



Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team



The Week Ending January 17, 2020

Another week, another record high recorded for the S&P 500 Index. China was once again the center of attention, but this time it was a positive influence. The U.S. and China finally signed their Phase One trade agreement in Washington, D.C., on Wednesday. Markets are hoping this will result in less friction between the two largest nations going forward.

Depending on who is doing the analysis, the Phase One trade deal is either great for the U.S. or it lacks in many of the important areas. Either way, it is a step in the right direction. Last year the U.S. stock market experienced two 6% drawdowns, each driven by China trade fears, so any positive move forward is added certainty to the relationship and is optimistic for markets. Phase One consists of China agreeing to more purchases of U.S. goods and services, and the U.S. rolling back or decreasing existing tariffs on Chinese imports. Some protections for U.S. intellectual property rights are also included, but this is expected to be a significant component of Phase Two. An unexpected announcement came before the trade agreement signing when the U.S. Treasury removed the currency manipulator designation from China; this had been in place since last summer.

Building on momentum from the Phase One signing, China released fourth-quarter GDP and industrial production data. China's GDP came in at 6.1% for 2019, the slowest in 30 years, but in line with market expectations. There is no doubt China's growth is slowing, but it is still growing at double the rate of global GDP, and as China becomes more of a developed nation, slower growth must be expected. It is tough to find where China will get a boost in growth looking at their updated demographics, released last week, showing the lowest rate of new births per thousand people since the People's Republic of China was established in 1949. Nearly one-fifth of the Chinese population is 60 or older, leading to higher health care costs and a shrinking labor force in the future. There are still positives factors to influence China's growth in the future, but the days of double-digit growth are probably behind us as long as current conditions remain.

Additional news on the U.S. trade front was the Senate voting to confirm the U.S.-Mexico-Canada Agreement. Canada is the last of the three nations to approve the new agreement. Now the implementation of the deal can begin.

Switching gears to U.S. fundamentals, fourth-quarter earnings season kicked off with many large banks reporting last week. Most banks reported much stronger than expected earnings and improved forward guidance, leading to a rally in the equity markets. Current earnings expectations are very low, so any outperformance is going to be viewed as a positive by the markets.



The information included herein was obtained from sources which we believe reliable. This report is being provided for informational purposes only. It does not represent any specific investment and is not intended to be an offer of sale of any kind. Past performance is not a guarantee of future results.

Allegheny Financial Group is a Registered Investment Advisor. Securities offered through Allegheny Investments, LTD, a registered Broker/Dealer. Member FINRA/SIPC.