Donaldson
CAPITAL MANAGEMENT

This Week in the Market
8-19-19

Trade Escalation

Markets were once again whipsawed this week by a flurry of trade developments, Fed speak, and brief yield curve inversions. The trade picture, that was for a brief moment looking brighter, has once again taken a turn for the worse. Presidents Xi and Trump took turns ratcheting up retaliatory action on a day where Fed Chair Jerome Powell did not definitively spell out additional rate cuts. Still, the S&P 500 continues to operate in the range between the 50 and 200 day moving averages. The trend generally remains positive and there is some underlying momentum developing in key sectors. The evidence of a Trump put remains from a technical aspect even as the situation deteriorates on the surface. Through the volatility, the market still seems reluctant to be too negative on trade prospects.

On the trade front, President Trump began the week by easing the restrictions put into place for U.S. companies dealing with Huawei. The market cheered this development and pushed the index back towards the top of its recent range. Today, the Chinese announced they would implement a tariff on an additional $75 billion of U.S. goods at a rate between 5 and 10%. In response, President Trump raised tariffs on an existing $250 billion of imports to 30% from 25% and increased the planned tariff on the remaining $300 billion of imports from 10% to 15%. This escalation sent the market reeling and back down to the bottom end of its range. Under the surface, companies levered to China appear to be losing faith in a deal in the near-term and energy and industrial stocks are growing more concerned about the implications of a slower global economy.

In the background, the Fed gathered for their annual meeting in Jackson Hole. Over the week, it became apparent that the committee is not necessarily on the same page in regards to further cuts. Some believe that the Fed is currently meeting its dual mandate and that further cuts aren't warranted. Others continue to look at potential impact of the trade war and persistently low inflation. Powell did his best to provide support to the market in his speech today without explicitly calling out further rate cuts. Rather, he noted that the FOMC would take whatever action is necessary to ensure the continuation of the business cycle. The bond market continues to demand further rate cuts as evidenced by the brief yield curve inversions this week. Powell's statements did little to satisfy their appetite and thus we continue to wait for further clarity from the Fed. President Trump, however, has not been so keen to wait. He directed a lot of the blame for softening economic expectations towards the Fed Chair as he looks for cover to wage the trade war. This will play as long as consumer sentiment continues to hold, but it is a fine line we are walking.

In terms of the consumer, the engine still looks to be cranking. On a micro-scale, Target posted sales and earnings growth that shattered analyst expectations. This lends support to the robust retail sales gains in the prior month's report. Consumer sentiment may be softening on the margin, but the spending is still coming for the moment. Right now it feels appropriate to continue leaning into the consumer while keeping an eye towards the data.

S&P 500: Standard & Poor's (S&P) 500 Index. The S&P 500 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad U.S. economy through changes in the aggregate market value of 500 stocks representing all major industries.