

China Trade Summit: Deal Or Delay?

Investors are optimistic that the Wednesday kickoff of the US-China trade summit, featuring President Trump and Chinese President Xi Jinping in Beijing, will result in a durable deal. The current hope is for an agreement currently labeled as a "Board of Trade" framework. Such a pact would create a trade mechanism in which each side could reduce tariffs on roughly \$30 billion in non-sensitive goods.

The positive market reaction leading into the China trade summit has merit. Equity investors want more certainty on trade; thus, even a handshake and in-person trade dialogue between the US and China is positive. However, before anticipating a deal and market rally, there are a few considerations worth discussing.

- The Supreme Court struck down Trump's tariff authority earlier this year, forcing the administration to rebuild its trade toolkit by relying on slower and less effective mechanisms. Bottom line, Trump has less trade firepower than he did in 2025, and China knows it.
- Goldman Sachs claims the base case isn't a deal, it's a delay. Their economists see the most likely outcome as both sides pulling back from their most aggressive postures and extending the existing tariff pause, possibly indefinitely. That's more akin to a ceasefire than a lasting trade agreement.
- On August 12th, the pause on the 90-day China tariffs will end. If no durable trade framework is in place by then, tariff rates could revert to levels seen on April 2nd, 2025. That is a bearish scenario that markets are not pricing in today.

The China-US trade discussions will almost certainly create good optics. The question, however, is whether they will result in any meaningful resolution, thereby allowing investors to sleep more easily.



What To Watch Today

Earnings

Thursday May 14	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time		
 Applied Materials AMAT.US		2.66	2.39		7.64B	7.1B	\$267.21B	Q2	PM	★	🔔
 Ross Stores ROST.US		1.63	1.47		5.32B	4.98B	\$66.54B	Q1	PM	★	🔔
 Dillards DDS.US		10.04	10.39		1.54B	1.53B	\$8.83B	Q1	AM	★	🔔
 Bath And Body Works BBWI.U		0.28	0.49		1.36B	1.4B	\$4.98B	Q1	AM	★	🔔
 Flowers Foods FLO.US		0.27	0.35		1.58B	1.55B	\$2.18B	Q1	PM	★	🔔

Economy

Thursday May 14 2026			Actual	Previous	Consensus	Forecast	
07:30 AM	US	Retail Sales MoM APR		1.7%	0.6%	0.4%	
07:30 AM	US	Export Prices MoM APR		1.6%		1.1%	
07:30 AM	US	Import Prices MoM APR		0.8%	1.1%	0.9%	
07:30 AM	US	Initial Jobless Claims MAY/09		200K	205K	209.0K	
07:30 AM	US	Retail Sales Control Group MoM APR		0.7%		0.3%	
07:30 AM	US	Retail Sales Ex Autos MoM APR		1.9%	0.6%	0.3%	
07:30 AM	US	Continuing Jobless Claims MAY/02		1766K		1775.0K	
07:30 AM	US	Export Prices YoY APR		5.6%		6.6%	
07:30 AM	US	Import Prices YoY APR		2.1%		2.9%	
07:30 AM	US	Jobless Claims 4-week Average MAY/09		203.25K		204.0K	
07:30 AM	US	Retail Sales Ex Gas/Autos MoM APR		0.6%		0.1%	
07:30 AM	US	Retail Sales YoY APR		4.0%		3.3%	
09:00 AM	US	Business Inventories MoM MAR		0.4%	0.3%	0.7%	
09:00 AM	US	Retail Inventories Ex Autos MoM MAR		0.3%	0.5%	0.5%	
09:30 AM	US	EIA Natural Gas Stocks Change MAY/08		63Bcf			
10:30 AM	US	4-Week Bill Auction		3.610%			
10:30 AM	US	8-Week Bill Auction		3.595%			
11:00 AM	US	15-Year Mortgage Rate MAY/14		5.72%			
11:00 AM	US	30-Year Mortgage Rate MAY/14		6.37%			
12:00 PM	US	Fed Hammack Speech					
03:30 PM	US	Fed Balance Sheet MAY/13		\$6.709T			
04:45 PM	US	Fed Williams Speech					
06:00 PM	US	Fed Barr Speech					

Market Trading Update

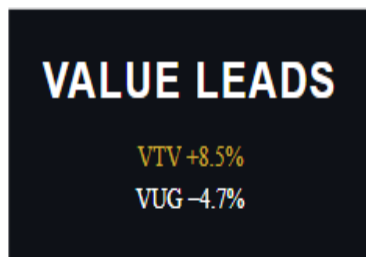
Yesterday, we discussed market statistics on what happens after 6 weeks of consecutive market advances. Today, I want to focus on what happens to markets when trading becomes more erratic. On Monday, for example, value stocks lagged as technology outperformed. Tuesday saw the exact opposite as technology stocks were sold off. But on Wednesday, value stocks were under pressure as money gravitated back to technology.

