Basis Points – May 9, 2019

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Above the Fold

U.S.-China relations are in hyper focus this week as both sides took a hard line toward negotiations for a trade deal. Reuters reported yesterday that sources confirm that Trump's tweets were motivated by China's backtracking of previously agreed to terms (specifically legally binding language), including theft of U.S. intellectual property and trade secrets; forced technology transfers; competition policy; access to financial services; and currency manipulation.

While the rhetoric triggered somewhat of a mini global panic, wiping more than 2% in value from major indexes domestically, and even more abroad, it wouldn't make sense for either side NOT to strike a deal, especially as Chinese exports unexpectedly declined 2.7% in April.

China is still delivering 6.5% GDP growth, with America's economy expanding at roughly 3%. As the two largest global economies by far, the financial growth of both dictates global sentiment and economic health to a large extent. Sabotaging late-stage wobbly growth, which is highly dependent on healthy trade, we believe is completely illogical.

While it's unlikely that a trade agreement will be struck by Friday, many market participants hope the two sides progress enough to stop the additional tariffs from taking hold and resume progression toward a solution. As equity volatility has risen, investors have also been buying up 10-year Treasury notes, sending the yield to a near two-month low this week.

This too shall pass, but be prepared for additional headline risk in the near term, as both sides use the media to defend their positions to their base.

What's Ahead

Consumer Price Index data is set for tomorrow at 8:30am Eastern time, with no major economic releases due out until Wednesday of next week.

Three Things

1. *GOLD-di-locks* – Gold hit one-week highs on Wednesday as investors turned to the precious metal for a safe haven from trade-war rhetoric. But the upside may be limited as bonds and the Japanese yen offer competition for safety. U.S. Dollar uncertainty may also limit upside.
2. *Google Goes Economical* – In a world of $1,400 smartphones, Google thinks it can capture bargain shoppers with its new Pixel 3a. While the phone isn't the most powerful phone out there, it comes packed with features and costs just $400.
3. *More Jobs Than Seekers* – For the 13th month straight, there were more jobs available (7.49 million), than there were job seekers (6.21 million). During the Great Recession in late 2009, there were 2.4 million jobs available, with 15.2 million unemployed.

Did You Know?

The CBOE Volatility Index (VIX) is a commonly referenced measure of volatility — some even use it as a contrarian indicator. But the VIX can be much more confusing and misleading than effective for most of us.

The index was designed to "measure" the implied volatility of S&P 500 index (SPX) options. In theory, the VIX is supposed to tell us how volatile the market is expected to be. Unfortunately, there are a plethora of mathematical and statistical nuances that can dilute just how effective the VIX really is. And if this seems confusing, the formula by which the VIX is calculated is even more so.

The bottom line is most of us shouldn’t get caught up in moments of volatility or try to predict where it’s going — volatility is more common than you think. Over the last 50 years, there have been 30 corrections of 10% or more in the S&P 500. And even if you bought in the S&P 500 in January of 1968, near all-time highs and just ahead of two recessions in 1970 and again in 1974, you’d still be up 3044% today.