Weekly Market Review

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The Week Ending September 14, 2019

Another strong week from the S&P 500 Index has it back within striking distance of another all-time high. The positive week was supported by progress in trade talks between the U.S. and China as each nation made concessions. The U.S. pushed upcoming tariffs scheduled for October 1st to the middle of the month, while China agreed to resume importing U.S. agricultural products and reduce a small number of tariffs. Perhaps the biggest news of the week came from the European Central Bank announcing a continuation of their ultra-loose monetary policy, deepening the slide of their yields into negative territory.

Thursday began with the ECB announcing the largest monetary stimulus package in over three years to defend Europe from a global slowdown and trade wars. In doing so, the region's key interest rate was cut by 0.1% to minus 0.5%, but they did not stop there. Also announced was the relaunch of the ECB's bond-buying program, which just ended in December of last year. Starting in November and continuing indefinitely, the ECB will begin buying €20 billion of Eurozone debt per month. To put the size of the ECB's balance sheet into perspective, it is currently 40% of Europe's GDP, while the Federal Reserve's balance sheet is 18% of U.S. GDP. This figure is only expected to rise as Europe's GDP is currently growing at less than 1%, and asset purchases will be increasing.

As the ECB made moves last week, the Federal Reserve takes the spotlight this week. It is expected that the Fed will cut the Federal Funds Rate by 0.25% to a range of 1.75%-2.00%; however, stronger than expected inflation and consumer data may have an impact on the Fed's forward guidance. Core CPI was reported last week at an annual growth rate of 2.4%, an 11 year high. Of course, the Fed's preferred inflation gauge is the Core Personal Consumption Expenditure Index (PCE), which will be released towards the end of the month. The core PCE has been weaker than core CPI recently, and it is currently reading 1.6%, under the Fed's 2% inflation target.

Nothing has changed the expectations of a rate cut on Wednesday; however, questions will arise around future moves by the Fed. The stock market is near all-time highs and even with trade war fears, consumer sentiment was reported at a higher than expected rate for September. Plus, inflation is increasing and the labor market is still strong. There is not much pointing to a need for rate cuts other than global pressure and other central banks around the world instituting loose policy. We shall see if the Fed truly is data-dependent, or if the market and sentiment forces their hand in the months to come.

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