Week Ending 5/17/19

WEEK IN **PERSPECTIVE**

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Stocks decline as trade tensions escalate

The S&P 500 lost 0.8% this week, as trade tensions escalated between the U.S. and China. The benchmark index was on pace for a relatively flat week despite the negative developments, until news on Friday that talks have stalled sent stocks lower.

The Dow Jones Industrial Average lost 0.7%, the Nasdaq Composite lost 1.3%, and the Russell 2000 lost 2.4%.

China on Monday increased the tariff rate on $60 billion of U.S. imports to a floating range of 5-25%, from 5-10%, effective June 1. President Trump on Wednesday signed an executive order to protect U.S. technology from "foreign adversaries" that pose a threat to national security. Many viewed this as an attempt to weaken China's Huawei Technologies.

The former sent the S&P 500 down 2.4% on Monday and back below its 50-day moving average. The latter sent the Philadelphia Semiconductor Index (-5.2%) into the red, while every sector in the S&P 500 finished higher despite the negative implications.

In fact, the S&P 500 rallied all the way back to break-even at one point on Friday but hope for a flat week was dampened after CNBC reported that U.S.-China trade talks have stalled. Although not surprising given the negative rhetoric coming out of China and the prior developments, it did stoke concerns about potential retaliation from China. The S&P 500 finished the week below its 50-day moving average.

The S&P 500 financials (-2.1%), industrials (-1.9%), information technology (-1.1%), and consumer discretionary (-1.1%) sectors underperformed the broader market. The real estate (+1.4%), utilities (+1.2%), consumer staples (+0.9%), and communication services (+0.3%) sectors were the lone groups to finish higher.

Prior to the news, the market appeared to have decided that Monday's drop was a good buying opportunity. It took good news with stride, and it brushed off bad news. No news was reportedly good news.

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Reports surfaced that the White House was going delay auto tariffs by up to six months and that it was close to resolving a tariff dispute with Canada and Mexico pertaining to aluminum and steel. The news assured investors that the U.S. would not be distracted in its trade talks with China by also having to deal with other tariff disputes. Both were confirmed on Friday with aluminum and steel tariffs agreed to be removed within 48 hours.

The reaction to economic data was no different. The good: housing starts picked up in April, initial jobless claims remained at historically low levels, and consumer sentiment hit its highest level in 15 years. The bad: retail sales and industrial production in the U.S. and China both came in weaker-than-expected for April.

U.S. Treasuries alternated between up and down days, but in the end, yields finished lower in a curve-flattening trade. The 2-yr yield declined three basis points to 2.21%, and the 10-yr yield declined seven basis points to 2.39%. The U.S. Dollar Index increased 0.7% to 97.99. WTI crude rose 1.7% to 62.73/bbl on increased tensions in the Middle East.

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