ATG TRUST COMPANY

FINANCIAL MARKET UPDATE
5/24/19

THE WEEK IN REVIEW

The trade dispute between the U.S. and China escalated further this week when President Trump issued an export ban on Monday against Chinese telecommunications giant Huawei Technologies. The export ban prevents U.S. companies from supplying Huawei with their crucial technology. The semiconductor industry's high exposure to Huawei led to those stocks getting hit especially hard as seen by the S&P 500 semiconductor industry falling over 5% this week. Chinese President Xi Jinping responded by publicizing his visit to a rare earth metal mine to highlight China's position as the world's largest supplier of these elements. This visit demonstrated China's ability to restrict exports of the metals as a trade weapon, as it did with Japan in 2010. Many U.S. industries including technology, transportation, and defense rely on importing these metals from China.

Concerns about the intensified trade tensions and soft global economic data contributed to declines in riskier assets and higher demand for safe-haven assets such as U.S. government bonds. The 10-year U.S. Treasury yield fell to around 2.30% mid-week, its lowest level since October 2010. The price of oil fell over 6% this week due to fears oil demand could be impacted by slower global growth and a prolonged U.S.-China trade war weighing on global trade.

Minutes of the Federal Open Market Committee's (FOMC) May meeting were released on Wednesday. The minutes showed Fed officials reiterated their "wait-and-see" approach, while adding that patience would be appropriate "for some time." Speeches from members of the committee this week included comments that largely reflected the wait-and-see stance as Dallas Fed President Robert Kaplan said the next fed funds rate move could be up or down. On the other hand, Cleveland Fed President Loretta Mester argued that the monetary policy needed to get inflation expectations moving higher (i.e. an interest rate cut) would risk driving unemployment to a dangerously low level. Mester's comments ignore the fact that the labor force participation rate remains very low, suggesting there might be more slack in the labor market than the headline unemployment rate indicates.

Meanwhile, some economic indicators suggest that geopolitical uncertainty may be increasingly affecting economic activity at the margins. For example, the U.S. and Eurozone Composite PMIs, which both missed economists' estimates this week, continued to weaken in May. U.S. durable goods orders were also weaker than expected in April.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Existing Home Sales (Millions Annualized)	5.2	4.9	▲
New Home Sales (Thousands Annualized)	673.0	644.0	▲
Durable Goods Orders	-2.1%	0.5%	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25585.69	-0.69%	9.68%	3.12%
NASDAQ	7637.01	-2.29%	15.10%	2.86%
S&P 500 LargeCap	2826.06	-1.17%	12.73%	3.60%
MSCI EAFE	1839.56	-1.41%	6.96%	-9.07%
Bbg Barclays Aggregate US	2125.20	0.27%	3.84%	6.22%

KEY BOND RATES	CURRENT	1WK AGO	1MO AGO	1YR AGO
3-Month T-Bill	2.34%	2.37%	2.42%	1.89%
10-Year Treasury	2.32%	2.39%	2.52%	2.98%

REPORTS DUE NEXT WEEK	LATEST
GDP (QoQ Annualized)	3.2%
Personal Income (YoY)	3.8%
Personal Spending (YoY)	4.4%
Core PCE Price Index (YoY)	1.6%
U. of Mich. Consumer Sentiment	102.40

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.