
Market Review

December 13, 2019

Market Commentary

The stealth rally in stock markets is pricing in a phase-one US/China trade deal accompanied by a phased tariff rollback. While yet to be finalized, a limited trade agreement appears to have been reached.

So far the U.S. economy is withstanding the global slowdown as evidenced by a healthy employment situation. Trade uncertainty has negatively impacted business fixed investment and exports with manufacturing activity as measured by the ISM manufacturing index contracting the past four months. The service sector, however, continues to hold in, anchored by job gains and low unemployment rate.

After reducing interest rates three times this year, the U.S. Federal Reserve is now on hold against a backdrop of strong labour market conditions and contained inflation which is running below its 2 percent target. Nonetheless, monetary policy by central banks, including the U.S. remains accommodative. And more importantly, interest rates are expected to remain low for an extended period of time.

Trade relations and geopolitical events remain the key factors impacting markets. Economic growth is expected to remain positive albeit somewhat muted next year, supportive for continued corporate profit growth.