

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

I can't remember with certainty all the various Literature courses I took in college, but it safe to say it was more than the core curriculum required. In truth, we didn't have a lot of patsy, easy A type classes with which to pad the old GPA, and those we did have normally didn't carry the same number of credit hours. As a result, the school pretty much required you to attempt to learn something with your non-required course load. Whether any of us did is a different story altogether.

If you think back on what your professors forced you to read, you will probably recall a few books you liked, and probably an equal measure of those you didn't. One of the works I didn't favor was The Rime of the Ancient Mariner. If you have never read it, let me give you a 1¢ synopsis: this dude kills a bird with a crossbow, which, for some reason, brings misfortune upon the voyage. Everyone eventually dies but for him, which seems rather unfair, and the ship ultimately sinks in an eddy. The end.

Certainly, there is more nuance to the story, and definitely more eloquent prose; however, that is a pretty accurate 37 word review, and I could take down it as few as 11 words if needed. However, as much I didn't enjoy The Rime of the Ancient Mariner, there were/are two stanzas which have stuck with me over the years, in substance if not in verbiage:

Day after day, day after day,
We stuck, nor breath nor motion;
As idle as a painted ship
Upon a painted ocean.

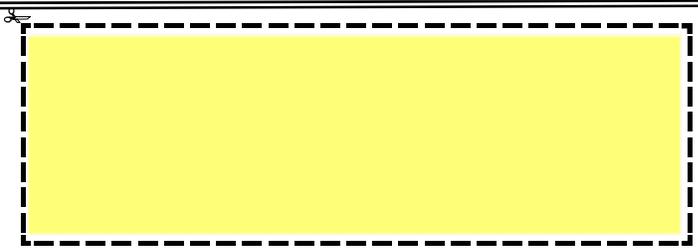
Water, water, every where,
And all the boards did shrink;
Water, water, every where,
Nor any drop to drink.

The mental image is pretty clear in this passage: a sailing vessel in the middle of the ocean idled because of a lack of wind. In other words, there aren't any tailwinds to get the thing going. I am almost embarrassed to admit this came to mind when I thought about the stock markets headed into the summer: just where are the tailwinds to engender a substantial rally over the next couple of months?

As I have written previously, the markets' biggest concern is the Federal Reserve: will it raise the overnight lending target or continue to throw gas on the fire, by default, by not doing anything? As a result, everyone hangs on every word of every Fed official, hoping to glean some sort of insight in the nuances of their utterances. US economic growth? Mediocre, and check. Corporate profits? Mediocre, and check. Global economic growth? Mediocre, and check. US monetary policy? Still accommodative, but with a question mark.

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Therefore, I will go out a short limb, and make this prediction: the US stocks markets will behave as though on a stationary bicycle or treadmill until the next FOMC meeting announcement on June 15. There will be much expenditure of effort, but it ain't going to go anywhere. After the release, the market will tie itself in knots trying to discern future monetary policy, and then we will all settle in for the 3-ring circus that is our nation's attempt to elect a President.

If nothing else, at least we will have something else to worry about.

At the beginning of 2016, it appeared the primaries were merely parliamentary procedures for Hillary Clinton's eventual nomination, a formality. After a cursory glance at the electoral map, I resigned myself to her Presidency, and was hopeful she would shift towards "middle ground" in order to work more effectively with a GOP Congress than the current Administration has. In so many ways, I viewed, and still view, her as more of a politician than an ideologue. Left-leaning, to be sure, but still somewhat pragmatic. Then, something strange happening along the way.

Oh, it actually has little to do Clinton, as much as it has to do with the Democratic Party in general. Basically, Bernie Sanders has become the mouse that roared. With each primary, his candidacy, and its surprising momentum, weakens Clinton at a time the Democrats should be consolidating. While he likely won't have enough delegates to capture the nomination, it increasingly appears the Bern will have enough clout to influence, perhaps significantly, the party's official platform. As I type, it would seem that is the very reason Sanders has campaigned as long, and as hard, as he has...to influence policy.

As a result, there is real potential Clinton's marching orders from the DNC convention will officially shift her candidacy to the left, at exactly the time she had undoubtedly wanted to shift towards the middle, at least to some degree. This is probably a little concerning to the Clinton camp.

However, at first blush, some might think this is a good thing. According to realeclearpolitics.com, most nationwide polls suggest Bernie Sanders would have an easier time beating Donald Trump than Hillary would. In fact, I could find no meaningful national poll where Trump bests Sanders, whereas Clinton trails the Donald in both the Fox News and Ramussen Reports polls. So, what could be better? The DNC establishment candidate being forced to adopt some of Sanders' issues at the convention would have to be a good thing, right?

Perhaps, or it could work in the exact opposite way. Much would depend on whether potential voters actually like Sanders' positions more than Clintons' OR whether the polls are more personality driven. While I am not a registered Democrat, I secretly suspect much of Bernie Sanders' appeal in the party is the same as Trumps' was/is in the GOP: he is the anti-establishment voice at a time the rank & file is tired of the establishment. As one Sanders' supporter told me: "I don't know much about his actual positions, but I love his passion."

Fair enough. So, what does the Clinton/Sanders hybrid actually look like, and will it play in Peoria? THAT is what is going to make the actual election campaign so fascinating. Just what will the DNC platform be, and will Clinton be

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able to sell it with conviction. Will independents be willing to “buy” it? On the flipside of the coin, now that Trump has blustered and bullied his way to the nomination, will he come into the ideological fold a little more without losing his aggressive edge, even while toning it down a notch?

It proves to be fun to watch, particularly the first televised debate. The combined ratings are going to be bigger than final episode of M*A*S*H. But will the campaign move the markets?

This is an interesting question, because I would submit it has been a very long time since a Presidential election actually did so, at least 24 years. Bill Clinton was a shoo-in in 1996 after 4 years of economic growth and solid investment returns. In response, the GOP put up Bob Dole as something of a throwaway candidate in response. In 2000, our Y2K hangover was finally hitting home, and a bear market was clearly becoming established by the time we cast votes in November. 4 years later, the economy and the markets were on reasonably firm footing, or so they seemed. In 2008, the GOP could have put up George Washington as its candidate, and it still would have lost handily. Despite tepid economic growth, the markets were in full rally mode in 2012. But 2016?

Have I mentioned The Rime of the Ancient Mariner and the present lack of tailwinds? Because of this, and because the Fed has largely backed itself into a corner, the Presidential election will likely move the markets more than any Presidential election over the last two decades. The only problem is, no one really knows what the final party platforms will ultimately look like....even if we have a decent idea what some of the name calling will be.

To that end, I might have to pull out some of my old dictionaries from college to find some of the meanings.