



Morning Comments October 22, 2009

Crude Going to Work on Restaurant Names

Most recently the markets have looked on crude strength as positive, a sign of demand and economic strength. The speed and scope of the recent move is now pressuring that view. We think the market mentality is shifting once again towards fear for the consumer's health around the surge in crude. Restaurant stocks generically were early market leaders, clearly benefiting from cheap crude, falling interest rates and government support/stimulus as the market fell towards its lows. The stocks have been bad laggards after the initial 1H surge and now some show signs of breaking down. The threat of rising rates looms on the outside as well, and seems more likely to grow than not given recent central bank action/rhetoric. If the restaurant names begin to break down more aggressively it will likely lead to significant weakness in retail overall, essentially reversing the progression to the upside we just experienced as the trade unwinds. I don't believe this need be acted on necessarily today, but investors should be aware and ready to act when the time comes. As prices prove out I will find specific spots to act.

I was stopped out in NOC yesterday despite the company posting strong results and so now with 2 of the 3 defense names I took out long having been stopped out, I will collapse this trade selling out the relatively strong GD as well given enough evidence the market does not want defense names.

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