

Global Growth Concerns Pull Stocks Lower

The S&P 500 fell 4.6% this week, as global growth concerns were exacerbated by negative developments regarding U.S-China trade negotiations and the continued flattening of the U.S. Treasury yield curve. The Dow Jones Industrial Average lost 4.5%, the Nasdaq Composite lost 4.9%, and the Russell 2000 lost 5.6%.



Investors breathed a fleeting sigh relief that trade relations between the U.S. and China did not worsen over the weekend after the two countries agreed to suspend further tariff actions for 90 days to allow more time for trade discussions. Despite President Trump's optimism, the market's optimism quickly waned on the supposition that a March 1 deadline to resolve major trading issues won't be sufficient time to work out major trade issues that have been in place for years. Furthermore, the specter of increasing the tariff rate to 25% (from 10%) on \$200 billion of Chinese goods should an acceptable deal not be reached weighed on investors' minds.

In addition, the news of the arrest of Huawei Technologies' CFO Meng Wanzhou heightened these burgeoning trade concerns. Ms. Meng was arrested Dec. 1 in Canada amid allegations that the company violated U.S. trade

sanctions on Iran. Her arrest invited worries about trade negotiations going awry in the 90-day window and potential retaliation against U.S. companies doing business in/with China.

Economic growth concerns were cast into the spotlight by a decisive curve-flattening trade in the Treasury market that featured some inversions on the short end. The 2-yr yield (2.70%) and 3-yr yield (2.71%) closed higher than the yield on the 5-yr Treasury note (2.69%) this week.

Also, the difference between the 2-yr and 10-yr yields narrowed to its slimmest margin since 2007. Specifically, the 2-yr yield lost 11 basis points to 2.70%, and the 10-yr yield lost 16 basis points to 2.85%. Those moves were exacerbated by a "pain trade," as short sellers expecting higher rates were compelled to cover their bearish bets.

In a broader context, concerns over future economic growth drove concerns about future earnings growth. That fueled some of this week's selling interest, which completely unwound the 4.9% gain for the S&P 500 from the prior week at Friday's low.

Notably, that was the case despite there being one less day of trading. The market was closed Wednesday in recognition of the national day of mourning for President George H.W. Bush. The worst-performing sectors this week were the financials (-7.1%), industrials (-6.3%), materials (-5.2%), information technology (-5.1%), and health care (-4.6%) sectors. The only two sectors that escaped the week with a gain were the utilities (+1.3%) and real estate (+0.3%) sectors.

The rate-sensitive financial sector was undermined by the flattening yield curve, which raised concerns about a compression in net interest margins. Regional banks were notable laggards as worries about lower mortgage loan demand stemmed from home builder Toll Brothers (TOL) acknowledging that it saw a moderation in demand in its fiscal fourth quarter ended Oct. 31 and that it saw the market soften further in November. The SPDR S&P Regional Bank ETF (KRE) fell 7.2% this week.

Transport stocks, in particular, weighed on the trade-sensitive industrial sector. The Dow Jones Transportation Average dropped 8.0% this week. American Airlines (AAL) struggled with a steep 16.4% loss this week.

Apple (AAPL) conceded more losses this week, as it dragged on the tech space. Apple has retreated over 20.0% since releasing its quarterly report in October and has remained a signpost of the ongoing effort to liquidate/reduce exposure to this widely-owned sector, which is still the market's most heavily-weighted sector.

The energy sector (-3.1%) was down for the week, yet it outperformed the broader market, helped by a 3.1% bump in oil prices to \$52.52 per barrel. Energy stocks pared gains on Friday after OPEC+ producers agreed to a production cut of 1.2 million barrels per day to address weakening oil prices. Russia was a party to the proposed production cuts; meanwhile, Iran will reportedly be exempt from the production cut requirements. On a related note, Qatar, in a surprise move, announced plans to withdraw from OPEC to focus on gas production. Qatar has been a member of OPEC since 1961.

Separately, Atlanta Fed President Bostic (FOMC voter) said he thinks the fed funds rate is within shouting distance of neutral, which followed previous remarks from Dallas Fed President Kaplan (non-FOMC voter) who also suggested the fed funds rate is a little bit below neutral. A Wall Street Journal report also suggested that the Federal Reserve might be more cautious-minded about raising interest rates following its December FOMC meeting.

The November Employment Situation Report on Friday seemingly helped substantiate that view. It showed nonfarm payrolls increasing a weaker than expected 155,000 and average hourly earnings increasing 0.2%, which left them up 3.1% year-over-year, unchanged from October. In other words, the wage growth acceleration the Federal Reserve has been bracing for was missing. Overseas, global markets finished the week with large losses as well. Germany's DAX (-4.2%) led the European retreat and Japan's Nikkei (-3.0%) led the decline in Asia.

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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