



March Market Update: Dow Extends Winning Streak to Nine Weeks as Trade Optimism, Budget Deal Lifts Stocks

Wall Street's best start to a year in three decades saw further upside in February, as the Dow Jones Industrial Average notched its ninth consecutive week in the black. Optimism surrounding U.S.-China trade negotiations and the end of the budget stalemate in Washington were the primary catalysts behind the rally. The easing of trade tensions also helped propel Chinese stocks to their best monthly performance in nearly four years.

Global Markets Continue Higher

The major U.S. stock indexes gained between 3% and 3.6% in February as volatility plunged to its lowest level in four-and-a-half months. The CBOE Volatility Index, commonly known as the VIX, bottomed at 13.51 on February 22 after having peaked around 36.00 before Christmas. A lower VIX usually corresponds with higher stock prices.

Canada's benchmark S&P/TSX Composite Index gained 3% during the month and closed at its highest level since early October. The TSX remains some 400 points shy of its all-time high.

Asian and European stocks also recorded big gains in February. China's benchmark Shanghai Composite Index returned to bull-market territory after running up its best month since April 2015. The index gained a whopping 13.8% over the span of four weeks.¹ Europe's benchmark Stoxx 600 index gained more than 4% to close at its highest level of 2019. Bourses from London to Madrid all reported solid growth, though U.K. stocks underperformed due to lingering Brexit uncertainty.

Second U.S. Government Shutdown Averted



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U.S. President Donald Trump and congressional leaders reached a new budget agreement last month that narrowly avoided a second government shutdown. Congress approved seven spending bills totaling \$333 billion but allocated just \$1.38 billion toward the construction of a new border fence with Mexico. That was well short of the \$5.7 billion Trump had requested for a new steel barrier.

The impasse over border-security funding prompted the president to declare a national emergency. By doing so, Trump has the latitude to shore up funding for his proposed border wall from other government departments.

Democrats have vowed to fight Trump’s emergency declaration, with several states announcing plans to sue the administration. California Attorney General Xavier Becerra told ABC last month that he “definitively and imminently” planned to pursue legal action against the administration.²

U.S.-China Trade Talks Show Progress

Trade talks between the United States and China progressed favorably last month, raising renewed hope that a comprehensive agreement would be reached in the near future. The positive dialogue prompted President Trump to extend the negotiating window beyond March 1, a self-imposed deadline that would have seen Washington raise its tariffs on Chinese exports.

Trump and China’s Xinhua news agency confirmed that both sides had made important progress on several thorny issues, including technology transfer and intellectual property protection. On February 24, Trump tweeted the following: “I am pleased to report that the U.S. has made substantial progress in our trade talks with China on important structural issues including intellectual property protection, technology transfer, agriculture, services, currency, and many other issues.”³

Trump said he looks forward to holding a signing summit with China’s Xi Jinping in Mar-a-Lago to “conclude an agreement.” However, at this stage, a comprehensive deal remains far off. Both sides are expected to continue the dialogue this month.

The Month Ahead

March is expected to be a highly active month for the financial markets. Economic data, trade negotiations and central bank meetings are all on the docket. The U.S. Federal Reserve will be holding its next monetary policy meeting on March 19-20. The official interest rate statement will be accompanied by a revised summary of economic projections covering GDP, unemployment and inflation.

Sincerely,

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¹ Yujing Liu (February 28, 2019). "China stocks run up best month in nearly four years." South China Morning Post.

² Sam Bourgi (February 18, 2019). "Dow Futures Eke Higher on President's Day as Democrats Prepare to Fight Trump's Emergency Declaration." CCN.com.

