Donaldson CAPITAL MANAGEMENT

This Week in the Market
6-3-19

Bad News is Good News

The S&P 500 ripped higher this week as the market gained confidence in the Fed's supportive posture. From last Friday's close, the S&P gained 4.5% and is within shouting distance of its recent all-time high. Economic data continues to weaken and the probability is rising that the Fed will undo what was likely a mistake in Q4. The bond market has been pricing in multiple rate cuts for some time, but the equity market is finally coming around to that notion. Rate cuts won't completely offset the impact of tariffs, but they will soften the blow in the eyes of the market. At the same time, trade rhetoric eased substantially and hopes for a trade deal survived.

Job gains came in significantly below estimates in both public and private surveys for the month of May. The ADP numbers showed that 27,000 jobs were added while the government's release showed 75,000 jobs and downward revisions to prior months. Both numbers were well below the 175,000 additions that economists had expected. The consistency of these reports is a likely indicator that uncertainty is weighing on the labor market. While we're still adding jobs and unemployment remains at historic lows, the deceleration is notable. For the market, this bad news is good news. As economic data points weaken, the probability of the Fed supporting stock prices with lower rates rises. FOMC members also did their part in easing market fears. Several members signaled their intention to adjust policy accordingly should trade tensions continue to weigh on the data.

Trade rhetoric cooled this week as well and helped ease market angst further. China still seems willing to come to the table and there appears to be some effort in organizing more high-level talks. On the Mexican front, US Senate members on both sides of the aisle are rallying against the proposed tariffs and are looking for ways to block their imposition. We remain in search of a deal, but these are positive developments.

Even as the equity market rebounded this week, bond yields continue to break lower. The bond market is taking the weakening economic data around the globe as disinflationary, even as it prepares for likely rate cuts in the US. This possibly signals that the bond market believes rate cuts would do little to drive a resurgence in global economic growth. For stocks, falling bond yields are lowering the discount rate and making equities more attractive by nature. TINA ("There Is No Alternative" to US stocks) is in full effect.