model that had all those stocks as recommended sells and shorts before their recent plunge. Our sincere hope is you will not get hurt by this internal market implosion. Indeed, we see this as a major short-selling opportunity. The stocks picked as shorts by our model (right column, P6 US, P7 Europe) are definitely not consensus shorts. We recommend screening through the stocks on P6 and P7 for sell and short ideas. The first two lines in each group (US) or supersector (Europe) have the current highest-probability short prospects. Screen them with fundamentals and technicals to get actionable short sale candidates. This sub-surface market implosion is an opportunity to make lemonade out of lemons. ***Sell and short the cyclical stocks listed on P6 and P7, right column.***

These stocks are selling off because the global economy is sinking and their earnings prospects are plummeting. We've diligently reported the dire economic news in the press clips each week on P2. The latest developments are collapsing trade/shipping and manufacturing PMIs. European PMIs are below the 50 recession level with a downward model forecast. The US Markit manf PMI just dropped by 2 points to a near-recession 50.6 level and has a strong downward model forecast. While the headline US payroll jobs report has showed an average +204K gain each month this year (for a total of 820K jobs added), the more comprehensive US civilian employment report has showed an average DECLINE of -75K jobs per month in 2019, for a total LOSS of -300K jobs. That report shows an employment double peak in Dec-Feb (4-6 months ago). Expect forthcoming economic reports to weaken. US economic strength is fading like Superman's muscles after getting exposed to Kryptonite.

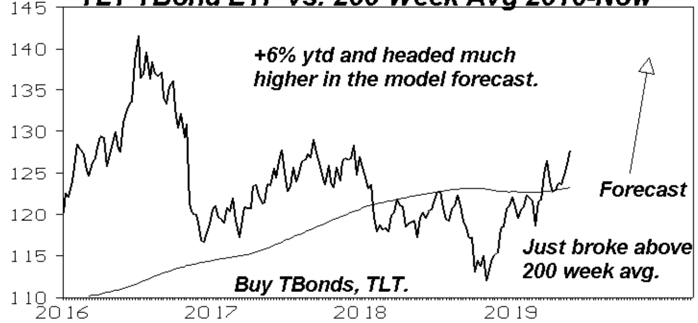
This is incredibly bullish for US Treasuries. The TLT TBond etf is up 6% ytd and is headed much higher in the model forecast. Ironically, large specs (hedge funds) remain net short across the entire US Treasury futures spectrum, a total of short -668K contracts (-44K 30Yr, -423K 10Yr, -168K 5Yr, -33K 2Yr). The hedge fund/CTA consensus is dead wrong on interest rates and there is the potential for a huge short squeeze as specs go from net short to net long. Like more than a million Treasury futures contracts to buy. ***Buy TLT and Treasury Notes.***

US Treasury yields are well below their Dec 2018 lows, raising the question: Which is right, the bond market or the stock market? ***The bond market is right.*** The US economy is headed south. US stocks have been inflated by false confidence in a trade deal. The constant happy-talk about a trade deal with China has served its purpose, US investors have lapped it up. The S&P500 stands 20% above its Dec 24th, 2018 low, while the US 10Yr Treasury yield stands -13% (34bp) below its Jan 2nd, 2019 low. This divergence won't last. ***The stock market is wrong, the bond market is right.*** The asset allocation trade is short stocks (SPY, QQQ) and buy TBonds (TLT).

Lower US Treasury yields are manna for interest-sensitive defensive sectors. The DJUA utility index hit a new all-time high last week. The S&P utilities sector (XLU) has +6% positive alpha this month. S&P tech (XLK) has -3% alpha in May, meaning long utilities/short tech has an absolute gain of +9% this month. We continue to recommend long/overweight positions in utilities (XLU), consumer staples (XLP) and real estate (XLRE), counterbalanced by short/underweight positions in tech (XLK), consumer discretionary (XLY), industrials (XLI) and materials (XLB). It's the intelligent way to minimize risk and benefit from the forthcoming market squeeze.

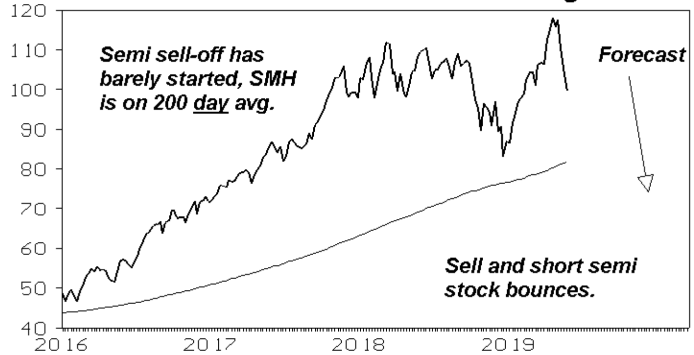
TBonds, Nasdaq, Semis, China, Cyclicals, S&P Sectors, US Economy   Belkin Report   May 27, 2019

