

Market Recap for the Week Ending 08/02/2019

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## MARKET RECAP

Stocks lost ground every day this week. On Wednesday, losses were due to Fed Chair Jay Powell's comments on the rate cut (see further below). But the losses accelerated on Thursday and Friday after Trump announced more tariffs on China. For the week, US stocks were down by 3.13%.

Trump said Thursday he will extend tariffs to almost all Chinese imports effective September 1. The tariffs would hit about \$300 billion in Chinese goods and stretch across a wide range of consumer products. The news shook Wall Street. The Dow, which was up by more than 300 points, dropped to a loss of 281, falling 1.1% on the day.

Oil fell by 8%, the most since February of 2015. The new set of tariffs throws more uncertainty into the future course of the economy, and the most recent Fed rate cut may not be enough to help. Powell said on Wednesday (*before the new set of tariffs*) that "There isn't a lot of experience in responding to global trade tensions." Mainly, because the world has been smart enough to avoid large scale trade wars since the disaster of the Smoot-Hawley tariffs in 1930. But no longer. These are self-inflicted wounds and if Trump follows through it can't be good for the economy.

Trump's mindset is that the higher tariffs would put more pressure on the Chinese to agree to a trade deal. But Chinese might be willing to hold out. This is the danger of trade wars, one side makes a move, the other makes a counter move, each time expecting the other country to cave, and then egos get involved, and everyone is too proud to compromise. And with Trump, you are dealing with a major ego who seems willing to sacrifice the entire US economy for a "win".

We said in our recent webinar titled "Don't Fight the Fed," that one threat that could derail this market rally would be a ramp-up in the trade war. Well if Trump follows through on this newest set of tariffs, that would certainly qualify. We are also moving into a time of year (August through September) where a weak August has led to a sizable drop in October (think 1929, 1987, 2007).

The tariffs to date have already hit the global economy, while the US has slowed down (mainly due to tariffs) it is still in a slow moderate growth mode. But how many times can this economy and market take these kinds of hits without a more severe consequence?

Already, recent market peaks have coincided with Trump's announcements on tariffs. The January 2018 selloff of 10.16% began when Trump announced tariffs on solar panels and washing machines. That was the first big move in Trump's turn toward protectionism. The selloff of about 20% that began in September of 2018 began when Trump finalized a list of products subject to tariffs on \$200 billion in imports from China.

At least there was one piece of good trade news this week. The US and Japan are close to finalizing a limited trade pact that will increase US farm exports to Japan in exchange for dropping the threat of auto tariffs on imports from Japan.

