

In this month's recap: another rate cut from the Federal Reserve, a strong hint of a partial U.S.-China trade deal, and stocks reach record heights again.

Monthly Economic Update

Presented by Pat Baxter, Investment Advisor Representative November 2019

THE MONTH IN BRIEF

Investors and traders found much to like in October. The S&P 500 gained 2.04% during the month, topping 3,000 again. The Federal Reserve made its third interest rate cut of the year. Word came that the U.S. and China could be headed toward the first phase of a new, bilateral trade agreement. The United Kingdom failed to meet its extended Brexit deadline, but the European Union granted it more time. While some fundamental U.S. economic indicators were underwhelming, Wall Street got a lift from the latest earnings season.¹

DOMESTIC ECONOMIC HEALTH

On October 30, the Federal Reserve made its third interest rate cut in three meetings. The Federal Open Market Committee voted 8-2 to cut the federal funds rate by another 0.25%, taking its range to 1.50-1.75%. Earlier in October, the Fed announced that it would soon start buying about \$60 billion in Treasuries per month and continue doing so for at least the first half of 2020. The central bank's latest monetary policy statement noted that exports and business investment "remain weak."²

Certainly, the ongoing Sino-American tariff dispute has affected both exports and business investment. Last month, it looked like there was some progress toward a resolution: following an October 11 meeting at the Oval Office between top-level U.S. and Chinese negotiators, President Trump announced that both sides were close to approving "phase one" of a new U.S.-China trade pact. President Trump and Chinese President Xi Jinping planned to sign off on this initial installment of a trade deal during a November 16-17 economic conference in Chile, but that summit was canceled by the Chilean government in view of that country's current social unrest. The White House believes an accord can still be signed "within the same time frame."^{3,4}

The jobless rate fell 0.2% in September, according to the Department of Labor's latest employment report. It hit a 50-year low of 3.5%. The U-6 rate, which counts both the unemployed and underemployed, declined 0.3% to 6.9% (the all-time low is 6.8%). Even so, the economy generated 136,000 net new jobs in September; economists polled by Dow Jones forecast 145,000 new hires.⁵

Consumer spending rose 0.2% in September, by the estimation of the Department of Commerce. Speaking of shopping and buying, retail sales were down 0.3% in that month. The Conference Board's Consumer Confidence Index came in at 125.9, a slight decline from its September level. The other closely watched gauge of household outlooks, the University of Michigan's Consumer Sentiment Index, rose to 95.5.⁶

On the factory front, the data could have been better. U.S. industrial production fell 0.4% in September, while manufacturing output slipped 0.5%; meanwhile, hard goods orders weakened 1.1%. The Institute for Supply Management's manufacturing Purchasing Managers Index (PMI) spent another month below 50, falling 1.3 points to 47.8; a number below 50 means activity in the sector is slowing. (ISM's PMI for the much larger U.S. service sector was in better shape at 52.6, though it dropped 3.8 points in September.)^{6,7}

In other news, the Bureau of Economic Analysis estimated third-quarter gross domestic product at 1.9%, and the Department of Labor said that the Consumer Price Index was flat for September, leaving its yearly advance at just 1.7%.^{6,8}

GLOBAL ECONOMIC HEALTH

The United Kingdom missed its Halloween deadline for a Brexit. Prime Minister Boris Johnson and representatives of the European Union crafted a revised Brexit agreement during the month, yet while Parliament voted in favor of the deal, lawmakers requested more time to review all its details. Per the U.K.'s request, the E.U. pushed the Brexit deadline ahead to January 31, while stating that this extension would be the last.⁹

The World Bank sees China's gross domestic product (GDP) at just 6.1% for 2019; that would be a slip of 0.5% from 2018. It estimates that economic growth in the Asia-Pacific region will weaken to 5.8% for 2019, with trade tensions being the prime factor, and dip further to 5.7% for 2020 and 5.6% in 2021. The region grew 6.3% last year.¹⁰

Some foreign economies seem to be losing momentum. The U.K.'s economy just contracted for the first time in seven years. Germany, Mexico, and Brazil are on the cusp of recessions, and the economies of Italy and Hong Kong have both entered recessionary phases. The International Monetary Fund sees the global economy expanding just 3.0% this year, and that would make 2019 the poorest year for world GDP since 2008.¹¹

WORLD MARKETS

MSCI's EAFE index, a benchmark for stocks in developed markets around the world, rose 3.50% during October. MSCI's All-Cap Asia-Pacific index added 3.80%. Many other indices posted large gains as well, and October brought just three notable monthly losses.^{1,12}

The Nikkei 225 had another great month, climbing 5.38%. Germany's DAX improved 3.53%; Hong Kong's Hang Seng, 3.12%. China's CSI 300 rose 1.89%. The multi-country Euro Stoxx 50 index rose 0.98%, and France's CAC 40 index added 0.92%. Spain's IBEX 35 ended the month 0.14% higher. Canada's equity market benchmark, the TSX Composite, settled 1.05% lower for the month, and Australia's ASX 200 fell 1.18%. The United Kingdom's FTSE 100 fell 2.16%.¹²

