Northern Trust | Resilience Against the Trade Winds

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After a tough start in May, US equities stabilized last week. This happened despite concerns about US-China trade frictions and mixed economic data. At the end of the day, our base case of global growth resilience is driving risk assets forward.

The economic data last week was mixed at best, but turned out to be good enough for equity markets. While US retail sales were weaker than expected, and low import prices demonstrate a lack of global demand, housing starts bounced back nicely, and low jobless claims once again told us that the US employment market is robust. Strong earnings from Walmart also gave the market comfort about the state of corporate America. Before you knew it, US-China trade frictions slipped into the background.

Our base investment case has been that economic growth would remain modest, but resilient. There will be good days and bad days for the economy. But we see nothing that will put the country into a recession, nor create runaway growth. Modest economic growth should keep inflation low. And that, along with an inverted yield curve, should continue to concern the Fed about continuing its policy of holding rates steady rather than cutting them.

We remain overweight risk assets, with a preference for US high-yield bonds, US equities, and global REITs. These positions have worked out well this year. And we continue to believe investors are getting paid for the risk in the current environment. Trade frictions between the US and China will be a new normal that investors will eventually adjust to. While there will be days of volatility for sure, we don't think these frictions will cause a recession. We believe a modest overweight to risk assets still makes sense as long as growth continues and interest rates remain low.

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