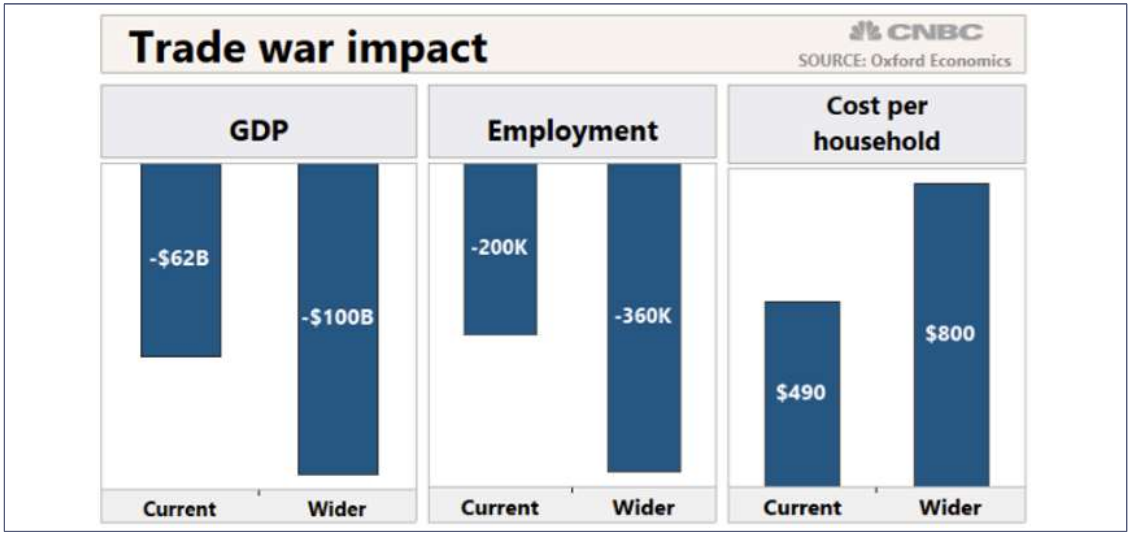
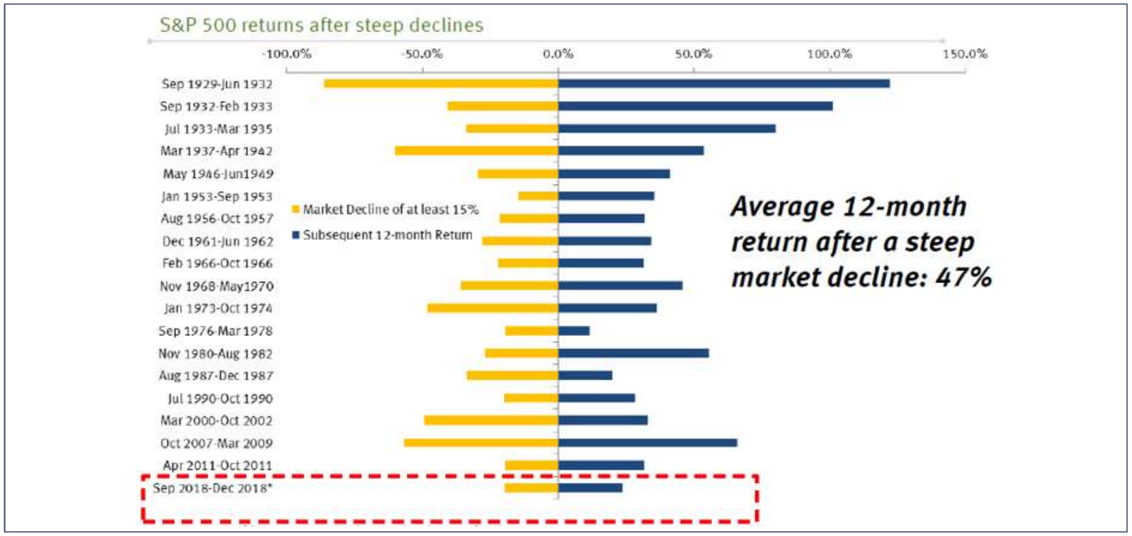
Market Recap

