LAUREATE
WEALTH MANAGEMENT

Dear Clients and Friends,

Today's market action (Dow and S&P both up over 2.3%) merits a closer look. With such a strong market uptick, one might expect that the unemployment rate must have decreased in a meaningful way. Or perhaps some well-respected economists have raised projected GDP growth expectations. Or maybe some unexpected corporate earnings preannouncement was made lifting earnings guidance…

However, none of these things happened. In fact, I cannot find any meaningful positive economic data releases today. The apparent reason for today's market action is ----- a significant hope and expectation of new economic stimulus measures. Comments released this morning by Mario Draghi (European Central Bank President) and Dennis Lockhart (Federal Reserve Bank of Atlanta President) were both interpreted as potential signs of such stimulus. Said another way: the economic data is trending so poorly as to create an expectation for more stimulus, thus causing the markets to go up.

Whether or not this stimulus is ultimately good or bad for the worldwide economy is debatable --- but not my point here. Rather, I wish to note that healthy financial markets in the middle of the "recovery phase" do not generally view the possibility of needed stimulus with such affection. In "normal markets" we would see a massive selloff on such news. I would submit that today's market action is evidence of a financial system which is systemically addicted to stimulus. It would appear that we are still on the same "wash, rinse, and repeat" cycle that started in 2008.

By way of explanation, the financial market meltdown of 2008 (event A) caused a worldwide recession (event B). The worldwide recession caused massive globally coordinated economic stimulus (event C). The global stimulus caused reflation of financial markets and a cessation of recessionary trends (event D). When said stimulus wore off, recessionary trends reappeared and financial markets reacted negatively --- which puts us back at the front of the cycle (event A). Wash. Rinse. And Repeat. This causality loop has played out several times since 2008 with various economies taking leading roles in each loop.

Please understand that I am not suggesting that the markets are on the edge of another meltdown. Rather, I am suggesting that today's market action demonstrates that the same economic conditions that have been in play for the last several years ----- are in fact still in play. Risks are high. Potential returns in the broader markets are likely going to be muted, at least until world markets and economies can kick this addiction.

As always, please feel free to call or email me any thoughts or questions. If you received this as a forward from a friend and would like to receive future commentaries directly, please send me your name and email address. I will add you to my distribution list.

Kind Regards,
Jeremy Boynton