

June 24, 2019

Weekly Viewpoint

Three in a Row

Performance for Week Ending 6.21.19

The Dow Jones Industrial Average (Dow) added 2.41%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) gained 2.15%, the Standard & Poor's 500 Index (S&P 500) rose by 2.20% and the Nasdaq Composite Index (NASDAQ) tacked on 3.01%. Sector breadth was positive with all 11 of the S&P sector groups finishing higher. The Energy sector (+5.16%) led the way followed by Technology (+3.32%) and Healthcare (+3.12%).

Index*	Closing Price 6/21/2019	Percentage Change for Week Ending 6/21/2019	Year-to-Date Percentage Change Through 6/21/2019
Dow	26719.13	+2.41%	+14.54%
Wilshire 5000	30313.09	+2.15%	+17.76%
S&P 500	2950.46	+2.20%	+17.70%
Nasdaq	8031.71	+3.01%	+21.05%

*See Last Page for Index Definitions

Market Observations: 6/17/19–6/21/19

The major market indices finished higher for a third consecutive week after the Federal Reserve strongly hinted that interest rates will be lowered in the coming months, and President Trump said he had a “very good telephone conversation” with President Xi of China. The President also confirmed that the two leaders would have an “extended meeting” at the G-20 summit and that the respective teams of both would begin talks ahead of the meeting. Oil prices surged by over 9% last week on an uptick in geopolitical tensions after a U.S. military drone was shot down by Iran near the Strait of Hormuz, the busy shipping channel that separates Iran from the Gulf states.

Don't Fight the Fed: As widely expected, the Federal Open Market Committee (FOMC) meeting left its key interest rate unchanged but signaled that it's prepared to start cutting rates, if needed, to protect the U.S.

economy from trade conflicts and other threats. The benchmark rate — which influences many consumer and business loans — was left unchanged in a range of 2.25% to 2.5%, where it's been since December. In the after-meeting statement, Fed officials said uncertainties "have increased" and for that reason the central bank was prepared to "act as appropriate to sustain the expansion." The language echoed comments Fed Chairman Powell made a couple weeks ago that triggered a stock market rally as investors started believing rate cuts are on the way. The Fed also removed a pledge to be "patient" in changing rates. A survey of the 17 Fed officials showed that nearly half now expect at least one rate cut this year, with seven projecting two cuts. At the March meeting, no officials had forecast a rate cut. According to Bloomberg's World Interest Rate Probability (WIRP) function, the odds of a rate cut at the July 31 FOMC meeting have jumped to 100 percent, with the debate being whether they cut by 25 basis points (75% odds) or 50bps (25% odds).

Trade Talks: The focal point of this week will be the G20 meeting in Osaka, Japan on June 28 and 29 where President Trump and Chinese President Xi are scheduled to meet. The likelihood that the two leaders will find resolve in the trade war seems low, although the market was encouraged last week that talks are resuming. It appears that the mostly likely scenario to emerge from the trade talks would be for the two leaders to declare a 'cease-fire' on implementing additional tariffs and commit to keep the talks moving forward.

Outlook: With the broader market up 18 percent year-to-date and at new all-time highs, the overall risk/reward outlook in the near-term has become less compelling. As the trade spat with China continues to fester and with second quarter earnings season expected to show a decline in S&P 500 earnings (FactSet consensus forecast is for a 2.6% loss), a more neutral posture on the market seems appropriate. Admittedly, the bar heading into reporting season seems low, suggesting there is room for upside surprise. However, the focus will be on forward commentary from corporate management teams and their views on how the trade war and cracks in the global economy are likely to impact results over the remainder of the year. As recently pointed out, the Business Roundtable CEO Economic Outlook fell to its lowest level since Q4 2016. It was the fifth decline in a row, as CEOs continued to temper their expectations for business conditions in the near-term, "reflecting unease about the direction of U.S. trade policy and uncertain prospects for global growth." This sentiment seems to bode ill for capex spending and business expansion. With that said, the overall US economy still remains in relatively good shape, the Fed is likely to reduce interest rates in the coming months, and valuations remain reasonable, all suggesting any near-term drawdown is likely to be relatively contained.

The Week Ahead: Second quarter earnings reports will begin to trickle in with ten members of the S&P 500 scheduled to release results. Reports of interest on the data calendar include; May new home sales, the Conference Board's June consumer confidence survey, the April S&P Corelogic Case-Shiller home price index, May durable goods orders, the second revision to first-quarter GDP estimates, May pending home sales, May personal income and spending, and the University of Michigan's June consumer sentiment survey. Five members of the Fed are scheduled to speak during the week including Fed Chair Powell, who will discuss the economic outlook and monetary policy in New York on Tuesday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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