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Quo vadis? Worries mount as stock market gyrates

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The market began the year with its best start since 1998. After the jarring fourth quarter of 2018, the broad market powered its way to all-time highs. By the end of April, the market had gained 25 percent from its 2018 Q4 bear market low and 545 percent from the March 2009 financial crisis lows.

Gross domestic product (GDP) growth is running at about 3 percent – a significant improvement from the 2 percent of just a year ago.

April saw 265,000 new jobs added; that is a very strong number. Unemployment reached lows not seen since December 1969. There are a record 7.5 million job openings in the U.S.

Inflation remains low, but so do wage gains. The Federal Reserve, under pressure from President Trump to cut interest rates, declined to do so; nevertheless, the market priced in one rate cut for the rest of the year anyway.

The outlook for interest rates remains somewhat cloudy because of White House pressure, but Federal Reserve Chairman Jerome Powell will likely keep to the Fed's established course, at least until the end of the year. That is, of course, unless Powell is forced out of his job. So far, efforts to restock the Fed with Trump supporters have failed, largely because of the lack of support for the potential replacements. The result is that interest rates will likely remain where they are until at least the end of 2019, even though a strong argument could be made to raise and "normalize" rates. Sooner or later the markets will need support from the Fed, so the Fed needs some "dry powder."

In the face of many obstacles, such as China-U.S. trade negotiations and the declining rate of Chinese economic growth, the U.S. economy is likely to continue to be strong. China is the second-largest economy in the world; its growth is significant for the rest of the world. Tepid growth in Europe is a problem, as is the strong dollar. The impact of Brexit is unknown. The U.S.-China trade war is the biggest uncertainty, not only to the U.S., but to the world economy.

It is very difficult to follow the gyrations of the trade dispute with China. Recently it appeared that the trade war was entering its late stages, because the U.S. was capitulating on several of its demands. The White House senior advisers said we would have an agreement by Friday. However, over the past weekend, President Trump threatened billions of dollars in new trade tariffs. This ploy looks more desperate than conciliatory. It appears the President and his staff are reading from different song books. The market plunged on this tweet.

There was a sigh of relief when China announced that it would still attend a trade meeting. But even that was cast in doubt when the trade negotiators said China was backtracking on its deal. The Chinese have largely kept silent during this turmoil, so the status of negotiations is unclear. The latest out of the White House is that tariffs on a large quantity of goods would increase substantially on May 10.

The survival of this bull market is much discussed. On the one hand, we have one of the longest bull markets in history. We have low inflation and strong job growth. We should be seeing inflation growth, but that has not been the case. We should see wage growth, but that has not been the case.

Warren Buffett, the Oracle of Omaha, recently commented that no economics or business textbook ever forecast an economy like this. He expressed skepticism that it could continue.

Still, if we can resolve the trade issue, the market could have another leg up. Institutional investors, such as BlackRock, the world's largest asset manager, say they have record amounts of cash on the sidelines ready to invest. Other institutions are in the same boat. In addition, there is the "fear of missing out" (FOMO), which could bring investors back into the market if there is some clarity on trade. So don't count this bull market out yet.

How far can it go? That is totally unknown, but the Wall Street consensus is for minimal gains for the rest of the year. Goldman Sachs (Golden Slacks) forecasts a 2 percent rise from current levels for the S&P for the balance of the year. According to CNBC's market strategy survey, the average S&P 500 price target for 2019 year end is 2,960. The May 3 close was near 2,945.

Earnings forecasts are for a 3.95 percent decline for the first quarter of 2020, which would be its first decline since the second quarter of 2016. However, don't forget that 2020 is a presidential election year, and there will be pressure on both parties to keep the economy and markets robust.

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