Trade Tensions Intensify (Yes, Again)



Source: CNBC

Reversion to the Mean



Source: Stifel Nicolaus

Despite growing consensus around the probability of a formal trade deal in the near future, trade tensions between the U.S. and China abruptly re-escalated last week as both sides had second thoughts about the viability of the deal's terms. As such, the U.S. decided to raise tariffs from 10% to 25% on $200 billion of imports, and shortly thereafter the Chinese government retaliated in kind, focusing on agricultural goods that would adversely impact workers within Trump's voting base. Although the situation remains fluid (the two sides are expected to meet again at the upcoming G20 summit), the trickle down from a sustained broadening of tariffs on China would more directly impact U.S. consumers than anything else we've seen to-date. It also increased the chances that inflation could surpass the Fed's 2% inflation target over the next year, potentially leading to an additional rate hike.

Historical data show that the S&P 500 tends to rebound rather quickly following meaningful declines, a testament to the power of mean reversion – The V-shaped drawdown and subsequent recovery that we've experienced over the past six months is just the latest example in this long tradition. That said, tracking the relative performance throughout such bouts of volatility can be misleading. Consider this extreme scenario—the market falls -50% on the first day of the year. During the following 12 months, the market returns +100%. Intuitively, one might think the market has finished the year higher than the start, though the reality is the market would be at the same level it started the year.

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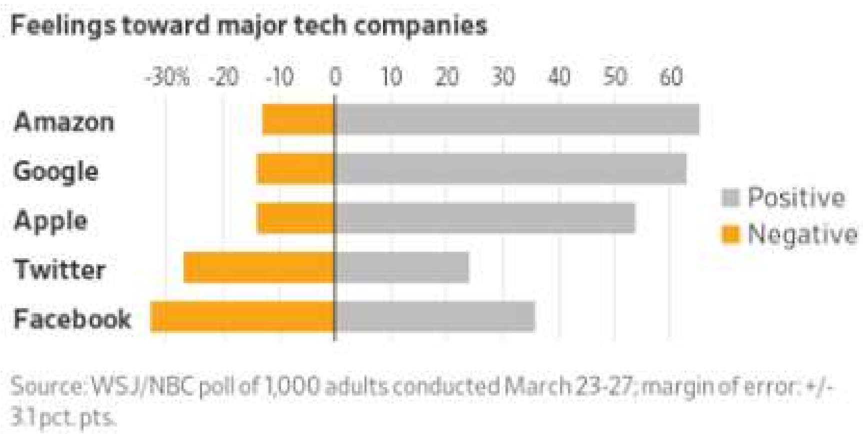
Anatomy of an Asset Bubble

Source: Cornerstone Macro

Every asset bubble is a bit unique, though certain macroeconomic commonalities can typically be found, such as access to cheap capital, a strong economy, and elevated valuation levels. Despite the visibility of these patterns, bubbles seem to keep occurring, suggesting that investors are slow to learn from their mistakes. The truth is human behavior hasn't changed—vacillating through cycles of fear and greed. Another rather underappreciated factor in play is the turnover among market participants. Most millennial investors (born after 1980) have yet to witness a bubble in real time, and the most experienced of portfolio managers progressively cycle out of the market as they enter retirement.

Mixed Feelings Toward Technology



Source: Wall Street Journal

While the media (and many politicians) have a propensity to lump many big technology companies together (think of the popular FAANG acronym), survey-based data provide a more nuanced perspective on consumer relationships with these brands. Overall attitudes are largely positive despite growing unease about the amount of personal data that companies like Amazon and Apple collect. Indeed, although digital advertising giants Google and Facebook have been uniformly criticized as businesses where "You [the consumer] are the product", the survey results reveal a meaningful difference in how the two companies are perceived.

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