QUARTERLY ECONOMIC COMMENTARY | Q3 | 2019

US equities made modest gains in Q3 as markets distilled news of the US- China trade dispute, a second interest rate cut by the Fed and weak manufacturing data. Stocks in the financials, utilities and energy sectors gained the most. The healthcare sector was weaker, given its perceived political sensitivity. Corporate bonds also fared well, largely due to the Federal Reserve's accommodative stance on interest rates.

Despite a mixed quarter, nearly every sector is positive this year. Of special note, the S&P 500 index of large cap stocks finished the quarter up 20.6% for the year. Once again, the US outperformed international equities as the US dollar further strengthened.

International equities struggled in the quarter as the strong dollar knocked off 2% of returns for both the MSCI EAFE and MSCI EM benchmarks. Within developed markets, Japan was the best performer, growing 3.1% in Q3, while Hong Kong slumped 12% as protests took their toll on the economy.

Investors also sought the safety of long-term bonds as trade tensions heightened and global forecasts fell. In terms of the latter, the Institute for Supply Management's purchasing manager's index fell in September, a signal that manufacturing had slowed. As a result, more investors purchased bonds and the Bloomberg Barclays US Aggregate 10+ Yr. rallied 6.6% in Q3 and is now up 20.9% for the year.

For its part, the Fed recently flipped from being hawkish (trying to slow an overheating economy) to dovish (trying to stimulate growth) as it cut rates twice in the quarter. The 10-year Treasury Yield ended the quarter at 1.66%, falling 34 basis points in Q3. During the quarter, the market's attention was directed back to the 3-month/10-year Spread, which first inverted back in March and remains inverted at minus 20 basis points. We will keep a watchful eye on this inversion as it has been an accurate predictor of recessionary concerns on the horizon.

Despite the prolonged US-China trade talks, global slowdown and inversion data, there is much to be positive about in the markets. The economy is operating at near full employment. Wage growth is picking up, based on new data. Corporate taxes remain low. And the Fed is supportive of a growing economy. These are just a few reasons to remain optimistic.

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Sources:
-Economic Policy Institute, Nominal Wage Tracker, Sept. 6, 2019
-Wall Street Journal, Oct 1, 2019
-Barron's, Oct 7, 2019
-Valmark's TOPS Member Forum, Oct 10, 2019

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.

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