MONTH IN REVIEW

May 2019: Stubborn Fed Digs In

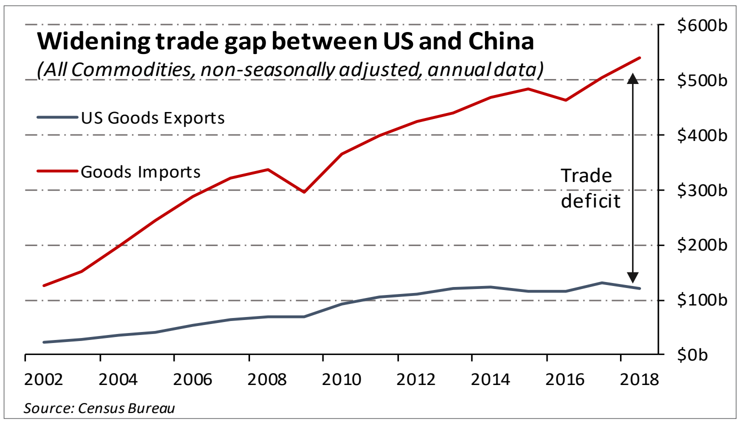
ECONOMICS

Chris Low, Chief Economist
212.418.7909
chris.low@ftnfinancial.com

Rebecca Kooshak, Economic Analyst
212.418.7966
rebecca.kooshak@ftnfinancial.com

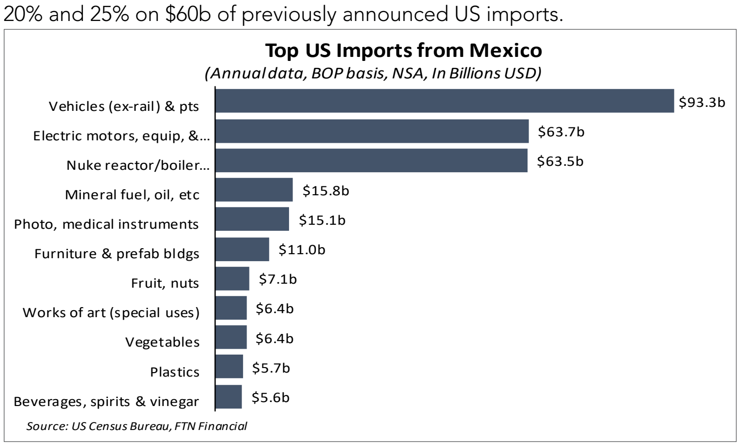
Investors expected the FOMC to signal openness to a rate cut at the May 1 FOMC meeting, but Jay Powell said he saw no immediate need to shift rates higher or lower. The primary reason is the Fed saw low Q1 inflation as temporary. Reporters barraged the Chair with questions about cuts at the post-meeting press conference, citing lower inflation, slowing growth, and an inverted yield curve. He brushed back all, carefully avoiding even saying the word "cut."

President Trump surprised markets twice during the month. First, by tweeting plans to increase tariff rates and extend them on remaining Chinese imports. The timing of the tweet was equally surprising as it came just before Chinese Premier Liu He planned to visit the US for a final round of talks. After the tweet, the US said the Chinese had reneged on several key issues already negotiated into the deal. Second, on May 30, after the market closed, he tweeted plans to impose a 5% tariff on Mexican imports. The S&P 500 fell 6.8%, and US 10-year Treasuries fell 37bps over the month.

