WEEKLY MARKET COMMENTARY

THE WEEK IN REVIEW: June 23 - 29, 2019

THE WEEK THAT NOTHING HAPPENED!

Remember the Seinfeld episode where Jerry and George went to see NBC executives to pitch them on an idea for a new show about nothing? No plot, no stories. Thats what the market did last week, with the Fed meeting from the week prior in the rearview mirror and all eyes focused forward on the G20 meeting between President Donald J. Trump and Chinese President Xi Jinping in Japan.

The market had a very strong month, coming in as the best June since 1938 after a very sloppy May. With the Fed signaling it was open to lowering rates and the announcement that Presidents Trump and Xi would finally meet after trade talks collapsed in May, the market took off to finish another strong quarter.

WHAT DOES SUCCESS LOOK LIKE IN JAPAN?

Like this plate of sushi, success at the G20 summit in Osaka can be simple yet complicated.

On the surface short of Trump or Xi walking out on each other and killing any chance of a deal or announcing all is forgiven tariffs come off and we have a deal. That simply will not happen; the best we can hope for from the summit is cordial mutual consent from both men that talks will continue, new tariffs will be postponed and news that we are working toward a deal. The markets will react to this diplomatic nothingness and probably rally during this shortened week.

Complications will arise as we proceed on the path toward a deal. The U.S. doesnt want to lift tariffs until they see China is abiding by the terms of any agreement, not just agreeing to an agreement. In fact, the U.S. has threatened to place a 10% tariff on the remaining $300 billion in Chinese exports to the U.S. China wants all tariffs to be lifted immediately, but that would be a problem given that tariffs are the only thing that forced them to the table in the first place.

China also doesnt want to agree to accept more imports from the U.S. We want them to import $300 billion; they were reluctant to import $200 billion and had only imported $120 billion in 2018. Allowing more U.S. imports would force greater competition in the Chinese market, and they dont want to compete.

Another big stumbling block is that China is insisting the U.S. remove its ban on the sale of U.S. technology to Huawei Technologies Inc. To put it bluntly, the company is using (stealing) our technology to spy on us and its own citizens and when we say we have national security and human rights concerns, they complain that we wont sell them the components they need to spy on us and their people. I think this one might be the canary in the coal mine: If China budges on intellectual property (IP) theft, we will get a deal very quickly. Did I mention they dont like to compete?

WHOS HOLDING WHAT CARDS?

Since Trump has taken office, the U.S. stock market has returned 13%

annualized, and since Xi has taken office the Chinese market has returned 4%. If thats any measure, then we have the stronger economy. Chinas economy is slowing, and there has been internal turmoil in Hong Kong. They need us far more than we need them.

China does have a chummy relationship with North Korea, with whom we are trying to secure lasting peace. If Xi thinks he can leverage that into the deal, he may be sorely disappointed. Trump is simply not a statesman ... to paraphrase Ronald Reagan, You, sir, are no Woodrow Wilson. Trump has no desire to make the world safe for democracy; he simply wants a trade deal. If the Chinese dangle North Korea in front of him, he will simply say thats another deal to be done on another day.

When push comes to shove, China has a lot more to lose than we do, and the longer we keep pressure on, the better deal we will get. Given our history with China and trade, any movement to a more balanced arrangement would be a win and put us in a far better place than we have ever been with China.

WHAT ELSE IS HAPPENING?

Iran has been stewing but was quiet last week. While were not out of the woods with that situation, no news on the Iran front contributed to keeping markets calm.

Bitcoin rose to $14,000 last Wednesday, its highest since January 2018 and up from $3,600 six months ago. However, on Thursday it dropped 20% to trade at around $10,500.

COMING UP THIS WEEK

- Markets should react this week following the wrap-up of the G20 summit. The Purchasing Managers Index (PMI) will be reported this week and some Fed officials will be speaking, but China trade talks should dominate the market.

- Markets will close at 1 p.m. Eastern on July 3 and stay closed through July 4 for our nations 243rd birthday. Happy birthday, America! God bless you!

- The employment situation will be reported on Friday. Reaction will be muted; markets are open on Friday, but trading will be light since many Americans are taking a long holiday weekend.

Have a safe, happy week and enjoy the 4th of July!

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Index Performance Returns (%)					
	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500:	-0.27%	18.54%	10.42%	14.19%	10.71%
S&P MidCap 400:	0.96%	17.97%	1.36%	10.90%	8.02%
Russell 2000:	1.16%	16.98%	-3.31%	12.30%	7.06%
NASDAQ:	-0.32%	20.66%	6.60%	18.24%	12.68%
MSCI ACWI:	0.03%	14.88%	3.61%	9.44%	4.07%
MSCI EAFE:	0.65%	14.03%	1.08%	9.11%	2.25%

Source: Morningstar

Interest Rates		
	6/28/2019	6/21/2019
UST 10-YR Government Bond Yield	2.00%	2.07%
German 10 YR:	-0.36%	-0.28%
Japan 10 YR:	-0.15%	-0.17%
30 YR Mortgage	3.80%	3.92%
Oil	$58.47/ppb	$57.43/ppb
Regular Gas	$2.74/ppg	$2.76/ppg

Source: Bloomberg

All data as of June 28, 2019