Donaldson
CAPITAL MANAGEMENT

This Week in the Market
5-13-19

One at a Time

Markets spent the bulk of this week reacting to a steady stream of trade headlines. On Monday, retaliatory tariffs announced by China on $60 billion of US goods sent stocks reeling as market participants grew concerned that trade negotiations were totally breaking down. With stocks sliding, President Trump made an important strategic decision by delaying the imposition of auto tariffs on the EU for at least 6 months. This gave participants enough confidence that Trump would be fighting his trade battles one at a time to start putting a floor under prices. To shore this up further, the Trump administration lifted existing steel and aluminum tariffs on Canada and Mexico Friday afternoon. So while prospects for a China deal remain uncertain in the interim, some of the pressure has been relieved. Market action this week was an acknowledgement of that.

Aside from trade headlines, economic data releases hit the wire as well. Retail sales and industrial production in China came in much lighter than expected for the month of April. After this release, global bond yields took another leg lower. Bond markets seem to be betting that economic improvement in China was short lived after a stimulus led sugar high. Because of their dependence on Chinese markets, the return to softness is being extrapolated to Europe where German yields made fresh lows. On the home front, US 10s broke lower as global buyers hungry for yield continue to see value in a 10 year at 2.39%. It's clear that China needs a deal and a deal could help bring stability to the bond markets. Seems to be more of a matter of when.

US data presented more of mixed bag. Retail sales disappointed in April, but stood in contrast to strong same store sales numbers from retail giant Walmart. And on an even more positive and contradictory note, Consumer sentiment readings surged to their highest level in 15 years during the month of April. In addition, home building is showing signs of a rebound as lower rates and good weather seem to be drawing more buyers into the market. Taken on balance, the consumer still seems to be doing well. Still, much of this data came before the recent escalation in tariffs. We'll have to watch these readings for assurance that tariffs aren't having too much of an impact.

Technically, markets are holding up well in a small bout of consolidation. Defensive names aren't dominating and credit has remained well contained. Recent action looks more like garden variety profit taking. Of most importance, companies are still performing on their own merits. CSCO was a likely candidate to face a tough quarter from significant trade exposure. Instead, the focus fell on their successful execution of strategic initiatives. The company is impressively pivoting to software based networking product, software-as-service, and security. In time, this shift will make CSCO less dependent on its international supply chain as they become asset lighter and will improve margins along the way. There are a lot of similar stories out there.