Positives and Negatives

November 7, 2018

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Last Week's S&P 500 Index: +2.4%

Key takeaways

- *The stock market continues to debate the positives and negatives of economic and headline news, sometimes on a daily basis.*
- *The recent equity volatility is likely to continue. Stay invested and look for opportunities.*

Last Friday's employment report told an interesting story. Based on the history that this strategist has experienced over the last 35-plus years of watching the markets, it is rare indeed when one sees the economy immersed in a combination of above-average growth, below-average inflation, and an unemployment rate that is at a multi-decade low. In fact, it might seem hard to believe for some, but the rate of unemployment is the lowest since Neil Armstrong took "one small step for a man, one giant leap for mankind." That was 1969 for you market participants who are not also history buffs. To even the casual observer, it doesn't appear that the September employment report could be construed as anything but good—especially when you take into account that there are currently more job openings in the United States than there are unemployed workers. And on top of all that, average hourly earnings ratcheted up 3.1% over the last 12 months, the best reading since mid-2009.

That good (or even great) employment report was layered on top of what appears to be a whiff of positive news on the U.S./China trade front. Namely, Chinese President Xi and President Trump will meet behind closed doors at the G-20 (Group of 20) meeting scheduled at the end of this month (November 30-December 1) in Buenos Aires, Argentina. This "G" meeting brings together leaders from the (approximately) 20 largest economies in the world. We have argued that an agreement will likely be hammered out between the U.S. and China at some point down the road but the negotiations will take time and not be easy. That continues to be our stance.

Last Friday's market trading action was a good example of the kind of debates the equity market has been having in recent months. On one hand is the improving labor market and the hope that the United States will avoid an all-out trade war by eventually coming to an agreement with China. Clearly, those outcomes would be good for consumer discretionary spending and the volume of global trade. But on the other hand, the market is very sensitive to robust employment data that might result in falling margins (due to higher wages) and a Federal Reserve that gets more nervous about the potential for inflation and an overheating economy. The S&P 500 traded to the highs of the day shortly after the opening bell and then spent the rest of the session deciding that the employment report might be a little too good for comfort. Remember, we have been recommending that investors root for "good" economic data, not "great." At this point in the cycle, investors could easily interpret great economic news as prompting more Fed rate hikes than the market currently expects, and that would be bad for stocks, in our opinion.

So we believe stocks are likely to continue to weigh the positives and negatives of each bit of economic data and headline news that comes across the tape on a daily basis. The recent volatility is likely to continue. But we see more positives than negatives in the quarters ahead. Our best equity advice? Stay invested and look for opportunities.

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