

Major Indices Hit New Records as U.S. and China Reach Phase One Trade Deal

It was another record-setting week in which the U.S. and China reached a Phase One trade deal that helped avoid the Dec. 15 tariffs. The S&P 500 (+0.7%), Dow Jones Industrial Average (+0.4%), and Nasdaq Composite (+0.9%) set new intraday highs. The Russell 2000 increased 0.3%.



Nine of the 11 S&P 500 sectors finished higher, with the information technology sector (+2.0%) outperforming by a wide margin amid strength in the semiconductor space. The Philadelphia Semiconductor Index rose 4.2%. The real estate sector (-2.6%) greatly underperformed, and the communication services sector (-0.7%) finished modestly lower.

These results were mostly solidified before the trade announcement on Friday, which was largely expected given the gains posted beforehand and the muted reaction after the official decision. Specifically, the USTR confirmed that the tariff rate on \$250 billion of Chinese imports will remain at 25%, the tariff rate on \$120 billion of Chinese imports will be cut to 7.5% from 15%, and China will commit to purchase additional U.S. farm goods.

Agricultural purchases will reportedly be between \$40-50 billion over a two-year period. President Trump added that Phase Two discussions will begin immediately, which should focus on issues pertaining to forced technology transfers and IP rights, according to NEC Director Kudlow.

Trade dominated the headlines and dictated price action, but this week also included FOMC and ECB policy decisions, a UK election, government deals, and the Retail Sales Report and Consumer Price Index for November:

- Both central banks left rates unchanged, with the Fed signaling no rate hike in 2020.
- The Conservative Party won in a landslide, setting up a Brexit by Jan. 31.
- A USMCA deal was reached and a bipartisan budget deal was reportedly reached, as well.
- Retail sales and consumer prices for November increased less than expected.

U.S. Treasuries had another week of wild swings but ultimately finished near their unchanged marks from last week. Both the 2-yr yield and 10-yr yield declined one basis point each to 1.60% and 1.82%, respectively. The U.S. Dollar Index fell 0.5% to 97.19. WTI crude rose 2.8% (+\$1.66) to \$60.11/bbl.

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