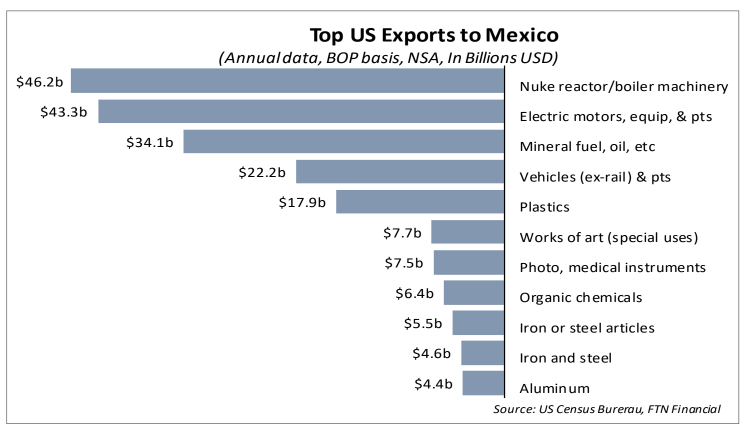


Despite 25% tariffs on high tech machinery and 10% on $200b other goods, imports from China increased to $540b and US exports decreased to $120b in 2018. On May 5, President Trump announced tariff increases from 10% to 25% on $200b of goods. Beijing retaliated by announcing tariff increases to 10%, 20% and 25% on $60b of previously announced US imports.

Retail sales in China slowed to a 7.1% year-over-year pace in April, its weakest since 2003. Consumer goods fell with cosmetics and autos leading the slowdown. Clothing sales also fell for the first time since 2009, as falling export orders led firms to reduce staff.



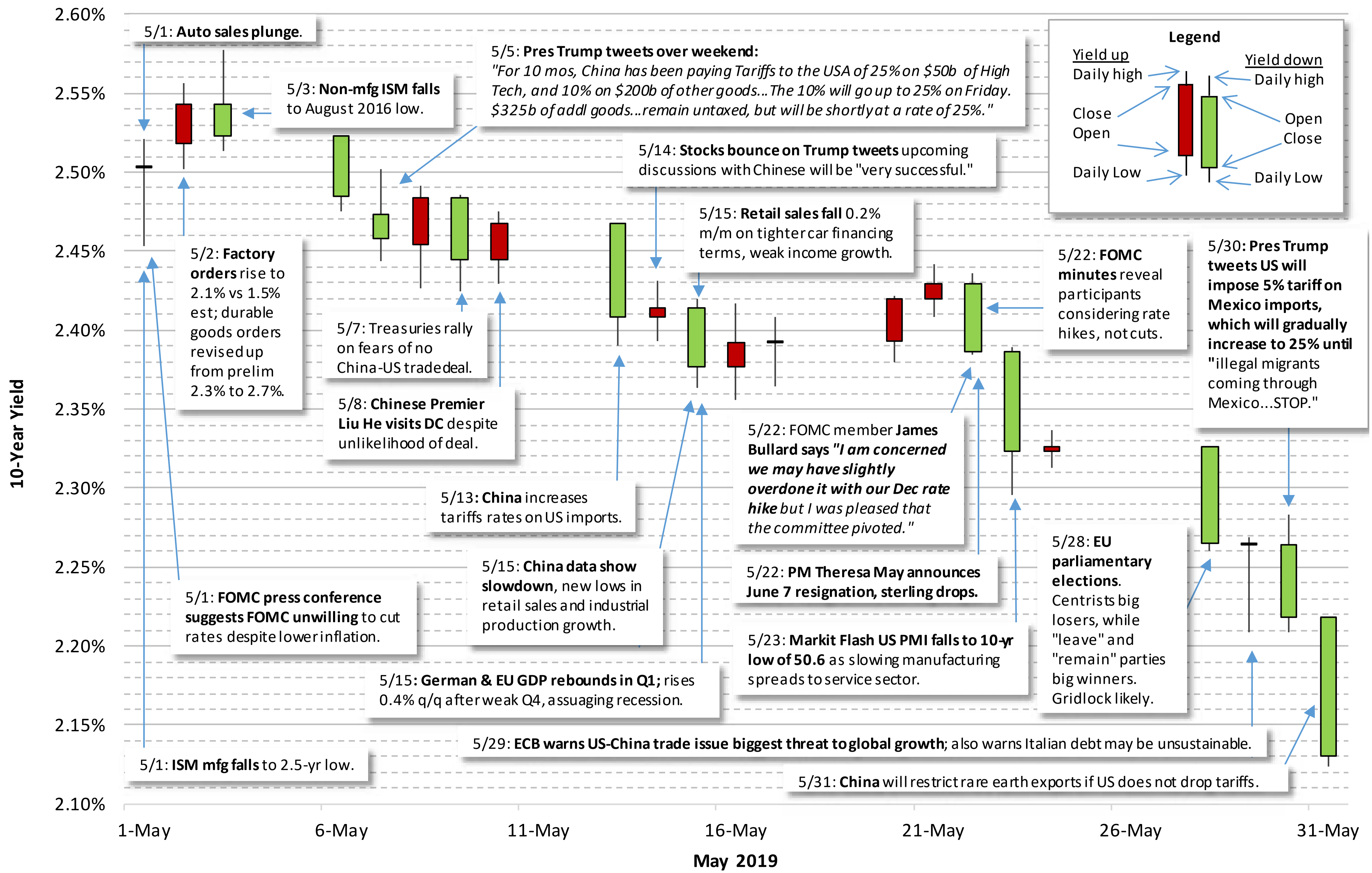
Tariffs on Mexican goods will disrupt food choices more than Chinese tariffs. The US imported $7.1b of fruits & nuts and $6.4b of vegetables in 2018 with tomatoes accounting for $2.1b worth. A 17.5% tariff on Mexican tomato imports went into effect May 7, which is a separate issue from the 5% tariff Trump announced May 30. The latter is structured to get Mexico to cooperate with US efforts to stop migrant caravans coming though Mexico to the US.



