Weekly Market Review

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The Week Ending July 13, 2019

The Federal Reserve once again took the headlines last week when Chair Jerome Powell testified in front of Congress. His testimony all but affirmed a rate cut is on the horizon, the only remaining question is, will the reduction be 25 or 50 basis points? Chair Powell's dovish tone led the three major indexes (S&P 500, Dow Jones Industrial Average, and NASDAQ) to all close the week at record highs.

It is clear the Fed does not feel their dual mandate of full employment and price stability has been met. Even with the unemployment rate hovering around its lowest point since 1969, Chair Powell will not call the labor market "hot" until he sees evidence of wage growth. On the inflation front, the Fed admitted inflation would not hit their 2% target as soon as they initially thought. While it is still important to maintain the 2% target to avoid a Japan-like event, at this point, inflation is weaker than expected to justify rates at the current level.

As the Fed dominated headlines last week, China was in the spotlight over the weekend as they reported their slowest GDP growth in 27 years. Second quarter GDP came in at 6.2%, weighed down by exports and the trade war. Good news for the Chinese was their domestic economy strengthened more than expected, offsetting the export declines. More stimulus should be expected as the trade war continues with China's central bank maintaining the loose monetary policy, and additional fiscal policies are on the horizon.

As we move into earnings season, some of the focus might shift off the Fed for a couple of weeks and onto company fundamentals. Over the next few weeks, we will begin to see if company fundamentals are strong enough to support this momentum induced Fed rally, and perhaps lead the market to another leg higher.

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