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October 4, 2019

2019: Pinball Between Low Rates And Slowing Growth

The important factors in stock market volatility in 2019 have been:

- Very low interest rates – a positive for stocks
- U.S. led trade war – slowing global growth

At various points this year, one of these factors has ascended in importance causing the stock market to rise or fall. The first quarter rebound from the 2018 fourth quarter collapse was largely caused by the Fed's rate cut announcements. Since the first quarter rebound, the S&P 500 has been roughly range bound between 2,850 and 3,000. The upper bound is capped by slowing economic growth and the lower bound is supported by very low interest rates making stocks more attractive than fixed income investments on sell-offs.

We began the week with the S&P 500 just below 3,000. We end the week with the S&P 500 nearer the low-end of the range than the high-end as the impact of the U.S. led trade war hit home.

For the second month in a row (reported this week), the ISM Manufacturing Index showed contraction at 47.8%. This was the lowest reading since June 2009.

U.S. ISM Manufacturing Index



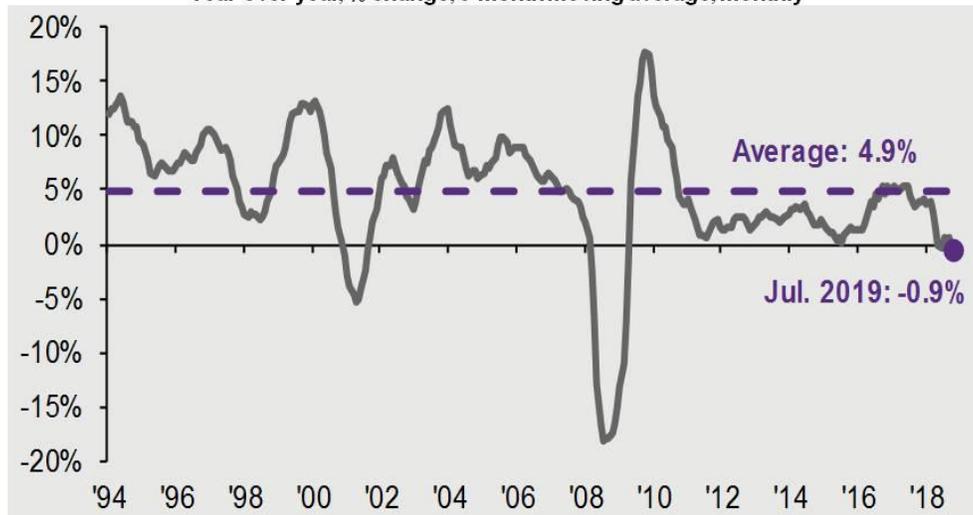
Source: Institute for Supply Management; updated 10/01/19

Briefing.com

World trade volume has declined significantly since President Trump began his tariff negotiations and implementations. There is a high positive correlation between world trade volume and U.S. manufacturing. The fall and rise of trade volume and the ISM index in 2008 and 2009 mirror each other. In 2015, trade volume declined to zero growth and the U.S. ISM index fell below 50%.

World Trade Volume

Year-over-year, % change, 3-month moving average, monthly



Exports as a percent of GDP are only 8% in the U.S. This is the lowest percentage of any developed country. For the European Union (EU), exports represent 20% of GDP. The manufacturing PMI in the EU is 45.7%, well into contraction.

A manufacturing PMI reading below 50% does not necessarily mean the U.S. is headed for recession. During this decade long bull-run, the U.S. ISM reading has been below 50% on three separate occasions.

But the trend is not good. The trade war is clearly raising uncertainty and causing a material slowdown in world trade volume. If uncertainty rises too far, corporations cut back on capital spending and hiring. U.S. consumers may also hold back on spending. The ISM Non-Manufacturing (services) Index for September fell to 52.6% (still expanding) from 56.4% in August. This was below the consensus estimate and may signify the manufacturing contraction is beginning to bleed into the services sector.

From an investment standpoint, continued GDP growth in the U.S. and very low interest rates cause stocks to look relatively attractive on pull-backs. Tariff negotiations are ongoing and it is possible the trade war ends in a favorable manner. Year-to-date, these considerations have given the S&P 500 Index support about the 2,850 level.

Thursday's trading action was a perfect example of the pinball effect of slowing growth and lower interest rates. In the first hour the market was open, the negative ISM services report caused the S&P 500 to drop by roughly 1% and trade to an intraday low of 2,855.94. An hour later, the S&P 500 turned positive on the belief weak economic data may cause the Fed to continue to lower rates.

This week, the Delta Market Sentiment Indicator (MSI) turned bearish. It reflects rising investor anxiety about slowing growth. Market momentum has stalled. A breakout from the current trading range may not occur until there is more convincing evidence of continued expansion or impending recession. In the interim, uncertainty will likely keep volatility elevated and prices range bound.

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Delta Stock Market Dashboard

MARKET SENTIMENT IS

BEARISH

THIS WEEK'S NUMBER IS

46.0

Our technical indicator decreased
this week from 61.3 to 46.0

INDICATOR STATISTICS

Consecutive Bearish Weeks:	1
Cycle Inception Date:	9/13/2019
Range:	46.0
Mean:	46.0
Bullish Weeks YTD:	26
Bearish Weeks YTD:	14
*S&P 500	NA%
*DJIA	NA%
*NASDAQ	NA%

* Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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