

Market Currents

- **A Turbulent August.** Stocks posted only their second negative monthly performance for the year, as rising trade tensions between the US and China soured market sentiment. Weak global manufacturing data, as well as the inversion of the 10-year and 2-year Treasury yield curve, added to concerns. Emerging markets led foreign equity markets lower, while a flight to quality and a surge in negative-yielding foreign bonds pushed major US fixed income sectors higher for the month.
- **US-China Trade Issues.** The tone of the month was set on its first day, when an abrupt change in trajectory in US-China trade negotiations roiled markets, and lent a stark reminder that the strategic trade policy differences between the world's two largest economies will not be easily overcome. President Trump announced plans to impose yet another round of tariffs on imports from China, which would impact consumer goods and be felt unmistakably by US households. Predictably, China retaliated, and temporarily allowed the RMB to weaken below a psychologically significant level, signaling that the country may be willing to utilize currency as a trade leverage tool.
- **Easy Money Returns.** After cutting interest rates for the first time since 2008 in July, the Federal Reserve is expected to implement another rate cut in September. Nearly all major central banks from around the world have either followed US in cutting rates, or are poised to do so.
- **Yield Curve Inversion.** The temporary inversion of the US yield curve (meaning that the interest rate of short maturities exceeds that of longer maturities) spooked investors. Historically, the yield curve is viewed as a precursor to upcoming recessions. While we ascribe this inversion instance as largely tied to the downward pull of exceptionally low, even negative, interest rates overseas, it remains a caution flag that we are keeping an eye on.
- **Weak Manufacturing vs. Strong Consumers.** 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 the US, we are concerned about a slow but persistent auto slowdown, and its knock-on effects within the broader economy. The consumer sector remains healthy, though, driven by solid jobs growth, wage expansion, and rising confidence.
- **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. Outside of trade, 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.