WEEKLY MARKET COMMENTARY

THE WEEK IN REVIEW: May 26 - June 1, 2019

Index Performance Return (%)					
	1 WK	YTD	1YR	3 YRS	5YRS
S&P 500:	-2.58%	10.74%	3.78%	11.72%	9.66%
S&P MidCap 400:	-2.76%	9.60%	-5.44%	8.36%	7.31%
Russell 2000:	-3.18%	9.26%	-9.04%	9.75%	6.71%
NASDAQ:	-2.41%	12.33%	0.15%	14.63%	11.93%
MSCI ACWI:	-1.93%	8.00%	-3.27%	6.92%	3.14%
MSCI EAFE:	-1.87%	7.64%	-5.75%	5.82%	1.27%

Source: Morningstar

Interest Rates		
	5/31/2019	5/24/2019
UST 10-YR Government Bond Yield	2.14%	2.32%
German 10 YR:	-0.21%	-0.13%
Japan 10 YR:	-0.10%	-0.07%
30 YR Mortgage	3.99%	4.01%
Oil	$53.50/ppb	$58.93/ppb
Regular Gas	$2.822/ppg	$2.852/ppg

Source: Bloomberg

All data as of May 31, 2019

Tariff Hit Tirade Continues

The holiday-shortened week ended with the S&P 500 scoring its fourth straight week of losses after hitting highs at the end of April. The Dow also ended down, marking six consecutive weeks of losses.

Markets are being driven strictly by emotions right now. The only economic news weve had recently is the restatement and reaffirmation of a strong Q1, which ended at +3.1% from the initial +3.2%. Other positive news abounds; messages about record low unemployment, stellar economic growth and surprisingly strong corporate earnings have been lost in this cacophony of slowing global growth and trade war talk. June is historically the second worst month for equity markets (September is No. 1), so it could be an interesting month following a rough May.

The trade dispute with China rages on, with China retaliating by targeting farm products and rare earth materials in efforts to erode support among President Donald Trumps base. The whole thing got me thinking: If this keeps going, who would actually come out ahead? In the long run, I imagine the U.S. would get the better end of the deal, but Im a patriot so what else would I say? In truth, the whole thing is a bit more involved.

There is an old military doctrine that says you shouldnt fight a war on two fronts. That axiom obviously doesnt apply to trade wars or to President Trump. He announced late last week in the middle of the current trade spat with China that he would slap a 5% tariff on all Mexican goods coming in the U.S. after June 10 unless Mexico takes action to curb the flow of asylum seekers at our southern border. The tariffs will increase by 5 percentage points on the first of every month until reaching a max of 25% on Oct. 1.

At the same time, the administration is still pushing for ratification of the United States-Mexico-Canada Agreement (USMCA), the replacement trade deal for NAFTA. How this all plays out, no one knows, but its currently weighing heavily on markets and creating a ton of uncertainty.

Talk has already started that the holiday season will be impacted by the trade war with China. If that translates into pain for U.S. consumers, then we will see an erosion in confidence that may turn the economy sour.

If youve had your heart set on receiving this little charmer, you might be disappointed this holiday season.

Mueller Speaks!

For the first time since he began his tenure as special counsel, Robert Mueller spoke out publicly about the Russian election-meddling probe. No new revelations were made; Mueller stated that his office found the Russians did try to influence the election but there was no evidence of collusion with the Trump campaign. He also said he could not exonerate the president of obstruction, stating, If we had had confidence the president clearly did not commit a crime we would have said so.

Mueller also said he was unwilling to appear before Congress as his comments would not go beyond the information in the 448-page report, and that he will be closing the office of special counsel down and retiring to private life. Well, good for you, Robert Mueller, because you are the only one who got any kind of closure after that less-than-10-minute speech.

House Democrats and Democratic presidential candidates immediately began to call for impeachment proceedings against President Trump, while Trump said the report and Muellers remarks completely exonerated him. This issue will likely continue to plague the news cycle through the 2020 election.

Summer Swoon: Yields Drop as Fears of a Global Slowdown Begin to Take Hold

Who remembers last fall, when the markets freaked out about the Fed raising rates too quickly? Now markets are betting well see a rate cut this year.In fact, the odds are above 80% that we will see a cut this year. But be careful what you wish for. Fears of global growth as evidenced by slumping oil prices and the ongoing trade disputes have driven investors to U.S. Treasuries. As we all know, as bond prices rise, yields fall; since folks are flocking to the safety of government bonds and increasing demand, prices naturally go up and yields drop. The 10-year UST was hovering around 2.16%, down 34 bps from a month ago and down 70 bps from one year ago. The 10-year UST has inverted against the three-, six- and 12-month Treasury, which means you are rewarded more for investing for a shorter period of time. Why would you want to tie your money up long term if the return isnt there? This is also a measure of confidence in future economic growth and based on these rates its not a rosy picture. The most common inversion metric is still the two-year UST and 10-year UST, both of which have NOT inverted yet. With all the turmoil over tariffs, talk of slowing global growth, and the toxic environment in Washington, its no surprise that investors are jittery.

WHAT'S COMING UP THIS WEEK

- More Fed officials will be stepping up to the mic this week. It will be interesting to see if their comments begin to shade toward talk of a rate cut. It might be what gets the markets off the doom-and-gloom train theyve been riding in the last month.

- Mortgage rates are below 4% for the first time this year, so its time to see if the housing market starts perking up. We are scheduled to get a lot of data this week, from construction spending to mortgage applications. Also, factory orders and car sales will highlight the state of the economy.

- On Friday, well get a reading of the BLS employment situation, looking at non-farm payrolls for May. Aprils reading was 3.6%, the lowest since 1969. Its hard to imagine that number going lower, but a strong employment report might be a little cold water to remind us that things are not as gloomy as they seem.

Have a great week!