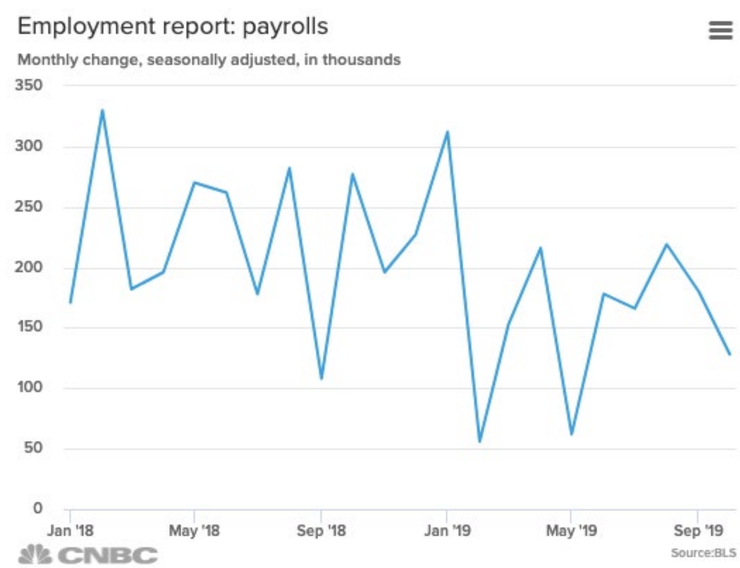
November 21, 2019

The Big Picture and Key Takeaway – October 2019

- October produced positive news on the same two fronts that the market has been focusing on for 2019 – Fed policy and the Trade War with China. Markets responded by delivering gains across the board. Stocks, bonds, and gold all finished the month higher than where they started, adding to what has been a very positive year for markets across the spectrum.

- On October 11th, President Trump announced that the U.S. and China were close to agreeing on a "Phase 1" trade agreement, where agricultural products were a focus of the discussion. Earlier in the month, the U.S. pushed-off tariffs on $250 billion on Chinese goods as part of a tentative agreement. While details have been scarce and discussions continue, it was enough of an olive branch for markets to get behind for the time being.

- The Fed provided another rate cut on October 30th. The Fed Funds Rate now sits between 1.50% and 1.75% after the third cut this year. The Fed has described these three cuts as a "mid-cycle adjustment" in a maturing economic expansion. The Fed also indicated that there is likely to be a pause in the current rate-cutting cycle, provided that the economic data remains resilient.



- On the economic data front, the employment numbers for October surprised to the upside. While the economy only added 128,000 jobs, which was less than the "disappointing" 136,000 in September, expectations were much lower on the heels of the GM strike and the layoff of 20,000 temporary census workers. September revisions also tacked on another 95,000 jobs. While overall economic growth has slowed this year on slumping manufacturing and business investment, the resilient job market and U.S. consumers have pushed back against more protracted slowdown fears for the time being.

- Another modest positive on the geopolitical front was the deadline for Brexit had been pushed back yet again to January 31st of next year. The hope remains that a "no-deal" Brexit, where terms of a breakup with the European Union are not agreed on before a U.K. departure, can be averted

- Earnings season for U.S. stocks has also been supportive, at least as it compared to downbeat expectations for the third quarter. According to Factset, while absolute earnings growth delivered its third consecutive decline in Q3 (with 89% of companies reporting), the drop of -2.4% was better than the expectation of -4.1%. 75% of companies have reported a "positive surprise" to earnings, accounting for the better relative performance for the quarter.

The Key Takeaway

With the proverbial "can being kicked" further down the road on trade, the economy growing slowly, and the Fed maintaining a supportive policy stance, momentum has pushed asset prices higher in 2019. The market appears to be pricing in potentially good news on the trade, economic, geopolitical and earnings fronts as we head into 2020. 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?

October & YTD Market Performance

Market Returns		Returns (%)	
Index	Description	October	YTD 2019
S&P 500 TR USD	US - Large Company	2.17	23.16
Russell 2000 TR USD	US - Small Company	2.63	17.18
MSCI ACWI Ex USA NR USD	All International, excluding US	3.49	15.45
MSCI EAFE NR USD	International, excluding Emerging Markets	3.59	16.86
MSCI Emerging Markets NR USD	Emerging Market Stocks	4.22	10.35
Bloomberg Barclays US Agg Bond TR USD	High Quality US Bonds	0.30	8.85
ICE BofAML US High Yield TR	Lower Quality US Bonds	0.23	11.76
XAU Gold Spot $/OZ	Gold	2.99	17.63
*Through October 31, 2019 Source: Morningstar, MSCI, Bloomberg			

Global Stocks

Stocks delivered gains across the board in October, where for the second month in a row, smaller companies, as well as international stocks (both developed and emerging markets), outperformed the S&P 500 Index. After finally beating growth stocks in September, lower-priced value stocks once again ceded to high-flying growth stocks in October, which continues a decade-long trend style investing supremacy. Within the U.S. markets, among individual sectors, Healthcare, Information Technology, and Communication Services led the way while Industrials and Financials also added to the positive performance of the index. On the negative side of the ledger, Energy, Utilities, and Real Estate lost money in September. As mentioned, while earnings growth declined in aggregate for the third quarter, a higher percentage of positive surprises was met by an unusually strong price response for stocks that beat expectations. Lower overall earnings growth and higher prices have led to valuations (the forward 12-month P/E ratio) that are materially above both 5 and 10-year averages. Outside the U.S., the U.S. dollar declined by over 2% for October, lifting the dollar returns of international stocks and emerging market stocks, the latter of which tend to benefit more from declines in the dollar

Bonds

Yields for Treasury bonds were flat for October, except for very short-maturity bonds where yields declined, and prices benefitted directly from Fed easing. The 10-year Treasury bond yield increased by 0.01% while the 30-Year Treasury Bond moved higher by a modest 0.06%. The minimal price declines on longer-term bonds were not enough to offset their income, and therefore, most high-quality bonds delivered small but positive returns. Agency mortgage bonds and investment-grade corporate bonds delivered the best performances, while Treasury and Municipal Bonds lagged on a relative basis. Credit spreads, a measure of the risk of default in the bond market, remain at the lower end of their 15-year ranges. Inflation-expectations also continue to be extremely low with the 10-year breakeven inflation rate (the difference between 10-year Treasury and 10-Year Inflation-Linked Treasury) hovering around 1.6%, well below the 2% target of the Federal Reserve.

Important Disclosure Information

This report is provided as information and commentary regarding the market. The views expressed in this report are as of the date of the report, and are subject to change based on market and other conditions. This report contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Past performance is not a guarantee of future returns. Investing involves risk and possible loss of principal capital. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by AtwoB, or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of any fees or expenses, transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices and/or categories.

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***

Please note that nothing in this report post should be construed as an offer to sell or the solicitation of an offer to purchase an interest in any security or separate account. Nothing is intended to be, and you should not consider anything to be, investment, accounting, tax or legal advice. If you would like investment, accounting, tax or legal advice, you should consult with your own financial advisors, accountants, or attorneys regarding your individual circumstances and needs. Advice may only be provided by AtwoB after entering into an advisory agreement. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from AtwoB. If you are an AtwoB client, please remember to contact AtwoB, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. AtwoB is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the AtwoB's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.