MONTH ENDING **NOVEMBER 30, 2019**

MarketUpdate

A November to be thankful for

November was another positive month for markets, with each of the three major U.S. indices setting all-time highs on the back of trade optimism, encouraging economic updates, and improving fundamentals. The S&P 500 gained 3.63 percent during the month, and the Dow Jones Industrial Average rose by 4.11 percent. The Nasdaq Composite led the way with a 4.64 percent gain for the month. All three indices have now returned more than 20 percent for the year.

These positive results were supported by improving fundamentals. According to Bloomberg Intelligence, with 95 percent of companies reporting, the blended third-quarter earnings for the S&P 500 declined by 1.3 percent year-over-year. This is far better than initial estimates of a 3.6 percent decline. The positive results were widespread, with 9 of 11 sectors beating their initial estimates. Fundamentals ultimately drive performance over the long term, so this result for the third quarter was welcomed by market participants. Technicals were also supportive for markets, with all three indices spending the entire month comfortably above their respective 200-day moving averages.

Results were mixed internationally. The MSCI EAFE Index gained 1.13 percent during the month, but emerging markets did not fare as well. The MSCI Emerging Markets Index declined by 0.13 percent, as slowing growth in India and rising political risks in Latin America caused volatility. Both indices were well supported technically, spending the entire month above their respective trendlines. This marks the second straight month where the emerging market index finished above its 200-day moving average; it last did so in July.

Fixed income had a more challenging month, with rising rates hindering returns. The 10-year Treasury note finished October with a yield of 1.69 percent and rose as high as 1.94 percent in November before ending the month at 1.78 percent. The Bloomberg Barclays U.S. Aggregate Bond Index lost 0.05 percent. High-yield bonds, which are typically less closely tied to movements in interest rates, fared better, with the Bloomberg Barclays U.S. Corporate High Yield Index gaining 0.33 percent.

Solid month for economic updates

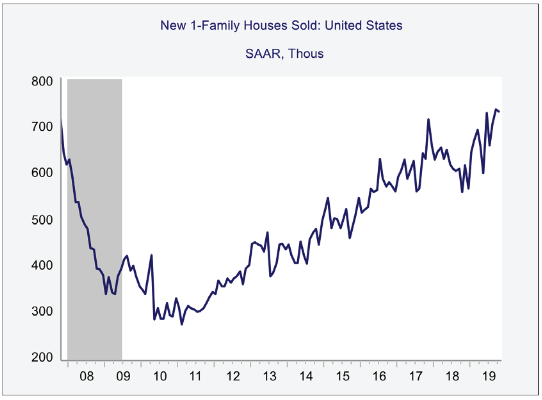
November's economic updates largely came in better than expected, painting a picture of steady economic growth. The month started on a positive note with the October employment report, which showed 128,000 new jobs against expectations for 85,000. This was an impressive result, given the headwinds from the General Motors strike. September's results were also revised upward. Despite the positive results over the past couple of months, however, the pace of new job creation sits well below levels seen in 2018.

This slowdown in job growth was one of the primary factors that led the Federal Reserve (Fed) to cut interest rates by 25 basis points at its October meeting. This marked the third straight meeting where the Fed cut interest rates in a bid to lower borrowing costs and spur faster economic growth. The rebound in the housing market and solid consumer spending growth provide evidence that the Fed's actions have begun to positively affect economic growth.

Housing has been a bright spot for the economy over the past few months, as declining mortgage rates have drawn more potential buyers into the market. Existing home sales increased by 1.9 percent in October, marking the fourth straight month of year-over-year growth. New home sales were just as impressive, reaching a post-recession high over the past two months, as shown in Figure 1. Housing was in an extended rut for much of 2018 and early 2019, so the pickup we've seen lately is very encouraging, given the importance of the housing market to the overall economy.

