September 9, 2019

Weekly Viewpoint

Easing Uncertainties Drive Markets Higher

Performance for Week Ending 9.6.19

The Dow Jones Industrial Average (Dow) added 1.65%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) gained 1.58%, the Standard & Poor's 500 Index (S&P 500) finished up 1.85% and the Nasdaq Composite Index (NASDAQ) tacked on 1.63%. Sector breadth was positive with all 11 of the S&P sector groups finishing higher. The Energy sector (+2.64%) was the best performer followed by Consumer Discretionary (+2.61%) and Technology (+2.41%).

Index*	Closing Price 9/6/2019	Percentage Change for Week Ending 9/6/2019	Year-to-Date Percentage Change Through 9/6/2019
Dow	26797.46	+1.65%	+14.88%
Wilshire 5000	30398.87	+1.58%	+18.05%
S&P 500	2978.71	+1.85%	+18.82%
Nasdaq	8103.07	+1.63%	+22.12%

Market Observations: 9/2/19–9/6/19

The major market indices finished the holiday shortened week solidly higher reflecting the resurrection of trade talks between the U.S. and China, lessened tensions in Hong Kong following the withdrawal of a controversial bill, a postponement in the Brexit vote until next year, and a fresh batch of solid US economic data, that helped ease fears of a near term recession.

Despite the recent rally, the S&P 500 is little changed from where it was at the end of July. This sideways trading range over the past several weeks is likely explained by the 'price discovery' process, where investors try to figure out what is priced into the equity markets and what is likely to come to fruition in the weeks/months ahead. The main headwind for the market remains the trade spat with China, which is being pitted against signs that the US economy still remains in relatively decent shape.

Certainly, the US manufacturing sector is showing signs of trade-related stress, but more importantly, the US consumer and the services side of the US economy, which combined make up the bulk of the economy, remain in solid shape.

Consumers continue to benefit from the low levels of unemployment, rising wages and the low level of interest rates. More so, the services sector, which makes up over 80% of the US economy, remains solidly in expansion territory. After declining for two consecutive months, the ISM Non-Manufacturing (Services) Index rebounded to 56.4 (readings above 50.0 signal expansion), as the forward-looking new orders component rose to its highest level since February.

Jobs Report: On Friday, the Labor Department reported that nonfarm payrolls expanded by 130K during the month of August, well below the 160K expected by economists. The unemployment rate remained steady at 3.7%, close to the lowest level in 50 years. Average hourly earnings rose by a better than expected 0.4% during the month and are now up 3.2% on a year-over-year basis. Employment data is watched very closely as it tends to shape expectations around income, spending, growth and consumer sentiment. While the headline nonfarm payrolls number fell short of expectations, the “guts” of the report (average hourly earnings, average weekly hours, temporary employment growth) were solid and suggest the labor markets remain healthy.

Beige Book: The Federal Reserve released its Beige Book report during the week. The report, which is based on anecdotal information collected by the 12 regional Fed banks through August 23, said the U.S. economy grew at a modest pace through much of July and August, with companies remaining upbeat despite disruption caused by international trade disputes. “Although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook,” according to the update. Price increases remained modest overall with retailers and manufacturers reporting slight increases in input costs. Labor markets remained tight with the pace of wage growth staying at a "modest to moderate" level throughout the country.

Rate Cut Widely Expected: The Federal Reserve is expected to cut interest rates again at its meeting later this month amid slowing global growth stemming from the ongoing trade battle between the US and China. Speaking in Zurich on Friday, Fed Chairman Jerome Powell said the U.S. economic outlook is "favorable" and that inflation is "continuing to move back up," adding that "the mostly likely outcome for our economy remains a favorable one." Powell also reiterated a pledge to "act as appropriate to sustain this expansion." The latter statement seemed to reinforce rate cut expectations. According to Bloomberg, a 25-basis point rate cut at the conclusion of the September 18 meeting is all but a done deal, with the market expecting at least one additional cut by year-end.

Market View: In light of the ongoing uncertainty surrounding the trade spat with China and building signs the global economy is slowing, we maintain our cautious view on the near-term outlook for the market. Market gains over the course of this year have resulted solely from the expansion in the market’s valuation multiple, which in turn, has pushed the market’s P/E multiple to above average levels. This scenario leaves the market vulnerable to negative headline risk, especially related to developments around trade. Earnings growth will need to be the key driver of forward performance and until revisions begin to move higher, upside from current levels will likely be limited.

The Week Ahead: Updated readings on inflation are due out this week with the focal points on the August producer price index (PPI) on Wednesday followed by the August consumer price index (CPI) on Thursday. Other reports of interest include August retail sales, August import/export prices, July business inventories and the University of Michigan's September consumer sentiment survey. Outside the US, Thursday's meeting of the European Central Bank, along with what will be ECB President Mario Draghi's penultimate press conference before his term as ECB President comes to an end, will be watched very closely. Amidst muted inflation and a slowing European economic growth, market expectations are that the ECB will embark on a campaign of looser monetary policy. If so, they will join the Federal Reserve and other central banks globally who have begun to ease policy in response to signs of slowing growth. The Fed speaking calendar will be very quiet, with no Fed Heads scheduled to speak due to the traditional blackout period ahead of pending Fed meetings.

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[SM] 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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