Weighing the Week Ahead: An Avalanche of Housing Data

March 25, 2019
by Jeff Miller
of NewArc Investments, Inc.

It is a big economic calendar with almost every report on housing released in a single week. This is the result of the shutdown delay. Now we can get more clarity on this important sector. Pundits will be asking:

Are lower mortgage rates helping home sales?

Last Week Recap

In last week's installment of WTWA I suggested that we watch the Fed for hints of a new course. That was an accurate prediction, since there is now a clear signal of a pause on interest rate hikes. More than that, the Fed seems to have recognized a problem with their model of low unemployment implying incipient inflation. Fed expert Tim Duy explains the significance of this change.

> It is hard to understate the importance of this shift. The Fed's models haven't worked this way in the past. In previous iterations of the forecasts, the expectation of unemployment remaining below its natural rate would trigger inflationary pressures. To stave off those pressures, the Fed perceived the need to raise rates above neutral to slow the economy enough to nudge unemployment upwards. Now the Fed believes it can let unemployment hold persistently below the natural rate without triggering inflation and without Fed policy becoming restrictive.

This was the big news of the week, and it was bullish for stocks. I'll comment on the negative reaction in my Final Thought.

The Story in One Chart

I always start my personal review of the week by looking at a great chart. This week I am featuring Jill Mislinski, who packs a lot of information into one chart.

Stocks dropped 0.7% on the week with a range of 1.7%. It seemed bigger because the decline all happened on Friday. You can see volatility comparisons in our Quant Corner.

Personal Note

I am still on vacation but wanted to provide an indicator update. I'll try to do the same next weekend.

The News

Each week I break down events into good and bad. For our purposes, "good" has two components. The news must be market friendly and better than expectations. I avoid using my personal preferences in evaluating news – *and you should, too!*

News from the light calendar was not very significant. The big story was the yield curve inversion, leading to a big decline on Friday.

The Week Ahead

We would all like to know the direction of the market in advance. Good luck with that! Second best is planning what to look for and how to react.

The Calendar

The calendar is bigger than normal, especially considering that we are finally catching up on data from the shutdown. Housing reports will be in the spotlight with starts, permits, new homes and pending sales all reported. I don't think we have ever seen all of them in a single week before. We also have personal income and spending, consumer confidence, and PCE prices (the favorite Fed measure of inflation).

And of course, continuing drama from Washington.

Briefing.com has a good U.S. economic calendar for the week. Here are the main U.S. releases.

Week of March 25 - March 29

Date	ET	Release	For	Actual	Briefing.com Forecast	Briefing.com Consensus	Prior	Revised From
Mar 26	08:00	S&P Case-Shiller Home Price Index	Jan		4.0%	4.0%	4.2%	
Mar 26	08:30	Housing Starts	Feb		1200K	1210K	1230K	
Mar 26	08:30	Building Permits	Feb		1310K	1308K	1345K	
Mar 26	09:00	FHFA Housing Price Index	Jan		0.2%	0.3%	0.3%	
Mar 26	10:00	Consumer Confidence	Mar		131.5	132.0	131.4	
Mar 27	07:00	MBA Mortgage Applications Index	03/23		NA	NA	1.6%	
Mar 27	08:30	Trade Balance	Jan		-$60.0B	-$57.5B	-$59.8B	
Mar 27	08:30	Current Account Balance	Q4		NA	-$126.6B	-$124.8B	
Mar 27	10:30	EIA Crude Oil Inventories	03/23		NA	NA	-9.6M	
Mar 28	08:30	Initial Claims	03/23		215K	220K	221K	
Mar 28	08:30	Continuing Claims	03/16		NA	NA	1750K	
Mar 28	08:30	GDP - Third Estimate	Q4		2.5%	2.5%	2.6%	
Mar 28	08:30	GDP Deflator - Third Estimate	Q4		1.8%	1.8%	1.8%	
Mar 28	10:00	Pending Home Sales	Feb		0.7%	0.5%	4.6%	
Mar 28	10:30	EIA Natural Gas Inventories	03/23		NA	NA	-47 bcf	
Mar 29	08:30	Personal Income	Feb		0.2%	0.3%	-0.1%	
Mar 29	08:30	Personal Spending	Feb		NA	NA	NA	
Mar 29	08:30	PCE Price Index	Feb		NA	NA	NA	
Mar 29	08:30	Core PCE Price Index	Feb		NA	NA	NA	
Mar 29	08:30	Personal Spending	Jan		0.2%	0.3%	-0.5%	
Mar 29	08:30	Core PCE Price Index	Jan		0.2%	0.2%	0.2%	
Mar 29	10:00	New Home Sales	Feb		610K	618K	607K	
Mar 29	10:00	Univ. of Michigan Consumer Sentiment - Final	Mar		97.6	97.8	97.8	

