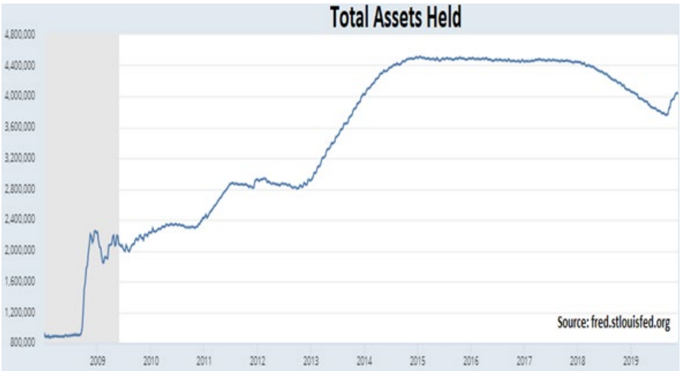
Fixed Income - Rooting for the Home Team

Fed Chair Powell recently announced that the Fed would begin increasing their balance sheet, stopping short of calling it quantitative easing — a difference without distinction for many. Powell made the announcement in response to the inverted yield curve that spiked recession concerns. At the heart of Powell's message was the need to react to negative interest rates in Europe and Asia. High rates in the U.S. relative to the rest of the developed world has caused the U.S. dollar to remain stubbornly high, hurting the competitiveness of domestic companies. Powell is hoping that the Fed's action will stem the dollar's rise and result in more robust export growth. While the shift in policy may succeed in the short-term, it is likely that the law of diminishing returns kicks in and low interest rates no longer represent the stimulus they have in the past.



Technical - Reversing the Trend

It has often been said that if something is not sustainable it has to change, and that is likely to happen soon in the trade dispute between China and the U.S. The chart below shows how dramatically exports from China to the U.S. have fallen since the onset of the trade war and how much it is impacting the Chinese economy. The trade war is a major narrative and risk for the stock market, so forecasting a settlement, even a minor agreement, could result in a sharp period of buying lifting the markets to new highs. There are political reasons at home also for making a trade cease fire compelling. With impeachment hearings dominating the daily news feed, a deal with China on trade that includes relief for U.S. farmers would be a welcome respite in the White House.