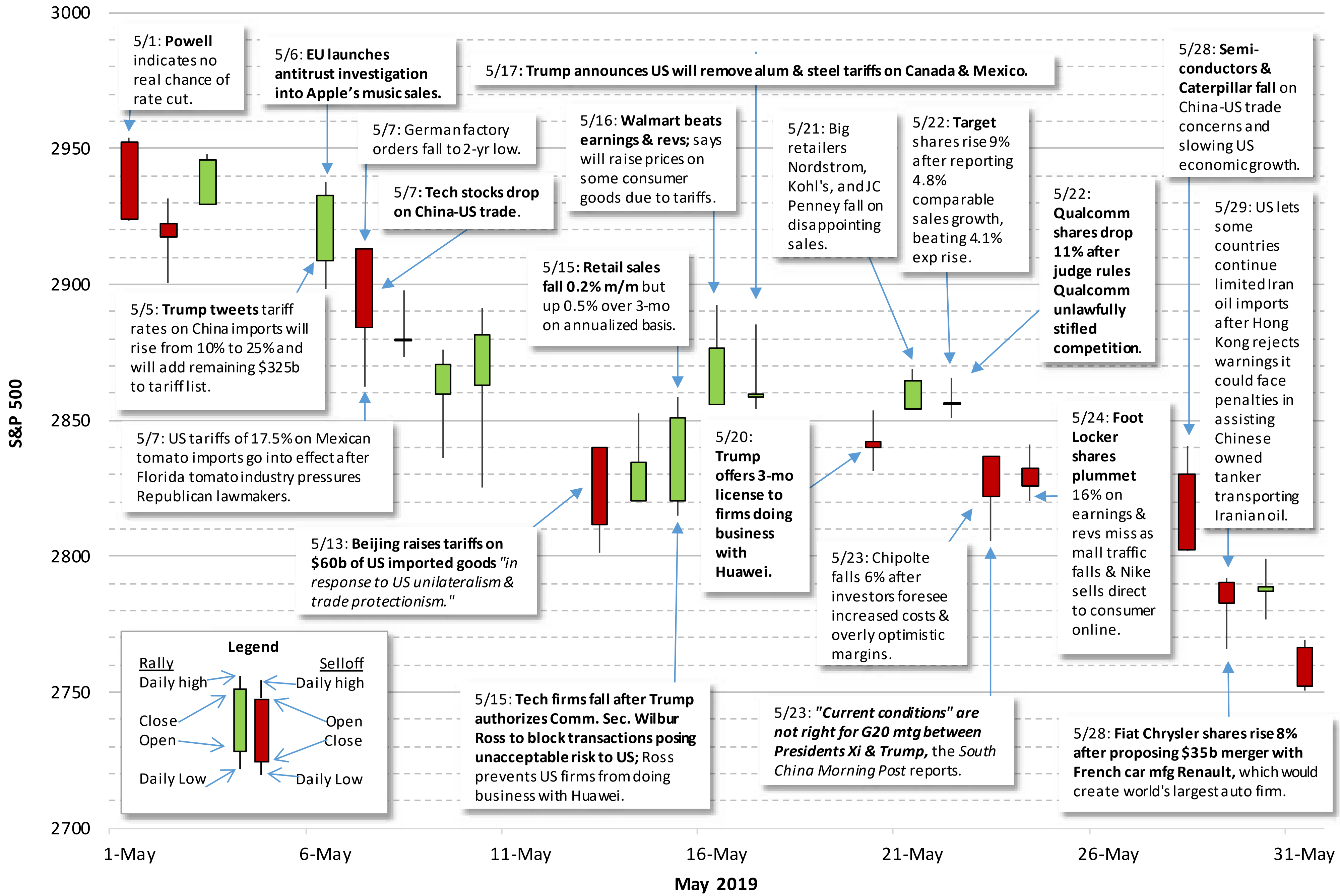
Exports to Mexico are largely comprised of US automakers exporting components into Mexico for vehicle integration. These components, however, often trade back-and-forth across the border as they are assembled in Mexico and shipped back to the US, which means the same goods could be subject to multiple rounds of tariff duties.

