

This Week in the Market

6-24-19

Waiting for the Weekend

The S&P 500 consolidated from recent highs in a fairly quiet week for the market. All eyes are intently focused on Saturday's planned meeting between Donald Trump and Xi Jinping at the G-20 in Japan. While few believe the meeting is likely to yield a signed deal, a consensus has emerged that a ceasefire will be called and a foundation for progress built. Cyclical corners of the equity market are reflective of this notion as well. Semiconductors, materials, and industrials all traded higher into the weekend. This is a good sign.

The Fed will also be watching this weekend's events closely. The prospects for a deal are likely to play into their decision to cut or stay put in July. Economic data continues to soften, but progress towards a constructive trade deal could hold sway at the table. Tariffs, no doubt, continue to bite. Consumer and business confidence have weakened and jobless claims have climbed over the last several weeks. The Fed has to take into consideration the extent to and the pace at which a trade deal could reverse these trends. In effect, are these effects transitory or not?

In the political realm, the first democratic debates drew a significant number of eyeballs this week. After round 1, Joe Biden's advantage has slipped and newcomers like Kamala Harris, Corey Boker, Elizabeth Warren, and Julian Castro have all staked a claim. Joe Biden is polling best against Donald Trump amongst candidates. To the extent Biden's advantage weakens against the field, Donald Trump's chances of re-election increase, particularly with the current economic backdrop. We'll watch to see how these newcomers evolve, but Trump has to be feeling okay about his chances.

On a side note, Strategas notes that the indexing of capital gains to inflation may be closer to reality than the media would let on. Trump sees this as a potential policy win in the face of difficult negotiations with China and he believes he has the authority to implement this without Congress. Indexing capital gains to inflation would increase the after-tax rate of return for stocks and provide a lift to the equity market. We'll be keeping an eye on this process as well.