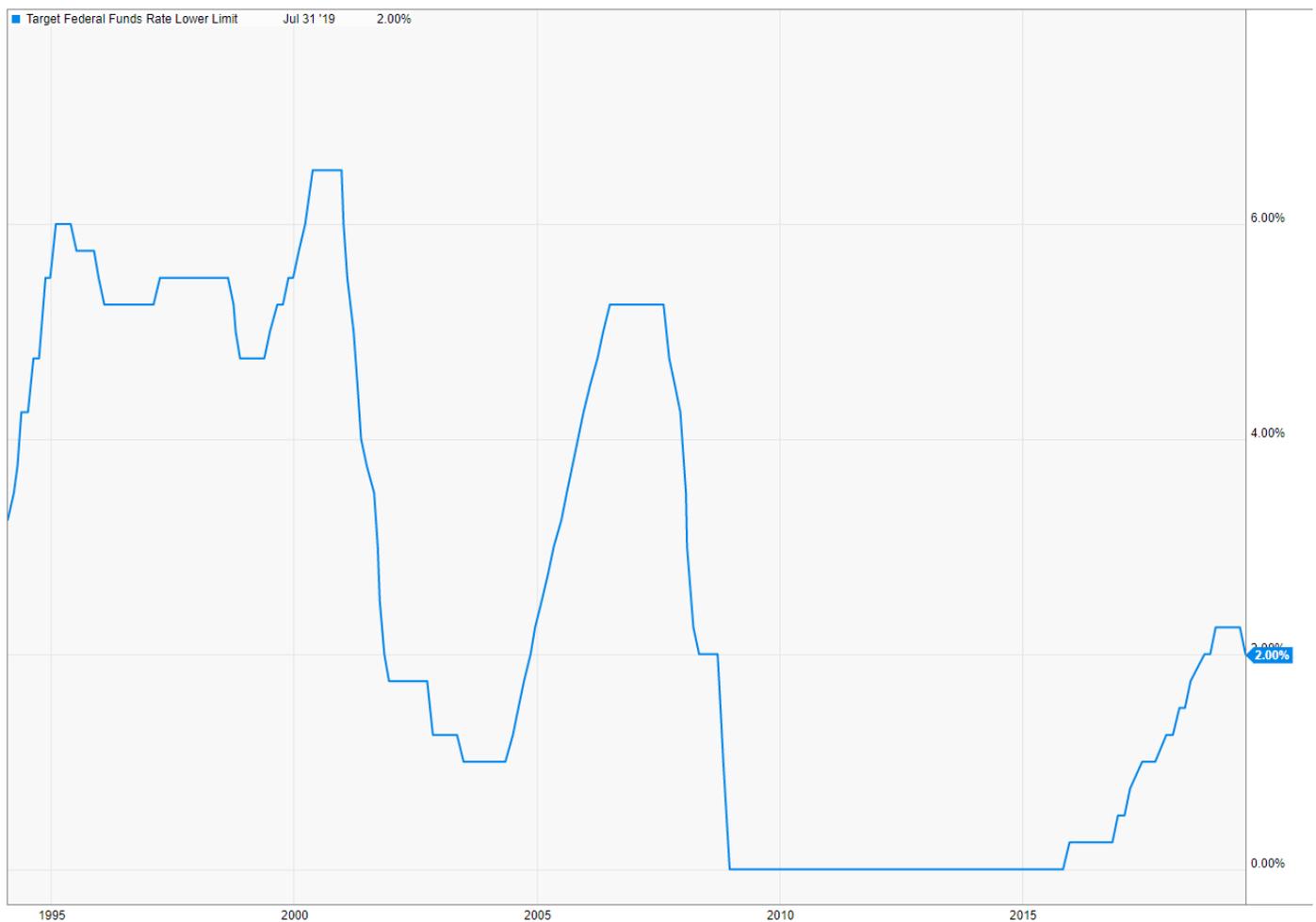
## STRONG WAGE GROWTH

The Bureau of Economic Analysis updated its personal income data on Tuesday and reported that employee compensation rose by 4.5% in 2017 and 5% in 2018. Compensation increased by 3.4% through the first six months of this year. These are upward revisions and above recent trends and indicative of the positive benefits of Trump's early policies including tax reform which encouraged business investments, and deregulation. All of which occurred before Trump switched gears to concentrate on tariffs.

## FED CUTS RATES

The Fed cut rates for the first time since 2008 hoping to head off a near-term recession. The market did not cheer the announcement as Fed Chair Powell did not indicate that there would necessarily be follow-through. Powell said the cut was a "mid-cycle adjustment." The S&P 500 fell by 1.1% for the day.

There is a question if a quarter-point cut is even worth it, Catherin Mann, the chief global economist at Citigroup said, "The real issue facing the global economy is trade uncertainty, and monetary policy is not well-targeted to address that uncertainty."



