What's Up with the Market – August 2019

Market News (https://dreamwork.financial/category/market-news/)

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Last month (/2019-07-whats-up-market/) as we sat at record levels, **I concluded with (https://dreamwork.financial/2019-07-whats-up-market/)**:

"As we mention often, this current market expansion is the longest in modern history. And, it seems most everyone is waiting for this party to end. While this is cause for concern, it is also reason to be optimistic as a contrarian who thinks the herd is usually wrong. At any rate, I expect volatility to pick up, but the market should remain in good shape. After all, US equities are still the best game in town. The Fed has proven they are committed to doing everything they can to extend the rally, but now it is time for US companies to pick up the ball and run with it."

Looking back, this is exactly what played out in my opinion. Volatility picked up with Trump reigniting the trade war. We also had a temporary inversion in the yield curve between 2 and 10 year treasuries which really stoked recession fears. Now, the market is so skittish it feels like the public has a hair trigger to immediately sell on any news that could be interpreted that a recession is near.

While this behavior is concerning, US equities have proven to be the best game in town on the backs of a strong US consumer. Walmart, Target, Lowes, Home Depot all had blow out earnings and each acknowledged very strong consumer spending, which is the heart and soul of our economy.

The combination of global recession fears and trade war mixed with a strong US consumer and a very accommodating Federal Reserve have given us a recipe for volatility. This contrast of positive and negative catalysts caused last month's roller coaster ride as the S&P fell from over 3000 to near 2800, then back above 2900, then back to near 2800, and now we are back above 2925 as I write this. Here is what I'm watching:

Trade War

Just last month we were talking about Presidents Trump and Xi hitting pause on the trade war. That didn't last long as President Trump decided to hit China with a **fresh 10% tariff (https://www.cnbc.com/2019/08/01/trump-says-us-will-impose-10percent-tariffs-on-300-billion-of-chinese-goods-starting-september-1.html)** on $300 billion of Chinese goods. China then countered by **halting purchases (https://www.bloomberg.com/news/articles/2019-08-05/china-asked-state-buyers-to-halt-u-s-agriculture-imports)** of all US agricultural products. The trade war then shifted its focus slightly to becoming a currency war as US labels them a "currency manipulator."

Then just as it looked like things were going to be beyond repair, President Trump announced a delay on some of the tariffs because of **concerns for the Christmas shopping season (https://www.cnbc.com/2019/08/13/trump-says-he-delayed-tariffs-because-of-concerns-over-christmas-shopping-season.html)**. The market took it as a sign that there is still hope for a deal and has had a nice rally since then.

In my opinion, we are all just watching the negotiations play out via Twitter and the news. These head fakes in the negotiation process just show inefficiencies in the market and give great opportunities for active investors.

Deep down, I have a sneaky suspicion that Trump is going to make a "deal" no matter what, but only at a time that benefits his reelection chances the most. However, the market could be starting to read into it like a "boy who cried wolf" scenario as his tactics are becoming more transparent. I think this may help explain why the market is starting to shrug off some of this noise.

Federal Reserve

The Fed minutes surrounding last month's meeting with the .25% rate cut came out **showing a divide (https://www.nytimes.com/2019/08/21/business/economy/federal-reserve-minutes.html)** between the current Fed. It was a little more hawkish than expected as it showed a few dissents for the cut that was made let alone future cuts. We did see a little bit of where their head is at though. It looks like they are worried about business investment and the manufacturing sector. They also acknowledge that things are worsening in many parts of the world and don't want to make a misstep in policy as far as rate cuts are concerned. Their other focus is trying to get inflation closer to their 2% target. They are certainly not in an easy position but it does appear that they have the market's back.

Hong Kong Protests

Last month, the protests in Hong Kong over an extradition bill really started to escalate. These types of events have the ability to really blow up into market events if they turn deadly. We definitely need to keep an eye on this and hope for a peaceful resolution.

Europe

We have seen signs of slowing growth in Europe for a while now but it seems like things may be taking a turn for the worst. Earlier this week, the German central bank says its **likely to head into a recession (https://www.cnn.com/2019/08/19/economy/germany-recession-bundesbank/index.html)** blaming weak exports from Brexit and the US-China trade war. Slowing growth, negative rates and geopolitical uncertainty are really starting to weigh on the European economy. If it rolls over, it would be hard to believe we wouldn't feel some of the effects here in the US.

Technical Levels

The main level I'm watching is still 2800 to the downside on the S&P which has been the clear support for quite some time. To the upside, I think the recent highs of just over 3000 on the S&P would be where I would expect resistance. I expect us to stay range bound between these levels until we get any further clarity on a trade deal.

Yield Curve

The yield curve between the 2 year and 10 year treasuries inverted temporarily (where you are paid less for the longer-terms). When this is sustained, it is seen as a recession signal. Currently it has normalized but we are not quite out of the woods yet. With many countries starting to go negative with their yields, the unusual activity in our treasury may just be a symptom of a slew of capital inflows from around the globe for US debt. This time could actually be different, but I guess we will see.

Conclusion

I know I say this often but now is the time to stick to your current plan. The “noise” from the media everyday will shake out the average investor. You should have some cash on the sideline ready to deploy when the opportunity arises.

Currently investors are extra skittish and short sighted, eager for any opportunity to sell after one tweet and then rushing to buy after the next. If you’re a long term investor, I’d take these moments of panic as opportunities to buy. However, I wouldn’t buy just any stock but I would look toward higher quality names or secular growth names (those that are part of a separate trend going on in the market). (**Think Spector™ funds (https://dreamwork.financial/spector-funds/)**).

Anyways, this volatility isn’t going to go away any time soon so you just have to learn to embrace it. Please **contact me (https://dreamwork.financial/contact/)** if you’d like my help in navigating these tricky markets.

Until next time,

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