

Cumberland Advisors Market Commentary – Markets & The Deficit

The latest federal deficit numbers show the Trump budget implementation running about \$1 trillion annualized. Here's the link to a PDF that contains details and projections by the Congressional Budget Office:
<https://www.cbo.gov/system/files?file=2019-01/54918-Outlook-AppendixC.pdf>.



US stock and bond markets greeted this news with a yawn. Market agents are more focused on other things. Meanwhile, deficit warnings, intertwined with political scenarios, are thoughtful and eloquent yet remain largely ignored. Here's a sample from the National Review, sent out by the American Enterprise Institute:
<https://www.nationalreview.com/corner/what-deficit/>.

And please remember the present trillion-dollar annual deficit of 5% of GDP is projected to continue for the next decade. And it is happening when the economy is in the longest recovery cycle in modern times. That means a cyclically adjusted estimate of the deficit is higher than the current trillion number. (Here's a page that explains cyclically adjusted budgets and offers useful information on budget, deficit, and debt issues:
<http://oer2go.org/mods/en-boundless/www.boundless.com/economics/definition/cyclically-balanced-budget/index.html>.)

Markets don't care.

In our view markets won't care for a long time, and it will take a shock of some magnitude to change this attitude of

benign neglect about deficits. That obliviousness is one of the reasons we have remained nearly fully invested since the end of August.

We think markets are assuming that a version of a trade war truce will arrive soon. The Fed will remain easy. Inflation rates will stay low. And corporate earnings for 2020 will be up. All this suggests higher stock prices and only a mild upward move in bond yields.

So, for now, deficits don't matter. The S&P sets new highs. And the famous Mad magazine motto "What, me worry?" seems to apply.

All this can change soon as the political primary process reveals the likely Democratic ticket while the Trump investigation reaches a House impeachment vote.

Markets aren't pricing in a socialist election outcome yet. We are watching closely for that one. Markets are also not pricing in a Senate conviction of Trump. Nor are they pricing in what could be a devastating fire season for California (more on that here: <https://youtu.be/yW1lbdkxbAw>).

More political fireworks are coming. So are new highs on many stock prices.

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