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Clearstead is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

Negative market sentiment from October spilled over into early November before easing. The U.S. mid-term elections produced results largely in-line with expectations removing one of several market overhangs. Additionally later in the month, two events, the G20 summit and the release of the Fed's November meeting minutes, provided reprieve and hope. Trade was a major focus heading into the G20 meeting during which President Trump and China's Xi Jinping struck a 90-day trade truce. Focus on the Fed's tightening pace continued with Fed Chair Powell delivering a mildly dovish speech.

U.S. economic data remains supportive of general expansion as fundamentally the U.S. economy is doing well with strong growth and low unemployment. The second release of Q3 GDP growth was unchanged at 3.5%[1], as was the unemployment rate at 3.7%[2].

The latest business surveys suggest the slowdown in global manufacturing continued in November. Concerns over trade, the auto industry and political worries may be contributing factors to the depressed confidence. The J.P. Morgan Global Manufacturing PMI was unchanged from October's 23-month low of 52.0[3]. The U.S. Manufacturing PMI for November dipped slightly to 55.3 (55.7 in October) while the Eurozone Manufacturing PMI declined to 51.8 (52.0 in October)[3].

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	2.1	5.6	7.6	15.8
S&P 500	2.0	5.1	6.3	12.2
Russell 2000	1.6	1.0	0.6	10.1
Russell 1000 Growth	1.1	7.8	8.6	14.0
Russell 1000 Value	3.0	1.5	3.0	9.8
FTSE NAREIT U.S.	4.5	3.6	3.5	7.8
Bloomberg Commodity	-0.6	-4.7	-1.8	1.6

November began with the continuation of October's sell-off but recouped losses to finish in positive territory. The S&P 500 Index returned 2.0% for the month, while small caps as measured by the Russell 2000 Index returned 1.6%. Health Care, Real Estate, Materials and Industrials led the advance while Technology and Energy were laggards. The weakness of technology and communication services companies continued from October into November as markets reassessed their valuation and earnings power. The Energy sector was weak in conjunction with the decline in oil prices.

Earnings season is just about wrapped up for the holidays. As of November 30 with 97% of companies having reported, 78% of companies have surpassed analysts' expectations[4]. The blended year-over-year earnings growth rate accelerated during the third quarter to 25.9% with strength across all sectors. In aggregate, earnings are 6.7% above estimates with revenues 1.2% above estimates. Interestingly, the market has punished negative earnings surprises more than average and rewarded positive earnings surprises less than average.

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	0.9	-10.1	-8.1	5.4
MSCI EAFE	-0.1	-9.4	-7.9	4.1
MSCI Emerging Markets	1.1	-12.2	-9.1	9.4
MSCI EAFE Small Cap	-0.7	-11.9	-9.6	6.7

International markets modestly rebounded during November, particularly Emerging Markets led by China. The MSCI EAFE Index returned -0.1% and the MSCI Emerging Markets Index returned 4.1%. Year-to-date international returns for the major, broad indices are down 8-10%.

Tariffs remain a concern and market overhang, particularly for China and emerging markets. However, the MSCI China Index rebounded 7.1% during the month, mostly on no additional negative news and hopes for talks and progress at the G20 summit. China also reported strong trade data possibly due to shippers rushing goods to the U.S. before additional tariffs were scheduled to kick-in on January 1st.

FIXED INCOME MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	0.6	-1.8	-1.3	1.3
BarCap Global Aggregate	0.3	-3.2	-2.8	2.2
BarCap US High Yield	-0.9	0.1	0.4	7.1
JPM Emerging Market Bond +	-0.1	-6.8	-6.2	3.0
BarCap Muni	1.1	0.1	1.1	2.1

On November 28, Federal Reserve Chairman Powell suggested that the fed funds rate is “just below” estimates of a neutral rate. That dovish comment raised questions regarding the certainty of future rate hikes in 2019, which moved rates lower and also led to an equity rally. The market is pricing in a high probability of a quarter point hike in December.

U.S. Treasury yields fell across maturities with greater declines in the belly of the curve (5-10 years) than at the short or long-end. The 2-year U.S. Treasury yield decreased 8 basis points, the 10-year decreased 15 basis points to 2.99%, and the 30-year decreased 10 basis points to 3.29%[5].

The Bloomberg Barclays Aggregate Index total return for November was 60 basis points whereas the longer duration Bloomberg Barclay’s Long Government/Credit Index returned 55 basis points. Credit spreads moved significantly wider amidst elevated market volatility and impacted both investment grade and high yield securities. High Yield declined 0.9% and Bank Loans declined 0.8%. The JPM Emerging Market Bond+ Index declined 0.1%.

Sources:
1 Bureau of Economic Analysis – U.S. Department of Commerce, 11/28/18
2 Bureau of Labor Statistics – U.S. Department of Labor, 11/2/18
3 IHS Markit 12/3/18
4 Factset Insight, 11/30/18
5 Bloomberg

Definitions:
J.P. Morgan Global Manufacturing PMI: Produced by J.P. Morgan and IHS Markit and is based on original survey data collected from over 12,000 purchasing executives in over 40 countries.

Markit U.S. Manufacturing Purchasing Managers’ Index: The U.S. PMI is based on original survey data collected from a representative panel of around 600 manufacturing firms.

Markit Eurozone Manufacturing Purchasing Managers’ Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.