



NOVEMBER 2019

STOCKS EDGED HIGHER, RATES STALLED

A weak manufacturing report weighed on stocks early in October, however the stock market edged higher (2.04% as measured by the Standard and Poor's 500 Index), largely on optimism of a US-China trade deal. Earnings expectations were tame coming into the fourth quarter. As such, earnings season was kicked off with a number of companies reporting upside earnings surprises. Optimism however faded as US retail sales saw an unexpected decline. Through November 1, 71% of Standard and Poor's 500 companies reported earnings with 76% reporting better than consensus expectations.



Despite market gains, Treasury yields barely budged. The stall in rates is largely due to the Federal Reserve cutting the target federal funds rate by another quarter point, their third of the year. The federal funds rate now stands at a target 1.5% to 1.75%. The Fed has signaled that after three rate cuts this year they plan to hold rates so long as economic data cooperates. GDP growth remained positive, albeit lackluster, for the third quarter at 1.9% following a 2.0% growth rate in the second quarter. Consistent with the Fed's dual mandate, jobs remain strong, and inflation low. The economy continues to add jobs (an additional 128,000 in October) and unemployment remains near lows at 3.5%. Inflation also remained tepid in October as year over year CPI came in at 1.8%.

In the short-term we are not making substantive changes to clients' overall portfolios. We continue, however, to where appropriate rebalance and derisk as markets continue to come up against all-time highs. We are continually monitoring the markets and economic conditions and we will address making any appropriate changes with clients when we believe economic conditions warrant. In the interim, we are counseling clients to be prepared for choppy markets with more volatility. A surprise trade deal with China could be the catalyst to propel markets higher by year-end. However, absent a trade deal, we see the potential for heightened volatility as softening economic conditions.

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LAST MONTH'S KEY ECONOMIC DATA

EMPLOYMENT

We added 128,000 jobs in October and the unemployment rate was little changed at 3.6%. The number of unemployed persons is little changed at 5.9 million. The labor participation rate is up slightly to 63.3%.

FOMC/INTEREST RATES

The Federal Open Market Committee cut rates by another 25-basis points in October. The target range for the federal funds rate now stands at 1.50% to 1.75%. The Fed has signaled that without a change to economic data the target rate should hold steady in the short-term.

GDP

According to advanced estimates real GDP rose at an annual rate of 1.9% in the third quarter, down from 2.0% in the second quarter.

INFLATION AND CONSUMER SPENDING

The *Consumer Price Index* increased 0.4% in October. Over the last 12 months, CPI rose 1.8%. Core prices, which excludes food and energy prices, rose 2.3% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services decreased 0.3% in September. Producer prices have increased 1.4% over the 12 months ended in September.

HOUSING

Existing home sales fell 2.2% in September, after a rise of in August. Year over year, existing sales are up 3.9%. The median price for existing homes in September was \$272,100, off a recent all-time high, but up 5.9% from a year ago.

MANUFACTURING

Industrial production was down 0.4% in September. For the third quarter, production rose at an annual rate of 1.2% following declines of about 2% in the first and second quarter.

IMPORTS AND EXPORTS

US trade deficit narrowed to \$52.5 billion in September. It is the lowest trade gap since April as German and Chinese imports declined and the US reported its first petroleum surplus since 1978.

INTERNATIONAL MARKETS

International markets moved higher on the month with the MSCI EAFE Index returning 3.5%.

CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, declined marginally in October and now stands at 125.9.



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Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.