Weekly Markets Commentary

Sept. 9, 2019

David Joy
Chief Market Strategist,
Ameriprise Financial

"It goes without saying that in any negotiation, talking is better than not. But the realistic chances of a meaningful breakthrough in the trade negotiations anytime soon would seem to be remote."

Global Central Banks Insist They Have a Winning Strategy

Risk assets continue to be held hostage to the latest developments on the U.S.-China trade front. Stocks began last week trading lower but soon turned around following Wednesday's announcement that the two sides would meet in Washington in October. The subsequent rally took the index to its highest level since the start of August, and to within 1.5 percent of its record high. The yield on Treasury securities traced a similar pattern. After closing the previous week at 1.50 percent, the ten-year note traded as low as 1.43, before rising with the trade news to end the week at 1.56 percent. The two-year note also rose to 1.56 percent from its prior week's close of 1.51.

It goes without saying that in any negotiation, talking is better than not. But the realistic chances of a meaningful breakthrough in the trade negotiations anytime soon would seem to be remote. It is even possible that the U.S. political calendar may play an increasingly important role. President Trump may feel a rising temptation to forge a deal that he can point to on the campaign trail. President Xi, on the other hand, may see a narrowing time frame he must endure until after the U.S. election, if he chooses to wait. But for now, both sides have their lines in the sand and neither party seems interested in offering concessions. And yet investors seem more than willing to latch onto any sliver of hope that a deal can be struck.

U.S. Economic Activity Continues to Slow; Central Bankers Insist Their Policies are Working

Meanwhile, the latest batch of economic news offered further evidence that activity continues to slow. In the U.S., manufacturing activity slipped into contraction in August for the first time in over three years. And the August jobs report was less robust than forecast. In Germany, flash manufacturing and industrial production reports continued to weaken, and export volumes in China slowed more than anticipated. In all three countries, however, the service side of the economy continues to show some resilience.

This sets the stage for the next round of central bank activity. This week it is the European Central Bank's turn. Investors expect a substantial new round of easing, with action on both rates and quantitative easing. And the chances for such a package may be enhanced by the fact that Mario Draghi is stepping down and turning the reins over to Christine Lagarde. Next week it is the Fed's turn, and another quarter point rate cut is expected. Last week, China lowered its banking reserve requirement.

Central bankers insist that their policy tools remain effective, even in countries with negative interest rates and slumping business confidence. But many observers are skeptical, insisting that interest rates are already low enough, and pushing them lower still is not the right medicine. The effectiveness of monetary policy, given current conditions, will soon be tested.

Retail Sales Numbers Will Provide a Look into the Mindset of the Consumer

August retail sales headline this week's economic calendar in the U.S. The consumer sector has been doing the heavy lifting to keep the economy chugging along, and any cracks in that activity would be somewhat foreboding. The preliminary September report on consumer sentiment will also provide some insight into the consumer mindset, especially after the August survey suffered a surprisingly steep decline. Producer and consumer price reports are also scheduled.

Important Disclosures:

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances.

Past performance is not a guarantee of future results.

Indexes are unmanaged and are not available for direct investment.

Ameriprise Financial Services, Inc. Member FINRA and SIPC.