Strong Economic Reports and Trade Negotiations Push Stocks Higher

U.S. equities continued their ascent last week, buoyed by the signing of the phase one trade deal with China and evidence that the economy may be improving. The S&P 500® index added 2.0 percent, bringing its gain for the year to 3.1. It was the best weekly gain since the end of August. Dating back to the second week in October, the index has risen in 13 of 15 weeks and returned 13 percent.

The trade deal with China has its critics, and is somewhat vague in terms of details, but it does represent progress and a lowering of tension in the trade war that dates back almost two years. It offers the promise of relative trade peace with China for most of the year ahead, as the phase two discussions are expected to extend beyond the U.S. presidential election. And the agreement does provide for regular communications between the two sides. It does, however, leave in place many of the tariffs that have been imposed, extending the hardship for those goods producers directly affected, and leaving in place questions regarding supply chains.

North America Trade Negotiations Provide Clarity for Investors; Retail Sales and Housing Starts Look Positive for the Economy

There was more good news on trade last week as the Senate overwhelming passed the United States, Mexico and Canada Agreement (USMCA), or new North American Free Trade Agreement (NAFTA). Mexico has already ratified the deal, and Canada is expected to do so by the end of the month. And while the new agreement is not considered transformational relative to NAFTA, it is generally viewed as an improvement, and provides clarity where before there was uncertainty. And finally, over the weekend the U.S. and France agreed to a year-long cease fire in the dispute over France’s digital tax and the U.S.’s retaliatory tariffs. Both sides are deferring, for the time being, to an international framework being developed by the Organization for Economic Co-operation and Development (OECD).

The U.S. economy got an additional boost from several economic reports. December retail sales were stronger than expected, especially after backing out automobile sales. And the headline November increase was revised modestly higher. Housing starts in December blew away even the most aggressive forecasts, rising 16 percent from November compared to a consensus forecast of 1.1 percent. And while the headline industrial production number declined in December, the weakness was mostly confined to utility production due to mild weather. Manufacturing production, however, rose 0.2 percent¹, suggesting a degree of stabilization in the sector. And the preliminary January report on consumer sentiment remained elevated.
Investors Keeping an Eye on the Eurozone and Q4 Earnings

In the Eurozone, industrial production rose modestly in November after declining in October, although the region remains weak. Germany grew by just 0.6 percent last year, its slowest pace since a 0.4 percent gain in 2013 and represents a sharp deceleration from 2017 when growth totaled 2.5 percent. China, in contrast, reported a degree of stabilization as the year ended, reporting full-year growth of 6.0 percent, including stronger than anticipated December results for industrial production, retail sales and fixed investment (according to FactSet).

Somewhat lost in the focus on trade and politics is fourth quarter earnings season, which is now in full swing. Bank earnings were generally positive, especially for those not burdened by litigation talks. This week’s reports include IBM, Netflix, J&J, P&G, Intel, American Express, as well as several airlines and a host of regional banks. At this stage, earnings are projected to decline 2.1 percent. But only approximately ten percent of companies have reported so far, so that total is expected to improve, perhaps enough to deliver a positive result when all is said and done.

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1 The Fed – Industrial Production and Capacity Utilization – G.17
2 S&P 500 Earnings Season Preview: January 21, 2020, FactSet Insight.

The Standard & Poor’s 500 Index (S&P 500® Index), an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees.

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