Davis Williams Wealth Management
info@daviswilliams.com
8832 Blakeney Professional Drive, Suite 200
Charlotte, NC 28277
O: 800-473-9797

Get in touch with us on the web:

U.S. MARKETS UP AS SMALL– AND MID–CAPS ALONG WITH TREASURY YIELDS MAKE BIG WEEKLY GAINS

Weekly Market Update — September 13, 2019

- The U.S. stock markets moved up for the third week in a row, but this time it was the value-names leading over their growth counterparts and the small–and mid–cap names outpacing the larger–cap ones
- The DJIA led the way with a weekly gain of 1.6%, causing it to crest the 27,000–point level
- But investors focused on the 1.0% gain of the S&P 500 because it moved above that ceremonial 3,000–point level

- The large–cap benchmarks are now within about 1% of their all–time highs
- NASDAQ returned a healthy 0.9%, but the small–cap Russell 2000 jumped 4.9% and the S&P MidCap 400 leapt 2.7%
- The week brought some positive news, including what appears to be positive developments with respect to the ongoing trade war with China
- President Trump said he would delay the tariff increase and China exempted certain U.S. products from higher tariffs too
- The Treasury market saw some big moves this week as investors drove the 2–year yield up to 1.79% and the 10–year yield up 34 basis points to 1.90%
- The U.S. Dollar Index declined 0.2% to 98.20
- WTI crude dropped 2.8% this week to $54.88/barrel

Weekly Market Performance

	Close	**Week**	YTD
DJIA	27,220	**1.6%**	16.7%
S&P 500	3,007	**1.0%**	20.0%
NASDAQ	8,177	**0.9%**	23.2%
MSCI EAFE	1,905	**1.2%**	10.8%
*Bond Index	2,204.27	**-1.13%**	7.70%
10-Year Treasury Yield	1.90%	**0.34%**	-0.78%

*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results.

Positive Developments Out of the U.S. and China Saga

There seemed to be a lot of positive news, but investors focused their attention on their perception that the outlook for a trade agreement with China is getting closer.

On Wednesday, China announced that certain U.S. products would be exempt from higher tariffs – specifically pork and soybeans. These higher tariffs were set to go into effect next Tuesday, September 17th. Within a very short time after China's announcement, President Trump announced that the U.S. will delay the tariff increase on $250 billion of Chinese imports to the middle of October. The two goodwill gestures were received well by Wall Street as an indication that an interim trade agreement can be reached sooner rather than later.

Partly as a result of this optimism, there was a reverse flight to quality, as there was a significant rise in Treasury yields and cyclical sectors outperformed handily.

The Financials sector benefited directly from rising Treasury yields and jumped 3% on the week, as a jump in longer–term Treasury yields favor bank lending margins. Correspondingly, the jump in Treasury yields held back the Real Estate sector, which dropped close to 2% on the week and was the only sector painted red this week.

