DJC
THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON


William Rutherford

Stocks forge new highs; tariff wars cause volatility

Published July 8, 2019

U.S. equities markets streaked to new highs in the first half of 2019, in spite of a sharp downturn in May. The S&P index for the first half of the year jumped 18 percent. Before we become too smug, however, the Chinese Shanghai index and the Russian index were up over 20 percent; even emerging market Egypt, which I just visited, was up.

Best performing sectors in the U.S. were technology and consumer discretionary, with health care bringing up the rear. The prospects for the rest of the year are less sanguine. The expansion is historically long, and the effects of the "tax cut" are wearing off.

Attention now shifts to Federal Reserve interest rate decisions. With Fed futures now forecasting a 100 percent chance of an interest rate cut, the only question appears to be whether it will be 25 basis points or 50 basis points. There is very little discussion, let alone support for no rate cut. The wisdom of a rate cut is questionable, given that the economy is very strong (though slowing). With 7 million jobs available and only 6 million people to fill them, it is difficult to see the economic need for a cut. It would be an "insurance cut," because there are signs that the U.S. and global economies are flagging. So there is political pressure to "goose" the economy. With these rate cuts, the Fed would have fewer tools at its disposal to cut rates when they are actually needed.

The actual cause of the slowing global economy is tariffs. The on-again, off-again tariff war has created uncertainty. Investors hate uncertainty. Companies have postponed capital expenditures, because they are uncertain of what the future holds. The financial markets have suffered from extreme volatility because of the uncertainty.

But in an effort to boost the economy, policy makers turn to interest rate cuts. A more sensible approach would be to rationalize our tariff policy. The irrationality creates more uncertainty and hinders the economy.

Because of the tariffs, the global economy is slowing. It will slow even more as the tariffs add uncertainty and add to the cost of goods. The administration touted its big tax cut bill, but the new tariffs will act like a tax and take away the effect of the tax reductions from consumers. The average person did not gain much from the tax bill, which largely went to the wealthy, and now will pay more for goods because of tariff costs. They will add to income disparity and slow consumption. Never mind, say the heavy thinkers, because the Fed will cut interest rates, and backstop any adverse effects of tariffs, marking the first time since the establishment of the modern Federal Reserve that interest rates have been so blatantly politicized.

The second half of the year should see a slight increase in market averages, but it is challenging to anticipate strength in the second half similar to the first half.

And so it goes. (from "Slaughterhouse-Five," by Kurt Vonnegut)

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Mgmt. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. *Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*