The tape's been doing something strange for a few weeks now, and you should pay attention. In one session, value leads while growth gets slapped. The next session, it flips. Energy and industrials rip on Monday, then the AI semis tear higher on Tuesday while staples and utilities give back gains. Tuesday brought what could have been the worst Nasdaq selloff since March, then a 1.5% intraday rally into the close that almost erased it. The VIX popped above 19, the highest reading since late April, and then settled lower by the bell. That's not orderly trading. That's a market arguing with itself.

If this feels familiar, it should. We've seen this movie before, and the credits are worth reading.

2026 STYLE LEADERSHIP HAS ROTATED IN THREE PHASES

JAN – FEB



FEB 27 – APR 7



APR – MAY



SOURCE: RIA ADVISORS. STYLE RETURNS PER SEEKING ALPHA (FEB 12, 2026) AND AAIL (APR 10, 2026).

Look back at late 1999 into early 2000. Value indexes outperformed growth by double digits over short stretches as the dot-com bubble began to wobble, then growth surged back to a final spasm of highs. By summer, the rotation became permanent. Look at 2007. Financial leadership oscillated wildly through the spring as credit cracks began to show. Within a year, the cycle had turned. Look at late 2021 into early 2022. Mega-cap growth swung from leadership to laggard to leadership over a few months. Then the Fed pivoted to hawkishness, and growth got crushed for the next 9 months.

WHEN VALUE VS. GROWTH CHOP HAS SHOWN UP BEFORE

EPISODE	ROTATION PATTERN	WHAT FOLLOWED
LATE 1999 → MID 2000	Value led briefly as dot-com froth wobbled, then growth surged to a final blow-off.	Nasdaq peaked March 2000, lost roughly 78% over the next 30 months.
SPRING → SUMMER 2007	Financials oscillated as early credit cracks emerged. Growth and value traded leadership weekly.	Cycle turned within 12 months. S&P 500 fell 57% from October 2007 to March 2009.
LATE 2021 → EARLY 2022	Mega-cap growth flipped between leader and laggard as the Fed pivot loomed.	Growth got crushed for nine months. Nasdaq 100 -33%, S&P 500 -25%.

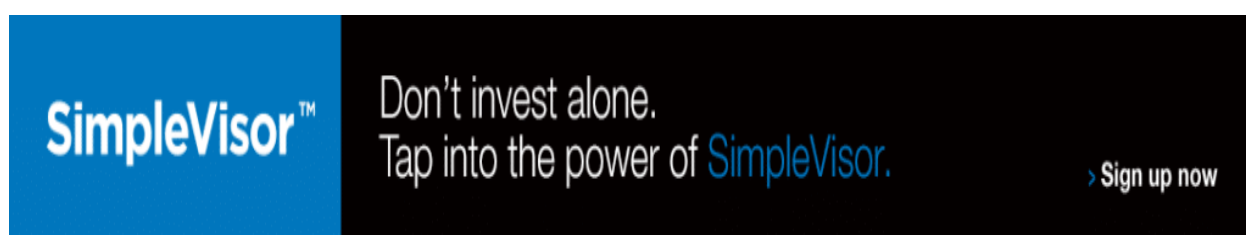
SOURCE: RIA ADVISORS; INDEX RETURNS PER S&P DOW JONES INDICES AND NASDAQ.

The common thread isn't that this kind of rotation always precedes a bear market. It doesn't. What it does signal is that the consensus about the next regime has fractured. Investors who felt certain about the path of liquidity, rates, or earnings growth no longer do. So capital rotates daily, looking for a winner that can hold leadership for more than 48 hours.

That's exactly the picture in 2026. The top ten names in the growth index still represent 56% of its weight, and that concentration cuts both ways. When mega-cap AI works, growth dominates. When the narrative wobbles on AI capex digestion, oil prints, or Fed timing, capital scrambles for shelter in energy, staples, and industrials. The S&P 500's headline VIX stays muted while single-stock and semiconductor volatility run 2.5 times richer. Beneath a calm surface, the kitchen sink is in motion.

So what does erratic rotation forewarn? Not always a crash. Often a correction. Almost always a leadership change. As we've noted previously, the market doesn't ring a bell at tops. It rings a few different bells at once and lets you guess which one matters.

