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Weekly Market Insights

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Equities Give Ground, Labor and Trade Reports Disappoint, More International Concern!

Stocks fell this past week, mostly due to unexpectedly weak economic reports.

The DJIA fell 2.21% for the week and YTD remained up 9.1%, the S&P 500 fell 1.56% and YTD was up 9.42%, and the NASDAQ was down 2.46% but YTD was up 11.65%.

The market was reacting principally to two economic reports. The labor department reported that job creation rose at a seasonally adjusted rate of 20,000. That number was, of course, disappointing, after weeks of extremely rapid job creation. Just looking at the job creation number alone is a mistake. There are at least two important factors to keep in mind. First, as we always warn readers, there are numerous and frequent revisions to economic releases, and it may not be surprising or worrisome to have a very low monthly growth after a string of surprisingly high growth reports. This alone should keep investors from panicking. But, of course, there was more to the report than just job creation. On the bright side, the unemployment rate fell to 3.8% from 4% and wage growth continued to expand. The report was a mixed bag. Investors should not be moved by one month's report, particularly on the heels of several very strong months.

The second important release was the U.S. International Trade in Goods and Services; the deficit increased to $59.8 billion from $50.3 billion. The major culprit, as usual, was the balance in goods. The U.S. remained in surplus for the balance of trade in services. There are a number of reasons for this. One is the nascent trade war - tariffs really help no country. Second, is that the United States is one of the faster growing economies and it is reasonable for faster growing economies to run deficits. As we have written often, it is very difficult for a country running a constant and growing budget deficit to have a balanced or positive trade balance. We remind readers that trade balances are very complex and it is not always bad to run a deficit.

Investors should be encouraged by the Fed's explicit recognition of weaker numbers and giving forward guidance that they will accommodate weaker growth by holding rates steady.

A few thoughts concerning Venezuela. There has been a lot of talk about whether the Venezuelan problem is priced into the market. Probably not. The question is, if there is a change of government, how will it affect the economy and therefore the financial markets? The country is now clearly in a deep political and economic crisis. If the effort to remove the present government fails, then there will be no change. So what if doesn't fail? It seems as if, after a short adjustment, it should be positive. Venezuela is a large country with a relatively well educated population. It will free the economy to begin gaining strength, which will increase employment, leading to wage growth. This frees millions of formerly destitute citizens into growing consumers. This can only be positive for the global economy.

Venezuela also happens to hold the largest petroleum reserves in the world. People are concerned about increasing global oil supply. Two important points. The first is that Venezuela's oil producing infrastructure has deteriorated quite a bit, so it will take a while to bring full capacity back on board. Second, energy is an important factor of production. Although adding supply may add some difficulty to that particular industry, it should lower cost of production for the rest of the world's production and a drop in consumer prices should act as an increase in real consumer incomes. All of which is positive.

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