Quant Corner and Risk Analysis

I have a rule for my investment clients. ***Think first about your risk. Only then should you consider possible rewards*** I monitor many quantitative reports and highlight the best methods in this weekly update, featuring the Indicator Snapshot.

Risk Indicator	This Week	Last Week	Last Month	Last Quarter	Interpretation
Valuation					
Ten-year note yield	2.44%	2.59%	2.65%	2.78%	
S&P 500	2,801	2,822	2,793	2417	
S&P Forward Earnings	167	168	169	171	
S&P Earnings yield	5.98%	5.95%	6.04%	7.06%	
Equity Risk Premium	3.54%	3.36%	3.39%	4.27%	Very High
Economy					
C-Score	345	380	381	364	9 MoRecession Prob about 27%
*Leading SuperIndex**	5.91%	8.14%	6.27%	1.69%	3-4 MoRecession Prob
BCIp	81.9	80.3	100.0	66.5	No recession indicated
SLFSI	-1.256	-1.216	-1.126	-0.780	Extremely Low Risk
Anticipated Inflation	1.96%	1.94%	1.91%	1.80%	
VIX	13.63%	13.50%	14.46%	28.38%	
Historical S&P Volatility					
Last Five Days	17.64%	10.71%	9.03%	14.49%	
Last Twenty Days	11.45%	9.07%	10.30%	22.79%	
Technical Health					
Short-term	1	1	1	5	Extremely Bullish
Long-term	1	1	3	5	Extremely Bullish
Overall Outlook	Bullish	Bullish	Bullish	Neutral	

Sources: Stlouisfed.org, RecessionAlert.com, iMarket Signals, fundamentalis.com, and NewArc Investments, Inc. ©2019

*SuperIndex is the public value, delayed one month

Short-term and long-term technical conditions continue at the most favorable level. Our fundamental indicators have remained bullish throughout the December decline and rebound. The C-Score declined – a situation I am watching closely, but not with alarm.

The Featured Sources:

Bob Dieli: Business cycle analysis via the “C Score.

Brian Gilmartin: All things earnings, for the overall market as well as many individual companies.

RecessionAlert: Strong quantitative indicators for both economic and market analysis.

Georg Vrba: Business cycle indicator and market timing tools.

Final Thought

The reaction to the Fed news was strange. Something that logically is bullish for stocks led to selling. Fixed income traders jumped on the news to buy two-year and five-year notes. This drove yields lower and “inverted” part of the yield curve. We saw the typical instant stock reaction, starting with algorithms and then spreading – finally reaching your local news.

Bob Dieli calls the change in the curve a “kink.” Even if we got a recession signal, it would be a probability calculation, not a certainty, and it would be at least nine months away. Historically the period before a recession, what Bob calls the ‘Boom” phase, has been good for stocks. This clearly needs more discussion, but I have covered much of it in past posts.

Part of the market reaction was declining PMI data from Europe. I have never featured this indicator because it is completely unproven. I am amazed that traders treat all data as equal. More to come on that subject as well.

Need a little help with stock selection? Do you need more dependable investment income? Are you taking on too much risk? Send an email to main at newarc dot com. We’ll provide some helpful free information, and at your option, a portfolio consultation after my vacation.