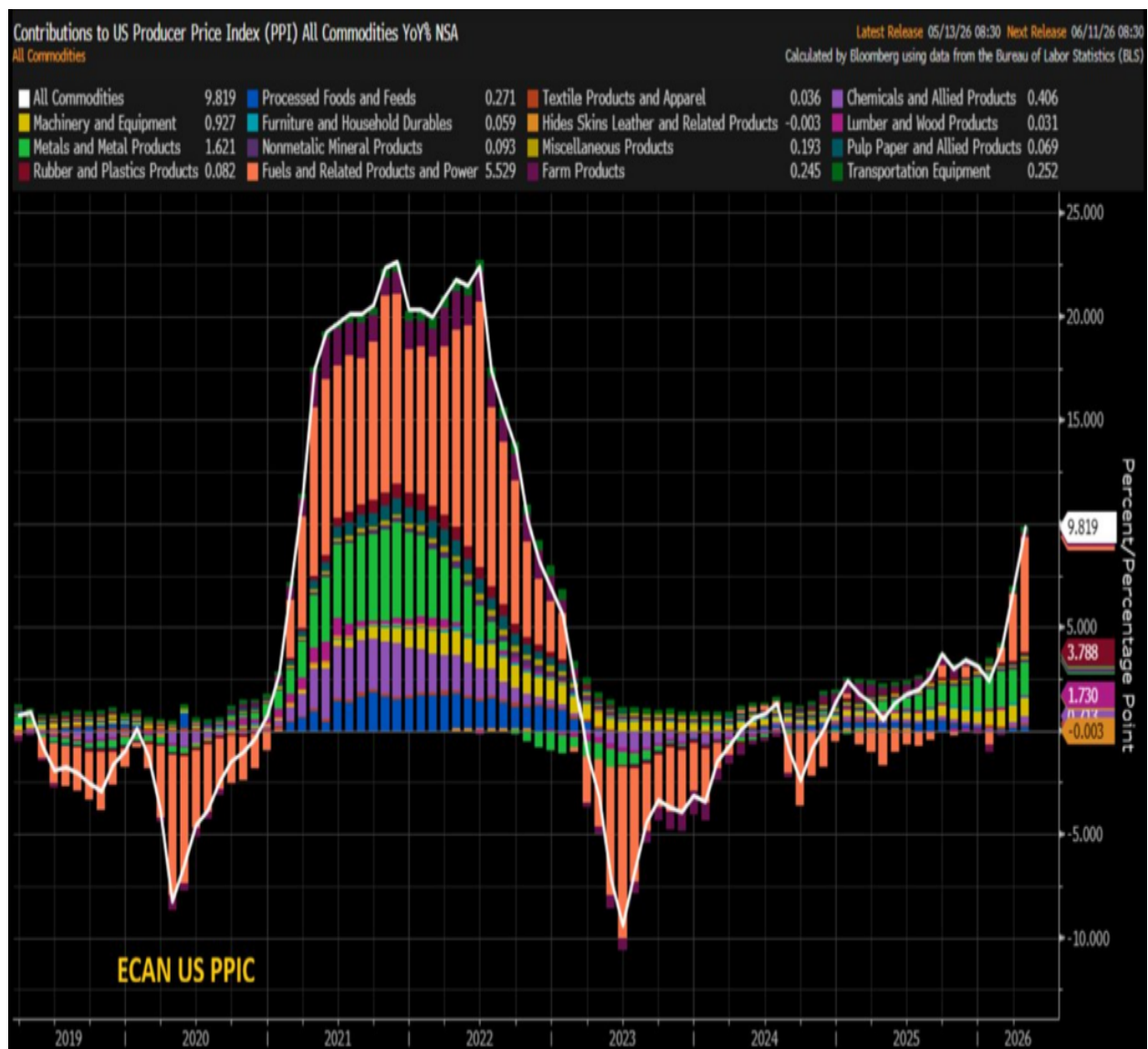
Bottom Line: When value and growth can't agree on who's in charge for more than a session, the market is telling you the regime is changing. Watch breadth, watch bond yields, and don't mistake daily noise for direction. The rotation itself is the signal.



PPI

Following the slightly higher-than-expected CPI, PPI was well above expectations, rising 1.4% versus the consensus estimate of 0.5%. The core PPI, excluding food and energy, was up 1.0%, well above the 0.4% estimate. The graph below, courtesy of Bloomberg, breaks down PPI into its major components. While fuels and related energy products account for a significant share of the increase, the other components have recently been trending higher.

The bond market reaction was muted to both the CPI and PPI news. In fact, bond yields fell slightly after the announcement. This is likely occurring for two reasons. First, longer-term yields have risen to levels not far from where they stood when inflation was much higher in 2022. Second, the market is betting that the surge in prices of some goods is largely driven by the Iranian conflict and is transitory. To that point, there are disinflationary factors gaining strength, such as tariff removals and reductions, and the productivity benefits of AI.



