

We've sent several communications over the last 2 months, discussing what we felt caused the stock market to fall, and when we thought it would end. We've been saying there are two big dark clouds hanging over the market:

- 1) Fear the Federal Reserve will raise interest rates too high, causing the economy to go into a recession; and,
- 2) The escalating trade war with China.

Fortunately, this morning Federal Reserve Chair Powell gave a speech to the Economic Club of New York. (Can you imagine what an uptight group of sour-faced people that must be?) Anyhoo, Chairman Powell said we are "just below the neutral interest rate." Translated, that means the Federal Reserve is getting close to ending interest rate hikes. He also said the Federal Reserve would now decide future hikes based on economic data, as opposed to his comments 2 months ago in which he said we are a "long way from neutral," implying they were going to continue raising rates no matter what. Our guess is that Powell regretted making those comments 2 months ago, and this was his first opportunity to temper his language. It's important to recognize this is his first year on the job.

Next comes China. As we've been saying, both political parties agree China's bad economic behavior needs to change. Presidents Trump and Xi Jinping meet this weekend at the G-20 economic summit in Buenos Aires. All political leaders are survivors; their primary goal is to survive. Although the fear of an escalating trade war and increasing tariffs has likely hurt the U.S. stock market, the China Shanghai Composite Stock Market Index is down almost 14% year-to-date, and was down as much as 21% just 5 weeks ago. Our guess is both men would prefer to be seen as economic saviors, not destroyers, so we think they will come to a face-saving agreement.

Investor sentiment changes on a dime. A couple of days ago, the talking heads were saying why the market would continue going lower. Undoubtedly, those same people who are accountable to no one will be proclaiming how they were buying stocks at the bottom, and nobody will call them on their duplicity.

Thank you for remaining steadfast. On a side note, if you haven't already RSVP'd to attend one of our 2019 Economic & Market Outlook Seminars at Maggiano's in Bellevue on Jan 18, 19 or Feb 9, please do so.

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