

Weekly Markets Commentary

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Investors Await Developments on Trade Negotiations and Brexit

With little domestic news on either the policy or economic front, U.S. equities were virtually unchanged last week. The S&P 500 did close fractionally higher but failed to push above its 200-day moving average. Not helping matters were reminders from the White House that trade talks with China were far from any agreement, and from Europe concerning its ongoing economic slowdown and the challenges for monetary policy of Brexit uncertainty. While investors await further developments on these issues, the dearth of market-moving news resulted in the VIX index ending the week at 15.7, well down from the 36.1 reading of Christmas Eve.

Bond investors focused on the sluggish economic data coming from Europe, where industrial production in December fell for the fourth straight month in both Germany and Italy, and the European Commission lowered its 2019 European Union (EU) growth forecast from 1.9 to 1.5 percent. The yield on the ten-year German Bund fell seven basis points to 0.09 percent, its lowest level since October 2016. Bond yields in the U.S. followed suit, as the ten-year Treasury note fell five basis points to 2.63 percent, while the two-year slipped four basis points to 2.47 percent. Credit spreads were little changed on the week, but as with other asset categories, did weaken later in the week following the softer data out of Europe.

Uncertainty Around Brexit Weighs on the UK's Economic Outlook

The March 29 Brexit deadline is now less than fifty days away, and the possibility of a no deal crash out of the European Union remains a distinct possibility. The International Monetary Fund (IMF) has warned of the longer-term negative economic implications of such an outcome, but UK markets have been relatively calm of late. The pound sits right in the middle of its six-month trading range against the dollar at 1.29.

The FTSE 100 stock index is basically unchanged in four months, and higher by five percent so far this year. The broader FTSE All-Share index is ahead by a similar amount. But the uncertainty surrounding Brexit was captured by Bank of England governor Carney on Thursday when he referred to the “fog of Brexit” while announcing a sharply lower growth forecast for the UK economy in 2019, from 1.7 to 1.2 percent, while also keeping rates on hold.

Investors Keeping an Eye on Negotiations at Home and Abroad

Trade talks between the U.S. and China are scheduled to resume this week in Beijing. And while both sides are saying that the discussions have been

constructive, the U.S. side has warned that serious issues remain and that the two sides are far from an agreement. The March 1 negotiating deadline is just three weeks away.

Back home, the congressional committee charged with hammering out an immigration bill, and keeping the government open past Friday, has reported some progress. Republican Senator Shelby said an agreement could be reached as early as Monday of this week, although subsequent reports said that negotiations broke down over the weekend. Although the president has been briefed on the bi-partisan negotiations, it remains to be seen whether he will sign whatever bill the committee might produce.

The economic calendar ramps back up somewhat this week, with scheduled reports that include December retail sales, January Consumer Price Index (CPI), industrial production and small business sentiment, and February consumer sentiment. Earnings in the U.S. are two-thirds complete and are growing at a projected rate of 13.3 percent according to Factset. First quarter estimates have now dropped to -1.7 percent, with full-year growth expectations at five percent. Domestic Chinese markets resumed trading on Monday following their week-long closure for the Lunar New Year and were broadly higher. Stocks in Hong Kong traded on Friday, and were fractionally lower, but joined to move higher on Monday.

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The S&P 500 is an index containing the stocks of 500 large-cap corporations, most of which are American. The index is the most notable of the many indices owned and maintained by Standard & Poor's, a division of McGraw-Hill.

The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) is a widely used measure of market risk. It shows the market's expectation of 30-day volatility. The VIX is constructed using the implied volatilities of a wide range of S&P 500 index options.

U.S. Dollar Index: Indicates the general international value of the U.S. Dollar by averaging the exchange rates between the U.S. Dollar and six major world currencies.

The FTSE 100 is a market-weighted index of the 100 leading companies traded in Great Britain on the London Stock Exchange.

The FTSE All-Share Index represents the performance of all eligible companies listed on the London Stock Exchange's (LSE) main market, which pass screening for size and liquidity. The index captures 98 percent of the UK's market capitalization.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

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