



**VAUGHN**  
— WEALTH —



## **Rate Cut, Trade War, and Global Political Unrest - What Does It Mean?**

There is a lot going on now and volatility in the financial markets has increased again. Not really, but when it comes to finances, the human condition only considers negative volatility volatile. The market can be racing up at a frantic pace and no one calls it volatile.

As was widely expected, the Federal Reserve reduced the Federal Funds Interest Rate by 0.25% on July 31. Citing slowing global growth, weakening business investment, declining exports and a soft housing market, the Fed is trying to maneuver the economy through an economic soft patch. It appears the market

expected more of a cut and the Fed stopped short of saying future cuts are in order, meaning this could be all we get. This was a disappointment to the markets which are lower after the news.

However, on many fronts the U.S. economy did not warrant an interest rate cut. Employment is strong, consumer spending is strong, and economic growth is above trend. Nonetheless, the negative change in growth spawned the cut. Based on data available to the Fed today, it is very possible that economic activity continues trending negatively as the U.S. embarks on further trade negotiations.

In addition to the rate cut, President Trump announced a further round of trade tariffs on Chinese imports, beginning September 1st. When the newly announced tariffs take place, all goods imported from China will have an additional tax. Most believe these additional tariffs will negatively impact global trade. Accordingly, the announcement sent stock markets and interest rates immediately lower. Trade negotiations seem to be extremely important to the markets. As we've seen before with this administration, a deal with China could be announced any day, but in the meantime, increased trade tensions will likely influence the markets negatively.

Finally, we've all been reading about Brexit for months, the protests in Hong Kong for weeks, and more recently the turmoil in Argentina. The latest news is that Argentina's President Mauricio Macri lost by a far greater margin than expected in primary elections on Sunday, resulting in a shockwave with Argentina's stock market plunging more than 30%. All of these issues have some investors worried about a contagion that would affect global markets, most importantly the US.

What does this all mean to investors? The hope is that the Fed's more accommodative stance will help spur economic activity. Also, to date, although weakening, most US economic data remains in positive territory. Further, as I write this, CNBC announced the US has just now removed some items from the tariff list. As we've seen time and again, today's financial headlines can be tomorrow's afterthought. On the flipside of the coin, we are in the longest economical expansion in modern US history and everyone agrees that all good things come to an end, eventually.

So, with many important changes impacting markets, we are diligently examining the data in order to alert you if and when it requires changes to the investment strategy. As always, conversations about your income and cash needs over the coming months and years help as we evaluate how to prudently invest your portfolio. If you would like to see more data and discuss the potential impact on your specific portfolio, please give us a call.

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