

Greetings:

A rally late Friday afternoon pulled the indexes back from their worst weekly declines since the end of last year as the trade tensions continued to escalate. The Dow had a rollercoaster ride, with an intraday spread of 550 points from top to bottom, to finish the day up 114 points. Even with the rally the Dow finished the week -2.1%, the S&P 500 -2.2%, and the Nasdaq -3%.

Last week's volatility was triggered when the US accused China of backtracking on earlier commitments, leading the Trump administration to increase tariffs on nearly half of Chinese imports from 10% to 25%. These tariffs hit the Chinese stock market hard, as the Shanghai Composite index tumbled 5.6% on Monday—its biggest single-day decline since 2016—before recovering to close the week -4.5%. (Source: Sherman Sheet; 05/13/2019)

Over the weekend Chinese President Xi announced a retaliatory tariff increase from 10% to 20% on over 1,000 items. These items include food items, baking condiments, some construction equipment, books, and a range of consumer products like golf clubs, bowling pins, and roller skates. This news hit the US market hard Monday with the Dow and S&P off about 2.4% and the Nasdaq down 3.4%. (www.fortune.com; 05/13/2019)

Following the steep declines in the stock market yesterday, the major indices have rebounded today as trade tensions have decreased. The tariff increases apply pressure to both the US and Chinese markets, which while painful, make them an effective negotiating tool to help expedite the trade talks. A trade deal is still far from certain, but there is talk that US and Chinese officials could strike a deal soon to alleviate the pressure. (www.wsj.com; 05/14/2019)

Regards,
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