Gamma And Momentum: A Recipe For Spikes And Tears

When a stock trends higher, investors increasingly notice the bullish momentum and buy it, which pushes the price higher and attracts even more buyers. This type of herding behavior can create a self-reinforcing cycle- buying begets more buying.

When momentum is strong, the pressure on new investors to join the trade or on existing ones to add to their positions is enormous. As these investors focus on the incredible rewards they might receive, they often lose sight of the trade's fundamental justification. **The result is a crowded trade with sometimes breathtaking gains, but ultimately a sharp reversal that strips profits from most participants.**

Retail and institutional momentum traders often use call options as a leveraged way to participate in price gains without buying the stock outright. Call options provide investors with limited downside risk and the potential for upside gains that can be multiples of the underlying stock's price. Call buying can become a momentum accelerant, as we explain next.

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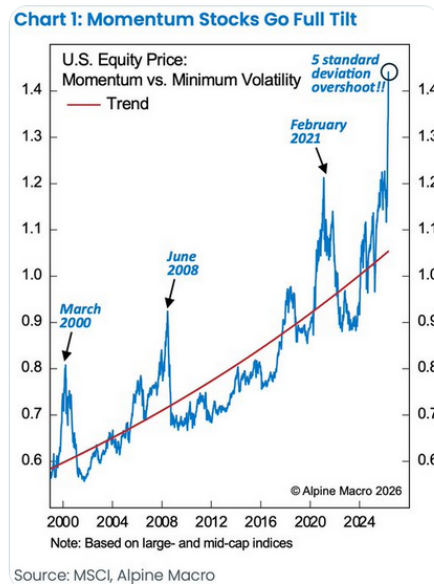


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Momentum stocks are experiencing one of their sharpest rallies relative to minimum-volatility equities on record.

Source: @RealAlpineMacro



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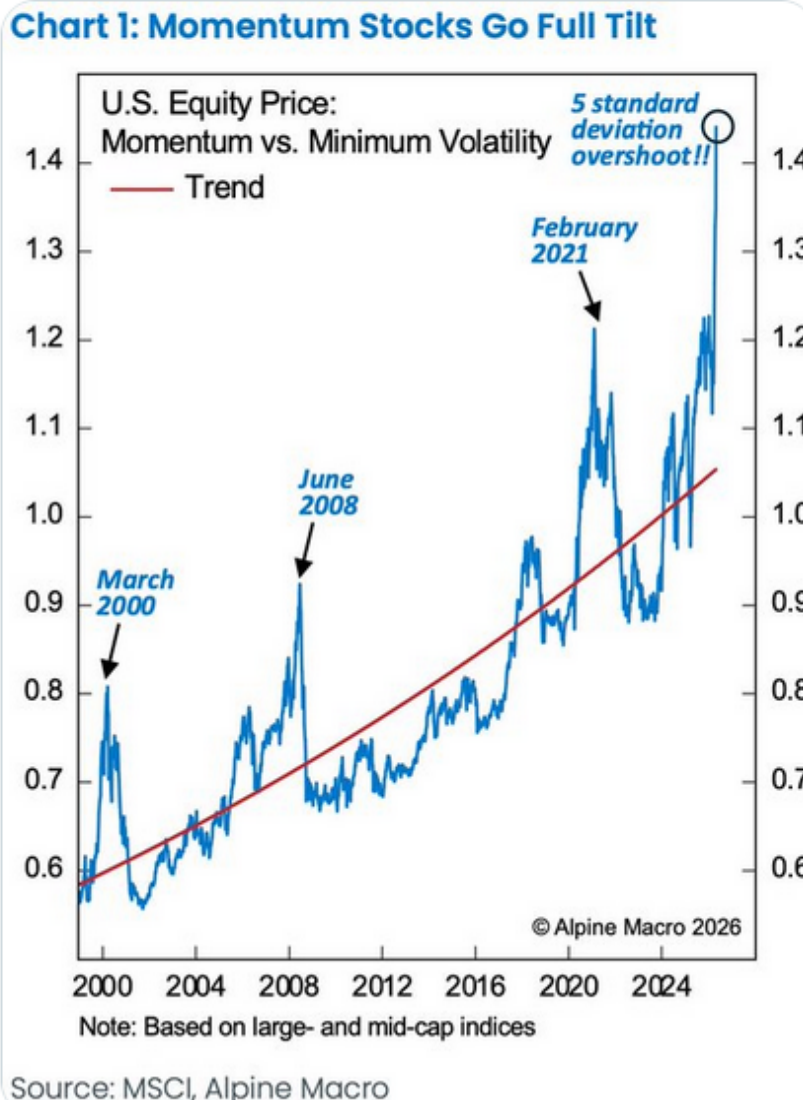


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