Commentary June 30th 2018

An article in the Saturday June 30th edition of the NY Times titled "Trade Tensions Temper Markets' Gains" summarized what had occurred in the previous day's stock market by stating the "Dow rose as much as 293 points in the middle of the day, but those gains eroded as investors focused on trade concerns". (NY Times June 30th 2018) "Trade Tensions Temper Markets' Gains" is an apt title not only for the market activity of June 29th but the entire second quarter of 2018. The Dow Jones Industrial Average spent most of the period stuck in a 1000 point range between 24,000 and 25,000. It would occasionally break out, as the lows and highs for the quarter, 23,344 and 25,402, respectively, indicate. Prices would not remain at these outliers very long, and quickly reverted to the 24,000 – 25,000 domain for which investors were comfortable. (Barrons June 30th 2018) It would have been imprudent to abandon stocks altogether, with a strong U.S. economy, rising corporate profits and record levels of employment acting as tailwinds. Mounting concerns over trade dictated when to sell and take profits.

The DJIA was up 0.7% for the 2nd quarter, while the S&P 500 increased a respectable 2.9%. The NASDAQ jumped 6.3% while the Russell 2000 advanced 7.4%, with both setting records in the last week of June. (Wall St. Journal June 30th 2018) The Dow is more prone to trade related restraints than the other indices, as its multi-national constituents such as Boeing, MMM and Caterpillar receive a significant amount of revenue from overseas.

Globalization has played a major role in driving corporate earnings. Analysts say protectionist policies and the imposition of tariffs would impede growth, already showing signs of weakening. Negotiations between the U.S. and China, Germany and NAFTA partners are closely monitored. Any news of an accommodation or tariff relief is positive for stocks and prices rise accordingly.

Trade concerns impact the bond market as well as the stock market. The 10 year Treasury note briefly topped 3% before trade issues drove investors to the safety of government debt, resulting in increasing prices and yields of 2.85%. (Wall St. Journal June 30th 2018) Bond prices and yields move (in opposite directions) amid expectations for the pace of growth and inflation. The yield of the 10 year Treasury note is important because it is tied to interest rates that affect borrowing costs for consumers, businesses and municipalities.

Renewed threats from President Trump to impose additional tariffs and restrictions on countries such as China and Canada followed by promises of retaliation are the primary reasons why the stock market has been range bound for the past few months. The goodwill engendered by last year's tax bill would be negated by tariffs and trade restrictions, and a trade war would derail global economic activity. It is in our best interests to find a solution, even if it takes a lot of posturing. The market view is that tough trade talk from the Trump administration is a necessary prelude to some kind of negotiated deal. That may well be the ultimate outcome, as the President seems to view his success through the lens of a higher stock market.

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