



**FP** Ferrie Petruccelli  
Wealth Management Group  
BMO Nesbitt Burns

## August Monthly Recap: Federal Reserve Embarks on a New Era of Ultra-Loose Monetary Policy

Wall Street and global stocks pared losses in the final week of August after China's Commerce Ministry extended an olive branch to the Trump administration to revive trade talks as early as September.

### China Prioritizes Trade Deal

The United States and China have signaled that they are ready to revive trade talks as early as September, raising hopes that the two superpowers will finally break a yearlong stalemate on tariffs and intellectual property. China's Ministry of Commerce says it has prioritized de-escalating the trade war, but only if Washington cancels a tariff increase that was implemented on September 1.<sup>1</sup>

China too has escalated its tariff war with Washington by announcing new duties on \$75 billion worth of American goods. Tariffs on a portion of those goods went into effect September 1.

The trade war has made both countries less productive, as evidenced by the most recent manufacturing data. China's rate of industrial production growth slowed in July to its weakest in 17 years, while U.S. manufacturing PMI contracted in August for the first time in nearly a decade.<sup>2</sup>

### Stocks Pare Losses

U.S. stocks ended the month of August on a high, booking their strongest weekly gains since June amid renewed China trade-talk hopes.<sup>3</sup> The Dow Jones Industrial Average, S&P 500 Index and Nasdaq Composite rose between 2.7% and 3% in the final week, but still logged monthly declines.

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Canada's benchmark S&P/TSX Composite Index rallied 2.5% between August 23-30, salvaging gains for the month. European markets had a mixed performance, while most of the Asian benchmarks ended August sharply lower. The notable exception was mainland China; the Shanghai Shenzhen CSI 300 Index rallied 2.7% during the month.

The CBOE Volatility Index, commonly known as the VIX, spiked in early August to its highest level of 2019. The so-called "fear index" is back trading below the historic mean but remains well above yearly lows. VIX trades inversely with the S&P 500 Index roughly 75% of the time.

### **Yield Curve Inversion Flashes Recession Signal**

Wall Street's most reliable recession signal flashed a major warning sign in August, as the yield on the 10-year U.S. Treasury fell below the yield on the 2-year Treasury note. When this closely watched yield curve inverts, recession typically follows 22 months later.<sup>4</sup>

The benchmark 10-year U.S. Treasury yield ended the month of August at 1.499% after plunging below 1.5% for the first time in more than three years. The 2-year yield was at 1.510%. Yields fall when bond prices rise.

While the U.S. economy continues to outperform its advanced industrialized peers, the rate of growth has slowed significantly in recent quarters. Revised estimates by the Commerce Department pegged second-quarter GDP growth at just 2%, down slightly from the advance estimate.

Demand for haven assets has pushed the price of gold to more than six-year highs. Gold for December delivery, the most actively traded futures contract, peaked at \$1,565.00 a troy ounce on the Comex division of the New York Mercantile Exchange. Bullion has rallied nearly 20% for the year.

### **The Month Ahead**

September is a notoriously difficult month for stocks, with the S&P 500 losing an average of 0.5% between 1950 and 2018.<sup>5</sup> The presence of U.S.-China trade tensions, slowing economic growth and bond market volatility could make a historically difficult month more turbulent for equity traders.



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Sincerely,

[Ferrie Petruccelli Wealth Management Group](#)

David Ferrie, Portfolio Manager, Managing Director  
T: 416-590-7667 [david.ferrie@nbpcd.com](mailto:david.ferrie@nbpcd.com)

Anthony Petruccelli, Portfolio Manager, Financial Planner  
T: 416-590-7675 [anthony.petruccelli@nbpcd.com](mailto:anthony.petruccelli@nbpcd.com)

Teresa Hoang, Administrative Assistant  
T: 416-590-7605 [teresa.hoang@nbpcd.com](mailto:teresa.hoang@nbpcd.com)

**Our Partners**

Tim Simpson, Estate & Insurance Advisor  
T: 416-359-7798 [timothy.simpson@nbpcd.com](mailto:timothy.simpson@nbpcd.com)

Hill Su, Wealth Planning Consultant  
T: 416-590-7690 [hill.su@nbpcd.com](mailto:hill.su@nbpcd.com)

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<sup>1</sup> David Lawder, Stellar Qiu (August 29, 2019). "Signs of new U.S.-China trade discussions emerge as increased tariffs loom." Reuters.

<sup>2</sup> Sam Bourgi (August 29, 2019). "U.S. Stocks Surge After China Revives Trade-Talk Hopes." Hacked.com

<sup>3</sup> Chris Matthews and William Watts (August 30, 2019). "Stocks end mostly higher to trim August decline as trade-war worries ebb." MarketWatch.

<sup>4</sup> Lawrence Meyers (August 15, 2019). "What Recession? The Yield Curve Inversion Is a Flashing Buy Signal." CCN.com

<sup>5</sup> Daren Fonda (August 31, 2019). "History Says September Will Be Rough for Stocks. How to Invest for an October Turnaround." Barron's.

