OCTOBER 28, 2019

Weekly Market Update

General Market News

- Rates moved higher late last week after a two-week period of flatness. The 10-year Treasury yield rates came in at the highest level we've seen in the past 30 days. The last time rates hit this level (on September 17), they began a three-week fall back to 1.50 percent. On Monday, the 10-year opened at 1.83 percent, the 30-year opened at 2.32 percent, and the 2-year opened at 1.64 percent.

- Global equity markets reached higher last week, as investors moved toward risk assets following potential easing in trade tensions. The cyclical sectors were among the best performers, with energy, technology, industrials, and financials all among the top contributors. Despite a strong week for cyclicals, not all of the stocks in these sectors followed that trend.

- In a busy week of earnings, Amazon lagged due to lower-than-expected fourth-quarter guidance and the cost to build out one-day Prime shipping. Caterpillar missed earnings on a reduction in dealer inventory. Boeing continued to feel pressure from its 737 MAX issues. Despite the misses by these larger names, the blended quarterly growth rate currently sits at –3.7 percent, with roughly 40 percent of the S&P 500 reporting earnings so far. This result is higher than the expected –4 percent growth rate. REITs, consumer discretionary, and communication services were among the worst performers of the week.

- On Tuesday, September's existing home sales report was released. Existing home sales fell by 2.2 percent in September, which was worse than the 0.7 percent decline that was expected. Despite the month-over-month drop, this result still represents solid 3.9 percent growth on a year-over-year basis, and it marks the third straight month of year-over-year growth in existing home sales.

- On Thursday, September's durable goods orders report came in. Durable goods orders fell by 1.1 percent during the month, against expectations for a 0.7 percent drop. This decline was partially attributable to the ongoing General Motors (GM) strike. Core orders, which exclude transportation, fell by a more modest 0.3 percent during the month, indicating that core business investment tailed off to end the quarter.

- Also on Thursday, September's new home sales were released. Similar to what we saw with existing homes, new home sales declined by 0.7 percent during the month; however, this result was better than the 1.6 percent drop that was expected. New home sales are up 15.5 percent since this time last year, so the small monthly decline in this volatile portion of monthly home sales is nothing to worry about.

- Finally, we finished the week with the second and final reading of the University of Michigan consumer sentiment survey for October. Confidence fell during the month, from 96 at first reading to 95.5 at month-end. Although this midmonth decline is disappointing, it still represents a solid rebound from August's reading of 89.8, which was nearly a three-year low.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.23	1.64	22.54	14.02
Nasdaq Composite	1.90	3.08	25.29	13.90
DJIA	0.70	0.26	17.81	10.53
MSCI EAFE	1.27	2.98	16.72	12.90
MSCI Emerging Markets	1.17	3.61	10.05	12.45
Russell 2000	1.53	2.37	16.89	5.42

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.32	8.17	10.59
U.S. Treasury	–0.67	6.99	10.10
U.S. Mortgages	–0.01	5.59	8.34
Municipal Bond	–0.05	6.70	9.03

Source: Morningstar Direct

What to Look Forward To

On Wednesday, we'll get the first estimate of third-quarter gross domestic product (GDP) growth. Economists expect to see a 1.6 percent annualized growth rate for the quarter, which would be down from the 2 percent growth in the second quarter and 3.1 percent in the first quarter. This projection is largely based on declines in both business and government spending compared with earlier in the year. Net trade is also expected to be a drag once again, as the slowdown in global trade continues to negatively affect domestic growth here in the U.S.

The Federal Open Market Committee is meeting this week and will release its rate decision on Wednesday. Economists and market participants widely expect the Federal Reserve (Fed) to cut the federal funds rate upper limit by 25 basis points, from 2 percent to 1.75 percent. The Fed last cut the federal funds rate by 25 basis points at its September meeting. Since then, notable declines in service sector confidence and a lackluster September jobs report have contributed to concerns for the economy. The Fed continues to be supportive of the ongoing economic expansion, so further rate cuts are not out of the question.

Thursday will see the release of September's personal income and personal spending reports. Both are set to show solid 0.3 percent growth. These results would mark the 7th straight month of spending growth. The growth rate slowed during the third quarter, however, which likely contributed to the expected slowdown in overall GDP growth.

What to Look Forward To (continued)

Income growth has been consistent as well. The forecasted result would mark the 12th straight month of income growth following a flat result in September 2018.

The October employment report scheduled for Friday is set to show that an additional 90,000 new jobs were added during the month. This number is down from 136,000 new jobs reported in September. It's also down markedly from 2018 growth levels that averaged more than 200,000 jobs per month. There may also be downside risk due to the GM strike. If so, this risk factor would be a onetime event that would likely be resolved the following month, as the strike concluded toward the end of October.

Finally, we will finish out the week with Friday's release of the Institute for Supply Management Manufacturing index for October. Manufacturer confidence is expected to increase slightly from 47.1 in September to 49 in October. This is a diffusion index, where values below 50 indicate contraction. So, while the anticipated increase would be welcome, it would still leave the manufacturing sector of the economy in a recessionary state. This result would mark the third straight month in which manufacturer confidence came in below 50. Accordingly, any rebound from September's 10-year low would be welcome.

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