Weekly Market Review

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The Week Ending August 3, 2019

We are in the midst of earnings season, but companies were suddenly put on the back burner as the Federal Reserve and new tariffs on China dominated headlines. These events led the S&P 500 Index to its worst week of 2019.

Traders were clearly waiting for Wednesday when the Fed concluded their two-day meeting, as two and a half days were quite quiet compared to the latter half of the week. The Fed voted to cut rates, for the first time since 2008, by 25 basis points to a range of 2.0%-2.25%. This move was widely expected by the market. Fed Chair Jerome Powell cited “global developments” and “muted inflation” as reasoning for the rate cut, and described this as a “mid-cycle adjustment,” similar to the Fed’s insurance cut of 1998, rather than the beginning of a rate-cutting cycle. The market had priced in more dovish guidance, which led to a stock market sell-off on the Fed announcement. The market closed down over 1%, the first move greater than 1%, in either direction, for the S&P 500 Index in 36 trading sessions.

In addition to the rate cut, the Fed announced ending the runoff of securities, known as quantitative tightening, on their balance sheet as of August 1st. Earlier guidance set an end date of September 2019. Quantitative tightening reduced the Fed’s balance sheet by $618 billion to $3.6 trillion, below the peak of $4.5 trillion, but still above the targeted level at the start of the tightening cycle.
The week started with optimism on the trade front as the U.S. and China met in Shanghai to continue trade talks for the first time since May. Sentiment quickly shifted as the White House used the Fed’s rate cut as insurance to further escalate the trade war with China when they instituted 10% tariffs on another $300 billion of imports. Oil markets were hit the hardest with WTI Crude selling off 8%, its largest down day since February 2015.

Uncertainty is set to continue this week, as China allowed the value of the yuan to trade above seven yuan per $1, the first time it has traded in this range since the Financial Crisis. This is being viewed as China’s response to the White House’s additional tariffs, further escalating the tensions between the two countries.

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