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Weekly Market Insights

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Trade winds buffet the markets, consumers remain positive and the deepening dilemma.

Global equity markets continued to be subject to the shifting winds of trade talks. If a reader looked at the Dow or S&P a week ago on the 10th of May, and the close of the markets a week later on the 17th of May, they might think it an uneventful week. Nothing could be further from the truth. Markets gyrated strongly reacting to rumors or pronouncements about how the trade talks were progressing or not progressing. The DJIA closed down -.69%, the S&P -.76% and the NASDAQ -1.27%.

We have written in the past that we believe short term traders are moving the markets. Our belief remains firm. Low interest rates and easy credit allow these funds to enter and exit markets in great size. As long as rumors and contradictory announcements dominate the news, we expect this market behavior to continue.

Interestingly, the American consumer has not been ruffled by the market's behavior. Consumer confidence remains near record highs, and since U.S. consumer spending is a very high percentage of GDP, we continue to remain confident that a serious economic down turn is not near. Are there signs of a possible slowing, yes, but the economy has been quite strong and a bit of a slowdown shouldn't cause investors' to abandon the U.S. equity markets.

The Federal Reserve is finding itself in a deepening dilemma that is not really their fault. The economy is reasonably strong and interest rates are very low. They have made the markets aware of where they stand on a desired inflation rate of 2%. Their apparent preference is to slowly tighten but as we wrote earlier, the economy is showing signs of slowing. Although this could very well be temporary it remains of concern to the Fed. Another reason the Fed doesn't want to lower interest rates is that they are so low now that in the future when the economy does turn seriously down they won't have the monetary fire power to give the economy the necessary boost to turn it around.

Those are the purely economic reasons the Fed may not raise interest rates and are not anxious to lower rates.

There are also two non-economic reasons they may not lower interest rates. The first is no Fed board wants to appear to be swayed by politicians. Although Mr. Trump is far from the first president to try to influence the Governors, I believe he has done it more publically than other presidents. The Fed will not want to appear to kowtow to political interests. The other reason is it is the Fed's calling to be apolitical. The Fed would want to avoid any interest rate moves as we approach the primaries or the general election, and there lies the dilemma.

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