The Shreveport Times – December 09, 2018

"What a week: The Fed, trade wars and volatility"

By Tommy Williams, CFP®

Tommy Williams

Hold on to your hats! Recently, stocks have delivered a wild ride. During Thanksgiving week, U.S. stock markets took investor uncertainty on the chin, suffering a 3.8 percent drop, which was the worst performance in eight months. Then, last week, stocks reversed course. The Standard & Poor's 500 Index and the Nasdaq Composite delivered their strongest weekly gains in seven years, reported Ben Levisohn of Barron's. Of course, then the roller coaster turned into the wild mouse (remember the State Fair) and attempted to set records to the downside.

Two things appear to have influenced investors this week:

1. The Federal Reserve may be becoming more dovish (less inclined to raise interest rates). Comments made by Fed Chair Jerome Powell were interpreted to mean the Fed could stop raising the fed funds rate after December. Thomas Franck of CNBC reported:

"Powell on Wednesday said that rates were 'just below' the level that would be neutral for the economy – meaning they would neither speed up nor slow down economic growth. The comment diverged from a previous remark from Powell that rates were a 'long way' from the bank's aimed neutral level."

Some analysts have pondered whether recent rate hikes have been a mistake that will lead to recession. Obviously, a signal that there is no current intention to keep raising interest rates is a positive reversal for investor sentiment. Expect to hear a lot about the "yield curve". When long-term rates are lower than short-term rates it is referred to as the "inverted yield curve". Often in the past a recession has occurred within 18 months of that happening. So far it is very close, but the yield curve has not inverted. We'll see if that develops. Of course, ending this week with a weak jobs report wasn't helpful.

2. The US and China called a temporary ceasefire in the trade conflict that has undermined sentiment in the business sector and financial markets. This has been a drag on the economy. The truce could be a positive development. It assumes the US will impose a new 25% tariff on all Chinese goods imports by the 1st Quarter of 2019 (to

be precise, that the US will end up raising its effective tariff rate on Chinese imports by 25%-pts compared with where it stood in early 2018). The truce will last 90 days. This gives the US time to see if China is serious about changing its behavior on some core issues. Issues like forced transfers and theft of foreign technology, tariff and non-tariff barriers to trade, and government subsidized and directed Foreign Direct Investment (FDI is an investment made by a firm or individual in one country into business interests located in another country). This is hugely ambitious and complicated agenda. Many are skeptical the two sides can pull it off.

As if it were not enough to have a day of mourning (and what an appropriately dignified, wonderful day it was) for the loss of President George H. W. Bush, on the same day news broke that the CFO of Huawei was arrested in Canada. This happened at the request of the United States related to charges that the company has violated US sanctions on Iran. There is obvious concern that the arrest of a high-profile Chinese citizen may derail any progress towards a trade deal at the end of the 90 day “cease fire”. This was evidenced by the strong reaction from the Chinese embassy in Canada to the news. The Chinese had made a number of conciliatory gestures including indicating a willingness to negotiate, an interest in resuming purchases of US crude oil and soybeans, and some commentary around stiffer penalties for the theft of intellectual property. So we already hit a bump in the road. The story is still developing and likely cooler heads will prevail and sort the trade/tariff deal out. Stay tuned as it appears there is much drama on the horizon. Happy holidays!

Visit us at www.williamsfa.com. Tommy Williams is a CERTIFIED FINANCIAL PLANNER™ Professional with Williams Financial Advisors, LLC. Securities offered through Private Client Services, Member FINRA/SIPC. Advisory Services offered through RFG Advisory, a Registered Investment Advisor. Williams Financial Advisors, LLC, RFG Advisory and Carson Group Coaching are separate entities from Private Client Services. Branch office is located at 6425 Youree Drive, Suite 180, Shreveport, LA 71105.

Reprinted with permission of the Shreveport Times December 09, 2018.