

Mid-Week Market News

May 13, 2019

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Trade Uncertainty Weighing on Vulnerable Stock Market

Stock market volatility has remained elevated in the wake of the latest evidence that trade negotiations between the U.S. and China have hit an impasse. Today's announcement by China that it plans to put in place new tariffs on U.S. goods is seen as further evidence that the two sides are not close to making a deal. An emerging trade war and the associated rise in policy uncertainty threaten to weigh on a global economy that is struggling to find stability. While a case can be made for a [more cautious view on the U.S. economy](#), near-term risk of recession continues to be quite low. After rallying repeatedly on hopes and hints that a trade deal was working towards completion, stocks have not reacted favorably to the apparent breakdown in talks. After falling more than 2% last week, the S&P 500 was down more than 2% on Monday and has now pulled back nearly 5% from its late-April peak (though it is still up more than 10% for the year).

Whether this pullback is a run-of-the-mill consolidation (pullbacks of 5% happen on average more than 3 times a year) or the beginning of a lengthier correction remains uncertain for now. We looked at this question in last week's Market Commentary ([Consolidation vs. Correction](#)). The deterioration being seen in the broad market suggests risks may still be on the rise. Today brought an expansion in the new low lists for both the NYSE and the NASDAQ, a breakdown by the Semiconductor index (which is sensitive to the global economy) and the first day since December 4 where downside volume on the NYSE outpaced upside volume by better than 9-to-1 (evidence that downside momentum is building). On the positive side, there is some evidence that short-term sentiment is swinging from optimism to pessimism.

Bottom line: Broad-based selling in the wake of trade-related disappointments could signal that pullback has not yet run its course. We are looking for more widespread pessimism and improving breadth to suggest that near-term risks are subsiding.

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