Donaldson
CAPITAL MANAGEMENT

This Week in the Market
6-10-19

The Fed or a Deal?

The market held just a few percentage points below its all-time high this week as the market digested a mix of economic data, prospects for a trade deal, and renewed geopolitical tension. Market participants find themselves in a state of limbo as a directional catalyst remains absent for the moment. To move higher, a fed cut or a trade deal may be necessary, particularly because we are so far from the next earnings season.

Over recent weeks, the Fed warmed to the idea of a rate cut as economic data points softened and opened the door for justification. In the past week, we've had a significant payroll disappointment, a rise in jobless claims, and tame inflation readings. These points are increasing the prospects for a rate cut as soon as July. Still, other data points are making the case the economy is just fine. Retail sales numbers beat expectations and industrial output rose by the most in 6 months. To get the Fed on board in July, we're going to need a few more weak readings. Here's to finding some more bad news. We should continue to expect that positive economic news will be negative for stocks for now.

Little material development came to light on the trade front this week. President Trump played up and then later downplayed the importance of a meeting with Xi at the G 20. Strategas suggests that some work is being done behind the scenes to move towards a meeting. They also note that odds for the ratification of the USMCA are rising and that this could take some pressure off of China trade worries. At the company level, the pain of the trade scuffle continues to be felt. Chip stocks took a beating today as Broadcom adjusted guidance downward to account for inventory reduction in the supply chain and the impact of the ban on Huawei exports. China leveraged companies are certainly hopeful that a deal is on the horizon.

Geopolitical tension in the gulf made a return to headlines this week as well. The US and Iran are pointing fingers over responsibility for an attack on two tankers moving through the Gulf of Oman. The details remain unclear, but the concern is that rogue elements of the Iranian regime are asserting authority and provoking conflict. Of note, the underwhelming response out of oil prices is a great testament to the change in market dynamics over the last decade. Conflict of this nature 10 years ago had oil prices moving much higher than they did this week. US energy independence and the country's emergence as a net energy exporter are changing the game.

Without a great catalyst to move the broad market higher, the companies making new highs will be those standing out on their merits. Names like Disney continue to catch analyst upgrades as the strength and depth of its content becomes more and more apparent to the market. We're on the lookout for these stories.