September 20, 2019

Weekly Viewpoint

Marketing Dips Despite Generally Favorable News

Performance for Week Ending 9.20.19

The Dow Jones Industrial Average (Dow) lost 1.05%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) fell 0.49%, the Standard & Poor's 500 Index (S&P 500) fell 0.51% and the Nasdaq Composite Index (NASDAQ) shed 0.72%. Sector breadth was negative with 7 of the 11 S&P sector groups finishing lower. The Consumer Discretionary sector (-2.16%) was the worst performer followed by Industrials (-1.47%) and Financials (+-1.0%). On the flip side, defensive sectors (Utilities, Real Estate, Healthcare) all posted solid gains.

Index*	Closing Price 9/20/2019	Percentage Change for Week Ending 9/20/2019	Year-to-Date Percentage Change Through 9/20/2019
Dow	26935.07	-1.05%	+15.47%
Wilshire 5000	30613.71	-0.49%	+18.86%
S&P 500	2992.07	-0.51%	+19.36%
Nasdaq	8117.68	-0.72%	+22.34%

Market Observations: 9/16/19–9/20/19

The major market indices posted their first weekly decline in the past four weeks despite a reduction in interest rates by the Federal Reserve and signs of progress in the US-China trade talks. Economic reports during the week also suggested that the overall health of the US economy remains relatively solid. The drawdown in the market maybe a reflection of a "good news is bad news" scenario as progress in trade talks and stable economic growth could curb further rate cuts by the Federal Reserve.

Fed Meeting: As expected, the Federal Open Market Committee (FOMC) reduced its key lending rate by 25 basis points (100 basis points = 1 percent) to a range of 1.75% – 2.0%, the second rate cut this year. The Fed cited implications of global developments for the economic outlook as well as muted inflation pressures as the reason for the reduction. The Fed did leave the door open to the possibility of additional rate cuts, although the path to lower rates will not be easy as three committee members voted against the rate cut. In addition, forward projections, as displayed by the so-called "dot-plot," showed only 7 members (of 17) would vote to cut rates again this year, while 5 expected rates to remain at their current levels and the other 5 seeing rates rising later this year.

Despite the reduction in rates, the Fed's assessment of the domestic economy was fairly upbeat. According to the after-meeting communique, the Fed believes the labor market remains strong and economic activity has been rising at a moderate rate. They also noted that job gains have been solid, the unemployment rate has remained low, and household spending has been rising at a strong pace. During the after-meeting press conference, Fed Chairman Powell underscored that it is better to be preemptive, as "it can be a mistake to try to hold on to your fire power until a downturn gains momentum." Powell added that he reckons "moderate" changes in rate policy will get the job done right now, but said if the economy weakens "we're prepared to be aggressive." However, with only limited room to cut, Powell added that negative rates were unlikely, and additional stimulus, if needed, would be drawn from other strategies like bond buying and forward guidance.

Economic Data: Underscoring the Fed's assessment of a generally healthy economy was last week's batch of economic data. Industrial Production came in stronger than expected and several housing market reports showed the sector on solid footing. Initial jobless claims remained near the lowest level in 50 years. The data follows recent reports showing strong gains in retail sales, upbeat consumer sentiment data, and a solid rebound in the all-important services side of the economy.

Market View: While markets have rebounded from the August lows and now stand just below the all-time high reached in late-July, we maintain our cautious view on the near-term outlook for the market. Gains over the course of the year have been solely from the expansion in the market's valuation multiple, which in turn, has pushed the P/E multiple to above average levels. This scenario potentially leaves the market vulnerable to negative headline risk, especially related to developments around trade and earnings. Expectations heading into third quarter earnings season are very muted and investors will put extra weight on management's forward outlooks. Based on the recent announcement from the Business Roundtable, CEO confidence now stands at the lowest level in 3 years. The lobbying group said increased geopolitical tensions, and specifically the trade war, were to blame for the plunge in confidence. With CEO confidence at such depressed levels, it hardly bodes well for upbeat forward guidance. As we look ahead, earnings growth will need to be the key driver of forward performance and until revisions begin to move higher, upside from current levels will likely be limited.

The Week Ahead: Third quarter earnings season will kick off in earnest this week with 7 members of the S&P 500 scheduled to release results. Expectations heading into the quarter are very muted with forecasted earnings expected to decline by over 3%. It will be a busy week on the data front with the focal points being on the manufacturing and housing sectors. Reports of notes include; the Markit Manufacturing PMI, the July Case-Shiller home price index, the Conference Board's September consumer confidence survey, August new home sales, the final revision to second-quarter GDP, August durable goods orders, August personal income and spending and the University of Michigan’s September consumer sentiment survey. The Fed speaking calendar will be robust with over a dozen speeches on the docket including Vice Chairman Clarida on Thursday.

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.