WEEKLY MARKET COMMENTARY

THE WEEK IN REVIEW: June 9 - 15, 2019

Index Performance Returns (%)					
	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500:	0.53%	16.29%	5.87%	13.91%	10.57%
S&P MidCap 400:	0.49%	15.13%	-3.20%	10.50%	7.97%
Russell 2000:	0.58%	13.60%	-8.36%	11.38%	7.00%
NASDAQ:	0.70%	17.50%	0.46%	17.20%	12.58%
MSCI ACWI:	0.26%	12.16%	-1.63%	9.17%	3.75%
MSCI EAFE:	-0.26%	10.83%	-4.44%	8.85%	1.73%

Source: Morningstar

Interest Rates		
	6/14/2019	6/7/2019
UST 10-YR Government Bond Yield	2.09%	2.09%
German 10 YR:	-0.25%	-0.25%
Japan 10 YR:	-0.13%	-0.13%
30 YR Mortgage	3.92%	3.82%
Oil	$52.51/ppb	$53.99/ppb
Regular Gas	$2.72/ppg	$2.807/ppg

Source: Bloomberg
All data as of June 14, 2019

POTENTIAL RATE CUTS A DOUBLE-EDGED SWORD

Markets were quiet last week, after a strong previous week. According to FactSet data, the week of June 3-7 was the best week for the markets all year; the Nasdaq had its best performance since Dec. 28, while both the Dow and S&P 500 had their best weekly showing since late November 2018.

Results were a bit muted last week, with markets processing expectations of how many (if any) rate cuts we will see this year as the Fed signaled a willingness to consider lowering interest rates. Heading into the summer, markets are increasingly expecting a rate cut from the Fed. In fact, Fed funds futures are currently indicating an 80% odds of a rate cut as soon as July. This would be incredible in light of the fact that the Q4 2018 market meltdown was largely driven by fears of interest rates increased by a robotic Fed bent on mechanically hiking rates to some arbitrary level without regard to the economic environment.

Rate cuts are a double-edged sword, because upcoming economic data specifically Q2 GDP may conflict with a rate cut. Back in Q1, experts were calling for GDP to be +0.3%, then raised it to +2.5 % only to see it come in at +3.1%. Now those same experts are calling for Q2 2019 GDP to come in at +2.1%. A weak employment reading for May helps bolster arguments for a rate cut, as does inflation data for May.

The tantalizing question: What if GDP surprises again? What if these latest economic numbers are a flash in the pan, and job growth reverts to previous levels while inflation begins to tick upward? The Fed will be over a barrel with economic indicators flashing the need for rising rates while the markets have been banking on a rate cut. If that happens, we could be in for a very messy summer.

NOW WE WAIT ON CHINA

With the Mexico tariff dust-up largely behind us and the president no longer fighting tariff wars on two fronts, focus has shifted to the upcoming G20 meeting between Chinas President Xi and President Donald Trump. Both leaders have been trash talking about their willingness to hold out until they get their way. More importantly, they have also signaled that they are willing to continue speaking. President Xi might be seen as losing face and weak at home (a very significant cultural taboo in China) if he caves to U.S. demands, but continuing to resist and engage in this economic game of brinksmanship will have its price as well. The key question is: Do you lose a little face, or do you eventually lose your grip on power because of economic turmoil?

One fact thats sometimes lost in this back-and-forth is that by agreeing to our demands, China would have to upend the very same economic formula that has fueled its growth. Over the past 30 years, China has become the No.2 economy in the world by making things cheaper and keeping them cheaper by manipulating its currency, promoting its state industries at the expense of competition and stealing intellectual property to stay competitive.

This is a battle for the very soul and essence of China. I dont know if President Trump has thought about this to that extent, but Im not doubting President

Trumps ability to wring something out of this mess and then promote the heck out of it as a significant accomplishment. Whatever the final deal with China ends up being and Im confident we will have a deal it will be an achievement. No U.S. president since Nixon has been able to get anything from China. The fact that both Nixon and Trump were or are under the threat of impeachment isnt germane to the discussion; threat of impeachment shouldnt be a prerequisite to negotiating with China. Maybe thats what past presidents thought and thats why they avoided confronting China?

IRAN, YOU RAN, WE ALL RAN!What on earth? Two oil tankers were attacked in the Strait of Hormuz on Thursday in an escalation of violence in that sensitive oil-producing Middle East region. Iran has been chafing since President Trump pulled out of the Iran Nuclear Deal and ratcheted up sanctions on Iran. Not to be taken lightly, these attacks can have a significant impact on world oil supplies, as about 20% of the worlds oil supply funnels through the strategic strait.

The U.S. military quickly identified Iran as the perpetrator, and Secretary of State Mike Pompeo was quick to call out Iran. As expected, Iran denied any involvement and blamed enemies of Iran for trying to frame the innocent nation. Remember this is the same country that took U.S. embassy personnel hostage in Tehran in 1979, funds and supports Hamas and Hezbollah, supported anyone in Iraq that opposed U.S. forces, denies the Holocaust happened and refused to recognize Israel as a nation. To say I am skeptical that Iran is not behind these attacks would be an understatement. Iran has been hurt by the sanctions we have imposed and has resorted to lashing out in a more direct manner as an attempt to gain concessions from the international community.

Oddly, oil didnt move significantly on the news; markets were up on the day of the attacks, which would not have happened in the past. What is new and interesting now is that the U.S. has largely achieved energy independence, which makes Iranian attempts at disrupting world oil supplies less effective at achieving policy concessions from oil-consuming countries. Iran is playing a dangerous game with no clear-cut objective, and the markets are largely muted in their response and volatility.

COMING THIS WEEK

- During the Feds meeting on Tuesday and Wednesday, look for language that facilitates a rate cut in July. As I mentioned earlier, Fed fund futures are signaling an 80% chance of a cut in July and a 20% chance of a cut next week.

- With home loan rates below 4%, mortgage application numbers released this week will give us a feel for the red-hot housing market. Leading indicators released on Thursday should point to just how much the economy is slowing, if at all.

- On Friday, Fed governors will hit the speaking circuit again. Well need to pay special attention to their stance and timing regarding a potential July rate cut.

Have a great week!

Investment advisory services offered only by duly registered individuals through AE Wealth Management, LLC. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The informationand opinions contained herein, provided by third parties, have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individuals situation. None of the information contained herein shall constitutean offer to sell or solicit any offer to buy a security or insurance product.
864206-3

AE WEALTH MANAGEMENT