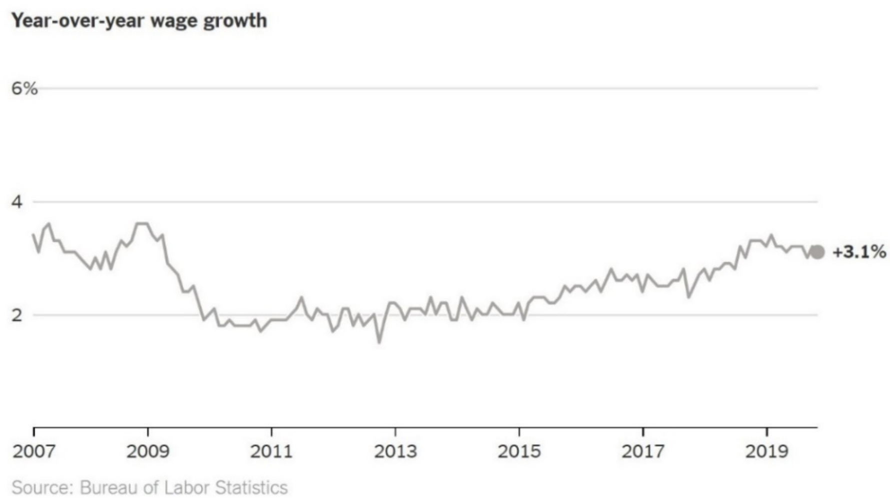
December 11, 2019

The Big Picture and Key Takeaway – November 2019

- Our key takeaway last month ended by stating, "*Expectations seem to be very rosy across the board. But markets generally move - positively or negatively - when reality differs materially from expectations. The question remains, will reality confirm or reject these optimistic expectations?"* November's reality provided more positive fodder for the stock market, which ended higher once again.

- On the economic data front, the employment numbers for November were considered very strong, as 266,000 jobs were added, outpacing expectations. The unemployment rate also sits at a half-century low at 3.5%. While employment is often a lagging indicator of economic strength, it continues to be supportive of the U.S. consumer. One exception to this perceived strength is that wage growth continues to be muted compared to past times when headline employment seemed robust. Year-over-year wage growth was a modest 3.1% (see chart), appears to have peaked in late 2018 and has been backsliding in 2019. Wage growth will be something to keep an eye on if consumers are to be relied upon as a pillar of economic strength in the New Year.



- On trade, there was a persistent optimism that a "Phase 1" trade deal would get done by the end of the year, and indeed a modest deal was agreed upon in December and set to be signed in January. However, as the name implies, this was only on small agreement in a much larger discussion, and there remain many issues to be discussed in the New Year. While some tariffs on China were reduced, most of the $360 billion of tariffs will remain in place as negotiations on additional phases continue. It remains to be seen whether the benefits of the trade war will outweigh the both the explicit cost and implicit economic uncertainty created by the process. While the on-again/off-again nature of these trade talks has become the norm, the stock market seems to get consistently excited at even a whiff of trade progress, and December was no different.

- While the Fed provided a rate cut on October 30th, described as a "mid-cycle adjustment", they followed up on December 11th by leaving rates steady. The Fed also set expectations that they will hold rates steady for the foreseeable future, with no cuts projected for 2020, given their more comfortable economic outlook.

The Key Takeaway

Has reality confirmed the market's optimistic expectations for the economy, trade, and monetary policy? The jobs report gave the perception of the economy a boost, the view on trade remains sanguine, and monetary policy remains supportive. Hence, another good month for the stock market. Will these positives persist, or will they lose momentum? Stock prices likely reflect a very positive outcome on these fronts. We believe that any dent in the positive narrative could cause the market to re-price significantly in the other direction.

November & YTD Market Performance

Market Returns		Returns (%)	
Index	Description	November	YTD 2019
S&P 500 TR USD	US - Large Company	3.63	27.63
Russell 2000 TR USD	US - Small Company	4.12	22.01
MSCI ACWI Ex USA NR USD	All International, excluding US	0.88	16.47
MSCI EAFE NR USD	International, excluding Emerging Markets	1.13	18.17
MSCI Emerging Markets NR USD	Emerging Market Stocks	-0.14	10.20
Bloomberg Barclays US Agg Bond TR USD	High Quality US Bonds	-0.05	8.79
ICE BofAML US High Yield TR	Lower Quality US Bonds	0.27	12.07
XAU Gold Spot $/OZ	Gold	-3.12	13.96
*Through November 30, 2019 Source: Morningstar, MSCI, Bloomberg			

Global Stocks

U.S. Stocks once again delivered gains in November, where, for the third month in a row, smaller companies outperformed the S&P 500 Index. High-flying growth stocks, generally led by the information technology and communications services sectors, continued to outperform value-oriented names for the month. Within the U.S. markets, among individual sectors, Healthcare, Information Technology, and Financials led the way, the latter of which benefitted from a steeper yield curve, which allows financial companies to earn higher net interest margins on deposits. On the negative side of the ledger, Real Estate lost money in November along with Utilities. In general, more economically defensive sectors underperformed as the outlook for the economy modestly brightened. Outside the U.S., most major developed and emerging market currencies declined for the month, providing a headwind for international stock returns as compared to the U.S. Developed market stocks posted modest gains while emerging market stocks delivered a moderate loss in November. Ireland, Denmark, Turkey and New Zealand were standout performing countries. China produced a small increase, while Latin America, in general, struggled mightily as the political upheaval in Chile sparked negativity in the region.

Bonds

Yields for Treasury bonds moved higher across the yield curve in November, leading to very modest losses for bonds. The 10-year Treasury bond yield increased by 0.09% while the 30-Year Treasury Bond moved higher by a modest 0.02%. Interest income did not offset the minimal price declines on longer-term bonds, and therefore, most high-quality bonds delivered small but negative returns. Agency mortgage bonds and investment-grade corporate bonds delivered the best performances, once again, while Treasury and Municipal Bonds lagged on a relative basis. Credit spreads, a measure of the risk of default in the bond market, declined and led to positive performance for lower quality, high yield bonds. Inflation-expectations moved higher by nearly 0.10% to 1.70% as defined by the 10-year breakeven inflation rate (the difference between 10-year Treasury and 10-Year Inflation-Linked Treasury). While higher, it is still well below the 2% target of the Federal Reserve. The Fed Funds target is 1.75% and future expectations are that rates will be moved lower by another 0.25-0.50% over the next 6-12 months.

If you have any questions regarding this report, please contact us at info@atwob.com or 914.302.3233
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Index and Category Definitions
The S&P 500 Index *is a capitalization-weighted index of 500 U.S. stocks.* ***Russell 2000 TR USD*** *is a market cap weighted index* The Russell 2000 measuring the performance of approximately 2,000 smallest-cap American companies ***The MSCI All Country World ex-USA Index*** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World ex-USA Index consists of 22 developed and 24 emerging market country indices.* ***The MSCI EAFE Index (Europe, Australasia, Far East)*** *is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.* ***The MSCI Emerging Markets (EM) Index*** *is a free float-adjusted market capitalization index that is designed to measure equity market performance of 24 emerging markets countries.* ***Bloomberg Barclays U.S. Aggregate Bond Index*** *is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.* ***ICE BofAML U.S. High Yield Index*** *is an unmanaged index of below-investment grade U.S. corporate bonds.* ***XZU Gold Spot $/Oz*** *reflects the exchange rate of* ***Gold*** *against the US dollar* ***index***

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