Disclosures are on the last page of this report.

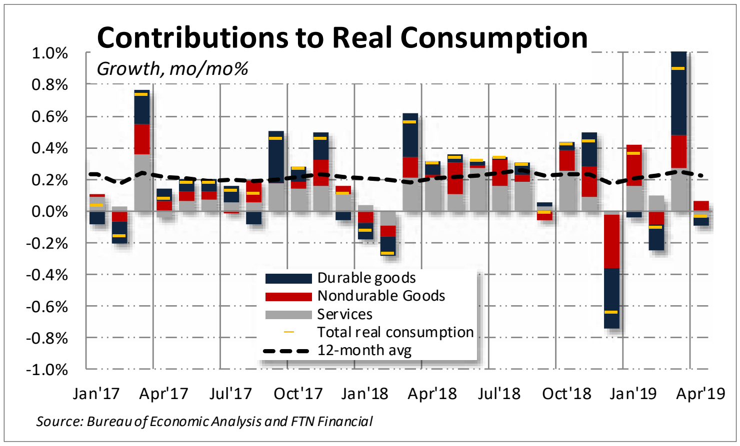
Market-Moving Events: 10-Year Treasury



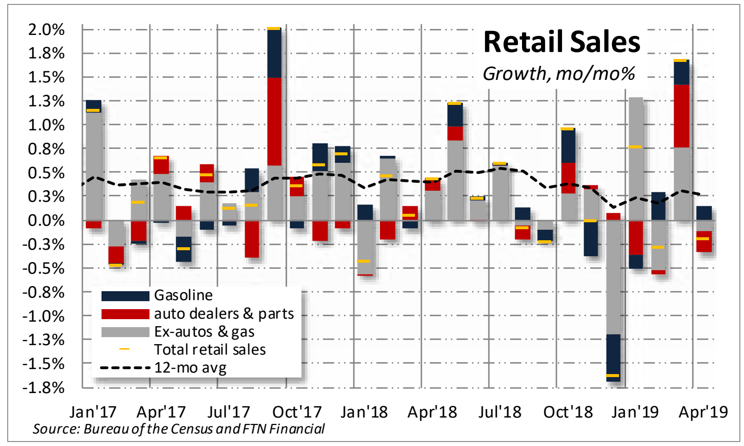
MARKET-MOVING EVENTS: S&P 500



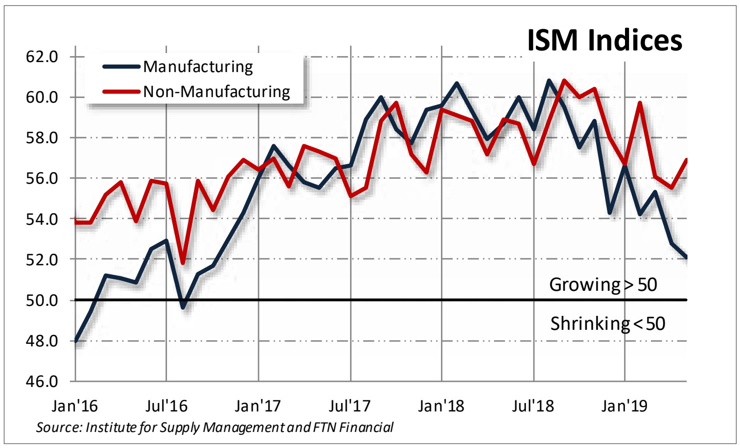
DATA WATCH: KEY ECONOMIC INDICATORS



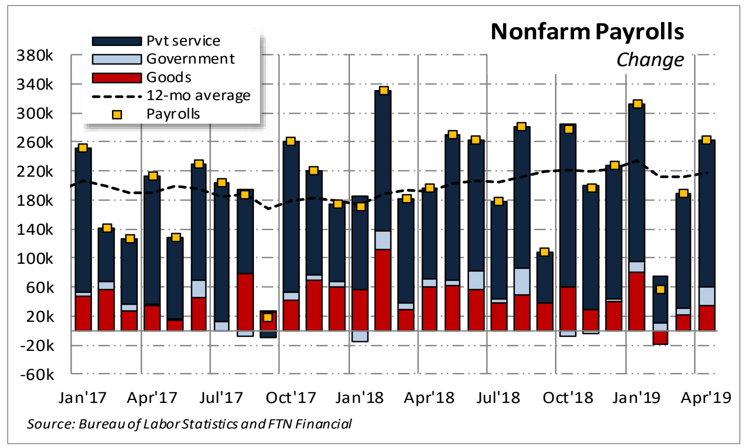
Real personal consumption expenditures fell three-tenths in April. The contribution from goods was nearly flat, as nondurable goods added 0.06% to