Economic Update

Broadleaf Partners, LLC

A Bullish Sea Change in a Land of Little Victories

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The Institute for Supply Management (ISM) manufacturing index came out about fifteen minutes ago and was a surprisingly strong 56.3 compared to expectations of 52.9. Generally speaking a reading under 50 indicates contraction rather than expansion in the manufacturing sector. Given the recent decline in the stock market, this data is having a huge positive impact on stocks. For those of us who have believed in a soft landing rather than a double dip, this data is *very, very,* encouraging.

Generally speaking, the ISM Index - a monthly survey of purchasing managers - has led the real economy by three to six months. The indicator began to weaken last spring from all time highs and, not surprisingly, the stock market has been soft ever since in spite of great fundamental earnings results. The beginning of weaker readings six months ago may have finally shown up in the tone of more cautious earnings commentaries from companies like Cisco in recent weeks.

Now that the index reading has actually ticked up rather than declined further, a more bullish rather than bearish sea change in the markets could be at hand. It could be expected that fundamental outlooks from companies could follow suit by the end of this year. (While the August reading of 56.3 isn't a major increase from 55 in July, relative to some sub 50 expectations for August, it is at the very least expectationally tradable.)

Of course, no one should get carried away with any single indicator as an understanding of the markets is never simple or easy; if you feel that way, you're likely in a danger zone. But in our minds, the data does support a soft landing view and will likely affirm a continuation of the 1040-1200 trading range on the S&P 500. With the market at the lower end of this band in recent days, I suspect we could see a very decent bounce in the coming weeks.

This ISM reading may also usher in the first few cracks in the bond bubble, which has been sustained by a view that the Fed may remain perpetually on hold and therefore, a back up in bond prices unlikely. If the ISM surveys remain surprisingly strong, then that assurance may be off the table, and with it, the bubble in bonds inches closer to an eventual implosion.

Summing it up, our conviction in the slower growth rather than double dip scenario went up considerably with this morning's ISM release and probably even more so for the markets as a whole. While it may not represent a sea change akin to what investors became accustomed to in the go-go 1990's, it is nevertheless a positive, particularly in the context of a slower growth economy and range bound stock market.

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In a new normal, the little victories count!

Kindest Regards,

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