

Wednesday, August 07, 2019

Good Afternoon,

After reaching new highs on July 26<sup>th</sup>, markets fell 3% last week and then suffered their worst day of 2019 on Monday with another 3% drop. What is going on and should we be worried? While the Fed did lower rates ¼% last week, investors are concerned they won't be as responsive as needed going forward. More importantly, the trade dispute with China is being elevated to a trade war by the White House. Also, consider that stocks have been on a run since January and it could just be time for a breather.

The China trade conflict is now at the stage where analysts can start to calculate the potential threat to US corporate earnings. A 6% drop in earnings is certainly possible. Accordingly, the size of the pullback makes sense, as it reflects a reasonable estimate of the potential earnings damage. The speed of the pullback also makes sense, in that the causes—U.S. policy and Chinese reaction—took place over a period of days, just as the pullback did. Seen in that light, markets are reacting rationally – not panicking.

As I've mentioned many times in the Update, the strong rally in 2019 simply regained the ground lost in the sharp decline of Q4 2018. In terms of stock market levels, we are now back to where we were one year ago! Markets are likely to remain choppy in the near term -as evidenced by the action of Tuesday and Wednesday this week. Further escalation of the trade conflict will have negative impacts on both the global economy and stock values. Conversely, should we move closer to a trade deal between the US and China, we will likely see ground regained. As in past times of stock market turbulence, patience is the name of the game.

If the recent elevated stock market volatility has you concerned, give us a call and we can review your options together.

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[http://www.commonwealth.com/RepSiteContent/weekly\\_comm/commentary\\_redirect.htm](http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm)

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Talk to you soon,

*Wade*

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