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# Market Commentary

WEEKLY PERSPECTIVE ON CURRENT MARKET SENTIMENT

## A Few Simple Concepts

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Last Week's S&P 500 Index:
-1.4%

**Key takeaways**

- *The airwaves are full of pundits pontificating on the many perceived issues sparking the volatility in the equity market since early February.*
- *But in reality, the recent turmoil can be broken down into just a handful of simple concepts. Focus on those concepts.*

The good news is we have another volatile week in our rear view mirror, but the bad news is we likely have another one ahead. That is just the way it feels to this strategist and, I am sure, to many of the regular readers of this weekly piece. While it won't make you feel any better, keep in mind that in the latter stages of an economic cycle, it is typical for investors to be concerned about numerous issues, most of them centering around the Federal Reserve (Fed) and what the near-to-intermediate future might hold in terms of monetary policy decisions. Because remember, the ebb-and-flow of the economic cycle is almost always controlled by Fed monetary policy decisions (or some would say, policy mistakes).

But granted, we currently have other unusual and less-common items that are also bothering equity market participants. In each cycle there are commonalities that come into play nearly every time, but each cycle also has unique characteristics that may allow them to "rhyme" but not be exactly like any other. So what is the story with this particular cycle? What is causing all the turmoil since early February?

In our opinion, you can break the recent turmoil down into just a few simple concepts. This isn't complicated:

1. The market is worried about a rise in general inflation and the Fed overreacting. A common killer of economic expansions in the past has been a Fed that raised rates too high and left them there for too long given the underlying level of economic activity. Higher rates discourage borrowing and spending and slow the economy. Granted, that is the goal of most rate hike cycles, but it is hard to fine-tune a $19 trillion economy under any circumstances. This is the stock market's number one concern.

2. The market is also worried about potential wage inflation and its negative effect on margins. Wages are the largest expense item for almost every company. Right now corporate margins are high, but the labor market is finally getting tight. A general surge in wages would clearly be a margin problem.

3. The Technology sector has led equities higher for the last two-plus years, and now there are concerns as earnings growth slows this year versus last and valuations sit at less-attractive levels. There is also some fear of additional government regulation. In addition, when the equity market gets jittery and investors want to take a little money off the table, investors sell the most liquid stocks. The big tech stocks are quite liquid.

4. All-out trade wars are bad. Trade wars often result in lower trade volumes and higher prices along with rocky financial markets and less economic growth (GDP). Enough said.

In our opinion, the Fed will not hike rates more than three times this year (two more to go), wages will push slightly higher but not surge, Tech will continue to participate in the bull market, and the probability of an all-out trade war is low. Investors need to focus on what is actually going to drive the economy and markets in the coming 12 months and block out all the noise. Keep it simple.

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