AE WEALTH MANAGEMENT

WEEKLY MARKET COMMENTARY

THE WEEK IN REVIEW: June 30 - July 6, 2019

TRADE TALKS ARE ON AGAIN ... AND THE MARKET GIVES US A HEAD FAKE!

Markets were stoked as last week opened with the Dow climbing nearly 300 points following positive news from the G20 summit over the weekend. For those who missed it, President Donald Trump had a very warm meeting with Chinese President Xi Jinping. Trade talks were restarted between the U.S. and China, with both sides offering some concessions to get things moving again.

Since Trump was already in the neighborhood, he flew to the Korean Peninsula, where he met North Korean Supreme Leader Kim Jong Un and became the first sitting U.S. president to step into North Korea. Markets loved the visit first thing Monday morning, but investors quickly realized we are not really any further along than we were a few months ago before trade talks with China broke down.

Despite the dose of reality, the market drifted higher through the week. Both the Dow and S&P 500 closed in record territory on July 3, a shortened trading day due to the U.S. holiday on July 4. The best that could have been expected from the G20 meeting was that trade talks would resume and they did. The North Korea episode was just a bit of showmanship from Trump; building a lasting relationship with North Korea (and Iran, for that matter) is far more than just a weekend project. Overall, nothing bad happened from the G20 summit and we are far from being done with a China trade deal. The market truly gave us an NBA-level head fake.

CH-CH-CH-CH-CHANGES

The European Central Bank (ECB) named Frances Christine Lagarde, current head of the International Monetary Fund (IMF), as the president-elect for the ECB. She will replace current ECB President Mario Draghi, whose eight-year term ends in October. Lagarde is a seasoned economic veteran, with scars from the debt crises in Portugal, Italy, Greece and Spain. She is far more of a politician than Draghi, but does the EU really need another politician to lead it? Only time will tell.

WORKIN FOR A LIVIN

The June jobs numbers came in on Friday at 224,000, soundly beating expectations of 165,000. The unemployment rate inched up to 3.7% but still remains incredibly low. The strong numbers may get the pot stirring; why should the Fed cut rates if the employment picture is still showing strength?

TIME TO BREAK OUT MY CRYSTAL BALL

The first week of Q3 was a short one, and I do have some concerns as we head into the next few months. My top concern is still China. Even though markets were upbeat following confirmation that trade talks were resuming, there is still much ground to cover before we can reach a deal. If we get signals that an agreement is near (and there is follow-through to back it up), we will see a very strong market in the summer and fall. If talks stall again, the markets may be in for a ride similar to the one they experienced in May.

Interest rate cuts are also on my mind. Last month, the Fed had a noticeable shift in its language regarding possible cuts. Things could go one of two ways: If the Fed can walk this tightrope, markets may not react. However, if economic data clearly points to a need to tighten rates and the Fed signals it may not cut or even raise rates, expect the market to react negatively to the news.

My final concern is the simmering tension in the Gulf. [Tensions are high between the U.S. and Iran](), following Irans attack on two tankers in the Strait of Hormuz and shooting down a U.S. Navy reconnaissance drone. The situation is a wild card and one that deserves close monitoring over the second half of the year.

In light of these concerns, my recommendation for the rest of the year would be to stick with equities as your plan permits. Equities are still attractive, but there is much more probability that markets will rise as much in the third and fourth quarters as they did in the first half of the year. My prediction is another 4% to 6% upside during the remainder of 2019, with the 10-year Treasury below 2%. While its not outstanding performance, its definitely not bad we just have to make sure the Fed and the China trade talks deliver.

COMING UP THIS WEEK

- Data will be light this week. The Fed minutes will be released on Wednesday, and traders will be dissecting them for any details as to how and when we can expect rates to be cut. As of Friday, July 5, Fed Funds Futures were predicting a 93.5% chance of a 0.25% rate cut this month, despite the strong jobs report. I wouldnt want to be Fed Chairman Jerome Powell right now, with the market pretty much dictating a cut of at least 25 bps. Its like the school bully telling you at lunch hes going to beat you up after school is out if you dont do what he says. What will poor Jerome do?

- Markets will also digest employment data this week and continue to process the possibilities of the ongoing trade talks.

- Fed officials will be giving speeches all week. Any comments they make will be scrutinized very carefully to see if they contradict market expectations.

Have a great week!

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Index Performance Returns (%)					
	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500:	1.69%	20.55%	11.51%	15.01%	10.80%
S&P MidCap 400:	1.06%	19.23%	1.25%	11.65%	8.08%
Russell 2000:	0.59%	17.68%	-4.86%	12.93%	6.92%
NASDAQ:	1.94%	23.01%	7.58%	19.17%	12.72%
MSCI ACWI:	1.16%	16.21%	4.68%	10.03%	4.07%
MSCI EAFE:	0.52%	14.62%	1.82%	9.50%	2.13%

Source: Morningstar

Interest Rates		
	7/5/2019	6/28/2019
UST 10-YR Government Bond Yield	2.04%	2.00%
German 10 YR:	-0.38%	-0.36%
Japan 10 YR:	-0.15%	-0.15%
30 YR Mortgage	3.81%	3.80%
Oil	$58.33/ppb	$58.47/ppb
Regular Gas	$2.80/ppg	$2.74/ppg

Sources: Bloomberg
All data as of July 5, 2019

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