

U.S.-China Trade Talks, Federal Reserve Keep Investors at Ease

The S&P 500 increased 0.6% this holiday-shortened trading week. This week featured the seventh round of U.S.-China trade talks and some reassurance from the Federal Reserve. The benchmark index increased its rally from the December 24 low to 18.8%.



The Dow Jones Industrial Average gained 0.6%, the Nasdaq Composite gained 0.7%, and the Russell 2000 gained 1.3%.

The S&P 500 utilities (+2.4%), materials (+2.3%), and information technology (+1.4%) sectors outperformed the broader market. Conversely, the energy (-0.5%), and consumer staples (-0.3%) sectors were the lone groups that finished with losses this week.

Investors received several updates from U.S.-China trade talks in Washington: (1) The two sides made an agreement on currency, but no specifics were provided; (2) China reportedly committed to purchase \$1.2 trillion in U.S. goods, but the two sides reportedly remained far apart on forced technology transfers; and (3) President

Trump said he will work out the final points on trade with China's President Xi most likely in March.

The Federal Open Market Committee (FOMC) released its minutes from the January meeting on Wednesday, which came in mostly in-line with expectations.

The main takeaway from the FOMC Minutes was that the Fed is going to be patient in raising rates and is likely to stop reducing the assets on its balance sheet later this year. The surprise - or maybe the important revelation - for the market to consider was the implication that the Fed could turn away from a "patient" mindset with raising interest rates if market uncertainty abates.

With the Fed maintaining its market-friendly position and U.S.-China trade talks seemingly progressing, or not getting worse, investors continued to not be too bothered by disappointing economic data.

Strong earnings results from Wal-Mart (WMT) also helped temper concerns about a slowdown in consumer spending that were fueled by the lousy Retail Sales report for December in prior week.

Kraft Heinz (KHC) and CVS Health (CVS), however, provided investors with disappointing results and their stocks sank as a result.

U.S. Treasuries increased this week in a curve-steepening trade. The 2-yr yield decreased four basis points to 2.48%, and the 10-yr yield decreased one basis point to 2.66%. The U.S. Dollar Index declined 0.4% to 96.55. WTI crude rose 3.0% to \$57.25/bbl.

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