## SCOREBOARD

PERFORMANCE	VTI	SPY	VXUS	AGG	\$	OIL
8/2/2019	US Market	SP500	Intl (x-US)	Bonds	US\$	Crude
Week	-3.13%	-3.11%	-3.25%	0.67%	0.25%	-0.96%
August 2018	-1.73%	-1.62%	-1.47%	0.58%	0.07%	-5.15%
July 2018	1.41%	1.51%	-1.99%	0.18%	1.29%	100.36%
June 2019	7.08%	6.96%	5.77%	1.10%	-0.61%	9.29%
May 2019	-6.45%	-6.38%	-5.42%	1.91%	0.39%	-16.29%
April 2019	3.93%	4.09%	1.03%	-0.20%	0.18%	6.27%
March 2019	1.42%	1.81%	0.77%	2.12%	0.46%	5.11%
February 2018	3.56%	3.24%	1.63%	-0.11%	0.17%	0.07%
January 2019	8.54%	8.01%	7.67%	0.91%	-0.98%	18.78%
YTD	18.42%	18.35%	9.68%	6.70%	1.42%	22.57%
2018	-5.21%	-4.56%	-14.43%	0.10%	4.08%	-20.62%
2017	21.21%	21.70%	27.45%	3.61%	-7.81%	12.47%
2016	12.83%	12.00%	4.81%	2.41%	2.41%	33.48%
2015	0.36%	1.25%	-4.19%	0.48%	7.19%	-29.70%
2014	12.54%	13.46%	-4.74%	6.00%		-43.92%
2013	33.45%	32.31%	14.61%	-1.98%		0.47%

All returns include dividends. \$ is the Dow Jones FXCM Index. Oil is the S&P GSCI Crude Oil Index.

RATES	3m	2-YR	10-YR	30-YR	2-10	HY OAS
8/2/2019	2.06%	1.72%	2.02%	2.53%	0.30%	4.10%
7/26/2019	2.12%	1.86%	2.08%	2.59%	0.22%	3.93%
7/31/2019	2.08%	1.73%	2.02%	2.53%	0.29%	3.93%
6/28/2019	2.12%	1.75%	2.00%	2.52%	0.25%	4.09%
12/31/2018	2.45%	2.48%	2.69%	3.02%	0.21%	5.33%
Δ for Week*	(6.00)	(14.00)	(6.00)	(6.00)	8.00	17.00
Δ for Month*	(2.00)	(1.00)	0.00	0.00	1.00	17.00
Δ for Quarter*	(6.00)	(3.00)	2.00	1.00	5.00	1.00
Δ YTD*	(39.00)	(76.00)	(67.00)	(49.00)	9.00	(123.00)

\*Δ is measured in basis points; 2-10 refers to the spread between the 10 & 2-yr bonds.

HY OAS - Merrill Lynch US High Yield Option-Adjusted Spread.

Year	Earnings	SPX	P/E
2021 Estimate	201.56	2,932.05	14.55
2020 Estimate	184.08	2,932.05	15.93
2019 Estimate	165.38	2,932.05	17.73
2018	161.93	2,892.74	17.86
2017	132.00	2,604.47	19.73
2016	118.10	2,238.83	18.96
2015	117.46	2,043.94	17.40
2014	118.78	2,058.90	17.33
2013	109.68	1,848.36	16.85
2012	103.80	1,426.19	13.74
2011	97.82	1,257.60	12.86
2010	85.28	1,257.64	14.75
2009	60.80	1,115.10	18.34
2008	65.47	903.25	13.80
2007	85.12	1,468.36	17.25
2006	88.18	1,418.30	16.08
2005	76.28	1,248.29	16.36
2004	67.10	1,211.92	18.06

The SPX (S&P 500) price is as of year-end for the period indicated except for the current year and next year which show the SPX price as of Friday. All earnings and estimates are per Thomson Reuters I/B/E/S as of the current month. Remember the p/e for this year and future years are based on forward ESTIMATES, whereas past years p/e were calculated based on trailing earnings. Also, forward estimates are usually revised downward over time.

ECONOMY	GDPNow	NowCast	BEA*
Q2 2019 Estimate	1.00%	1.56%	

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**Past performance does not guarantee future results.**

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