Weekly Market Review

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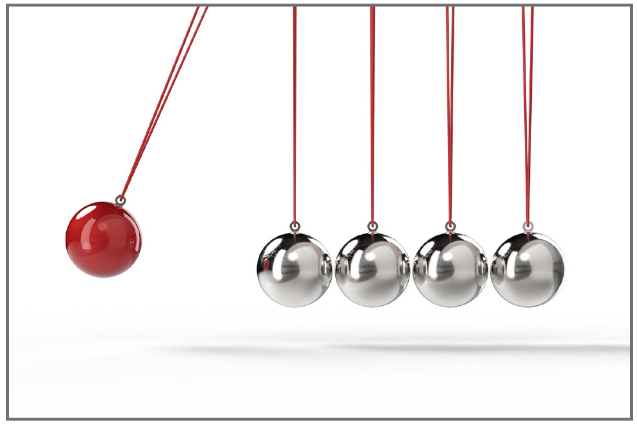
The Week Ending June 3, 2018



It was another week of worries surrounding trade leading the financial news cycle. The Dow fell more than 500 points, ending the week down over 2%. China announced they might retaliate against the previously announced tariffs from the U.S. that will go into effect July 6th. Of course, President Trump countered with an announcement of his own that the U.S. would impose additional tariffs on $200 billion of Chinese goods imported into the U.S. And the cycle continues...

Rather than trying to keep up with the back-and-forth, let's take a step back and look at how the economy and financial markets are being affected today, and how they may be affected in the future. In the short-term, we've had significant volatility that will likely persist. The stock market is considered a leading economic indicator. There are many forward-looking assumptions that go into a stock's price today, including overall macroeconomic growth, industry/sector specific economics, and individual company-specific factors. With the trade landscape changing so quickly, those assumptions are being adjusted swiftly which is causing the price of stocks to gyrate back and forth with the positive and negative news headlines. And while the down days are uncomfortable, the S&P 500 returns remain positive at 4.0% year-to-date.

In the medium-term, protectionist trade policies will likely put upward pressure on inflation. If more goods are produced in the U.S., then the cost of producing those goods will rise which means they will cost more for the consumer. Or, if we continue to import those goods, they will still be more expensive for the consumer to make up for the import tariff. With the unemployment rate at multi-decade lows, and wages beginning to increase, rising inflation is already at the forefront of issues the Fed is watching closely as they continue to raise rates. A sudden pickup in inflation could cause them to increase rates more quickly which could, in turn, stifle economic growth.

In the long-run, it's impossible to predict. On the one hand, more Americans working with the potential to earn higher wages is a good thing. However, on the other hand, the dynamics of global trade, balance of payments, interest rates, and the value of currencies will all be affected in ways that can't be known today.

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