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Chris Temple
Editor/Publisher

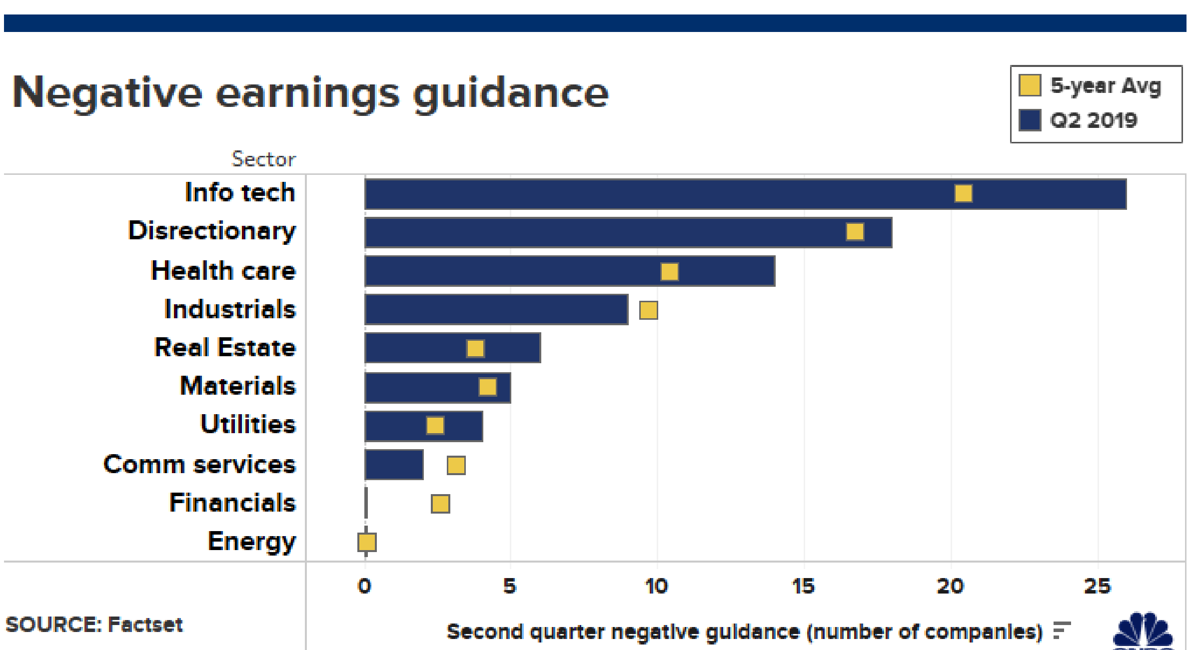
Greetings!

Some thoughts as we kick off the back half of the year . . .

CAN STOCKS CONTINUE CLIMBING THAT WALL OF WORRY?

As we closed the first half of the year last Friday, bulls were celebrating. U.S. stocks put in their best first-half performance in decades: the Dow was up 14.0%, the S&P 500 by 17.4%, and the Nasdaq led the way with a first-half gain of 20.7%.

Among the remarkable things about this advance is that few of us remember such a bullish move for equities accompanied by such *lousy* sentiment. As one commentator quipped a few days ago, he's never seen new records for stocks discussed in such a somber way. Now, as I wrote in the expanded new issue released last week, this in and of itself suggests that-if the proverbial stars align better-the stock market *could* well have much farther to go on the upside. Time will tell.



While we can't argue with the fact that a LOT of liquidity still in the market-together with worse outlooks elsewhere-has had a net benefit for U.S. stocks, the appearance decidedly IS one of the American economy slowing to meet others' lethargy. **And we're about to get that lesson where it counts, it seems: in a fairly gruesome Q2 earnings season**. As *CNBC* is reporting RIGHT HERE, earnings results are going to be "brutal," as more companies have warned their results won't meet expectations than we've seen in 13 years (notably, not long before the market's last BIG comeuppance.)

We also need to ponder the health of the broad market *technically*: many have warned anew that unless and until small cap stocks can begin to participate more notably, the rally overall is suspect.

So notwithstanding the new record set for the major averages yesterday morning on the second half's first day of trading, we're right to be skeptical given all the above!

CHINA CEASE-FIRE. . .AND ONGOING WORRIES

We took some time out of our schedules yesterday on Canada Day to record a podcast - RIGHT HERE - discussing the *reality* of what happened over the weekend at that G-20 meeting in Osaka.

Men of the hour . . .*barely*.

And as they should have, traders who greeted yesterday morning here in the U.S. with those new records on Wall Street *erased* most of the gains as the day went on. For as we discussed, a cease fire and "minor prisoner exchange" as I put it really has solved NOTHING yet longer-term.

As I quipped on that podcast, when it's a guy like Larry Kudlow who is now the "bad cop" here, you know that the president's team is more on board than ever with seeing this war through to the end!

And to be sure, it's still the U.S. that has the upper hand here. China's economy continues to contract. And while the yuan has stabilized somewhat of late (and may get more help now as the country, as part of the cease-fire, relaxes further some investment rules) **the longer-term fundamentals dictate an eventual breaking of that "7" level on the yuan's exchange rate versus the dollar.**

That, of course, will invite anger and likely retaliation from the mercantilist President Trump.

THE ODD COUPLE - *DECOUPLED*, BUT ONLY BRIEFLY

As I opined a while back, it seems as if the long Treasuries trade is the most *relatively* sure thing of anything out there right now. That there is such an overwhelming bid for Uncle Sam' I.O.U.'s was highlighted yesterday morning: even as stocks spiked to new records and gold broke back further below $1,400/ounce quite sharply, *bonds didn't flinch one iota.*

Indeed, around the planet you saw NO evidence yesterday of yields popping a bit higher due to investors adopting more of a "risk on" attitude again, and/or cheer over the truce declared by Trump and Chinese President Xi. Yields continued to fall further into negative territory for German bunds (now a NEGATIVE 37 basis points) and JGB's (MINUS 14.) *And now France has become a part of that same club, yields now negative on its own 10-year paper.*

As I said yesterday, I expect gold's sharp pull back to be fleeting (if it isn't over already.) And this is despite my view that the U.S. Dollar's path of least resistance continues to be HIGHER, notwithstanding the greenback's choppiness of the recent past. The risk is certainly of that if the global economy *really* goes off the rails or one (or more) trouble spots / looming Black Swans manifests itself in a big way.

And near term we may well see the dollar firm up additionally, if that China-U.S. cease fire means the Fed will NOT be lowering interest rates right away. Even before this weekend's news, Fed Chairman Powell was seeking to reduce those expectations in a speech last week. And if this Friday's June employment report is at least reasonably healthy, that will further argue for a *later* rate cut; and, possibly, lead to an even firmer dollar and weaker equities.

That's it for now! Members will get more market thoughts - and another new issue - in the next week, with yet more catching up on company news in particular.

All the best,

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