COMMODITIES MARKETS

Natural gas took a big leap in October, gaining 7.47%. Unleaded gasoline gained 5.80%, and West Texas Intermediate crude oil rose 2.00%, ending the month at \$55.06 a barrel on the New York Mercantile Exchange (NYMEX).¹³

Turning to crops and other soft commodities, lumber gained 9.35%; cotton, 8.01%; wheat, 2.72%; cocoa, 1.63%; soybeans, 1.20%. October losers included coffee, down 1.78%, and orange juice, down 4.14%.¹³

All major metals advanced in October. Palladium added 8.78% (and ended the month up 56.16% on the year). Silver gained 5.11%; platinum, 4.66%; copper, 4.17%. Gold rose 1.62%. At the October 31 close, an ounce of gold was worth \$1,496.70 on the NYMEX; an ounce of silver, \$17.87. The U.S. Dollar Index gained 3.45% last month.^{12,13}

REAL ESTATE

Home sales retreated in September: the National Association of Realtors said that residential resales were down 2.2% for the month, and the Census Bureau announced a dip of 0.7% for new home buying. In better news, existing home sales were up 3.9% year-over-year through September, and the NAR's pending home sales index rose 1.5% during that month.^{6,14}

The median sale price of an existing home was \$272,100 in September. According to the NAR, that represents a 5.9% YTD gain. A 7.9% September drop left the median sale price for a new home at \$299,400; the median sale price had declined 8.8% through three quarters of the year.¹⁴

Turning to home loans, an examination of Freddie Mac's October 3 and October 31 Primary Mortgage Market Surveys reveals increases for mortgage rates. The average interest for the 30-

year, fixed-rate home loan went from 3.65% to 3.78% between October 3 and 31, and mean interest for the 15-year, fixed-rate mortgage rose to 3.19% from 3.14%.¹⁵

30-year and 15-year fixed rate mortgages are conventional home loans generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.

TIP OF THE MONTH



*As the year ends, **fraudsters** may approach older, high-net-worth households, pretending to be representatives of credit card issuers, banks, charities, and even federal agencies. If a **stranger calls or emails you** and asks you for your money or financial information, **hang up or disregard the message**, and **report it to organizations**, such as Consumer Financial Protection Bureau or AARP ElderWatch.*

LOOKING BACK, LOOKING FORWARD

As the table below shows, the Nasdaq Composite outgained the S&P 500 and Dow Jones Industrial Average last month. The same thing has happened across the past 12 months. In the year ending in October, the Nasdaq gained 13.50%, the S&P, 12.02%; the Dow, 7.69%. The S&P recorded a new record close on October 30: 3,046.77.^{1,16}

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+15.94	+0.48	-5.63
NASDAQ	+24.97	+3.66	-3.88
S&P 500	+21.17	+2.04	-6.24

BOND YIELD	10/31 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.69	1.68	3.15

Sources: bloomberg.com, wsj.com, treasury.gov - October 31, 2019^{1,16,17,18}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.
10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

Recently, stocks have advanced back into record territory with help from earnings beats, descending interest rates, and anticipation of some type of near-term trade deal with China. This relatively bullish mood may or may not persist through the end of the year. Stocks have advanced despite concerns about the U.S.-China trade dispute, a slowing economy, and geopolitical issues. Trade, earnings, and economic indicators may be closely watched this month, and investors may be anxiously awaiting two key developments. The first is a “phase one” trade deal with China. Markets surged on talk of a trade truce, and a signed deal could help reassure investors even more. The second is a potential budget battle in Washington. Investors will be hoping that a government shutdown can be avoided. While the ideal scenario is a budget passed by Congress and signed by the President, a short-term resolution may keep investors satisfied for now.

QUOTE OF THE MONTH



*“Those who **travel with the current** will always feel they are good swimmers; those who **swim against the current** may never realize they are **better swimmers than they imagine.**”*

SHANKAR VEDANTAM

UPCOMING RELEASES

What will investors and traders be paying attention to this month, besides earnings announcements and any breaking news? The roll call of upcoming economic releases includes the latest ISM non-manufacturing index (11/5), the initial November Consumer Sentiment Index from the University of Michigan (11/8), October's Consumer Price Index (11/13), October's Producer Price Index (11/14), October retail sales (11/15), a new Census Bureau snapshot of monthly U.S. residential construction activity (11/19), the minutes from the October Federal Reserve meeting (11/20), October existing home sales (11/21),

November's final University of Michigan Consumer Sentiment index (11/22), a new Conference Board Consumer Confidence Index, the latest S&P/CoreLogic Case-Shiller home price index, and October new home sales (11/26), and to conclude the month, the October consumer spending report, data on October hard goods orders, October pending home sales numbers, the third estimate of Q3 economic expansion from the federal government, and a new Federal Reserve Beige Book (11/27).

THE MONTHLY RIDDLE



*I have numbers on my face, but cannot find 13 in any place.
What am I?*

LAST MONTH'S RIDDLE: I am the beginning of the end, the end of every place. I am the beginning of eternity, the end of time and space. What am I?

ANSWER: The letter E.

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