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20th Anniversary 1999 - 2019

Weekly Wrap Up • August 19-23, 2019 • formanis.com

What happened in the markets last week?

by David Abuaf - Investment Manager, RJFS

News for the Week

General Markets / Economic

1. A prolonged dollar rally is pressuring US corporate earnings, hitting commodity prices and threatening to deepen a selloff in emerging markets
2. Authorities are at odds over what, if anything, they can do to stop billions of illegal robocalls transmitted over the internet
   a. Large telecom firms and attorneys general from every state unveiled a new pact for combating said robocalls
3. The Business Roundtable, a group that includes leaders of some of America's biggest companies, said corporate decisions should no longer be based solely on what is best for shareholders
   a. Expect Hedge Funds and Proxy Firms to challenge this notion in the coming years!
4. A group of states is preparing a joint antitrust investigation of big technology companies
5. Existing home sales rose 2.5% in July, a sign lower mortgage rates may have started to spur buying
6. Germany sold 30-year debt at a negative yield for the first time!
   a. This means investors are PAYING Germany to borrow from Germany!
7. Insurers are expanding Obamacare offerings, as they (insurers) are generating stronger profits
8. An index of factory activity in August declined in the US, Japan, Germany, and the eurozone

Company News

1. Debt reduction at AT&T along with other companies is helping the lowest group of investment grade bonds to outpace other tiers
2. Do you know how ridiculous corporate CEOs are? Viacom's Bakish, who will become CEO of the combined Viacom-CBS, has signed a deal that gives him a 55% raise in total compensation!
3. Bayer is selling its animal health business to Elanco for $7.6B amid mounting legal liabilities from its Roundup herbicide
4. Walmart is suing Tesla, alleging that some of Tesla's solar panels sparked roof fires at several of the retailer's locations

Interesting Stories

1. Out of Germany, a 24y/o 'Klaus' was having an argument on a city street. This argument so disturbed others that police were called. Once detained, the officers noticed a rather large bulge from his trousers. Klaus said "don't be scared, that's just Ernie" – Ernie is a 14in baby king python that was in Klaus' pants.
2. In St. Louis, TV reporter Laura Hediger was looking for a way in which to make her report more interesting. So, what did she do? She had 20+ references to her favorite pop star's song titles – it was Taylor Swift. Taylor found and shouted out Laura's name to all her twitter followers!

Turning Back the Clock to 1999

August 31, 1999: "Fly," the fifth studio album by the Dixie Chicks is released.

Weekly Commentary

This past week was supposed to be about Federal Reserve Chairman Jerome Powell's Friday speech in Jackson Hole, Wyo. Instead, Donald Trump and Xi Jinping decided to crash the party.

The fun started on Friday morning, when China announced new tariffs on $75 billion of U.S. goods and a resumption of penalties on U.S. cars. Surprisingly, the market handled it pretty well. U.S. futures markets dipped into the red, but only a bit, and the market appeared ready to shrug off the news, particularly after Powell stuck to his message: The Fed will "act as appropriate to sustain the expansion."

That wasn't enough for the president. "My only question is, who is our bigger enemy, Jay Powell or Chairman Xi?" he tweeted. From there, he turned his wrath on China and "ordered" U.S. companies to "immediately start looking for an alternative to China." Now that's escalation—even if it's unclear whether the president can legally do that. (Trump later upped the ante by announcing another tariff increase of five percentage points on Chinese goods.)

Stocks were not thrilled. "The market is wondering if the trajectory of negotiations is going off the rails," says Quincy Krosby, chief market strategist at Prudential Financial. The Dow Jones Industrial Average slid 623.34 points on Friday, ruining what had been a decent week. The Dow declined 257.11 points, or 1%, to 25,628.90 for the week, while the S&P 500 fell 1.4%, to 2847.11, and the Nasdaq Composite dropped 1.8%, to 7751.77.

Indeed, the stock market is holding up better than might be expected. After Friday's drop, the S&P 500 sits 5.9% below its all-time high, well above the 10% threshold for a correction. The index didn't even touch its recent low of 2840.60 reached on Aug. 14 and remains up 13.6% this year.

"Given the gains that were already booked through July, I would have expected a bigger selloff," says David Donabedian, chief investment officer of CIBC U.S. Private Wealth Management. "The market is very resilient." To be sure, that was before Trump upped the ante by announcing another tariff increase of five percentage points on Chinese goods.

The question is how long can it stay that way? While Donabedian acknowledges that the next move is probably lower, he remains optimistic. One reason is the Fed. Some observers were disappointed that Powell didn't signal a bigger rate cut in his Jackson Hole speech, but Donabedian says he got it just right. "The market was up on Powell's speech, which made it clear that we should expect another rate cut at the September meeting," he says. "If Powell did it in one fell swoop of 50 basis points or more, it would smack of panic."

But with the trade war escalating, the worry is that Friday's selloff could turn into something more. By RBC Capital Markets chief U.S. equity strategist Lori Calvasina's metrics, the market is still overpriced and overcrowded, and it will take still more declines to remove those headwinds. She wouldn't be surprised to see the S&P 500 fall to about 2725, or about 10% from its high. If it does, then it could fall another 15% to 20%, and find support around 2400 to 2500, signaling what Calvasina describes as a "growth scare." And if that breaks? "The market could lose a third of its value," Calvasina says, as it prices in a recession.

But we're getting ahead of ourselves. For now, we'll watch for that 10% drop —and hope for the best.

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