

*This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Joe Nitting.*

#### OVERVIEW

US and foreign markets moved higher in October as investors digested several seemingly improving political developments. Domestically, despite several weaker-than-expected economic data releases early in the month, investor sentiment improved amid hopes for further progress on trade negotiations between the US and China<sup>1</sup> and a better-than-expected Q3 GDP print at the end of the month<sup>2</sup>. Internationally, investors also viewed progress on a potential Brexit deal as a positive<sup>3</sup>.

While long-term interest rates remained largely unchanged in the US, short term rates fell as the Fed cut rates at the end of the month. The US Treasury curve steepened as a result of Fed action, making investors less concerned about the potentially negative impact of an inverted yield curve.

#### DOMESTIC EQUITY

*As of October 31, 2019*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	0.6%	0.6%	18.2%	10.3%
S&P 500	2.2%	2.2%	23.2%	14.3%
Russell 2000	2.6%	2.6%	17.2%	4.9%
Russell 1000 Growth	2.8%	2.8%	26.8%	17.1%
Russell 1000 Value	1.4%	1.4%	19.5%	11.2%

Despite several weaker-than-expected economic data releases to start the month, US equities moved higher in October. Both US large-cap and small-cap equities moved higher during the month, but small caps outperformed amid improving sentiment regarding US-China trade negotiations. Small-cap stocks sometimes have less nimble global supply chains and would theoretically benefit from a more stable global trade environment.

Overall, the underlying fundamentals of the US economy and corporate profits remain stable, while current valuations generally remain fair to slightly elevated versus long-term averages. However, earnings season for Q3-2019 is underway and analysts expect negative aggregate year-over-year earnings growth from S&P 500 companies (-3.7%)<sup>4</sup>. Corporate guidance will be particularly important this earnings season, as meaningfully negative guidance for Q4-2019 could introduce volatility into the market.



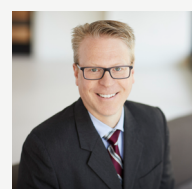
Tom Seay  
Managing Director



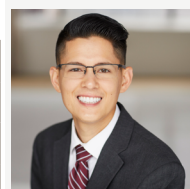
Joe Boushelle  
Managing Director



Anna Rathbun  
Director



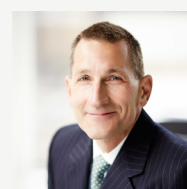
Dan Meges  
Senior Analyst



Joe Nitting  
Analyst



Erin Gray  
Research Associate



Brad Turner  
Head of Investments &  
Administration

For any inquiries about this document please contact [marketminute@clearstead.com](mailto:marketminute@clearstead.com).  
For information on our team members, please click on photo.

## INTERNATIONAL EQUITY

As of October 31, 2019

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	3.5%	3.5%	15.4%	11.3%
MSCI EAFE	3.6%	3.6%	16.9%	11.0%
MSCI Emerging Markets	4.2%	4.2%	10.4%	11.9%
MSCI EAFE Small Cap	4.5%	4.5%	17.1%	8.8%

Foreign markets also generated positive returns during October amid the tailwind of the US dollar moving lower relative to most foreign currencies during the month. The positive sentiment in global equity markets was buoyed by a sharp fall in the risk of a “no-deal” Brexit outcome related to the UK’s effort to leave the EU. The EU granted the UK another 3-month extension of talks, and the UK headed back to the ballot box for a mid-December election that should provide more clarity on the type of negotiated Brexit deal London is seeking. Additionally, a more positive dynamic to the US-China trade talks also lifted sentiment in October. The expectation for a gradual, albeit modest, acceleration of global growth in 2020 along with a continuation of low global interest rates should be supportive of non-US equities.

## FIXED INCOME

As of October 31, 2019

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	0.3%	0.3%	8.8%	11.5%
BarCap Global Aggregate	0.7%	0.7%	7.0%	9.5%
BarCap US High Yield	0.3%	0.3%	11.7%	8.4%
JPM Emerging Market Bond	0.4%	0.4%	12.5%	13.7%
BarCap Muni	0.2%	0.2%	6.9%	9.4%

The yield on the 10-year stayed roughly the same during October. While the Fed cut rates by 0.25%, it signaled that the cut was probably the last one unless economic fundamentals warrant additional monetary stimulus. Given the yield curve’s steepening as a result of Fed action, investor concerns about an inverted yield curve and its potentially negative implications subsided. With the Fed potentially on hold for the remainder of the year in the context of a stable domestic economy and corporate fundamentals, we believe fixed income investors should expect coupon income to drive returns for the remainder of 2019.

## CLOSING

Despite an exceptional start through the first 10 months of 2019, we acknowledge later-cycle investing can be volatile and investor sentiment can change quickly. The potential collapse of US-China trade talks, a slowdown in corporate earnings growth, a further weakening Chinese economy, and the potential evolution of US-EU trade talks remain risks. While Clearstead remains more defensive across its portfolios currently, we think the economic fundamentals and low-interest rate environment should provide a supportive atmosphere for equities and other risk assets throughout the remainder of the year. However, given the 2019 run-up in the prices of risk assets, we recommend rebalancing to target in equities, maintaining a barbell fixed income profile, and adding alpha opportunities through the use of alternative strategies.

### Sources:

<sup>1</sup> Bloomberg – Stocks Climb as Investors Focus On Trade Talks (October 9, 2019).

<sup>2</sup> Bloomberg – U.S. Economy Holds Up With 1.9% Growth on Consumer Strength (October 30, 2019).

<sup>3</sup> Bloomberg – EU and U.K. Reach a Brexit Deal, But It Quickly Hits a Snag (October 17, 2019).

<sup>4</sup> FactSet – Earnings Insight (October 25, 2019).

### 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.