Weekly Market Insights

July 1, 2019

A great first half, twenty candidates battle it out, a pause in the tariff war and interesting economic statistics!

This past week the equities markets closed down, but investors had reason to be encouraged. The Dow Industrials -0.45%, the S&P 500 -0.29% and the NASDAQ -0.32%. The week did end with an upturn and equities will close with the best first half performance since 1997. Investors should be well pleased.

It was an interesting week - we had the privilege of hearing the "great debate." It is very hard for the best intentioned candidate to express his or her views on serious, complex issues when they share the podium with nineteen other candidates, all of whom just want to make the others look bad. Interested voters will have to wait before any really detailed policy prescriptions are put forth, if that happens at all.

Investors were encouraged by rumors that Mr. Trump and Mr. Xi had come to some temporary halt in the tit-for-tat trade battle going on between them. It turned out to be true. Nothing earth shattering but a lot better than escalation. We have argued in the past that we believe both presidents have too much to lose by seriously escalating the conflict. Oddly, they also have a lot to lose by appearing to give in. Mr. Xi has less of a problem with this since he controls China's media. So, it is likely that this battle will go on for quite a while with neither great escalation nor real settlement.

President Putin was in the news again this week with commentators reporting increasing ties between Xi and Putin because the tariff war is driving China and Russia into a close partnership. This is certainly what President Putin hopes for, but not President Xi. Xi is using Russia and Putin's desire to see Russia as a major global player as a bargaining chip or a lever to get Trump to back away from tariffs, a ploy not likely to succeed.

A number of conflicting economic releases were released this past week. While Consumer Confidence was below expectations for June, it remains at a very high level. Personal Income and the Personal Savings rate beat expectations. All three of these are important. Consumer Confidence gives analysts a window into the future in anticipating consumer spending. Since consumption is such a large part of GDP, increasing Consumer Confidence is a positive indication of future consumption. Personal Income is a standard measure of well-being. It seems logical that if both confidence and income are growing, consumer spending is not in jeopardy.

Many analysts use the Personal Savings rate in an attempt to judge future spending. Alas, there isn't a lot of statistical evidence to back that up, but we do find it comforting that when the savings rate is up and debt service to household income is at a multi-year low, it is unlikely that a consumer debt crisis is in danger of occurring. These measures of consumer wellbeing and confidence don't appear to follow some statistics related to corporate confidence. While this is not particularly common, it is not surprising either. We believe there is a good reason for this diversion. Business decision makers, at least the polls tell us, are far more concerned about the tariff conflict than consumers, so it should surprise no one that they are holding off on investments and spending until they can get a better handle on the tariff outcome. Investment and hiring decisions are almost irreversible, so it is no wonder that business decision makers are more cautious than consumers. If our earlier thoughts about the tariff conflict are correct, then corporate spending should reassert itself in the not too distant future.

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