Weekly Market Review

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The Week Ending December 21, 2019

Last week continued the impressive run of the S&P 500 Index as it closed Friday at another all-time high. This time last year, we were in the midst of a fourth-quarter correction, which bottomed on Christmas Eve. A year later and we see fears from earlier in the year disappear, and the stock market trading higher day after day. In just the past couple of weeks, an ugly, hard Brexit now seems unlikely; the U.S. and China are making progress in trade talks; the U.S., Mexico, Canada (USMCA) trade deal is closer to being ratified in Congress; and, U.S. and China manufacturing fundamentals have been slowly improving. This all comes amid the House of Representatives impeaching President Trump for abuse of power and obstruction of Congress.

The House impeachment vote last week was a non-event as far as the stock market was concerned. The vote along party lines was expected, and an acquittal in the Senate is viewed as very likely early next year. President Trump marked the third president in history to be impeached in the House, and much like President Clinton's impeachment, the market rallied. Instead of trading on politics, the market continued to focus on trade and macroeconomic headlines.

China made a big move over the weekend, showing they are serious about making a trade deal with the U.S. and taking steps to improve growth in their country as they announced a reduction in tariffs. They are planning to decrease tariffs on 850 goods, some to zero, on January 1. This is being viewed as a sign of good faith from China as they work to sign a phase one trade deal with the U.S. in early January. Details to the agreement still remain unknown. Tariffs will be reduced on a range of goods from pork to semiconductor parts and pharmaceuticals. An additional 23 countries will benefit from tariff cuts to over 8,000 goods as China attempts to increase GDP growth in 2020.

One trend that has not been as talked about this quarter is the weakening of the U.S. Dollar after it hit a year-to-date high towards the end of the third quarter. Emerging markets have benefitted from the weakening currency in the fourth quarter, posting an 11% return so far after being one of the weakest asset classes earlier in the year. U.S. Small Caps, as measured by the Russell 2000, are also one of the strongest asset classes of the fourth quarter.

As we head into the final trading days of 2019, it is shaping up to be one of the strongest years for the S&P 500 Index of the decade. As the decade began, we were coming out of the worst recession since the Great Depression and ended up only experiencing one negative year for the index. Let's hope 2020 picks up where 2019 left off.

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