

Market Currents

- **Breaking Out.** With two months left in the calendar year, it has been a solid time for the financial markets so far. U.S. stocks have broken out to the upside to set new highs. Recent strength has come on increased hopes for a signed “phase one” trade deal by year-end, the Fed’s accommodative interest rate cuts, and better-than-expected results from Q3 corporate earnings. The S&P 500 is up 23.2% on a year to date basis through October. Fixed income is strong, with the U.S. Aggregate Bond Index gaining 8.9% so far this year.
- **US-China Trade Relations.** Trade negotiations between U.S. and China continue to dominate headlines. The potential signing of a “phase one” U.S.-China trade deal, and the rollback of some tariffs, have contributed significantly to the recent rally. We do, however, note that none of the proposals has yet to be memorialized in deed. A comprehensive trade deal will likely be achieved only after the 2020 U.S. election. In the meantime, we are hopeful for a “trade truce” between now and the election. The escalation of the global trade war during the summer led to a rapid rise in recession fears and a shock to the stock market, something we suspect the White House and President Trump will be keen to avoid as we approach the election.
- **Un-Inverting the Yield Curve by the Fed.** The Federal Reserve cut interest rates for the third time this year. They also announced plans to start buying short-term Treasury debt at an initial pace of \$60 billion a month. The plan has succeeded, for now, in un-inverting the yield curve, and appeasing fears of a recession associated with it. Hints at global fiscal stimulus are starting to manifest, too, as leaders of major central banks lead a concerted effort to ask fiscal policymakers to step in with governmental stimulus.
- **Q3 Corporate Earnings.** Third-quarter earnings season is in full swing. Earnings surprises have been to the upside, and have provided a welcome tailwind to the market. The quarter’s earnings are actually slightly *lower* than the year-ago quarter—but they are better than had been feared.
- **U.S. Economy’s Bifurcation Persists.** Growth anxieties—largely driven by trade issues—are on the rise both domestically and abroad. Global manufacturing activity, in particular, has been weakening, and some forward-looking surveys have suggested actual contraction. Other data suggest a bottom is forming and better times lie ahead. The services side of the economy remains in expansion mode. Upside surprises in payrolls have reinforced the strength of the labor market and consumer.
- **Outlook.** Our market view remains cautiously optimistic that the current expansion can continue. The development of the “phase 1” trade deal, and the backdrop of low interest rates supported by accommodative central banks, should provide a degree of support to risk assets. Still, much will depend on whether there will be a re-escalation of the trade war. Outside of trade, we are keeping a close eye on how the service sector reacts to the softening manufacturing industry, and whether investor sentiment is too optimistic. We stand ready to modify our investment strategy as events warrant.