# Weekly Markets Commentary

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## Investors Wait for Clarity on the Global Economic Outlook

Global equity markets finally succumbed to the worry that economic activity is slowing. A lower growth target in China was followed by a sharp downgrade of growth expectations in the Eurozone by the European Central Bank (ECB), and a shockingly small gain in new jobs in the U.S. Taken together it was enough to push some investors to the sidelines, eager to take their profits from the rally off the December low, and wait for greater clarity on the economic outlook. It didn't help that there was little news regarding the U.S.-China trade negotiations, causing speculation that progress had slowed. For the week, the MSCI All Country World index fell 2.1 percent, its first weekly loss in the past four, and just the second this year. Notably, the index fell on each of last week's trading sessions and has now fallen in eight of the past nine. The same is true of the S&P 500.

Especially challenging for investors is trying to determine whether the soft data is more than just a temporary slowdown, especially with doubts about the accuracy of the data, at least in the U.S. Lingering effects from the government shutdown have raised questions about the data going all the way back to December. The wide miss on the number of expected new jobs in the February labor report is just the latest example. Given the predisposition of the U.S. economy to deliver generally soft growth in the first quarter anyway, the sloppy series of government reports lately has further clouded the outlook. We may have to wait for March data, or even for the full second quarter data to get a truly accurate picture of the U.S. economy. Slow growth globally is more of a concern. Supported by tax cuts and a stimulative federal budget, the U.S. had remained mostly insulated from the slowdown overseas. But the worry is that weakness overseas is finally starting to hit home, exacerbated by the disruption of lingering trade tensions.

But that is not our base case. With abundant fiscal stimulus still in the pipeline, a strong labor market and strong consumer balance sheets, and monetary policy on pause, we believe the U.S. economy remains fundamentally sound and, after a weak first quarter, is likely to once again deliver above-trend growth this year.

For much of the rest of the world, China remains the economic fulcrum. The importance of Chinese trade to the Eurozone, especially Germany, and the gravitational pull of the Chinese economy throughout Asia and emerging markets in general makes what happens in China vitally important. Last week, China established its official growth target for the year as a range of 6.0-6.5 percent, down from last year's 6.5 percent growth target, and 6.6 percent actual result, which was the slowest pace in more than twenty years. In setting the lower target range, China cited a number of headwinds, including the trade war with the U.S. as a contributing factor, and faces the delicate task of promoting growth on the one hand through a series of stimulus measures, and managing a growing pile of debt.

How successful China will be remains to be seen. The latest flash reading on the manufacturing sector showed signs of stabilization, but it remained in contraction. And the latest data on exports last week showed a sharp decline, although that was likely distorted by the Chinese New Year. But even averaging the data from the first two months of the year, exports were down almost 5 percent (according to official trade data). Chinese stocks fell sharply on Friday following the trade data but have rebounded somewhat in early trading this week. Scheduled economic reports this week include data on investment, industrial production, and retail sales.

The U.S. economic calendar is quite full this week as well, including reports on January retail sales, February producer and consumer prices, durable goods, new home sales, industrial production and consumer sentiment. In Europe, Eurozone industrial production for January is expected for release on Wednesday. That follows today's unexpected drop in German industrial production in January. In the United Kingdom, parliament is scheduled to vote on the government's Brexit plan on Tuesday.