The strength in housing sales is encouraging on its own, but consumers were also willing to spend more in general during the month. Personal spending rose by 0.3 percent in October, up from 0.2 percent growth in September and 0.1 percent in August. This marks the eighth straight month of personal spending growth. October's retail sales also grew by 0.3 percent, rebounding from a disappointing decline in September. This spending acceleration is a good sign for fourth-quarter growth, as consumer spending has been one of the major drivers of overall economic growth during the year.

Figure 1. New Home Sales, November 2007–Present



Source: Census Bureau, Haver Analytics

Speaking of economic growth, the second estimate of third-quarter gross domestic product growth was released in November. This update showed that the economy grew at an annualized rate of 2.1 percent during the quarter, which is up from the initial estimate of 1.9 percent. This result beats the 2 percent growth rate we saw in the second quarter, with personal consumption remaining the major contributor overall.

Confidence improves in October

The better-than-expected results from the month were supported by rising confidence levels. Consumer confidence, as represented by the University of Michigan consumer sentiment survey, improved for the third straight month, after hitting a three-year low in August. Consumer confidence is driven largely by the strength of the job market and equity performance. So it's not much of a surprise that we've seen improving confidence over the past few months, given the recent employment and equity market results.

Business confidence also improved during the month. The Institute for Supply Management composite index, which measures manufacturer and nonmanufacturer confidence, increased to 54 in October after falling to a three-year low of 52.1 in September. This rebound in October helped calm fears of a sudden drop in business confidence that could lead to a decline in business investment.

Both consumer and business confidence have experienced volatility this year, as political uncertainty has negatively affected confidence levels. Going forward, improving confidence would be a tailwind for future growth, as high confidence tends to support faster spending growth and investment.

Political risks remain real yet muted

Despite the positive results we saw for markets and economic updates last month, political risks have the potential to affect markets at any time. There were a handful of potentially important developments over the past month that should be monitored. Domestically, the continuing impeachment proceedings showcase the potential for political instability, even if markets have so far shrugged off any impact from the now-public hearings.

Internationally, risks remain as well. In the U.K., general elections are scheduled for midmonth. This election is set to dramatically affect Brexit negotiations ahead of the January 31 deadline to get a trade deal hashed out with the European Union. No matter who ultimately wins additional seats in Parliament, this election will serve as a potential source of uncertainty.

China continues to deal with riots in Hong Kong. Violence and rhetoric intensified following local elections that saw pro-democracy candidates dramatically outperforming establishment pro-China candidates. The U.S. added uncertainty in the region by passing a bill supporting pro-democracy protestors near month-end, against which China has pledged to retaliate. Given the new developments, the question of Hong Kong's autonomy will likely play a large role in the ongoing U.S.-China trade negotiations, complicating an already politically complex situation.

As we saw last month, U.S. markets have recently shown themselves to be resilient against headline-related volatility. There is no guarantee this will last, however. These potential areas of concern will be important to monitor going forward, as an unexpected result could very easily cause further volatility.

Economy remains poised for growth

All things considered, economic fundamentals remain positive, and, in many ways, they improved during the month. Current growth levels suggest the economy is on track for a slow and steady year of growth, with the pickup in third-quarter growth showing the resiliency of the current expansion. The combination of improving confidence and continued support from the Fed helped drive additional consumer spending, which was a major driver of growth earlier in the year. The improvements we saw in business confidence could indicate a rebound in business spending is set to follow, which would be a tailwind for additional growth as we finish out the year.

With that being said, very real risks to markets remain. The ongoing uncertainty from political developments, both at home and abroad, has the potential to cause market volatility. Although markets have shown themselves to be largely resilient to headlines, it is quite possible we will experience some market turbulence if there are negative political developments.

Despite the possibility of future volatility, the strong fundamentals should help support markets, as has been the case for most of the year. Whatever short-term turmoil we may encounter, however, a well-diversified portfolio matched to your risk tolerance remains the best way to meet your financial goals over the long term.

All information according to Bloomberg, unless stated otherwise.

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