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MONTHLY UPDATE AND COMMENTARY
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Hello to all,

The markets came within 0.5% of an all-time high last week only to have the punch bowl removed due to concerns over Turkey and its effect as a possible contagion for other emerging markets. While the moribund state of the Turkish financial system was clear to all at the beginning of the year, I don't think anybody anticipated the extreme move in the lira that we have seen in the last four weeks. Clearly this puts a damper on US markets hitting new highs until we see some kind of rescue package similar to what we saw in Argentina, where the IMF came in with a $50 billion emergency line. The odds of this are still low given the fact that Argentina came to the IMF with cup in hand while Erdogan is taking a much harder line with the West, as well as pressuring his central bank not to raise rates.

What we are paying closer attention to is the possible spillover effect into China, which has seen a 22% drop in its stock market since the trade war began and is currently seeing slower growth rates ahead. Underestimating China's ability to micro-manage its economy has been fools' play, but at some point they may run out of the necessary economic tools. A current account surplus combined with a high consumer savings rate provides the Chinese government with ample bailout funds, but at some point the high financial leverage may be too much to correct from within. Currently China sits on about $30 trillion in total debt, or approximately 3x GDP. More troubling still is the money tied up in shadow banking, which by some estimates exceeds $20 trillion. Recent P to P financing failures have led to protests that could snowball if the Chinese consumer loses confidence in the state-sponsored bailout machine.

How these emerging market events play out will help shape the continued resilience of what will be the longest bull market in US history when we reach the end of this month. If the outcome is continued dollar strength and a softening of global PMI's, the markets will be hard pressed to continue their torrid run. Add to that an aggressive Fed and a major surprise in the mid-term elections and we could be ripe for a correction. Please call me or email me with any questions or comments.

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