What's Going on with the Markets This Week?

By Bob Deitrick
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This week has been tumultuous, at best, so let's create some perspective in terms of what is going on in the market this week.

After the market jumped last week and added an additional 300 points on Monday, we saw the market fall by 800 points on Tuesday and was almost even yesterday. So, what has changed and why has the market been so volatile this week? As we have shared with you frequently - <u>the name of the game to a strong equity market is stability</u>. The biggest concern presently are the trade negotiations between the U.S. and China and the risk of a full-blown trade war. What the White House said on Sunday is not congruent with what the Chinese conveyed this week, and that is why the market has been in turmoil. With policy uncertainty comes great market volatility. The concern over tariffs is that they will slow business confidence and the growth of our economy. The agreement last weekend was a 90-day window to work out their differences; however, we later learned there was no substance behind what we thought had been accomplished. This ambiguity caused the VIX to spike this week which is atypical for the month of December.

The X factor which came into play this week was the arrest of the CFO of Hauwei, Meng Wanzhou, which took place at the behest of the United States. This news was released on Wednesday - five days after the fact. Hauwei, a Chinese tech giant, is the second largest cell phone manufacturer in the world although they do no business in the U.S. Meng, the daughter of the founder of Hauwei, was arrested in Toronto for an alleged scheme to use the global banking system to evade U.S. sanctions against Iran. China has demanded her release. This news took place in the middle of the G-20 negotiations last weekend.

<u>All the bad news this week is overshadowing the fact that the United States economy remains solid</u>. GDP has been at 3.3% this year, unemployment is at a 49 year low of 3.7% and the jobs number that came out this morning of 155,000 was solid - companies are hiring, and it is Christmas – historically a good time for the equity markets.

We have had a significant correction this quarter. If you were a technician, you might look at what is happening and contend this is a bear market. However, Steven and I are fundamentalists. We look at the economy, inflation, the yield curve, the Fed, stock valuations

and at bonds versus stocks. Everything we monitor conveys this as a buying opportunity, not the time to panic and sell. What is happening today deals with the mechanics of today's market. Technology has clearly overpowered the markets ability to deal with it.

During the '87 crash, P/E ratios were above 23. We don't see those extremes currently. All things considered today, with a 2.8% yield on the 10-year note in a growing economy with P/E multiples at 15 – these are favorable conditions for equities. We will alter our investment strategy when these fundamentals change but to date, they have not. During the crash of '87, which I endured, the market dropped 22% in a single day, but the economy continued to grow after that. Everyone was yelling recession then. I went on News Conference 4 with Jim Schroeder that week in 1987 (at the ripe old age of 24) and recommended that investors remain calm. That was sound advice. The economy continued to grow, and we didn't enter a recession until 1991… We are down 10% from the highs of early October. This is a full 10 percent correction which was overdue. We know this is painful, and we feel your pain. However, this is a time when one needs to keep their head about them, when everyone else is losing theirs. Everything I've seen in over 34 years tells me we are near the lows here.

Since Thanksgiving, there are a plethora of concerns ranging from OPEC, the pending Mueller Report, the arrest of the Hauwei CFO, an inverted yield curve on the 2- and 5-year notes, how we handicap slower global growth, the trade war with China, and the Fed. There is a Sunday brunch of worries to contend with today. However, a modest slowdown in economic growth, if we get an agreement on trade, may create a footing for growth and inflation.

We are concerned yet we are hopeful. There are two major trepidations at this moment. If the Fed tightens too fast, they may throw us into recession. If the trade war continues, this could lead to a strengthening of the dollar and a disruption of our supply chains and hence a recession as well. It is in the best interest of the U.S. and China to find common ground, but we need to see this compromise sooner rather than later.

We are in this market for the long haul. The key to fundamental investing is focusing on the long-term result, not the short-term aberration. Steven and I are long term investors. The worst thing to do is to make investment decisions based solely on emotion. We recommend that you relax, remain calm and enjoy your family and friends during the Christmas and Hanukkah season. We hope to see you at our Christmas Celebration on December 16th.

We said farewell to one of our great Presidents this week as we honored the life of George H.W. Bush – Bush was a gentleman and the last of our heroic World War II Presidents. Godspeed to President Bush. Our thoughts and prayers are with his Family.