Weekly Market Flash

The Performance Art of Trade Talks

May 10, 2019

Remember last Friday? Investors were in the sunniest of moods, with another month of robust job numbers on top of a better than expected first quarter GDP reading. Even productivity was improved, as we mentioned in our commentary last week (not that anyone was paying attention to the single most important economic growth measure). It was shaping up to be a merry, merry month of May…until late into the weekend when the Twitterverse called investors away from their barbeques to inform them that the trade war was back on the table. Uproar and consternation! Chinese markets, which were already open, quickly went pear-shaped and financial media outlets set up the talking points for the week.

Wait, What?

Trade war? Wasn't this as close to a done deal as these things get? The presumed cessation of hostilities between the US and China on trade was widely accepted by market participants as one of the two primary tailwinds for the 2019 rally in risk assets (the other being the Fed's pivot on interest rates). By the time the S&P 500 hit a handful of new record highs in late April, a successful outcome to the long-festering trade dispute was conventional wisdom. The Chinese delegation, led by Vice-Premier Liu He, was due to arrive in Washington on May 9 for a round of talks which, if not necessarily definitive, were at least supposed to affirm the intention of both sides to reduce tensions and maintain support for global trade (through bland platitudes if not much else). Instead, those tweets by Trump late in the day on Sunday put new tariff threats back on the table and upended the conventional wisdom.

Jittery Algos, Jaded Humans

Two years into this administration, most cognitively-endowed human beings have learned a thing or two about digesting news from Twitter, particularly that which emanates from one particular account on Pennsylvania Avenue. The performance art of grandiose pronouncements which eventually dissolve into nothingness has become routine. This wasn't entirely clear when the trade war first started to spook markets in early 2018. But the absence of tangible actions to match the rhetoric of the tweets, along with this administration's obsession with where the Dow is on any given day, eventually made it clear to anyone paying attention that there wasn't much in the way of bite behind the bark.

Algorithms, bereft of those cognitive abilities, are not so sanguine, which partly explains this week's pullback (a natural pause following an extended bull run also being in the mix). The quantitative models powered by these algorithms make up the bulk of intraday trading volume. Many of them are wired to respond to –yes, really – stuff that comes out on Twitter. So the Sunday tweets begat the Monday blues. But even algorithms have a natural stopping point. As we write this on Thursday morning, the S&P 500 is around three percent off its recent high. That's not much, especially considering that the blue chip index had racked up gains of almost 20 percent when it set the most recent high on April 30.

It's much less, in fact, than would be the case if the collective wisdom of human and bot traders alike determined that an honest to goodness trade war was the most likely outcome of the current state of play. Fortunately, the evidence against that outcome remains compelling. It's performance art, and as long as neither US nor Chinese negotiators want to explain to their constituencies (and, in our case, voters) why the economy collapsed on their watch it will likely remain thus.

Masood Vojdani
President & CEO

Katrina Lamb, CFA
Head of Investment Strategy & Research

Investment Advisory Services offered through MV Capital Management, Inc., a Registered Investment Advisor. MV Financial Group, Inc. and MV Capital Management, Inc. are independently owned and operated.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by MV Capital Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from MV Capital Management, Inc. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. MV Capital Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the MV Capital Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.