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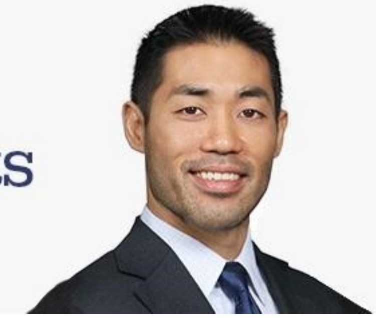
RBA Quick Insights



Fear vs. Optimism

In our view, the spike in volatility over the last few months has been more about fear than actual fundamentals. The three key market concerns have centered around (1) a Fed that may pre-emptively choke off growth, (2) escalating US-China trade tensions and (3) an oversupply of oil. But the events of the recent week indicate that some of those fears may begin to fade:

The Fed: Last week, Chairman Jay Powell's speech suggested that the pace of future hikes is not set in stone.

Trade: Following last week's G20 Summit, China agreed to purchase more US goods and cut tariffs on US auto imports, while the US agreed to hold off on planned tariff increases for 90 days. Although this does little to address the key sticking points (i.e. intellectual property, market access), it represents a significant shift in the narrative from an inevitable trade war to a Chinese government that is very motivated to avoid further escalation.

Oil: Oil has fallen over 30% since early October, and some investors fear that further declines could significantly pressure the economy as well as credit markets. Part of the recent collapse represents a reversal of the preceding run-up in oil prices after the US pressured other countries to not buy Iranian oil and then granted waivers to the most affected countries. Investors will find out later this week whether OPEC+ decides to cut oil production, but oil markets were encouraged by agreement between the two key players (Saudi Arabia and Russia) to continue to cooperate on stabilizing oil.

As was the case with the NAFTA negotiations, trade discussions with China could drag on for some time with optimism waning and waxing throughout the process. But the fact that the S&P 500® is down 5% from the September peak tells you that there's still more fear than optimism among investors. That means there's a long runway for the market **IF** it is allowed to focus back on the solid fundamental backdrop.

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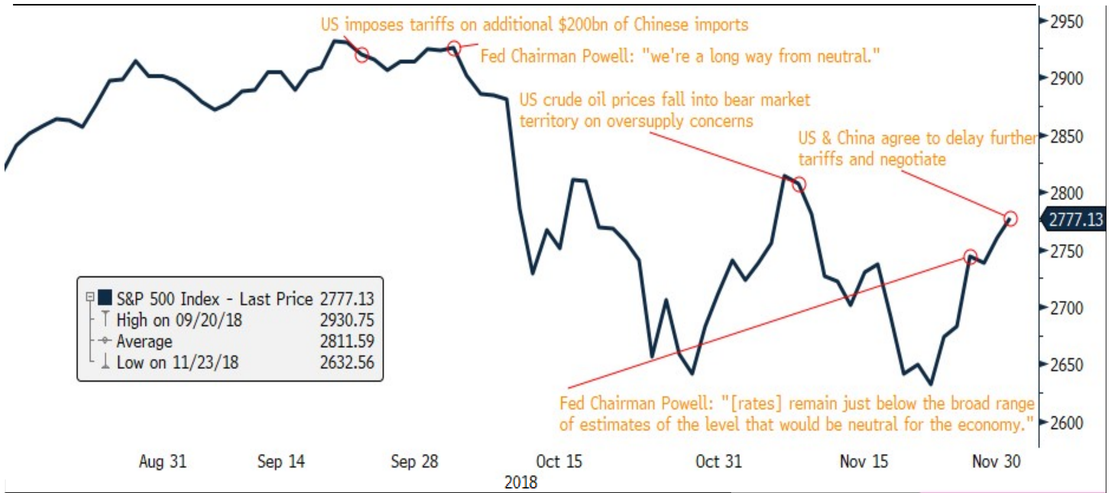
The anatomy of a correction



Source: Richard Bernstein Advisors LLC, Bloomberg

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