Monthly Market Commentary

US-China Trade Negotiations Fallout

May 2019 | Marco Fragnito | Managing Principal

KEY POINTS:

- The fallout from US-China trade negotiations is still in focus for markets in the short term.
- Despite trade drama, interest rate decisions by the Fed even more critical in our view.

EQUITY MARKET

In April the market rallied for a fourth consecutive month, with the NASDAQ Composite reaching all time highs. While the S&P 500 also set an all time high on better than expected earnings reports and stronger than forecasted economic readings on the US economy. Overall, more than 76% of company's earnings beat expectations as compiled by Bloomberg, with an average beat of 5.1% for the S&P 500.

While trade talks appeared to be moving in the right direction, we found out early into to the month of May that the talks had reached an impasse. Subsequently, volatility has returned to the equity markets as have concerns about future economic growth. While it is still too early to know exactly what the impact of the ongoing trade war may mean for investors, the monetary policy as dictated by the Federal Reserve, in our view, is much more important for the direction of financial markets over the long term.

FIXED INCOME

In the bond market, the yield on the benchmark 10-yr Treasury Notes rose 10 basis points (100 basis points equal 1%) to 2.5. This was driven in part by better than forecasted March Labor Department's jobs report showing a gain of 196,000, stronger US retail sales up 1.6%, and US GDP growth of 3.2% for the first quarter. With inflation readings remaining muted, the Federal Reserve retained its ability to remain patient on monetary policy and forecast no rate hikes in 2019.

While Fed-funds futures as tracked by the CME group, reduced the odds of a rate cut in the second half of the year, the odds still favored a possible year end interest rate cut. This continues support of the bond market as well as other financial markets.

MARKET OUTLOOK

While the trade dispute, or as some would call it, a trade war with China has the possibility of negatively impacting financial markets, especially equity markets in the near term, we remain bullish in the longer term. We have since the start of the year believed that the Federal Reserve hold the key to direction of equity markets, especially in the US. With the Fed continuing to indicate it is prepared to keep interest rates steady to possibly lowering them if necessary, we expect any market corrections to be short lived and within historical norms.

As always, we remain attentive to any developments that may warrant a change in our asset allocations within our portfolios, at this time we remain bullish over the long term. ***If you have any questions please***

contact us directly at 949.472.4579, and feel free to forward this report and our contact information to anyone who might be interested.

Sources: Wells Fargo Advisors, Angela Shin, "Monthly Market Commentary," May 3, 2019.

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