

Markets Hit New Highs in the Wake of Last Week's Fed Remarks

Chairman Powell walked the line between giving too much and too little in the way of monetary accommodation during prepared remarks to Congress last week. Markets have responded positively and are at all-time highs. We will see if we get follow through after the Fed meeting later in the month and a decision on a cut in interest rates.

The Dow industrials index has broken out and is outperforming the S&P 500 after lagging throughout the first part of 2019. The industrial sector has experienced earnings weakness related to the trade war with China. I believe it is a positive sign that we are seeing that part of the overall market turn around. We are also seeing strength in the transportation sector and the small cap index. I stated several weeks ago that if I had one wish it would be for transportation and the riskier small cap indices to catch up to the S&P 500. While they haven't quite caught up, they are doing well. Dow theorists would love to see the transportation reach new highs parallel to the industrials. According to Dow theory, when the industrials and transports reach new highs together, it is evidence of a new bull market.

Foreign markets continue to lag. Yesterday China reported the slowest growth since the 1990s. The trade issues are clearly adding to a weakening economy overall. The fact is that the U.S. remains the strongest economy in the world by some distance. We would benefit from some strength in the economies of our trading partners, including China. I remain hopeful that a trade resolution can be reached with China one way or the other. We received word last week that trade talks have resumed, so let's keep our fingers crossed.

Finally, the yield curve is steepening, which is helpful to banks and other financial stocks. It is generally a good thing for the overall market when banks are making money.

Key terms:

The Dow theory is a theory that says the market is in an upward trend if one of its averages (industrial or transportation) advances above a previous important high and is accompanied or followed by a similar advance in the other average. For example, if the Dow Jones Industrial Average (DJIA) climbs to an intermediate high, the Dow Jones Transportation Average (DJTA) is expected to follow suit within a reasonable period of time. (www.investopedia.com)

Last week's commentary is available [here](#).

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