FIORI FINANCIAL GROUP

July 2019

FFG Market Pulse

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As we reach the midway point of the year and the upcoming 4th of July holiday, we hope that everyone has a happy and healthy Independence Day. Now on to the markets and the recent market moving events. The economic world in 2019 has predominately been driven both positively and negatively by 2 main sources. The Federal Reserve and Trade. We will speak about them in separate sections below.

TRADE WARS

The long-awaited G20 meeting with President Trump and President Xi of China recently took place in Japan this past weekend. The main points that came from the summit were commitments to restart trade negotiations, resume certain shipments to Huawei, and a pause in the next round of tariffs, as well as one from China to purchase U.S. agricultural products. The immediate market reaction was positive as these actions will be viewed as de-escalating the recent U.S.-China tensions and thus geopolitical risk. The near-term de-escalation of the U.S.-China trade war and the Huawei announcement provide significant positive market headlines. However, much like the last Trump-Xi meeting last November, the meeting did not really change the fundamentals of this fight. The China hard liners within Trump's Administration had a tough weekend, but they are still in charge of the negotiations. The media coverage of the G20 summit and congressional reaction will likely shape President Trump's next moves. Tariff escalations and tech restrictions still remain extremely likely over the coming weeks/months, but that threat will likely be discounted (potentially significantly) by the market until signs emerge of Trump seeking to restart the fight.

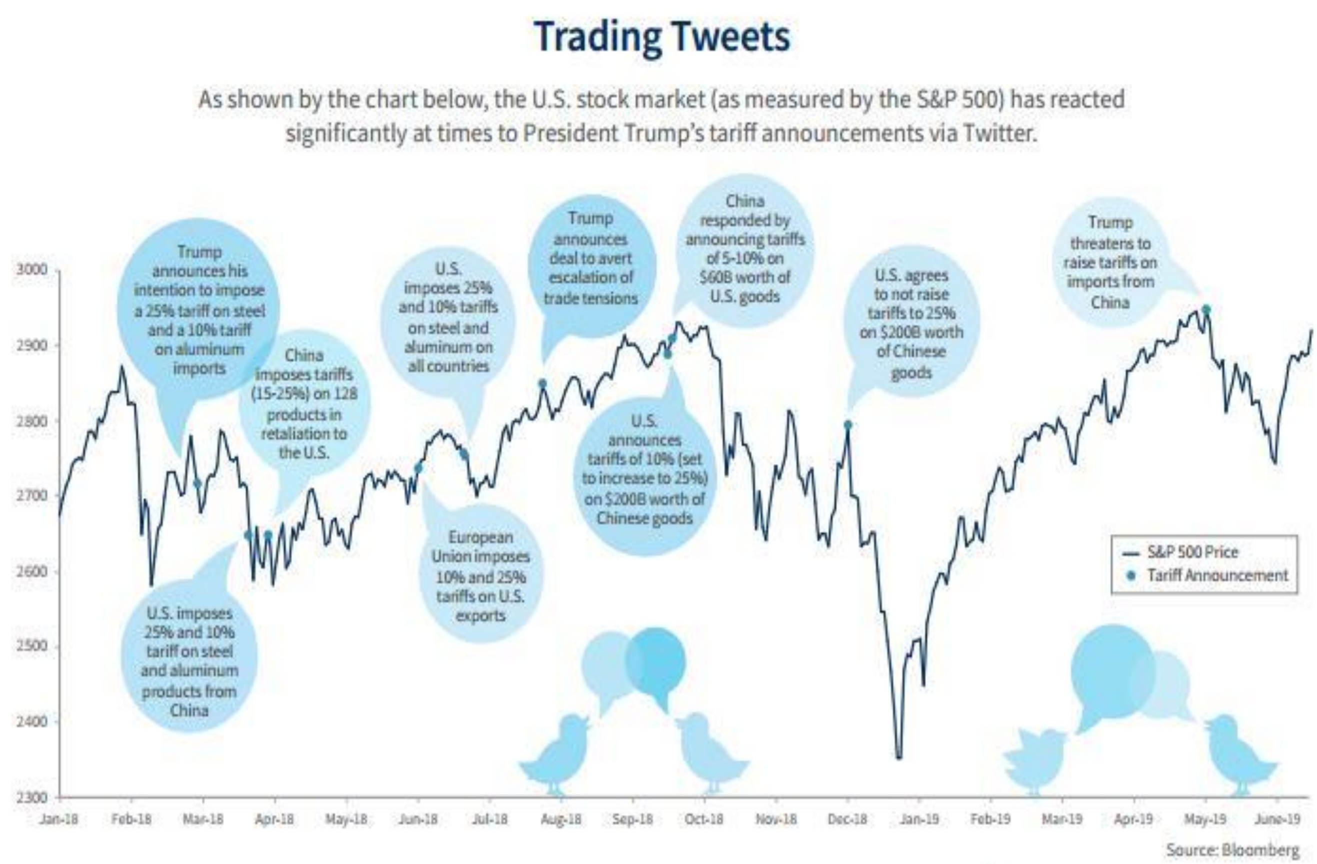
FEDERAL RESERVE

The Federal Reserve left interest rates unchanged at the June FOMC meeting and also left its 2019 median rate forecast unchanged. However, Chairman Jerome Powell highlighted that the Fed would "act as necessary" to extend the expansion. This was a transition in language from past meetings and caused the market to respond positively to this change. Currently, the probability of 2 rates cuts in 2019 now sits at almost 93% and 3 cuts stands at 60% [source: Raymond James research]. At the beginning of the year the probability of 2 cuts was barely 10% and chances of 3 cuts was basically nil. The market has clearly priced in at least 2 cuts with the most likely cut at the upcoming July meeting in a couple of weeks. Since it seems there clearly will be some sort of rate cuts the question becomes how much the Fed is willing to cut given that the economy, even though it has slowed, is still in expansionary mode. These cuts could be viewed as insurance cuts to ensure that the economy doesn't continue to slow to a contraction mode. Some of the indicators on how aggressive will be with rate cuts will come from the economic data that will be released during the course of the month. A very important number that comes out in the short term will be the US employment data for June that comes out on Friday, July 5th. The May jobs number added 75k which was on the lower end but still marked the 104th consecutive month of job gains. If the June number comes in stronger than expected, then it probably weakens the case for the Fed to aggressively cut rates in the near term. If that job number is weaker than expected that it probably gives the Fed some runway to be more aggressive with their short-term cuts. In any event these cuts will be considered insurance cuts to keep the expansion going. There have been other times with Fed orchestrated insurance cuts (1984, 1987, 1995 and 1998), the result was positive for economic growth (no recession).

CONCLUSION

The markets have priced these factors in and will still be driven by these 2 main forces in the short term until we get deeper into earnings season which ramps up towards the end of July into August. The market has rallied to near all time highs on these developments that have been skewed to the positive since the beginning of June. Although the perception of a trade truce is a positive, we still remain in the belief that it will probably take many more months for a conclusion to be reached on a full trade deal. In the meantime, we expect the rhetoric to go back and forth between to 2 nations just as have seen the previous months. In addition, we will remain diligent in examining the pertinent economic data as it becomes available to determine the ultimate path and velocity of the moves by the Federal Reserve.

CHART(S) OF THE MONTH



RODNEY DANGERFIELD ONE LINER OF THE MONTH

I went to see my doctor. "Doctor, every morning I get up, look in the mirror and feel like throwing up; what's wrong with me?" He said "I don't know, but your eyesight is perfect."