the change and durables took away 0.05%. Services dropped 0.06% over the month, taking 0.04% from the monthly change.



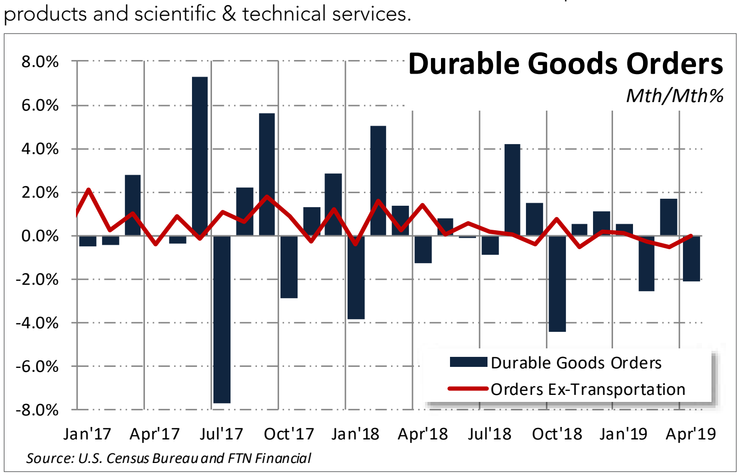
Tighter financing & higher energy costs appear to be weighing on sales. April's report dropped 0.2% m/m, as building material & garden equipment (-1.9%), electronics & appliance sales (-1.3%), motor vehicles & parts (-1.1%) led the drop. Furniture sales were flat. Gas was the single segment posting growth.



