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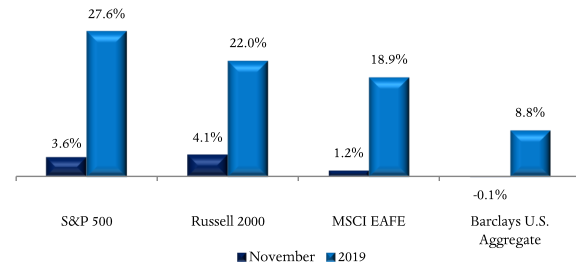
Markets

Equities extended their rally in November, on course for their best calendar-year performance since 2013. The negotiations between the US and China on a 'phase one' trade deal continued, with the seeming promise to avoid a further escalation in tariffs, set for December 15, buoying sentiment. The S&P 500 ended the month as the best performing major equity index, rising +3.6% (+27.6% ytd). The smaller capitalization Russell 2000 index rallied +4.1% (+22.0% ytd). Overseas stocks, as measured by the MSCI EAFE benchmark advanced +1.2% (+18.9% ytd). European equities drove returns, with the Stoxx 600 index rising +2.9% (+25.1% ytd). Offsetting the positive momentum, Shanghai stocks, weighed down by local economic concerns, declined -1.9% in November (+18.0% ytd). Similarly, emerging market equities, influenced by China's prospects, pulled back -0.1% (+10.5% ytd). On the positive side, Japan's Nikkei 225 index rose +1.6% (+18.7% ytd).

Bond yields moved marginally higher in November (U.S 10-Year Treasury Note yield rose +8.5bps to 1.78%) and the curve flattened, driven by support from the trade negotiations, stability of economic data, and firmness in the labor market. Looking ahead, investors are less dovish regarding further Federal Reserve interest rate cuts, expecting only one more in the coming year. With this backdrop, the Bloomberg Barclays Aggregate index pulled back -0.1% over the month (+8.8% ytd). Still, about $11.5 trillion of debt (more than a fifth of total borrowings by governments and companies globally) trades with a negative yield.

In energy markets, last month, WTI added +1.7% to reach $55.17 per barrel, boosted by improved trade and economic sentiment as well as lower inventory levels. OPEC's meeting, at which members will consider steeper production cuts, was postponed into December; and Saudi Aramco the world's largest energy producer prepared to go public. Precious metals declined, led by gold (-3.2%), dragged by a rally in risky assets.



Geopolitics

US-China trade negotiations further improved in November, with the promise of a "phase one" deal expected to be agreed by year-end, or early in 2020. The rhetoric between the two sides remained positive and reports suggested the possibility of rescinding the coming December 15 tariffs, and possibly even the already-enacted ones. China conceded to one demand, raising punishment over IP violations, a sticking point in negotiations and a real sign of progress. Subsequently, a tough human rights legislation bill, addressing Hong Kong's favorable autonomous (from China) trading status, was passed by the Trump administration, receiving criticism from Beijing.

In the UK, the spotlight shifted to the upcoming general election on December 12. With the Conservatives ahead in the polls, politics is likely to remain at the forefront of local investors' concerns as they try to handicap the Brexit process.

Spain held its fourth general election in as many years, following the failure of acting PM Pedro Sánchez to form a stable government after an earlier vote in April. Unsurprisingly, the election saw the governing Socialists (PSOE) win the most seats in parliament but once again fail to secure an absolute majority.

United States

US economic data showed tentative signs of stabilization in business sentiment, which came in better than expected in November. The non-manufacturing activity index slipped to 53.9% in November from 54.7% the prior month, still in expansionary mode for the services sector, which accounts for more than two-thirds of US economic activity. However, difficulties in manufacturing persist, with the relevant index producing a 48.1% reading, contracting for the fourth month in a row. Particular weakness was seen in inventories and new orders, while employment also showed reduced expectations. This sentiment may weigh on job growth and capital expenditures over the next few months. Consumer confidence also weakened, but remained high on an absolute basis. On the positive side, housing data has improved markedly of late, with new permits reaching their highest level since 2007, while mortgage delinquency rates reached their lowest level since 1995. Further, the US economy added 266,000 jobs in November, widely ahead of expectations, with hourly wages increasing 3.1% over the past year. The unemployment rate also ticked back down to a historically low 3.5%, indicating continued strength in the labor market. Overall, leading economic data is pointing towards a 1.5% pace of US GDP growth in the near term, which seems resilient.

Subsequent to the Federal Reserve's recent monetary easing, in comments to Congress, Fed Chair Jerome Powell said that "the current stance of monetary policy is likely to remain appropriate." Consequently, consensus calls for only one more interest rate cut in 2020.

Europe

Borderline deflationary activity in Europe showed signs of firming, aided by overseas demand for local goods and services as well as improved trade sentiment. Eurozone consumer confidence also improved last month. The composite PMI index fell 0.3% to 50.3%, still in expansionary territory, and consistent with GDP growing at a 0.8% pace. Granular data showed a moderation in services (-0.7% to 51.5%), partially offset by improved trends in the manufacturing sector (+0.5% to 47.1%, in November, on top of a similar gain in October). Looking at Germany, in particular, the local manufacturing PMI encouragingly rose to 44.1%, albeit off a low level. This was corroborated by the country's third-quarter GDP growth of 0.1%, allowing it to narrowly avoid a technical recession.

