The Outlook

DCM Weekly Market Brief

9-16-19

Trade Matters Most

In a week full of what might ordinarily be market moving headlines, the markets were most affected by news of a Chinese trade envoy cutting their visit to U.S. farms short. Keep in mind that the world experienced its largest disruption to crude oil supply in history and the Fed lowered interest rates earlier in the week. While today's action was far from dramatic, it signals that the market cares far more about trade than anything else at the moment. Any threat to progress is met by the market with sharp disapproval and vice versa. Still, the market is within earshot of another new high and confidence in the U.S. economy is building once again.

At this week's Fed meeting, the committee voted to lower interest rates by another 25 bps. However, the vote was at its least homogenous in years. Some members of the committee feel that cutting interest rates further would be a waste of ammo given that growth appears to be stable and some signs of inflation are perking up. Powell didn't stray far from his script of being data dependent and acting as appropriate to sustain the expansion in his remarks. Not hearing a definitive push for further cuts, the market has begun to reprice its expectations. We are down to one more probable cut in 2019 and the market seems okay with this. There is a sense developing that the economy might be on stable footing after all and that dramatic rate cuts probably aren't necessary. Of course, the trade negotiations matter a lot to this outlook, as Powell also noted.

Over the last few weeks, there has been a noticeable de-escalation in trade tensions. This has been met with a return of a hint of cyclicality to the market. Bond yields are trying to bottom, semiconductors and industrials are perking up, Chinese levered stocks are improving, and more defensive sectors are weakening. The U.S. agreed to delay additional tariffs set to be put in place on October 1st and the Chinese appeared to open up to the possibility of an Ag purchase for Huawei deal. Today's action shows that we are still a long way from total resolution, but are at least trending in the right direction. Closer to home, odds of NAFTA ratification are improving as Democrats open up to the possibility of signing the deal. Stocks levered to Mexico and Canada have been taking note. These developments have been positive for the market and we are hopeful that they continue.

On the oil front, prices initially spiked with the market fearing that 5% of the world's productive capacity would be knocked offline for an extended time following the drone strike on the Saudi facilities. As the week went on, it became clear that the Saudis were going to be able to get their productive capacity up quickly enough to avoid a major disruption. Oil is higher, but not as high as you might think for this kind of attack. This stands out as another example of the influence U.S. energy has over the market these days. Today's oil market has been stabilized by the massive and growing supply coming out of the U.S. The days of long disruptive supply shocks may be behind us.

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.