TLT TBond ETF vs. 200 Week Avg 2016-Now

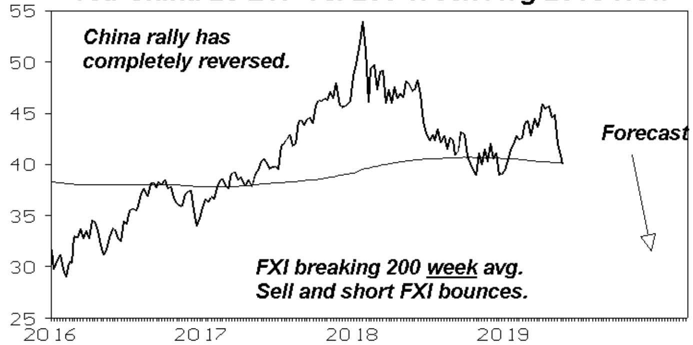


Nasdaq 100 NDX vs. 200 Week Avg 2016-Now

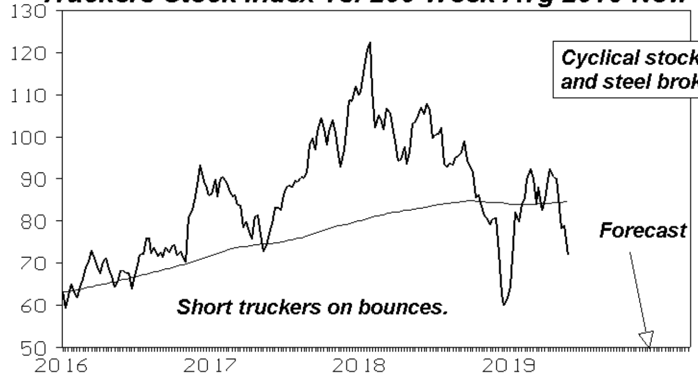
SMH Semiconductor ETF vs. 200 Week Avg 2016-Now



FXI China 25 ETF vs. 200 Week Avg 2016-Now



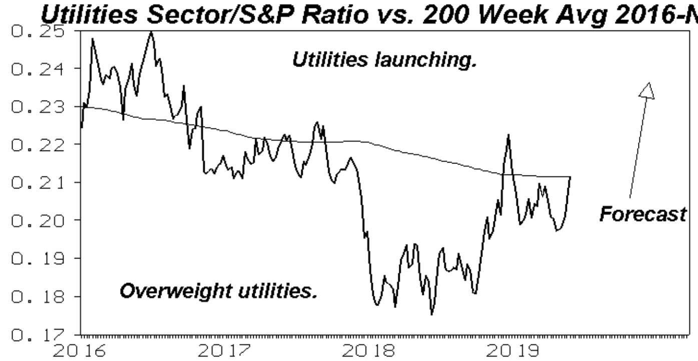
Truckers Stock Index vs. 200 Week Avg 2016-Now



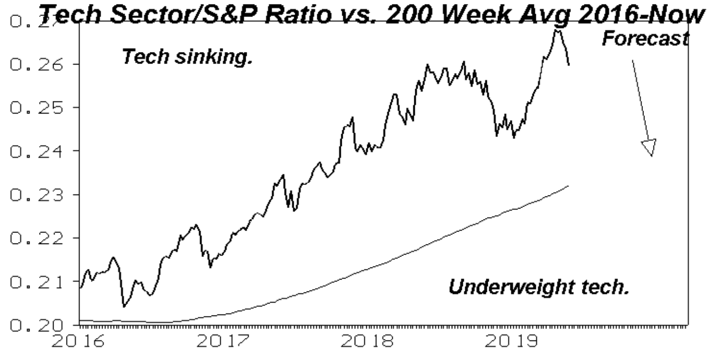
Cyclical stocks imploding, truckers and steel broke 200 week avgs.

Steel Stock Index vs. 200 Week Avg 2016-Now

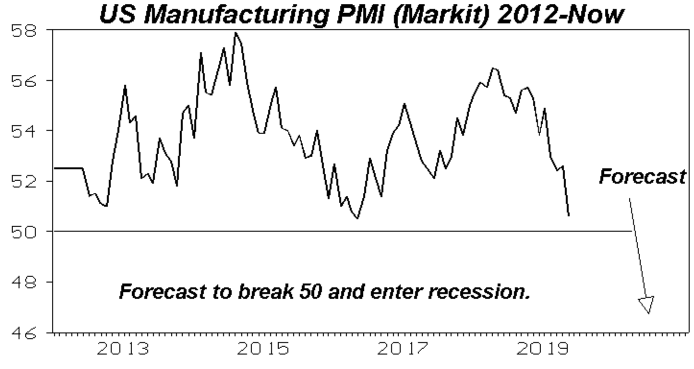
Utilities Sector/S&P Ratio vs. 200 Week Avg 2016-Now



Tech Sector/S&P Ratio vs. 200 Week Avg 2016-Now



US Manufacturing PMI (Markit) 2012-Now



US Civilian Jobs 2012-Now