LCP | LAKEVIEW CAPITAL PARTNERS

## LAKEVIEW CAPITAL PARTNERS - July 8, 2019

## THE WEEK IN REVIEW

The major indexes ended mixed after a modest pullback on Friday followed a series of new closing highs set earlier in the week. (Markets were shuttered Thursday in observation of Independence Day and closed early on Wednesday.) Within the S&P 500 Index, the small real estate sector outperformed, while energy shares fell sharply as investors appeared to grow more concerned about global growth prospects.

## US - MARKETS & ECONOMY

Stocks got off to a good start Monday, as investors welcomed some progress in U.S.-China trade negotiations at the Group of 20 (G-20) summit the previous weekend (see China section below). Semiconductor stocks were particularly strong after U.S. President Donald Trump agreed to ease a ban on sales of chips to Chinese telecommunications giant Huawei Technologies. The large-cap indexes added modestly to their gains on Tuesday, when White House Trade Advisor Peter Navarro told a CNBC interviewer that talks with China were heading in “a very good direction,” although he cautioned that a deal “will take time and we want to get it right.”

The week’s economic calendar was relatively light but seemed, initially, to confirm that growth was slowing globally—a pattern that investors seemed to welcome in recent weeks because it promised a dovish turn in monetary policy and lower interest rates. In particular, manufacturing gauges released Monday indicated weak or even contracting activity in many regions (see below), although most U.S. readings surprised modestly on the upside. Gauges of U.S. service sector activity, released Wednesday, were mixed, and ADP’s survey of private payroll gains in June came in somewhat below consensus expectations.

Conversely, Friday’s closely watched June payrolls report from the Labor Department came in well above expectations, suggesting that the U.S. economy maintained considerable momentum. Investors who were in the office after the

Independence Day holiday seemed uncertain about how to interpret the news. Stocks fell back in the first two hours of trading, as worries apparently grew that the Fed would not cut rates as much as investors hoped it would in the second half of the year—with a 50-basis-point (0.50 percentage point) cut at the July 30–31 meeting now seeming particularly unlikely. Stocks recovered a portion of their losses later in the day, however, as investors may have reconsidered some of the underlying data in the report. Average hourly earnings gains came in a bit below expectations, and weekly hours worked moved back to near a two-year low.

## U.S. STOCKS

| Index | Friday's Close | Week's Change | % Change YTD |
|---|---|---|---|
| DJIA | 26,922.12 | 322.16 | 15.41% |
| S&P 500 | 2,990.41 | 48.65 | 19.29% |
| Nasdaq Composite | 8,161.79 | 155.55 | 23.01% |
| S&P MidCap 400 | 1,965.95 | 21.20 | 18.21% |
| Russell 2000 | 1,575.62 | 7.20 | 16.84% |

***SOURCE BLOOMBERG***
*THIS CHART IS FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY.* ***PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

## U.S. YIELDS

Longer-term Treasury yields surged following the positive jobs news, with the yield on the benchmark 10-year Treasury note jumping roughly 10 basis points over the previous trading day's close, but ending the week modestly higher. (Bond prices and yields move in opposite directions).  The gap between the 3M UST and 10Y UST is now inverted by 19 bps.

The broad municipal bond market underperformed Treasuries, but traders I spoke with noted that reinvestments of July 1 principal and coupon payments added to already strong inflows. In issuer-specific news, New Jersey Governor Phil Murphy signed a $38.7 billion state spending plan to avoid a government shutdown.

The investment-grade corporate bond market traded with a firm tone as the news about the U.S. and Chinese presidents agreeing to a trade truce at the G-20 summit buoyed investor sentiment. Overall trade volumes were light and credit spreads—an inverse measure of the asset class's relative appeal—tightened across most market segments.

The high yield market also benefited from improved sentiment due to the encouraging headlines about U.S.-China trade relations. Oil and gas services company Weatherford International filed for bankruptcy on July 1, marking the largest energy sector bankruptcy since 2014.

## YIELD CHECK - US TREASURY MARKETS

3 Mth: + 13 bps to 2.22%
2-yr: + 11 bps to 1.86%
5-yr: + 3 bps to 1.83%
10-yr: + 2 bps to 2.03%
30-yr: + 1 bps to 2.54%

## INTERESTING NEWS OVERSEAS

The pan-European STOXX Europe 600 Index, the UK's FTSE 100 Index, and exporter-heavy German DAX index all rose slightly throughout the week amid increased hopes that the European Central Bank (ECB) will supply fresh rounds of monetary stimulus to keep the region's slowing economies afloat. Stocks got a further boost and bonds rallied after International Monetary Fund (IMF) Managing Director Christine Lagarde was nominated to be the next ECB president. She is expected to continue the loose monetary policy of current President Mario Draghi and potentially introduce a "Eurobond" in order to cement European Countries together and avoid another Brexit. Lagarde is expected to be approved by the European Parliament and take over when Draghi leaves the bank at the end of October.

Prime Minister Shinzo Abe hosted the annual G-20 summit for the world's leaders in Osaka, Japan, during the last weekend in June. At the conclusion of the summit, Christine Lagarde, current managing director of the IMF, stated that “even though the IMF expects growth to strengthen somewhat going forward, the risks to the outlook remain serious” and pointed out that "tariffs already implemented are holding back the global economy.” Lagarde also addressed global policies relating to agricultural and industrial subsidies, services, and e-commerce and was pleased with Abe’s announcement of the “Osaka Track” framework relating to data flow and e-commerce and his call for accelerated reform of the World Trade Organization, which should benefit all economies.

Lastly, since I rarely give love to countries in South America, I thought it was interesting that Stocks in Brazil, as measured by the Bovespa Index, returned approximately 3%. Although economic data remained lackluster and the head of the central bank cautioned that the economic recovery will take time, the equity market advanced with other emerging markets amid hopes that the U.S. and China—following an agreement at the recent G-20 summit to resume trade negotiations—will make progress toward ending their trade dispute. Investors were also encouraged when a special legislative committee voted in favor of the pension reform bill supported by President Jair Bolsonaro’s administration. The lower chamber of Congress is expected to consider the legislation in the days ahead; investors hope that the bill will get closer to becoming law before the lower chamber goes on recess on July 18.

## THE WEEK AHEAD

Minutes from the Fed and ECB policy meetings will be keenly watched next week, alongside US inflation rate, JOLTs job openings and producer prices; UK monthly GDP figures and trade balance; Germany industrial output and foreign trade; China inflation and trade balance; Japan machinery orders; Australia consumer and business morale. Investors will also react to Fed Chair Powell's semiannual monetary policy report.

**Stephen Colavito, Jr.**
**Managing Director**
**Chief Market Strategist**

Lakeview Capital Partners, LLC
1201 Peachtree Street NE
Suite 1850
Atlanta, GA 30361

(404) 418-7776 (office)
(404) 313-1388 (mobile)

LCP | LAKEVIEW CAPITAL PARTNERS

www.lcpwealth.com