Inflation is Up

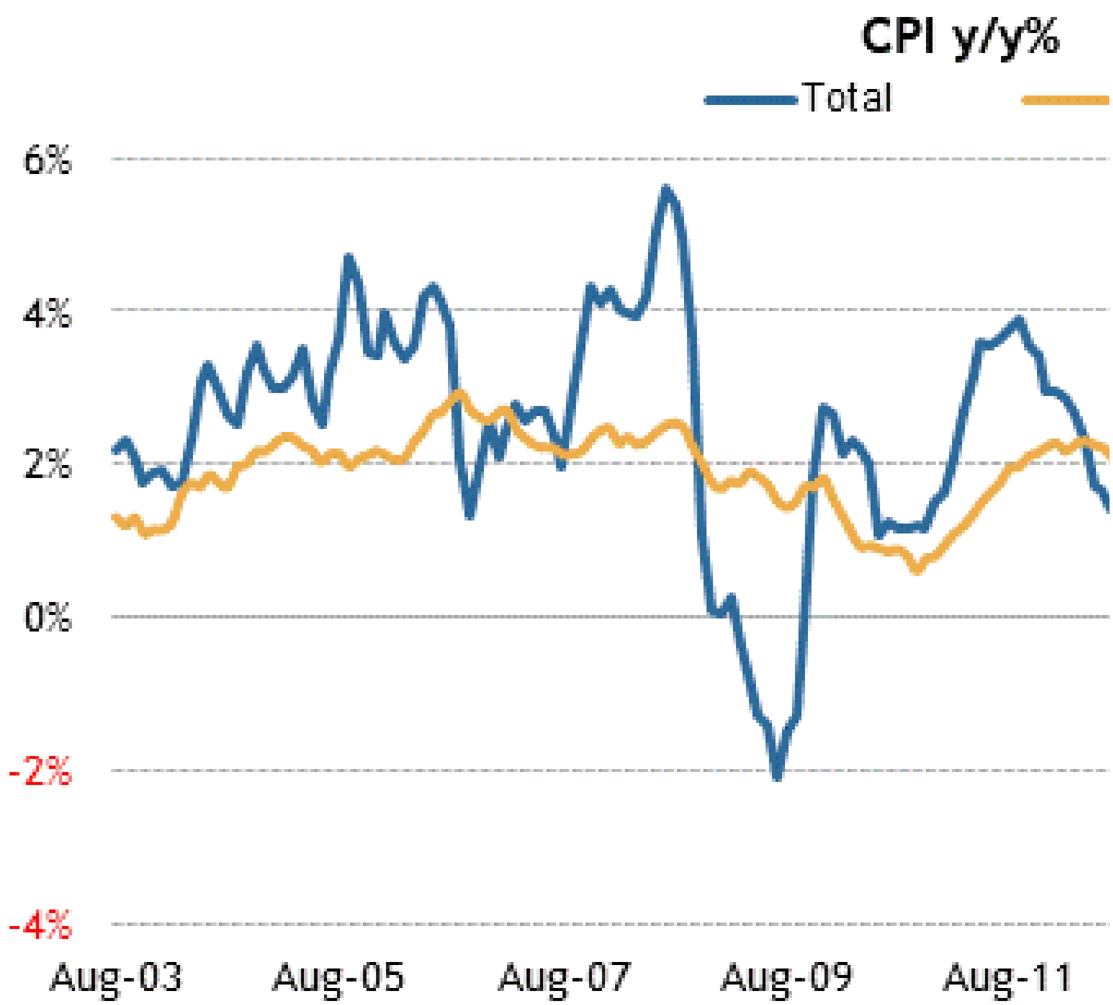
On Thursday, the Department of Labor released CPI numbers and they moved up 0.1% over the past month.

From Thursday's release:

“The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in August on a seasonally adjusted basis after rising 0.3 percent in July, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment.

Increases in the indexes for shelter and medical care were the major factors in the seasonally adjusted all items monthly increase, outweighing a decline in the energy index. The energy index fell 1.9 percent in August as the gasoline index declined 3.5 percent. The food index was unchanged for the third month in a row.

The index for all items less food and energy rose 0.3 percent in August, the same increase as in June and July. Along with the indexes for medical care and shelter, the indexes for recreation, used cars and trucks, and airline fares were among the indexes that increased in August. The indexes for new vehicles and household furnishings and operations declined over the month.”



Source: Bureau of Labor Statistics; updated 09/12/19

Retail Sales are Up

On Friday, the Commerce Department reported that retail sales were up 0.4% last month, citing a rise in auto sales specifically.

From the press release dated September 13th:

"Advance estimates of U.S. retail and food services sales for August 2019, adjusted for seasonal variation and holiday and trading–day differences, but not for price changes, were $526.1 billion, an increase of 0.4 percent (±0.5 percent) from the previous month, and 4.1 percent (±0.7 percent) above August 2018. Total sales for the June 2019 through August

2019 period were up 3.7 percent (±0.5 percent) from the same period a year ago. The June 2019 to July 2019 percent change was revised from up 0.7 percent (±0.5 percent) to up 0.8 percent (±0.1 percent).

Retail trade sales were up 0.6 percent (±0.5 percent) from June 2019, and 4.6 percent (±0.7 percent) above last year. Nonstore retailers were up 16.0 percent (±1.4 percent) from August 2018, and motor vehicles and parts dealers were up 6.8 percent (±1.9 percent) from last year."

Consumer Sentiment is Up

The University of Michigan's preliminary gauge of September consumer sentiment posted a rebound from the sharp decline in August and rose more than expected. And there was no surprise that the data indicates that consumers are expecting a Fed rate cut next week and are worried about the implications of the ongoing tariff wars.

Sources

sca.isr.umich.educommerce.gov; **bea.gov**; **bls.gov**; **census.gov**; **factset.com**; **standardandpoors.com**; **nyse.com**; **sec.gov**; **federalreserve.gov**; **msci.com**; **nasdaq.com**; **dowjones.com**; **morningstar.com**; **edwardjones.com**; **bloomberg.com**

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