

Market Currents

- **New Highs.** 2019 is shaping up as a very solid year for investors, following the losses incurred in 2018. Nearly all risk asset classes are up nicely for the year. U.S. stocks continue to add to their recent momentum, breaking out to the upside and setting new highs. Driving the bulk of the bullish sentiments is the de-escalation in the U.S. – China trade tension, the prospects of a “phase one” deal, and the accommodative interest rate cuts from the Federal Reserve.
- **US-China Trade Relations.** The potential signing of a “phase one” U.S. – China trade deal, and the rollback of some tariffs, have contributed significantly to the recent rally. We do, however, note that none of the proposals has yet to be memorialized in deed. A deal, when signed, would be seen as a step in de-escalating trade tensions between the world’s two largest economies.
- **Trade Truce for 2020?** While we do not expect a comprehensive trade deal to be reached before the 2020 U.S. election cycle, we are hopeful for a “trade truce” between now and the election. The escalation of the global trade war during the summer led to a rapid rise in recession fears and a shock to the stock market, something we suspect President Trump will be keep to avoid as he seek to win a second term in the White House.
- **Q3 Corporate Earnings.** We are near the end of the third-quarter earnings season. Earnings surprises have been to the upside, and have provided a welcome tailwind to the market. The quarter’s earnings are actually slightly *lower* than the year-ago quarter—but they are better than had been feared. Companies have shown resilience against a backdrop of tariffs and wage inflation, and most are sounding a more optimistic tone than in recent quarters.
- **U.S. Economy’s Bifurcation Persists.** Growth anxieties—largely driven by trade issues—remain present, both domestically and abroad. Global manufacturing activity, in particular, has been weakening, and some forward-looking surveys have suggested actual contraction. Other data suggest a bottom is forming and better times lie ahead. The services side of the economy remains in expansion mode. Upside surprises in payrolls have reinforced the strength of the labor market and consumer.
- **Outlook for 2020.** Our market view remains cautiously optimistic that the current expansion can continue. A lot will depend on whether there is any re-escalation in trade conflict, but we believe the prospects of a trade truce in 2020 should provide a degree of support to risk assets. Easier monetary and fiscal policies are in motion globally, with majority of the benefits expected to flow through the economy in the coming quarters. Outside of trade, we are keeping a close eye on how the service sector reacts to the softening manufacturing industry, and whether investor sentiment is too optimistic. We stand ready to modify our investment strategy as events warrant.

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12/10/2019