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JULY 2019

2nd Quarter 2019 – Market Commentary

THE QUARTER IN BRIEF

The S&P 500 certainly rollercoastered during the second quarter of 2019, but it also gained 3.8% across those three months. U.S.-China trade negotiations unwound, but as the quarter ended, they showed signs of resuming. The Federal Reserve grew dovish. Yields on longer-term Treasury notes dipped and so did mortgage rates. Consumers were confident, and consumer spending stayed strong. Mixed data emerged from the housing sector. Gold outperformed oil as well as many other commodities. The Brexit was delayed, and central banks in other countries elected to lower benchmark interest rates.[1]

DOMESTIC ECONOMIC HEALTH

On May 5, President Trump announced that U.S. tariffs of 10% on $200 billion of Chinese products would rise to 25% and that virtually all other imports coming to the U.S. from China would "shortly" face tariffs. China retaliated, declaring that it would hike tariffs already imposed on $60 billion worth of American products effective June 1. The trade talks between officials from the world's two largest economies then hit a six-week standstill. On June 29, however, President Trump announced at the Group of 20 summit in Japan that formal bilateral trade negotiations would soon resume and that the U.S. would hold off on tariffs slated for another $300 billion in Chinese goods.[2,3]

The other big story of the quarter was the change of outlook at the Federal Reserve. The central bank did not adjust rates up or down during Q2, but its June policy statement noted that Fed officials would "act as appropriate" to try and sustain economic growth. The latest dot-plot, gathering opinions from Fed officials on where interest rates might be in the near future, showed nothing like consensus.[4]

The quarter ended with most futures traders believing that the Fed would make some kind of rate adjustment as soon as July. Perhaps the Fed was also revising its expectations in light of declining inflation. The May Consumer Price Index showed just a 1.7% annualized advance. Back in May 2018, inflation was running at a yearly pace of 2.8%.[4,5]

Some other indicators pointed to a soft patch in the economy in the spring, perhaps nothing more. The Department of Labor reported 205,000 net new jobs in April, but only 90,000 net new jobs in May; unemployment did remain at 3.6% in both months, with the U-6 jobless rate, including the underemployed, actually descending from 7.3% to 7.1%. The prime gauge of U.S. manufacturing health – the Institute for Supply Management Purchasing Managers Index – dropped notably to 52.8 in April, then declined to a 12-month low of 52.1 in May.[6,7]

Even so, consumer spending remained solid. Personal spending improved 0.5% in May, building on the 0.3% April gain. Retail sales, coincidentally, were also up 0.5% in May and 0.3% in April. Personal incomes rose 0.5% in both months. A lagging indicator worth noting: as the quarter ended, the Bureau of Economic Analysis affirmed that the economy grew 3.1% during Q1.[6,8]

Key consumer confidence indexes stayed at high levels. The Conference Board's consumer confidence index was at 129.2 in April, then at 134.1 in May and 121.5 in June. The University of Michigan's consumer sentiment index hit an 8-month peak of 100.0 in May and ended the quarter at 98.2.[9,10]

GLOBAL ECONOMIC HEALTH

The Fed was not the only central bank reconsidering monetary policy during Q2. Policymakers in Australia, Chile, India, New Zealand, and Russia all cut interest rates after May 1 in an effort to stimulate their respective economies. Globally speaking, that constituted the most easing seen since the first half of 2016. Markets in Europe benefited from comments by Mario Draghi, President of the European Central Bank. Draghi said that he was prepared to loosen monetary reins in order to stimulate lethargic European Union country economies.[11,12]

The Brexit was delayed. After an acrimonious spring in Parliament that saw no progress toward ratifying a new trade pact between the United Kingdom and the European Union, the E.U. postponed the Brexit deadline until October 31. Prime Minister Theresa

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"The great thing in this world is not so much where we are, but in what direction we are moving."

- OLIVER WENDELL HOLMES, JR.

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(continued)

May announced that she would resign, and based on election results, either current U.K. foreign secretary Jeremy Hunt or prior U.K. foreign secretary Boris Johnson will replace her later this month. Johnson, widely considered the favorite, has told the media that while he does not want the U.K. to leave the E.U. without a deal, the U.K. would do well to prepare "confidently and seriously" for that possibility.[13,14]

LOOKING FORWARD

All in all, it was quite a quarter, with stocks getting as much of a lift from Federal Reserve policy moves and White House tweets as from earnings. As Q3 starts, traders are wondering if a rate cut and a U.S.-China trade deal are in store for the summer; there is also some ambiguity about the economy's momentum. Companies are expected to start reporting second-quarter earnings in mid-July.

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SUMMER OFFICE HOURS MAY 1 – AUGUST 30

7:30AM – 4:30PM	MONDAY – THURSDAY
7:30AM –3:30PM	FRIDAY