Boenning Morning Comment

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Stocks finished marginally higher yesterday. Former FBI head James Comey's testimony before Congress made for great theatre but, with no smoking guns emerging from his testimony, Wall Street yawned and went about its business. The investment community wasn't expecting much. There was little volatility going in and little after testimony ended. While watchers of MSNBC and Fox News got themselves worked up, watchers of CNBC found nothing that was likely to move the price of stocks or bonds.

Perhaps the much bigger news was last night's results from Britain that the Conservatives led by Theresa May apparently failed to retain a majority of Parliament. The pound fell sharply as the results came out. Ms. May will be asked by the Queen, as head of the party that got the largest share of the vote, to try and form a coalition government. We won't know for some time how successful her efforts might be. If, when final votes are tallied, she is close enough that the Conservatives can partner with one or two small parties from Northern Ireland, she may be able to salvage her government. This is the kind of uncertainty that has the potential to rattle markets in the absence of other substantive news. However, overnight action suggests the damage, for the moment seems to be limited to the British Pound. Whatever, the final outcome, Britain's Brexit position may have been weakened, bad for Britain perhaps, but not terribly worrisome for the rest of the world. Last summer, when the original Brexit vote occurred, investors worldwide worried about the collapse of Europe and the EU. But subsequent pan-European elections, especially in France, seem to have secured the EU's base, at least for now.

As for our markets, it continues to be a bifurcated map of winners and losers. The winners were largely tech stocks led by semiconductor maker Nvidia. On the flip side, the new low list was dominated by energy companies and selected retailers although there was some bargain hunting after word circulated that the Nordstrom family might opt to take the company private.

There are some good reasons for the Nordstrom family to consider taking the company private. Valuations for retailers are at cyclical lows at the moment. As a private company, management can move aggressively to take the type of transformative steps necessary to realign its business for a new omnichannel world where retail, Internet, and off-priced sales strategies can be right sized quickly without regard to the quarterly earnings comparisons that Wall Street worships.

But Nordstrom may be unique. It has a strong family interest both within management and ownership. It is already a leader in integrating conventional retail and online sales. Its Nordstrom Rack off-price stores have been successful. That is markedly different than Macy's, for instance. Macy's has its own positives, notably its real estate ownership and brand recognition. But Macy's has been a much weaker retailer in recent years and you don't buy retailers to be real estate plays. Anyone who has owned Sears for years can affirm that statement! Macy's has a poor Internet presence, is just entering the off-priced segment, and management has only a very modest ownership interest. In better times, perhaps a private equity firm could leverage up to buy Macy's but that isn't possible with a company achieving negative sales growth. For those of you with long memories, Macy's and its former parent, Federated Department Stores both went bankrupt after the leveraged buyout bubble of the late 1980s saddled with an overload of debt. No one is going to repeat that disaster today. Thus, while other retailers rose today in sympathy with

Nordstrom, the traditional retail channel still has to go through a lot more pain before the dust settles making investment in this segment, speculative at best.

In Washington, the House, in a party line vote with only one dissenting Republican, passed the Financial Choice Act aimed to replace Dodd-Frank. It now moves on to the Senate where it appears likely to be dead on arrival for two reasons. First, while some consider Dodd-Frank to be overbearing from a regulatory point of view, clearly parts of the law have served the nation well shoring up the capital base of banks and related financial institutions. Most of the overbearing features can be alleviated through regulatory reform at the Fed without new legislation. Second, the Senate's legislative calendar is simply too full. Beside efforts to reform healthcare and taxes, the Senate will have to tackle the debt ceiling a fiscal 2018 budget, and fiscal 2018 spending authorizations. It plans to recess for five weeks beginning in late July and will have a batch of holiday recesses later in the year. The most optimistic Republicans hope to pass bills to reform healthcare and taxes before the August recess. Most would be happy to pass one of the two. Many think neither will pass before August, if ever. Predicting politics is like predicting weather. You have a shot at being right over the next two weeks and then you odds of being correct decline significantly. At the moment, there isn't even a healthcare or tax reform package to consider. There is little Republican consensus on either. Virtually every Republican has to agree for any chance of passage. The Democrats aren't even being consulted at this stage.

But while differences are large, all Republicans know that to go into mid-term elections with nothing of substance passed in two years would be chancy at best and disastrous at worst. Most Republicans will have to accept the idea that half a loaf is better than no loaf at all. At the moment, the moderate and right wing factions are sticking to their separate ideologies. But that could change. It certainly would help to have strong leadership from the White House. Perhaps, as time gets closer, the White House will engage and take on a more important role. As I said just a moment ago, predicting more than a few weeks ahead is problematic. Mr. Trump has persistently distracted attention away from his fiscal plans in the first few months. Perhaps as time gets closer, he will pay less attention to Hillary, Putin, and Comey and more attention to the business at hand. Trying to predict Trump is even worse than trying to predict normal politics. From a Wall Street perspective, markets appear to have priced in very little. Bonds and the dollar have totally retraced their post-Election Day moves, a sign that the same old 2% growth is the current assumption du jour.

One other factor slowing down the pace of movement in Washington is the fact that over 75% of the Presidential appointments requiring Senate confirmation (mostly Under Secretaries, Deputy Secretaries, and Ambassadors) haven't even been nominated yet. It is hard to move an agenda forward when 75% if the seats are vacant or leftovers from a prior administration.

Trump took a day off from Tweeting yesterday. But don't worry. He is already back at it this morning!

Today Natalie Portman is 36. Johnny Depp is 54.

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