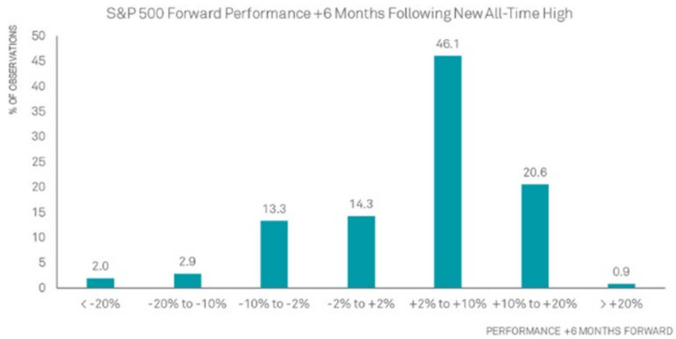
Macro View – Making Sense of New Highs

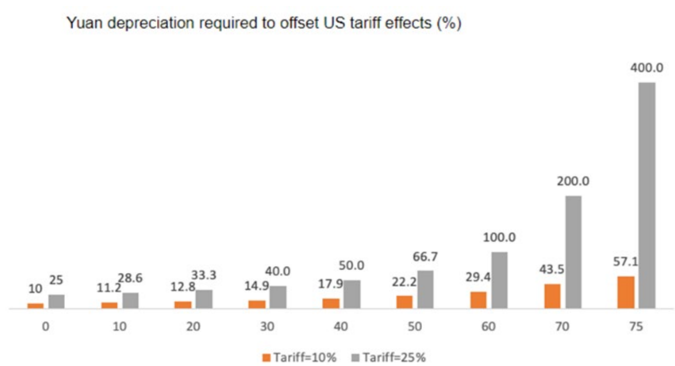
The recent highs in the market have investors euphoric and analysts wringing their hands. It is not lost on industry experts and investors that since the first all-time high of this bull market on March 28, 2013, the S&P 500 has almost doubled (BNY Mellon). The chart below shows S&P 500 performance six months following a new all time high in the index. The data went back to 1950, with 1120 total observations of a new all time high over six months following the previously set all time high in the index. About 67% of the time, the market is at least 2% higher six months after a new all time high. Further, over 20% of the time, the market is 10% higher six months after a new market high. The lesson is that investors are served well by adhering to a disciplined process that evaluates risk, can capture meaningful positive returns, and reduce the possibility of severe market drops.



Data since 1950, 1120 observations. As of 6/24/2019. Source: Strategas.

Taking Stock – Apple and Trade War

President Trump imposed a 25% tariff on $250 billion in Chinese goods. The tariff raises questions for multinational companies like Apple. For example, there are over 10 Chinese companies involved in the production of the iPhone. In 2009, there was one Chinese company involved in the production of the iPhone. China has set out to reduce the burden of the tariffs on their economy by devaluing their currency. The chart below shows the impact devaluing the Yuan has on a 10% tariff and a 25% tariff with the X axis showing the percentage of foreign value add embedded in Chinese exports. The impact of a 10% vs. a 25% tariff is meaningful. A 25% tariff requires a 28.6% depreciation of the Yuan to counterbalance the negative impact of the tariff. It is not surprising that Apple is looking to countries outside China as suppliers for the iPhone.



Source: Xing (2019).