

Does the News Really Matter?

Equity markets set politics aside last week and focused on renewed hope of a trade deal between the U.S. and China. Initial reports were that the two countries had agreed to a “phase one” (of several) compromise. It was reported that the Chinese government would commit to the purchase of U.S. agricultural products and the U.S. would suspend implementing new tariffs later this month. The remainder of the details remain murky and after thinking it over, most commentators don’t see that much has been accomplished.

Nonetheless, investors took the communication between the two major economies as a positive and stocks bounced toward the upper end of the range we discussed last week (2720-3000 on the S&P 500). Material stocks, commodities and emerging markets were the big winners on the back of hope that the global supply chain can fire up again. Bond yields got a corresponding lift as well. It should be noted that another positive was word out of the United Kingdom that some type of Brexit resolution was in the wings.

We have discussed this type of news-driven market behavior before and it is always worth repeating that news events themselves do not make assets of any type more or less attractive. The things that matter are interest rates and earnings. If the news really matters, it will eventually show up in the hard data. As such, we are looking forward to third quarter earnings season ramping up. The big financial firms report tomorrow as well as Dow components Johnson and Johnson and United Health Group. These reports, along with others like industrial and transportation stocks, will determine just how weak the global economy is and whether we are in for rougher water in the form of rising unemployment; or whether this soft patch is just that and we have more innings to play. Unlike interest rates and earnings, price is a predictor as well as an aggregator of information. This volatile and range bound stock market tells us we aren’t ready to bet on the future, one way or another. As soon as all the above described news begins to really matter we will see it first in a price breakout, followed by confirmation in interest rates and earnings (usually in that order).

Last week’s commentary can be found [here](#).



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