

## Week in Review: Stock Market Rallies with Optimism Surrounding Fed and U.S.-China Trade Relations

The S&P 500 rallied 4.9% this week, helped by the Fed softening its policy stance and by hope that U.S-China trade tensions would be meaningfully eased at the G-20 Leaders Summit. For the month, the benchmark index rose 1.8%.



Meanwhile, the Dow Jones Industrial Average gained 5.2%, the Nasdaq Composite gained 5.6%, and the Russell 2000 gained 3.0%. For the month, the respective indices gained 1.7%, 0.3%, and 1.5%.

The stock market had one of its best days of the year on Wednesday when Federal Reserve Chair Jerome Powell said he sees current interest rates “just below” neutral. That proved to be a rally point because the language Mr. Powell used in early October indicated a view that the fed funds rate was “a long way from neutral.”

Mr. Powell added that there is no preset policy path, and the Fed will be data-dependent in its decision making, which pleased investors. By highlighting risks, though, that included previous rate increases, trade disputes, and Brexit/EU political uncertainty, the market chose to read

between the lines that the Fed chair isn’t wedded to three rate hikes in 2019.

On a related note, the FOMC’s minutes from its November 7-8 meeting, which were released on Thursday, did nothing to upset the notion that the Fed will be hiking rates next month; the CME FedWatch Tool puts the chances at 82.7%.

Regarding U.S.-China trade, President Trump and President Xi are to take the G-20’s main stage when they discuss trade matters over dinner on Saturday. U.S. Trade Representative Lighthizer said that he would be surprised if the dinner meeting was not a success. Perhaps causing some jitters, though, is the fact that notable China trade hawk Larry Kudlow is reportedly expected to attend the dinner meeting, along with other staff on hand.

A Wall Street Journal report published Thursday is probably as good a preview of what an eventual best-case outcome would be from the G-20 meeting between the two Presidents. The Wall Street Journal noted that (unnamed) officials on both sides have been floating the idea of forestalling any further tariffs through the spring to set the stage for a new round of talks to address changes in China’s economic policy.

In addition to the trade speculation and dovish rhetoric from the Fed, there was a positive bias in the market this week due to the belief that the prior week's sell-off resulted in short-term oversold conditions. Efforts to pick up oversold issues, and some chasing behavior, helped fuel this week's gains, which ultimately turned November from a negative month into a positive month for the major indices.

This week, all S&P sectors finished higher with the consumer discretionary (+6.4%), information technology (+6.1%), health care (+5.9%), and communication services (+5.5%) sectors outperforming.

The rally began with the consumer discretionary group rising on the back of continued strength from the U.S. consumer. Reports of record online Black Friday sales and encouraging forecasts for Cyber Monday sales helped lift investor sentiment. The SPDR Retail ETF (XRT) rose 3.3% this week, and Amazon (AMZN) climbed 12.5%.

Conversely, the defensive-oriented real estate (+2.7%), consumer staples (+2.9%), and utility (+2.7%) sectors underperformed the broader market, though still finished with respectable gains.

In corporate news, General Motors (GM) announced additional restructuring plans that will result in a 15% reduction of its salaried staff and the closure of five of its North American plants. President Trump tweeted his disappointment in GM and is looking to cut all of its government subsidies. Separately, United Tech (UTX) announced its intention to split into three independent companies after the Dow component acquired Rockwell Collins earlier this month.

On the earnings front, Salesforce (CRM), Burlington Stores (BURL), Dollar Tree (DLTR), VMware (VMW), HP (HPQ), and Workday (WDAY) released upbeat reports, while Tiffany & Co (TIF), GameStop (GME), and J.M. Smucker (SJM) disappointed investors.

Looking at other markets, the Treasury yield curve saw some flattening with the 2-yr yield losing one basis point to 2.81%, and the 10-yr yield losing four basis points to 3.01%. The U.S. Dollar Index increased by 0.3% to 97.20, and WTI crude added 0.1% to \$50.67/bbl, though lost over 20.0% this month.

Overseas, equity indices in the Asia-Pacific region closed the week on a modestly positive note with Japan's Nikkei (+3.3%) showing relative strength. In Europe, the major indices closed the week slightly higher with Italy's MIB (+2.5%) showing relative strength.

S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Indices are unmanaged and one cannot invest directly in an index. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely-used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service oriented firms. Data and rates used were indicative of market conditions as of the date shown and compiled by briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. Past performance is not a guarantee of future results. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

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