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Market Note

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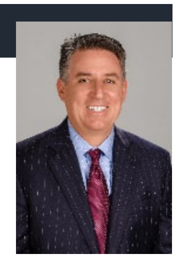

From the desk of the CIO
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Summary

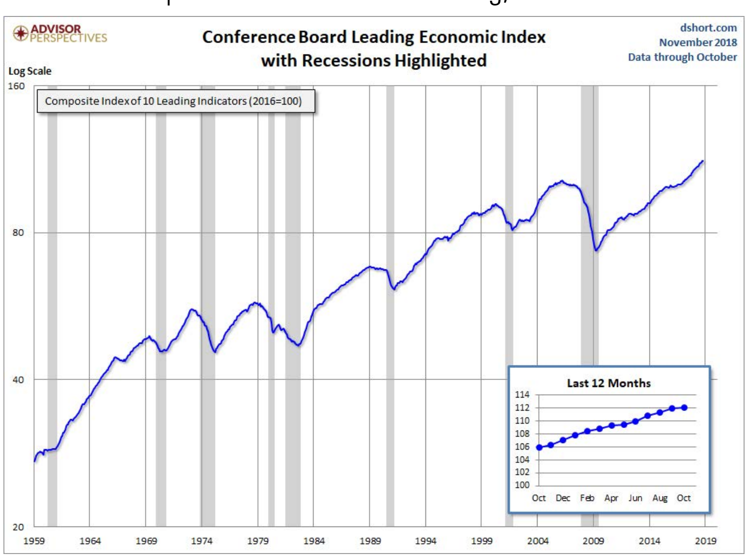
Global stock markets began the week strong, but renewed selling activity on Tuesday and Thursday (as I write this mid-day) has stock prices negative for the year and at lows for this correction, which started in early October. Financial markets were closed Wednesday in observance of the National Day of Mourning for the 41st President of the United States, George H.W. Bush. The ongoing trade war with China, and the uncertainty it creates, remains at the top of the list of factors driving the direction of markets, along with fears of a potential slowdown in global economic growth.

U.S. – China Trade Tensions

In the shorter term, geopolitical tensions between the U.S. and China are causing much of the volatility in recent trading sessions. The G20 Summit in Argentina produced an announcement by U.S. and Chinese leaders of an agreement to a 90- day "truce" on the imposition of tariffs and retaliations by both parties. The truce would "kick the can down the road" on the bulk of tariffs threatened by the Trump administration scheduled to be implemented January 1st, 2019 to a later date.

However, doubt about a permanent deal between the world's largest two economies began to fester amid post-summit rhetoric from both sides. This morning's news brought word of a U.S. request of Canadian authorities to detain and extradite the Chief Financial Officer of Chinese technology company, Huawei Technologies, for violations of Iranian economic sanctions. The arrest and extradition request seems to be viewed as particularly disruptive to U.S.-China trade negotiations because the female CFO is also the company founder's daughter.

This headline-monopolizing event has overshadowed otherwise positive economic data readings released this morning. Initial jobless claims fell, the November reading of non-manufacturing demand beat forecasts, final third quarter non-farm productivity was revised upward from the initial reading, and the cost of labor per unit of production was adjusted downward.



The longer-term concern is that perhaps global growth is slowing. The Fed's Beige Book report showed surveys of Fed districts indicating continued modest to moderate growth in the U.S., a positive for the U.S. economy. However, the impact of current tariffs, and the anticipation of future negative impact from potential future tariffs, weighs on the minds of decision makers at global corporations. One historically reliable indicator, the Leading Economic Index (see chart to the left) which we often cite, has not shown the deterioration we would expect if a serious economic slowdown was on the horizon.

Until markets feel more certainty around these issues, we expect more volatility in both directions. We will continue our vigilance in monitoring for conditions that may turn the current correction into something worse for the financial markets and the economy.

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