Cumberland Advisors Market Commentary – Warren?

Elizabeth Warren (@ewarren)

“On my first day as president, I will sign an executive order that puts a total moratorium on all new fossil fuel leases for drilling offshore and on public lands. And I will ban fracking—everywhere.” (Twitter, 4:26 PM, Sep 6, 2019)

Elizabeth Warren’s increasing political strength relative to Joe Biden’s is leading market agents to become serious about policy changes under a Warren presidency. The tweet above is an example of a proposed policy.

Meanwhile, Trump’s growing impeachment problems and his Navarro-advised failing trade policy have weakened the US Manufacturing sector and changed some of the granular polling data. It is now impossible to confidently forecast the 2020 election outcomes. While the Democrats are still favored to keep their majority in the House and the Republicans to keep their majority in the Senate, the best guesses today are made with high uncertainty.

Meanwhile, market agents are repricing risk, and that risk includes possible changes in health care and banks/financial and, given the above tweet, the domestic US Energy sector.

Let’s use an example.

Natural gas is a terrific American production success. We have a lot. It’s a clean fuel. The world wants to buy it. America is a safe source and has reliable long-term contract law.

Warren’s tweet puts energy capex on notice. Does she encourage investment in energy or discourage it? You know the answer.

Add to her tweet her advocacy of a Sanders-type wealth tax and apply that tax to risk-taking in oil and gas production, exploration, transportation (pipeline), and equipment supplies. Does she encourage or discourage these investments? You know the answer.

Meanwhile, once-expected LNG exports to China and elsewhere are slowed by the ill-conceived, Navarro-designed Trump Trade War. Encourage or discourage? You know the answer.

Is it any wonder the US Manufacturing sector is mired in a slowdown and economic growth is under 2%? Trump and Warren are polar political opposites whose widely divergent policies harm or stand to harm a large sector of the US economy.

We are a year from an election, and this writer only expects the various proposals to get worse while the debate gets uglier. The opinions expressed on CNN and Fox now epitomize the divide. Tax increases or cuts won't happen for at least two years, and this writer is not sanguine about any of the outcomes.

Dear readers, once fiscally responsible Republicans have delivered a one-trillion-dollar deficit and a modern version of Smoot-Hawley protectionism, while some Democratic hopefuls seek to destroy wealth with taxation and to attack capital formation in American industries and business.

The now-familiar expression "You can't make this stuff up" was coined by Suzanne Greenberg, a now-deceased former Cumberland Partner. She was prescient.

Fortunately, the Fed has awakened to the liquidity issue after dodging the repo bullet. Better late than never.

To this writer, stock markets seem to be discounting the worst as the ugly headlines continue. As long as the markets remain fearful of worst-case risks, stocks can rally to new highs as we progress to year end. Widespread pessimism is a buying opportunity.

We remain fully invested in our US stock market ETF strategy and in our US stock market quantitative strategies (three of them). Please email me if you would like to see the white paper on the quantitative work.

P.S. Here's a Bloomberg opinion column we recommend. It focuses on truth, politicians, and constitutional issues of free speech. It also has a warning for each of us.

https://www.bloomberg.com/opinion/articles/2019-10-09/facebook-can-fight-lies-in-political-ads.

David R. Kotok
Chairman and Chief Investment Officer
Email | Bio

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potentially impact global financial markets. Our team shares their thinking on global economic developments, market news and other factors that often influence investment opportunities and strategies.