# Is the economy strong? Investors have voted

Two weeks ago Janet Yellen said the economy is healthy enough for a rate boost and one is probably coming this year. Some Fed governors entertained the thought of raising rates this month. Then came last week's job's report.

The headline number indicated the economy created only 142,000 non-farm jobs. Worse still, the July and August figures were lowered.

So is the economy ready for a rate hike or is it weakening again? Investors want clarity, and they don't have it. Then again, some may think they do have it.

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*Market Pulse*

Look at stocks of companies in economically sensitive industries (steel, chemicals, paper, others). They've collapsed. U.S. Steel is now 10, down from 70. Emerson Electric, Caterpillar, Deere and their ilk have been crushed.

That's not what one would see if investors agreed with Yellen's view that the economy is improving. Just the opposite would be true.

High-yield bonds are a bet on economic growth, not interest rates. They've been falling for more than a year. Not a good sign. Commodities and stocks of companies tied to them are in full retreat.

Mining and metals companies are the best examples as demand in China is falling. Oil, gas stocks, and MLPs are toxic even if they have no exposure to oil and gas prices, which bottomed months ago.

There will be tremendous percentage gains in the next up cycle since so many stocks are starting from rock-bottom prices, many in single digits.

The bottom line is that, unlike Janet Yellen, investors don't see much economic growth ahead, not here, not overseas. Nor does the IMF and large Wall Street firms like Goldman Sachs and Morgan Stanley.

That is not an environment in which interest rates can rise more than a token, and that's what many now expect. That alone would be a small positive for stock valuations. It's better news for fixed income instruments and preferred stocks.

Now is a good time to recall the advice I received from a Wall Street veteran. He said I wouldn't get into trouble paying too much for high-quality stocks.

The next bull market would make it right. Paying too much for low-quality stocks, however, is a recipe for disaster. They go down and never come back. That advice has stood the test of time.

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