Weekly Market Insights

October 15, 2019

It's all about China!

United States equity markets advanced this past week, apparently treating impeachment, the Kurds, Brexit and a slowing global economy as mere distractions. So, what gave equity investors the courage to advance the market in the face of these problems? TRADE. As word spread about some moderation in the tariff standoff between the United States and China, investor confidence rose along with the equity markets.

The United States

The U.S. economy and the U.S. consumer continue to show remarkable strength and resilience. The consumer remains the most stable leg of the economy. One might think that with all the political and economic distractions facing the world in general and the U.S. in particular, equity investors would abandon the market, but no. One reason may be that during this long bull market cycle, they have seen these dangers before and the warnings have come to naught.

The current Administration has been involved in controversy from the beginning and nothing has happened. In fact, they appear to thrive on controversy. They appear to be treating the impeachment proceedings as just more of the same. Another reason for investor resilience is the well-known fact that interest rates are very low and competing equity markets are suffering, so that the only place for investors who are looking for positive returns is the U.S. equity markets.

Europe

We have written a lot about Europe and nothing has changed! Yes, there is a new head of the European Central Bank, of whom we are very fond, and a new head of the International Monetary Fund who, to most Americans, is a relative unknown. She comes with very good credentials, but we really don't know. As we have written too many times, Europe does not need another dose of liquidity, rather a large dose of fiscal policy. This does not appear to be in the near future.

China

China is, of course, where the action is. Any information, accurate or not, moves the equity markets. This past Friday, the rumor went through the market that there had been a breakthrough in the negotiations. To some extent, that was true. There was some news of progress that the Administration had announced. Alas, the Chinese quickly poured a bit of cold water on this when they stated that the U.S. must modify some of their demands. Even this did not kill investor desire to own stocks. It appears to us that China is playing a waiting game in hopes that the 2020 election presents them with a better opportunity. This is a bit of a surprise, given that their economy continues to slow and they must deal with both the Hong Kong riots and the Uighur problem. Both are growing domestic problems that are not helping the Chinese public image at all.

Our conclusion!

As we wrote last week, we do not see a recession coming in 2020. There are too many positives and many of the problems we see, although serious, won't manifest themselves until 2021.

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