

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Dan Meges.

OVERVIEW

During September, global markets largely unwound the “fear trade” that characterized August and rotated into cheaper value-oriented stocks. One may recall that August was a volatile month with investors focusing on weakening global growth, increasing geopolitical tensions, and worsening rhetoric around the US-China trade talks. On August 27, the 30-Year Treasury closed at a historic low yield of 1.95%,¹ as investors' gloomy outlook reached its peak. However, much of this extreme pessimism unwound in September and US equities rebounded and yields on long-dated US Treasuries rose. Across most global markets and cap-sizes, value stocks outperformed growth stocks in September.

DOMESTIC EQUITY

As of September 30, 2019

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.1%	1.8%	17.5%	4.2%
S&P 500	1.9%	1.7%	20.6%	4.2%
Russell 2000	2.1%	-2.4%	14.2%	-8.9%
Russell 1000 Growth	0.0%	1.5%	23.3%	3.7%
Russell 1000 Value	3.6%	1.4%	17.8%	4.0%

As global growth fears receded and US-China talks made some modest progress, large cap US equities² advanced +1.9%. US small-cap stocks³ and value stocks⁴ outperformed in September, as investors rotated out of a narrow group of high-priced, large-cap, growth-oriented stocks into relatively cheaper sectors such as energy, utilities, and financials. Large-cap value stocks⁴ outperformed large-cap growth stocks⁵ by 356 basis points in September. The short-term impact of US Fed's rate cut in mid-September was relatively muted as this move was largely priced into the market ahead of the meeting. Overall, US-equity valuations remain fair to relatively elevated given their long-run averages.

INTERNATIONAL EQUITY

As of September 30, 2019

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	2.6%	-1.8%	11.6%	-1.2%
MSCI EAFE	2.9%	-1.1%	12.8%	-1.3%
MSCI Emerging Markets	1.9%	-4.2%	5.9%	-2.0%

International equity markets⁶ outperformed US equity markets² in September and finished the month up +2.9%, as investors increasingly looked for value-oriented stocks⁴. Emerging markets⁷ lagged international developed markets⁵ in September rising only 1.9% due in part to lackluster returns from China⁸ of +0.03%. Uncertainty related the ongoing US-China trade talks has dented Chinese investor sentiment and US-imposed tariffs have weakened the profit outlook for Chinese industrial firms.



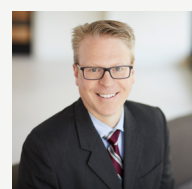
Tom Seay
Managing Director



Joe Boushelle
Managing Director



Anna Rathbun
Director



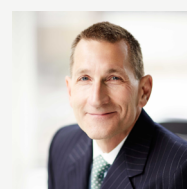
Dan Meges
Senior Analyst



Joe Nitting
Analyst



Erin Gray
Research Associate



Brad Turner
Head of Investments &
Administration

For any inquiries about this document please contact marketminute@clearstead.com.

For information on our team members, please click on photo.

Elsewhere, the India market moved up sharply in September after the newly re-elected Modi government surprised markets with a significant reduction in corporate tax-rates. Despite non-US equity markets⁹ outperformance against US-equities¹⁰ in September, non-US equities remain relatively inexpensive compared to their US counterparts across the market cap spectrum.

FIXED INCOME

As of September 30, 2019

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.5%	2.3%	8.5%	10.3%
BarCap Global Aggregate	-1.0%	0.7%	6.3%	7.6%
BarCap US High Yield	0.4%	1.3%	11.4%	6.4%
JPM Emerging Market Bond	-0.4%	1.3%	12.1%	10.7%
BarCap Muni	-0.8%	1.6%	6.7%	8.6%

In September, fixed income markets were similarly impacted by a general risk-on environment with spreads for High-Yield, Emerging Markets, and Investment Grade bonds tightening. US 10-year bond yield rose by +17 basis points in September to close the month at 1.67%¹¹, and the US yield curve remains relatively flat despite the Fed's rate cut. The European Central Bank also lowered rates in September for the Eurozone, and the global stock of negative yielding bonds, primarily European and Japan sovereign debt, have reached more than \$17 trillion. These negative yields, driven by unprecedented central bank policy, have encouraged financial market investors to take risk in search of positive yields, but their effectiveness in stimulating economic growth remains an open question.

CLOSING

Global markets are caught in the cross-currents of several competing forces. Supporting risk assets are strong labor markets in the US, Canada, and Europe as well as relatively strong consumer spending in North America, Europe and most of Asia. However, geopolitical risks such as Brexit, US-Iranian relations, and a possible US impeachment process as well as volatile US-China trade talks have increase global uncertainty and put the brakes on corporate investment spending. Given these competing headwinds and tailwinds, the prudent strategy is remain fully invested but with a bias towards caution and downside protection.

Sources:

¹ Bloomberg - USGG30YR

² As measured by the S&P 500 Index (Bloomberg - SPX)

³ As measured by the Russell 2000 Index (Bloomberg - RTY)

⁴ As measured by the Russell 1000 Value Index (Bloomberg - RLV)

⁵ As measured by the Russell 1000 Growth Index (Bloomberg - RLG)

⁶ As measured by the MSCI EAFE Index (Bloomberg - MXEA)

⁷ As measured by the MSCI Emerging Markets Index (Bloomberg - MXEF)

⁸ As measured by the MSCI China Index (Bloomberg - MXCN)

⁹ As measured by the MSCI ACWI ex US (Bloomberg - MXWDU)

¹⁰ As measured by the MSCI US Index (Bloomberg - MXUS)

¹¹ Bloomberg - USGG10YR

Disclosures

Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. The performance data shown represent past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.