Weekly Market Review

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The Week Ending August 17, 2019

Volatility continued last week as the S&P 500 Index suffered another 3% down day, finishing in the red for a third straight week. Hong Kong protests, trade tensions with China, and European fundamental data turned investors away from equities and into the bond market, which briefly inverted the yield curve. The week ended on a strong note as data from the U.S. consumer factored into two days of gains.

Hong Kong citizens have been protesting since June 9th, but hit a boiling point when protesters converged on the Hong Kong International Airport forcing hundreds of flight cancellations over two days. (Hong Kong International Airport is the world's eighth busiest airport, according to Travel & Leisure.) The protests began with the opposition to a now-suspended law allowing Hong Kong residents and foreign nationals to be extradited to mainland China for criminal trials. Protests have now evolved into Hong Kong wanting a free democracy and separation from China. Hong Kong was a British colony until 1997 when they became part of China, but operate under the "one country, two systems" framework. This system allows Hong Kong to have their own legal system and freedoms, but China provides foreign relations and defense support.

Hong Kong protests were quickly pushed out of the headlines when the yield curve inverted early Wednesday morning for the first time since 2007, sending major equity indexes down 3% for the day. The yield curve becomes inverted when the 2-year U.S. Treasury trades at a yield greater than the 10-year U.S. Treasury. The yield curve has inverted prior to each of the past five recessions; however, this doesn't necessarily mean a recession is on the horizon. The yield curve provided a false signal in 1998 as it was briefly inverted, only to go back into positive territory as the expansion continued.

The week ended in rally mode as consumer data for July was reported stronger than expected, and Germany announced additional fiscal stimulus. Retail sales posted the strongest five-month growth streak since 2005-2006, showing the consumer is still strong. The U.S. Treasury yield curve was provided some relief when Germany announced a $55 billion stimulus package to counter a possible recession. The stock market continues to be driven by the trade war and tariff fears, even as economic fundamentals and corporate earnings continue to beat expectations. The consumer is the largest piece of the U.S. economy. Trade fears will contribute to consumer sentiment going forward, making a trade deal a significant factor for the future of the current expansion.

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