

December 6, 2019

Weekly Viewpoint

Trade Confusion Offset by Strong Jobs Data

Performance for Week Ending 12.6.19

The Dow Jones Industrial Average (Dow) dipped 0.13%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) gained 0.04%, the Standard & Poor's 500 Index (S&P 500) finished up 0.16% and the Nasdaq Composite Index (NASDAQ) closed off 0.10%. Sector breadth was positive with 7 of the 11 S&P sector groups finishing higher. The Energy sector (+1.52%) was the best performer followed by Consumer Staples (+0.92%) and Healthcare (+0.91%).

Index*	Closing Price 12/6/2019	Percentage Change for Week Ending 12/6/2019	Year-to-Date Percentage Change Through 12/6/2019
Dow	28015.06	-0.13%	+20.09%
Wilshire 5000	32042.01	+0.04%	+24.44%
S&P 500	3145.91	+0.16%	+25.49%
Nasdaq	8656.53	-0.10%	+30.49%

Market Observations: 12/2/19–12/6/19

The major market indices finished the week mixed to little changed with the S&P 500 closing higher and both the Dow and Nasdaq posting modest losses. The week got off to a rough start reflecting fresh trade worries after President Trump said he would restore tariffs on steel/aluminum imported from Brazil and Argentina. Adding to the trade uncertainty, Trump told reporters in London that he has no deadline for a trade deal with China, and it may be better to wait until after the 2020 presidential elections. Whether posturing or just trying to get a better deal, investors were rattled by the comment. The news comes on the heels of the market posting new all-time highs in recent weeks, driven in part by hopes of an imminent "phase one" trade deal between the U.S. and China.

The negative market reaction may have been what prompted the President to walk back his comments, as he later said discussions with China are going "very well."

Bloomberg news reported that the world's two largest economies were closer to agreeing how many tariffs would be rolled back in a "phase one" trade deal. A spokesman for China's Commerce Ministry added that the negotiating teams have maintained close communications.

Jobs Report: Weakness early in the week was mostly offset by a late week surge following the much better than expected Payroll data. With almost 70 percent of domestic economic growth driven by consumer spending, a healthy job market bodes well for future consumption. On Friday, the Labor Department reported that nonfarm payrolls during November rose by 266K, well ahead of the 180K forecasted gain. In addition, the prior month's data was revised higher with the economy adding 156K jobs versus the initial estimate of 128K. The unemployment rate in November ticked down to 3.5% (from 3.6%), returning to the lowest level in a half century. On the wage front, average hourly earnings rose 0.2% during the month and are now up a better than forecast 3.1% on a year-over-year basis. The report suggests that worries over a looming recession are likely overdone. While overall economic growth has slowed in recent quarters, the Federal Reserve's three rate cuts this year and the lagged impact of changes in monetary policy (typically 9 months or so) should set the stage for a better growth environment as we enter into the new year.

Market View: We continue to believe the Bull Market remains intact and that further upside is likely in the quarters ahead. While the probability of a recession in the coming year has diminished significantly (although it is not zero), forward equity market gains are likely to be much more modest than what we have experienced this year. The 2018 rally has been driven almost exclusively by the expansion in the market's P/E multiple, which in turn, has raised concern that valuation levels are looking a bit elevated relative to underlying earnings growth. After very little earnings growth during the current year, earnings will need to be the key driver of forward returns. According to FactSet earnings are expected to rebound in 2020 with current consensus expectations calling for 9.8% growth.

The Week Ahead: The focal point of the coming week will be the two-day Federal Open Market Committee (FOMC) meeting, starting on Tuesday. While no changes in rates are expected, the after-meeting communique along with the updated committee member forecasts will be parsed for clues on the timing of the Fed's next move. The data calendar will be relatively quiet, however there will be a few reports of note, including; the November readings on consumer and producer inflation, the revised third-quarter productivity figures, November retail sales and October business inventories. The earnings calendar will remain on the backburner, however there are a handful of "early reporters" scheduled to release results.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually

every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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