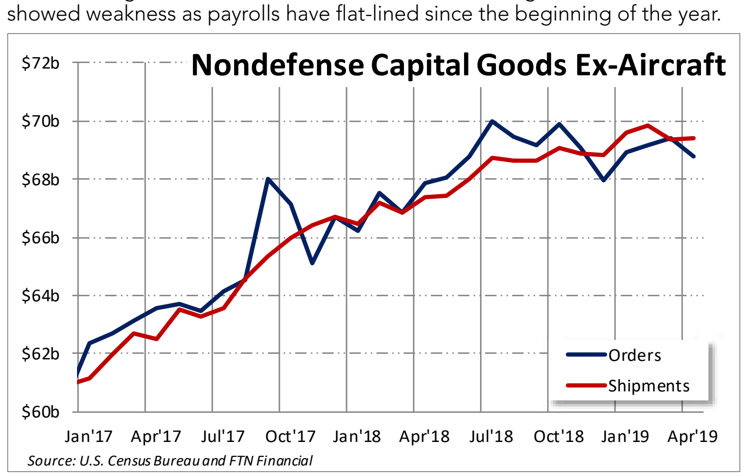
Manufacturing PMI continued to weaken to 52.1 in May led by slower supplier deliveries and lower inventories. Firms noted negotiations have become the norm and order cancellations increased in sectors like computer & electronic products and scientific & technical services.



Nonfarm payrolls beat 190k consensus adding 263k jobs. Services accounted for 229k jobs, with professional & business (+76k) and education & health services (+62k) leading. Goods added 34k with construction adding 33k of them. Durables showed weakness as payrolls have flat-lined since the beginning of the year.



April's durable orders were weak. The headline fell 2.1%, which was expected, but March was revised lower from 2.6% to 1.7%. Excluding transportation, new orders were unchanged. Excluding defense, new orders were down 2.5%. Transportation equipment drove the decrease, falling 5.9% from March.



Nondefense capital goods orders ex-aircraft (core orders) fell 0.9%, while March was revised from 1.4% to 0.3%. There is more weakness coming as this was an April report and increases in tariff rates were announced in May. When orders are less than shipments, as in the past five months, production tends to fall.

Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past performance is not indicative of future results, while changes in any assumptions may have a material effect on projected results. Ratings on all securities are subject to change.

The views expressed herein accurately reflect the author's personal views about the subject securities or issuers. No part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in the Notes.

FTN Financial Group, FTN Financial Capital Markets, FTN Financial Portfolio Advisors and FTN Financial Municipal Advisors are divisions of First Tennessee Bank National Association (FTB). FTN Financial Securities Corp (FTSC), FTN Financial Main Street Advisors, LLC, and FTN Financial Capital Assets Corporation are wholly owned subsidiaries of FTB. FTSC is a member of FINRA and SIPC—http://www.sipc.org/.

FTN Financial Municipal Advisors is a registered municipal advisor. FTN Financial Portfolio Advisors is a portfolio manager operating under the trust powers of FTB. FTN Financial Main Street Advisors, LLC is a registered investment advisor. None of the other FTN entities including, FTN Financial Group, FTN Financial Capital Markets, FTN Financial Securities Corp or FTN Financial Capital Assets Corporation are acting as your advisor and none owe a fiduciary duty under the securities laws to you, any municipal entity, or any obligated person with respect to, among other things, the information and material contained in this communication. Instead, these FTN entities are acting for their own interests. You should discuss any information or material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

FTN Financial Group, through FTB or its affiliates, offers investment products and services. Investment Products are not FDIC insured, have no bank guarantee and may lose value.