Weekly Markets Commentary

Oct. 7, 2019

David Joy
Chief Market Strategist,
Ameriprise Financial

"Although the White House continues to string along investors hoping for a comprehensive deal by continually hinting at progress and breakthroughs, the likelihood of a resolution to the standoff anytime soon seems to be remote, especially in light of reports that China now wishes to focus on a narrow set of issues, and president Trump is dealing with an impeachment inquiry."

Trade, Earnings and Weak Data Weigh on Investors' Minds

Last week, the Citi Economic Surprise Index for the U.S. declined for the first time in fourteen weeks, dating back to June 28. Pushing the index lower was a virtually uninterrupted string of weaker than expected economic reports, beginning with the ISM report on manufacturing activity. Instead of bouncing back to a growth reading as expected, after slipping into contraction in August, the index fell even further as the manufacturing sector remains under pressure from trade policy and sluggish global economic activity. That was followed by an equally surprising slowdown in the service sector activity report, although it continues to grow. But it was the weakest reading in three years. Factory orders also disappointed, and private sector capital goods orders for August were even weaker than indicated in the preliminary estimate.

Then it was the labor market's turn. In truth, the September jobs report was pretty good overall. The unemployment rate fell to a 50-year low at 3.5 percent, and job growth continued to broaden. The 136,000 jobs created were slightly fewer than expected, but the previous two months total was revised higher. If there is anything to take exception with, it is the decelerating pace of job creation. The average monthly jobs growth in the last six months is 155,000. That is still solid growth, but lower than the 203,000 average of the previous six months, and the 216,000 total from the six months before that. And the absence of growth in the pace of average hourly wages had little to recommend it other than helping to suppress inflation, which the Fed believes is already too low.

The Economy Continues Slow Growth; Investors Paying Close Attention to Trade

Overall, the economy continues to grow at an acceptable, but less than inspired pace, as consumers benefit from full employment while manufacturers suffer from trade policy uncertainty. The Atlanta Fed's GDPNow model estimates third quarter growth of 1.8 percent. And following last week's disappointing economic reports, the odds of another Fed rate cut in October jumped from 40 percent to 79 percent. And credit spreads widened modestly for the second straight week.

Trade policy will once again be center stage this week as talks resume in Washington. Although the White House continues to string along investors hoping for a comprehensive deal by continually hinting at progress and breakthroughs, the likelihood of a resolution to the standoff anytime soon seems to be remote, especially in light of reports that China now wishes to focus on a narrow set of issues, and president Trump is dealing with an impeachment inquiry.

And any hopes for relative calm on the trade front were quickly dispelled with last week's announcement of new U.S. tariffs on a range of European goods in retaliation for what were determined by the World Trade Organization (WTO) to be illegal subsidies for Airbus.

Q3 Earnings Season Begins; the Federal Deficit Continues to Climb

Third quarter earnings season begins amid expectations for a third consecutive year-over-year decline. According to Factset, earnings will shrink by approximately 4 percent, following smaller declines in the first and second quarters. Several companies will report results this week, with the big banks following next week.

Lastly, the Federal fiscal year came to a close last week, with a projected deficit of $960 billion according to the Congressional Budget Office, a 17 percent increase over 2018. Assuming that turns out to be the actual total, it is expected to be the last sub-one trillion-dollar deficit looking out over the CBO's ten-year forecast horizon, not that anyone in Washington seems to care.

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. Individual securities referenced are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell.

The Citi Economic Surprise Index measures the pace at which economic indicators are coming in ahead of or below consensus forecasts.

The GDPNow forecasting model provides a nowcast of the official estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed.

Past performance is not a guarantee of future results.

Ameriprise Financial Services, Inc. Member FINRA and SIPC.