The European Central Bank (ECB) welcomed its new president, Christine Lagarde. As the ECB digests the September policy package, Lagarde has thus far avoided any firm statements on monetary policy, instead focusing her comments on broad themes regarding the global economy and what governments can do to boost the effectiveness of monetary policy. As the ECB seemingly runs short of monetary ammunition, there has been a fair amount of debate among economists as to whether Germany should use its strong fiscal position to stimulate their economy and, indirectly, that of its neighbors.

In the UK, the BoE left policy rates unchanged at its November meeting, though there were two dissenters calling for higher interest rates, largely due to the strength of the labor market. However, November data suggested some signs of sluggishness, with 3Q GDP growth (1.0%, down from 1.3%) and wage growth (3.6%, down from 3.7%) coming in below consensus expectations. The BoE is likely to await clarity on the election and Brexit before announcing future monetary policy. The three main UK political parties all want to deliver fiscal stimulus, which seems possible

November 2019 Economic Statistics

	Nov-19	Dec-18	Dec-17
Federal Funds Target Rate	***1.50-1.75%***	2.25-2.50%	1.25-1.50%
Consumer Confidence Index	***125.5***	128.1	122.1
Manufacturing PMI Index	***48.1%***	*54.1%*	59.7%
Unemployment Rate	***3.5%***	*3.9%*	4.1%
JPY/USD	***109.51***	*109.56*	112.67
USD/EUR	***1.1015***	*1.1469*	1.1996
Gold/oz.	***$1,463.90***	*$1,282.73*	$1,302.45
Oil (WTI)/bbl	***$55.17***	*$45.41*	$60.42

given that public finances have improved and borrowing costs are at low levels. On Brexit, the Conservative party is trying to capture the leave vote, while the Liberal Democrats are firmly campaigning to remain in the EU. The Labour Party is looking to negotiate their own softer deal to leave the EU and organize another public referendum, with remain as the other option on the ballot. The average of the last 5 polls as of December 1st is as follows: Conservative: 43%; Labour: 33%; Liberal Democrat: 13%; Brexit: 3%; Green: 3%, SNP: 4%).

Asia

In China, authorities have been battling against weakening manufacturing and consumer trends as trade uncertainty and ongoing protests in Hong Kong continued to hinder the region's economy. Industrial production (+4.7% year on year compared to the previous month's reading of 5.8%) and retail sales (+7.2% year on year, compared to 8.5% in the first half of 2019) both disappointed, relative to expectations. On the domestic side, manufacturing fixed asset investment (FAI), which has been generally sluggish this year, showed some signs of bottoming out, while real estate FAI growth eased modestly from the strong momentum in recent months. Investors remain cautious as they attempt to discern whether there will be a soft or hard economic landing in China, which is likely dependent on the outcome of the US-China trade negotiations.

Outlook

Asset markets have been buoyed by the potential for a US-China trade deal, while central banks have pre-emptively provided ample monetary liquidity. Equity earnings season for the third quarter came to a close, with S&P 500 companies reporting broadly flat profits relative to last year (-1% in Europe). Overall, approximately 80% of the index's constituents exceeded (heretofore reduced) consensus earnings estimates for the quarter (by +4%; +1% in Europe), which was better than what was implied by the generally declining PMI's. Encouragingly, revenue growth remained strong last quarter, at +4% and +2% (year-over-year) in the US and Europe, respectively. Further, despite some notable profit warnings, stocks that missed estimates were not penalized as severely as in the past few quarters. In fact, earnings beats for European industrial stocks were solidly rewarded by investors. Overall, equity markets appear to be in price/earnings multiple expansion mode, indicating that investors are optimistic that growth will reaccelerate, monetary policy is likely to remain supportive, and interest rates will remain persistently low. Global equity valuations are currently at levels close to their long-run averages, and credit markets appear stable. The main short-term risk appears to be the potential for a breakdown or postponement in trade negotiations between the US and China, and the unpredictability surrounding tariffs. President Trump has also threatened to eventually turn his attention towards Europe, focusing on the Continent's automotive industry, as well as France's luxury goods markets (in retaliation to the country's digital tax which targets select globally-dominant American technology companies).

We continue to recommend remaining invested in equities, focusing on quality business models and managements, via the large capitalization globally oriented companies. Looking ahead it is possible that the underperformance of overseas equities could begin to normalize, thus an increasing focus on Europe and the emerging markets may offer opportunities.

With regard to fixed income, the US is one of the few developed markets to offer reasonably positive yields, though unable to outpace the 1.8% rate of inflation. As such, we recommend maintaining conservative exposure, predominantly to the short-end of the yield curve.

Due to the historically low (or negative) yields provided by traditional safe haven assets, select alternative investments may now play an increasingly important role in portfolio construction. Such non-market correlated investments can serve as ballast against the volatility inherent in growth oriented investments.

We wish you and your families health and happiness during the holiday season, and look forward to communicating in early 2020.

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Sources: Barclays, Bloomberg, Bureau of Labor Statistics, Conference Board, Department of Agriculture, Federal Reserve, Financial Times, IMF, Institute for Supply Management, MSCI, Reuters, Russell, Standard & Poor's, and the Wall Street Journal