

Market Currents

- **Upwards Momentum.** Despite an uptick in volatility amid the impasse in trade talks and mixed economic data, US equities registered their third straight quarterly gain, adding further to the solid start from the first half of the year.
- **US-China Trade Relations.** Trade negotiations between US and China continue to dominate headlines. The fractious trade talks over the past year and a half has been a stark reminder that the strategic trade policy differences between the world's two largest economies will not be easily overcome.
- **Trade Talks Continue.** We suspect that a comprehensive trade deal will likely be achieved only after the 2020 US election, but remain hopeful for the prospects of a “skinny deal” nearer term. The latest rounds of trade talks were deemed “constructive” from both sides, and the resumption of China's purchase of US agricultural goods demonstrates a positive development, and a level of willingness, in working towards a solution.
- **Fed Action.** The Federal Reserve lowered interest rates by a quarter of a percentage point in September – the second time in three months – in an effort to sustain the expansion against a complicated economic backdrop. The move itself is a significant pivot for the central bank, having raised rates four times in 2018. Rates overseas are far lower than in the US, with over \$13 trillion of sovereign debt yielding negative rates.
- **Bifurcation in US Economy.** Growth anxieties—largely driven by trade issues—are on the rise both domestically and abroad. Global manufacturing activity, in particular, has been weakening, and some forward-looking surveys are beginning to suggest actual contraction. In contrast, the consumer sector remains healthy, though, driven by solid jobs growth, wage expansion, and rising confidence. Housing, too, is getting a nice boost from the recent decline in interest rates.
- **Outlook for 2019.** The ongoing trade negotiations (of lack thereof) with China are driving sharp market moves, both up and down. Though we believe the countries involved would want to avoid self-inflicted economic stress, the situation is very fluid, and it remains to be seen whether a favorable trade deal can be negotiated. We also keep a close eye on how the service sector, which makes up the bulk of the US economy, reacts to the softening manufacturing industry. Otherwise, the return of accommodative central banks, low interest rates, subdued levels of inflation, and still-growing global economies should lend a degree of support to risk assets.