



MARKET RECAP

DECEMBER 24TH, 2019

OCTOBER – DECEMBER 2019

QTD: S&P 500 8.3%, NASDAQ 11.9%, EUROSTOXX 50 5.7%, EUROSTOXX 600 6.5%, FTSE 3%, DAX 7%, NIKKEI 9.5%, HONG KONG 6.8%, CHINA 4.7%. 10-YR T-NOTE FROM 1.66% TO 1.92%

The final months of the year saw equity markets reach record nominal highs and sovereign bond yields back-off from summer's lowest levels. The U.S. dollar opened strong but came under a degree of pressure as geopolitical risks diminished over the course of Q4. In turn, commodities rose, from precious to basic metals. The Federal Reserve contributed to the narrative and sentiment, cutting short-term interest rates a third time. After a sharp one-day rise in September, followed by a total reversal, crude oil stabilized and later crossed an important price as the global economic and trade picture improved. That leads to a brief discussion of the three catalysts this quarter, spaced-out over the final 90 days.

The first inflection point was the most significant. After tough dialogue, China and the U.S. finally reached an initial detente on a framework for a phase-one trade deal. Though not without bumps along the way including the postponement of the expected signing at the APEX meeting in November, enough constructive words and vibes (from both sides) convinced investors the deal was still on-track! Immediately, the dollar-yuan exchange rate stabilized, a key component and request from the American side. Meanwhile, throughout this time period the Chinese side insisted on a reduction of existing tariffs to make an agreement on paper more acceptable. In Q4, potential new tariffs and deadlines were delayed and later erased - all part of the risk-on trading environment that ensued...all three months closed in-the-black. So, by mid-December, a whirlwind series of events led to congressional agreement on a revised US-Mexico-Canada treaty (USMCA), plus a U.S.-China phase-one deal that delivered a bit more than was discounted. Reactions to both breaking news events were positive and set-up a strong closing push to the calendar year. The best finish since 2013.

November had its moments as well, more due to the aftermath of the Federal Reserve's third-rate cut; funds are now 1.5%. Markets moved higher after chair Powell's press conference (a rarity the last two years). The central bank's communication was direct: we have done enough to guard and insulate the domestic economy against the effects of a global slowdown, the home economy is growing at a moderate pace, consumer inflation is muted, and the Labor market is strong.

Meanwhile potential risks from the tariff battles appeared to be subsiding, and finally the probability of a U.K. departure from the E.U. without any compromise, a so-called hard Brexit, lessened throughout the quarter. Also, a clear view was expressed that without a meaningful deterioration of the economy, the funds rate would remain on hold in the New Year...an election year. The yield curve's differential began to widen – a major source of concern throughout spring-summer of 2019. By quarter-end, across all maturities – from 2-year note to 30-year bond - a normal curve was observed. The 2 to 10 spread, most followed in markets, reached 30 basis points, the most since late last year (important).

In the United Kingdom – from parliament approving the prime minister's revised plan negotiated with/in Brussels, to a further delay in the Brexit deadline, past a call for a snap national election the same month, to a December vote handing the Tories a strong majority which dispelled the possibility of a second referendum and more uncertainty – financial and currency markets benefitted. However, that said, this is but step one in a process that may stretch beyond the end of next year.

INVESTOR SPOTLIGHT

U.S.: WILL THE S&P 500 BENCHMARK SEE A 10% CORRECTION IN 2020? WILL SMALL-CAPS CONTINUE TO RALLY (ONLY MAJOR INDEX WITHOUT A NEW HIGH IN 2019)? AND, WILL SMALL-CAPS PROVE A LEADING INDICATOR? TREASURIES: WILL 10-YEAR STAY RANGE-BOUND? AND, IF EQUITIES OPEN STRONG, DO YIELDS RISE SHARPLY (AS WAS THE CASE IN JANUARY 2018 SETTING STAGE FOR A CORRECTION? FINALLY, THE U.S. DOLLAR, STEADY AS A ROCK OR A SOFT LANDING VS. G7-EM CURRENCIES? WTI OIL: \$60 A BASELINE? GOLD: \$1480 A BASELINE?