



A Market in Confusion!

It seems as if we are writing the same thing week after week, primarily due to global events. Markets hate confusion, and confusion we certainly have. The equity markets closed the week on the upside: DJIA +.15, the S&P 500 +.31 and their smaller brethren, the NASDAQ, won the week +1.08. The biggest reason for the smaller cap outperformance was the drubbing market participants gave the energy sector, which is dominated by larger cap names. Economic releases last week were moderately good. Durable goods fell by 1.7% month over month, but that was mostly due to a 6.1% fall in transport led by non-defense aircraft orders. Both defense and non-defense orders are highly volatile and investors should be cautious when analyzing month to month changes. Oil, after making significant gains and convincing many that these gains would continue, reversed and fell, shaking investors' confidence. There were a number of reasons for this, not the least of which was the discussion among some major producers, countries not companies, that they would consider increasing production. This indicates that investors, irrespective of new sources such as shale oil, still consider energy an administered price. Lower energy prices are a double edged sword for the U.S. economy. Higher prices clearly help the energy sector which is significant, but it is an economic retardant for consumers and many industries. To some degree it seems as if non-dramatic changes in the price of energy, for the U.S. economy as a whole (GDP), will not make that much difference, although it may be quite dramatic for individual sectors and industries.

Global events again roiled the markets. Investors were concerned about the status of the U.S. North Korea talks, or more correctly, will there actually be U.S. North Korea talks? Of course, most people would like to see the talks come about with a reasonable outcome. It seems a win-win situation, so what stops the process? No one really knows, but a number of thoughts come to mind. One reason is there may be a kaleidoscope of competing interests on both sides of the table. In an open democracy as the United States, those competing interests are often obvious. The Trump administration team for both the North Korean talks and the China trade negotiations is fraught with well-known conflicts. In North Korea, no one knows because it is such an astonishingly closed society. Another may just be that both sides are quite inexperienced at these kind of negotiations and, although both want to make the talks a reality, they simultaneously overplayed their respective hands and now don't know exactly how to back down. In any case, it doesn't play well with financial markets.

China remains a contentious trade problem with claims and denials being bandied about. Investors know no more today than they did weeks ago, and of course there is NAFTA.