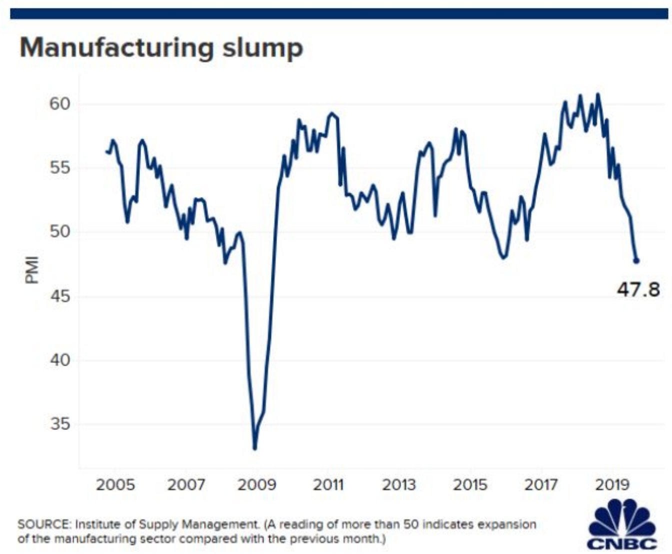
October 16, 2019

The Big Picture and Key Takeaway – September 2019

- Last month, we discussed the continued prevalence and market focus on two issues – Fed policy and the Trade War with China. On the latter front, we concluded, "*The upshot is that the trade war does not seem to be blowing over as many had hoped. It also appears to be having an impact overseas as international economic growth has slowed markedly with effects not only felt in Asia, but Europe as well.* ***In the U.S., the effect is yet unclear, but that may come into focus soon***." Indeed, September did provide some clarity on U.S. economic growth, and the results were not positive.



- The manufacturing economy in the U.S. appears to be slowing down. The closely watched Institute for Supply Management's (ISM) manufacturing index dropped to 47.8 in September, with any number below 50 indicating recession territory of for the sector. It was the lowest reading since 2009.
- The services sector, a larger proportion of the U.S. economy, continued to expand in September, but at a much slower pace. The ISM services index fell to 52.6, its lowest reading in 3-years. Several of the survey respondents cited tariffs and supply chain uncertainty as providing challenges to their businesses.
- The employment numbers for September were somewhat underwhelming, as 136,000 jobs were added, which was below the consensus estimate. However, the previous 2-months were revised higher and the unemployment rate dropped to 3.5%. the lowest since 1969.
- Wage growth, however, was a disappointment, with average hourly earnings little changed over the month and up just 2.9% for the year, the lowest increase since July 2018.
- The Fed provided another rate cut on September 18^{th}, citing the risks to the positive outlook they've maintained as growth slows. The Fed suggested it would move more aggressively if the economy shows additional signs of weakening. The Fed meets again in late October and the market is pricing in an 80% chance of another rate cut at that meeting.
- Trade talks with China resumed in early October with a loose "Phase 1" agreement announced by the President, but most details are yet to be confirmed. Most analysis points to this being but a baby step, with much larger issues yet to be addressed.

The Key Takeaway

Given the negative tone to the data above, you might expect that the stock market might struggle. It didn't. The S&P 500 and its international counterparts were both up for the month of September and remain very firmly up for the year. While there have been some slight declines and more volatility in the first week or so of October, the optimistic wait-and-see approach for stocks continues. The stock market may be placing added weight on Fed Policy becoming even more supportive in the weeks and months to come, than the actual reasons why the Fed is cutting rates in the first place – the slowdown of the global economy and its spillover effects into the U.S. Can the market narrative of "Don't Fight the Fed" defy an actual slowdown in the global economy, including the U.S.? We are likely to find out.

September & YTD Market Performance

Market Returns		Returns (%)	
Index	Description	August	YTD 2019
S&P 500 TR USD	**US - Large Company**	**1.87**	**20.55**
Russell 2000 TR USD	**US - Small Company**	**2.08**	**14.18**
MSCI ACWI Ex USA NR USD	**All International, excluding US**	**2.57**	**11.56**
MSCI EAFE NR USD	**International, excluding Emerging Markets**	**2.87**	**12.80**
MSCI Emerging Markets NR USD	**Emerging Market Stocks**	**1.91**	**5.89**
Bloomberg Barclays US Agg Bond TR USD	**High Quality US Bonds**	**-0.53**	**8.52**
ICE BofAML US High Yield TR	**Lower Quality US Bonds**	**0.32**	**11.50**
XAU Gold Spot $/OZ	**Gold**	**-3.53**	**14.21**
***Through September 30, 2019 Source: Morningstar, MSCI, Bloomberg**			

Global Stocks

Stocks delivered modest gains across the board in September, although in a reversal of long-time trends that have been in place, smaller companies as well as international stocks (both developed and emerging markets) outperformed the S&P 500 Index. Additionally, lower-priced value stocks outpaced high-flying growth stocks by nearly 3% for the month. As growth names have bested value names for nearly a decade, it may indicate that investors are looking for less expensive stocks as the market cycle ages. Within the U.S. markets, among individual sectors, sectors such as Utilities and Financials led the way while Industrials, Energy and Materials also added to the positive performance of the index. On the negative side of the ledger, only healthcare lost money in September. Earnings for the third quarter should come into focus soon, and at current estimates, they are expected to decline by 3.7% year-over-year, which would mark its 3rd consecutive quarter of declines. Strong performance from stocks this year are clearly not a function of 2019 earnings but may instead be anticipating (hoping?) better days ahead in 2020, where earnings are expected to grow in the double digits over this year's weak earnings performance.

Bonds

The relentless decline in bond yields over the last 12 months took a breather in September, as yields across the yield curve increased, except for very short-maturity bonds which benefitted directly from Fed easing. The 10-year Treasury bond yield increased by 0.18% while the 30-Year Treasury Bond finished slightly above 2% for the month - but is still hovering near a record low yield level. As rates rise, high-quality bond prices go down, so most high-quality bond sectors gave back some modest gains in September. The bond market continues to signal meager inflation for a very long time. The difference between the yields on a typical 10-year Treasury Bond and its 10-year Treasury Inflation-Protected Security equivalent, known as the breakeven inflation rate, is now only 1.48%. This means that the bond market is pricing in an annualized inflation rate of only 1.48% over the next 10-years, which is well below the Federal Reserve's 2% target. The lone bright sector among bonds were high yield bonds, which benefited from a modest tightening of credit spreads month-over-month, which helped offset rising interest rates and deliver a small gain for investors.

If you have any questions regarding this report, please contact us at info@atwob.com or 914.302.3233
Point B Planning, LLC d/b/a AtwoB | 23 Parkway, 2nd Floor Katonah, NY 10536 | www.atwob.com

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.