Weekly Market Review

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The Week Ending March 23, 2019

Over the last three months, the Fed has made a significant shift in policy rhetoric. In December, the Fed was planning to raise rates 2-3 times in 2019. Also in December, the Fed planned to keep their "autopilot approach" to balance sheet reduction. Rate hikes and balance sheet reductions are monetary tightening activities which act to tap the breaks on an economy that is heating up and producing growing inflation. Last week, the Fed met and decided they will not hike rates for all of 2019. To take that a step further, some Fed officials believe the next change in rates could just as likely be a cut. They've also changed the "autopilot" balance sheet reduction plan to now stop sooner.

Theoretically, a "dovish" Fed should be good news for asset prices. If tightening acts as tapping the breaks on the economy, loosening monetary policy can be thought of as tapping the gas. So how did asset prices respond to the Fed's new stance? They didn't. The S&P 500 returned -0.70% for the week. One explanation of prices not reacting much to the Fed's announcement is that the market already knew the Fed wasn't going to be able to hike rates in 2019 without inverting the yield curve. Another consideration is that since the Fed has made a significant change in rhetoric, it is because they are concerned about both uncertainty and slowing economic growth outside of the U.S.

We still have a lot of 2019 to go. In fact, we're not even completely through the first quarter yet. We will likely see quite a few both positive and negative headlines through the rest of the year. A little certainty surrounding Brexit or the U.S./China trade negotiations could change the mood of the markets a lot in a short amount of time.

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