

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

OVERVIEW

Global equity markets were up meaningfully in December due to positive dynamics related to the nearly complete Phase I trade deal between the US and China. The tentative Phase I deal was announced on December 12, 2019, but details of the deal did not emerge until later in the month. The Phase I deal will eliminate and roll-back US tariffs on a range of Chinese goods in exchange for Chinese purchases of US agricultural products, energy, and other goods¹. The deal is set to be signed in January by President Trump and Chinese Chairman Xi Jinping, and also likely includes provisions to improve intellectual property protection, open the Chinese financial services market, and prevent currency manipulation².

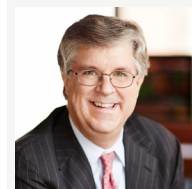
In addition to the easing of trade tensions between the US and China during the month, the US Congress made moves to ratify the US-Mexico-Canada trade deal, which updates the trade rules for the NAFTA region⁴. In the UK, the results of the general election resulted in a strong conservative government victory for current Prime Minister Boris Johnson, which will enable a smooth and orderly exit of the UK from the European Union (so called "Brexit") at the end of January-2020. Lastly, US consumer confidence remains strong as consumer retail spending was up 3.4% in the period from November 1st to Christmas Eve compared to the same time last year⁴.

DOMESTIC EQUITY

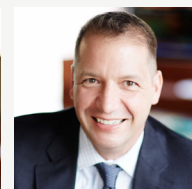
As of December 31, 2019

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	1.9%	6.7%	25.3%	25.3%
S&P 500	3.0%	9.1%	31.5%	31.5%
Russell 2000	2.9%	9.9%	25.5%	25.5%
Russell 1000 Growth	3.0%	10.6%	36.4%	36.4%
Russell 1000 Value	2.7%	7.4%	26.5%	26.5%

US equities moved broadly higher in December as the outlines of the US-China trade deal became clearer and confidence in the US economy remained high. The S&P 500 Index returned 3.0% for the month. Small cap stocks, which had been lagging in the first 3-quarters of the year, performed on par with their large-cap peers in December. There was little meaningful difference in the return of growth stocks over value stocks in December, but growth stocks outperformed value stocks by more than 3 percentage-points during the fourth quarter. Markets, thus far, have largely brushed off the ongoing impeachment of President Trump and many market observers have noted that markets have anticipated his impeachment in the US House of Representatives, but eventual acquittal in the US Senate⁵. As the US election season begins in earnest in 2020, we will continue to be mindful that political uncertainty could temper market gains, despite the fundamentals of the US consumer and US corporate sector remaining positive.



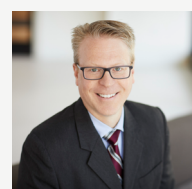
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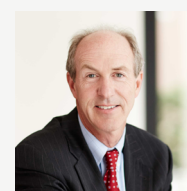
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For information on our team members, please click on photo.

INTERNATIONAL EQUITY

As of December 31, 2019

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.3%	8.9%	21.5%	21.5%
MSCI EAFE	3.2%	8.2%	22.0%	22.0%
MSCI Emerging Markets	7.5%	11.8%	18.4%	18.4%
MSCI EAFE Small Cap	4.4%	11.5%	25.0%	25.0%

Non-US equity markets moved even higher than US markets in December, led by Emerging Markets, as gauged by the 7.5% gain in the MSCI Emerging Markets Index. Emerging markets benefitted from optimism around the US-China trade deal but also from positive economic data coming from China. China's composite PMI reached 53.2 in November, the highest reading since February-2018⁶. International Developed Markets, as measured by the MSCI EAFE Index, ended the month up 3.2% and were buoyed by the results of the UK election. The large win for Boris Johnson and his conservative government will assure his outline for UK withdrawal from the EU will be enacted. While the UK still will need to finalize the precise details of its terms of trade with the EU by the end of 2020, it no longer faces the prospect of imminently disrupting UK-EU supply chains by leaving the EU in January without a deal.

FIXED INCOME

As of December 31, 2019

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.1%	0.2%	8.7%	8.7%
BarCap Global Aggregate	0.6%	0.5%	6.8%	6.8%
BarCap US High Yield	2.0%	2.6%	14.3%	14.3%
JPM Emerging Market Bond	1.9%	2.1%	14.4%	14.4%
BarCap Muni	0.3%	0.7%	7.5%	7.5%

With positive movements in the equity markets and no Federal Reserve action, the yield on a 10-year US Treasury ground higher in December and the US Treasury curve steepened. The Bloomberg Barclays U.S. Aggregate Bond Index returned -0.1%, with the price declines offset by the coupon income. The major sovereign yields outside the U.S. were largely flat on the month, with the Bloomberg Barclays Global Aggregate Index returning 0.6%. The Barclays High Yield Index posted positive returns, 2.0%, as the constructive sentiment in equity markets helped to keep the corporate spreads tight.

The central banks around the world have signaled their intent to keep their policies accommodative, and the Fed has the U.S. rates on hold for the moment but has signaled a flexible stance going forward. We expect the Fed to balance the upside and downside risks in its policy decisions, especially as it pertains to headwinds stemming from global trade and global economic conditions.

CLOSING

As the year closes, we find ourselves amidst several dynamics that are both fluid and complex. US-China trade relations are currently in an easing phase, but difficult issues such as Chinese industrial subsidies and corporate espionage remain unresolved. Phase II trade talks between the US and China could last longer and prove to be more volatile than the last few months of talks. Meanwhile a concurrent source of uncertainty for the markets stems from US politics. Despite the possibility that the process to impeach the President might be over in first months of 2020, the Democratic Party primaries and caucuses and the US election cycle will be just beginning. Overall, Presidential election years are largely similar in terms of their returns (positive), but volatility can be heightened compared to non-election years. Positive earnings growth, low interest rates, and a stable US economy should support equity markets in 2020. However, given the volatility of sentiment around the US-China trade talks, ongoing US impeachment process, and pending US elections, we still find it prudent to be fully invested but defensive in our positioning.

Sources:

- 1 WSJ "Trump Agrees to Limited Trade Deal with China" 12-Dec-2019
- 2 FT "Wall Street Hits Fresh Highs Buoyed by Trade Hopes" 26-Dec-2019
- 3 FT "US House Passes USMCA Trade Deal with Broad Support" 19-Dec-2019
- 4 WSJ "Last-Minute Shoppers Rushed to Online Retailers" 25-Dec-2019
- 5 Fox Business News "Varney & Company - TV Interview w/ Clearstead's J. Awad" 4-Dec-2019
- 6 IHS/Markit "Caixin China General Services PMI" 4-Dec-2019

Disclosures

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