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First Trust

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Monday Morning Outlook

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Dr. Copper and the Pessimists

At the risk of sounding like conservative curmudgeons who have nothing better to do than to explain why everyone else just doesn't get it, we think one of the main problems the markets are having these days is that there is little understanding of history.

The level of anxiety and negativity, by investors, pundits and many analysts, seems out of proportion to the facts. Negativity has reached such high levels that many people seem to have lost perspective. This seems true from a short, medium, and longer-term point of view.

For example, we have seen a proliferation of stories in the media and blogosphere during the past few days about copper – "the metal with a Ph.D. in Economics" or "Dr. Copper." The stories have focused on the Greece/Euro-induced drop in copper prices from $3.65 per pound in early April to $3.00/lb. in mid-May. This 18% drop is supposedly signaling a double-dip recession.

Don't count on it. The double-dip crowd has never believed in this recovery. To them, this has always been a "dead-cat bounce" or a "figment of stimulus money." They believe negative data and ignore positive data. They seem to forget the fact that copper prices bottomed at $1.34/lb. in December 2008 and even after the recent declines are still up 132% from that bottom.

The pessimists did the same thing with last week's initial unemployment claims data. Initial claims surprised the markets by rising from 444,000 to 471,000. Somehow, this one week of negative data from what is clearly a volatile data source became more important than the past four months of overall employment statistics. The Household Survey has counted almost 2 million new jobs in the past four months, while the Payroll Survey is showing solid (200,000+) job growth again.

As we have said before, anxiety has reached such dramatic levels that economic-hypochondria has taken over the punditry and many investors. This is unfortunate.

History shows Great Depressions are very rare things. Believing that one is happening again, and buying gold or sitting in cash is a risky strategy.

Yes, tax rates are scheduled to go higher. We get it. But, they won't move up until next year at the earliest, and the actual size of the tax hike may be affected dramatically by the election in November. Moreover, tax rates were much higher in the past and the US did not collapse.

And, yes, government is growing like crazy and deficits are huge (unbelievably huge). But this does not guarantee collapse. The US still has $150 trillion in assets and more than $15 trillion in annual output. A company of that size could easily afford to carry $10 trillion in debt.

Don't get us wrong. We think government is too big and too intrusive and it will harm the economy over time. But, it will not *kill* the economy *today*, or even next year. Productivity is booming. New technology is lifting wealth, and living standards are rising – despite government growth.

Some might say that it is not the Great Depression we should worry about, but the 1970s all over again. This, we can agree with. However, during certain periods of that decade, particularly during 1975-76, the economy and the stock market both boomed. That's what we are experiencing right now – a boom amidst an uncertain future.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-24 / 9:00 am	Existing Home Sales - Apr	5.620 Mil	**5.770 Mil**	5.770 Mil	5.350 Mil
5-25 / 9:00 am	Consumer Confidence - May	58.5	**60.3**		57.9
5-26 / 7:30 am	Durable Goods - Apr	+1.3%	**+6.4%**		-1.3%
7:30 am	Durable Goods (Ex-Trans) - Apr	+0.5%	**+1.2%**		+2.8%
9:00 am	New Home Sales - Apr	0.425 Mil	**0.390 Mil**		0.411 Mil
5-27 / 7:30 am	Q1 GDP Second Report	+3.4%	**+3.4%**		+3.2%
7:30 am	Q1 GDP Chain Price Index	+0.9%	**+0.9%**		+0.9%
7:30 am	Initial Claims - May 22	455K	**457K**		471K
5-28 / 7:30 am	Personal Income - Apr	+0.4%	**+0.4%**		+0.3%
7:30 am	Personal Spending - Apr	+0.3%	**+0.5%**		+0.6%
8:45 am	Chicago PMI - May	61.0	**62.1**		63.8
8:55 am	U. Mich. Consumer Sentiment	73.3	**74.0**		73.3