Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team

The Week Ending October 12, 2019

Trade was the dominate topic last week as the U.S. and China appear to have come to terms on "Phase One" of their trade deal. President Trump announced Friday afternoon that the U.S. would not raise tariffs, scheduled for October 15, an additional 5% on $250 billion worth of Chinese imports, while the Chinese agreed to purchase additional agriculture goods. The two nations also came to agreements related to currency, intellectual property, and allowing U.S. firms to access to Chinese financial markets. While the markets reacted very positively to the news on Friday, sentiment shifted a bit over the weekend as Phase One has been coined as "progress" rather than a "deal."

While trade negotiations are moving in the right direction, many headwinds remain. For one, Monday morning, China announced that they want another round of trade talks before signing Phase One. At the moment, Phase One was agreed to, but an official deal needs to be written and then signed by both presidents, likely not until mid-November at the earliest. This provides more uncertainty as no details of Phase One are known, and it is now unclear if President Xi Jinping would sign it. Questions will also arise regarding the direction of Phase Two talks. Intellectual property has been one of the most significant sticking points for the two nations during the trade war. Although this was mentioned for Phase One, those agreements are assumed to be very broad-based. This is looking like a script we have seen before; a "deal" is said to have been agreed upon by the two countries, but then falls apart when additional tariffs are announced.

Federal Reserve meeting minutes from their September meeting were released last week, showing the Fed's main concerns are trade tensions, global geopolitical developments, and a slowdown to the global economy. The minutes also showed a divide among members who want future rate cuts and those who wish to see weakening in the economic data before instituting another cut. If we are going based on economic data, manufacturing is in recession territory; the services sector is slowing but still expanding; inflation remains just below the Fed's target; and job growth is still positive. So, economic data provides no clear answer. On the trade tensions side, last week's trade agreement may have been enough to calm that concern and put rates on hold for October. However, the market continues to price in a 75% chance of another rate cut at the October meeting as the Fed and market outlooks continue to be disconnected. Trade and the Fed continue to confirm the only certainty in this market is uncertainty, and it's important not to overreact to any new information on either front.

Allegheny Financial Group · Allegheny Investments

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com