

June 17, 2019

# Weekly Viewpoint

## Will the Fed Telegraph Lower Rates?

### Performance for Week Ending 6.14.19

The Dow Jones Industrial Average (Dow) added 0.41%, the Wilshire 5000 Total Market Index<sup>SM</sup> (Wilshire 5000<sup>SM</sup>) gained 0.47%, the Standard & Poor's 500 Index (S&P 500) rose by 0.47% and the Nasdaq Composite Index (NASDAQ) tacked on 0.70%. Sector breadth was positive with 8 of the 11 S&P sector groups finishing higher. The consumer discretionary (+2.44%) was the best performer followed by communication services (+1.39%) and utilities (+1.18%).

Index*	Closing Price 6/14/2019	Percentage Change for Week Ending 6/14/2019	Year-to-Date Percentage Change Through 6/14/2019
Dow	26089.61	+0.41%	+11.84%
Wilshire 5000	29684.95	+0.47%	+15.28%
S&P 500	2886.98	+0.47%	+15.16%
Nasdaq	7796.66	+0.70%	+17.50%

\*See Last Page for Index Definitions

### Market Observations: 6/10/19–6/14/19

The major market indices finished higher for a second consecutive week as expectations of an interest rate cut by the Federal Reserve outweighed the ongoing trade worries. After falling by over 6.5% during the month of May, the S&P 500 has recouped the bulk of the losses during the first two weeks of June and now sits less than 2% below its all-time high reached in late April.

**Inflation Remains Tame:** Last week's batch of inflation data signaled that pricing pressure remains muted, potentially reinforcing calls for the Federal Reserve to cut interest rates. According to the Labor Department, producer prices (PPI) during May rose at a 1.8% year-over-year rate while the consumer price index (CPI) also rose 1.8% year-over-year. Meanwhile, a separate Labor Department report showed import prices fell 0.3% in

May from the prior month, the first monthly decline this year. On a year/year basis, import prices declined 1.5%, close to its steepest slide since August 2016. Lastly, embedded in the University of Michigan Consumer Sentiment Survey was news that longer-term inflation expectations fell to 2.2%, an all-time low.

**Trade War:** In somewhat troubling news, the Business Roundtable CEO Economic Outlook Index fell 5.7 points in Q2 to 89.5, 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." The building worries over trade prompted more than 600 companies, including retail giants Walmart and Target, to craft a letter to President Trump stating that an escalating trade war with China will hurt American businesses and families. The letter, dated Thursday and organized by business coalition Tariffs Hurt the Heartland, comes as the U.S. Trade Representative's office is set to hold public hearings that will consider extending the 25% tariffs to practically all Chinese imports not already hit with levies. The letter also arrived two weeks before Trump and his Chinese counterpart, Xi Jinping, are expected to meet at the G-20 summit in Osaka, Japan, on June 28-29.

**Outlook:** We've maintained a bullish tilt towards the equity markets for quite some time, however, as of late, we've shifted to a more neutral view with expectations of a sideways trending market until clarity on the trade war with China emerges. Many are currently pinning hope that a resolution will be reached at the G20 meeting later this month, but a plausible outcome will be both sides declaring a temporary 'cease-fire,' similar to what happened late-last year. The Bull market still appears intact, however with the S&P 500 up over 15 percent year-to-date, the risk/reward outlook has become less compelling. With that said, the economy remains in good shape, the Fed seems poised to reduce interest rates, and valuations remain reasonable, suggesting any near-term drawdown is likely to be relatively contained.

**The Week Ahead:** The focal point for the coming week will be the two-day Federal Open Market Committee (FOMC) meeting on Tuesday and Wednesday. While the Fed is not expected to adjust rates at the conclusion of the meeting, there is growing hope that the Fed will telegraph that rates are likely to be reduced at a future meeting. According to Bloomberg's World Interest Rate Probability function, the probability of a rate cut at the July meeting stands at 86.1%. The earnings calendar will remain light with just a handful of S&P 500 members scheduled to report. The focus of the data calendar will be the June Empire State manufacturing survey, the June housing market index, May housing starts and building permits, the Philly Fed's June business outlook survey, May existing home sales. Outside of the FOMC meeting, Fed governor Lael Brainard and Cleveland president Loretta Mester are scheduled to speak on Friday.

## 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 Index**<sup>SM</sup> 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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