Stock Market Selloff Deepens After Fed Remarks and Trade Negotiation Setback

As of this writing, stock markets around the globe are taking a beating. The selloff began on Wednesday of last week in response to Federal Reserve Chairman Jerome Powell's comments indicating that more rate cuts are not planned, and that last week's 25 basis point cut was simply an "adjustment". The next day, President Trump announced a planned 10% tax on all remaining untaxed Chinese imports. He stated that this is due to China's lack of follow through on promised agricultural purchases from the United States. Despite the reason, markets took this to be a serious setback in the ongoing trade fight with China, and stocks swooned. The selling continued Friday, resulting in the second worst week for stocks this year. Just yesterday, China responded with a devaluation of the Yuan and a prohibition of state-run businesses from buying U.S. agricultural products. Talk about fueling the fire. Today, stocks are down between 3% and 4% depending upon the sector and location.

To put the past four trading days into perspective, the S&P 500 is down more than 6.1%, the Dow is down 6.3% and the Nasdaq is down 7.8%. In response to the equity selloff, money is flowing into safe haven assets like gold and U.S. Treasury bonds. Treasury yields have dropped to the lowest levels we've seen since the summer of 2016. The 10-year is presently trading at 1.73%.

The trade situation is starting to feel like a real "war" with China is possible. This, coupled with continued weak economic data, warrants some real caution as we head into the most difficult stretch of the year. I stated previously that I didn't see an imminent recession here in the U.S. as long as employment remains robust, but this type of trench warfare among the largest economies in the world has the potential to quickly change things. A test of our stock markets' 200-day moving average appears likely over the next weeks. Emerging and other developed markets have already fallen below that critical juncture. Here at home, our markets have fallen below it twice so far this year and quickly recovered. The third time we may not be so lucky.

Last week's market commentary can be found here.

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