QUARTER RECAP

OCTOBER 1ST, 2019

JULY – SEPTEMBER 2019

TREASURIES STAGED A MASSIVE RALLY. THE 10-YR BELOW 1.50%. U.S. EQUITIES UNINSPIRED. THE FED CUT THE FUNDS RATE TWICE. GOLD RALLIED TO 6-YR HIGH. US DOLLAR AT 2-YR HIGH.

Multiple crosscurrents whipsawed markets this summer. From a promising trade truce at mid-year between the US and China to highly anticipated negotiations formalized in September to take place in early fall, these 90 days proved eventful on the trade front – the most important uncertainty among numerous ones. In particular, the month of August was quite volatile. Immediately after the Federal Reserve cut the funds rate for the first time in over a decade, President Trump imposed new tariffs on China in addition to the current backlog 'and' announced an increase in the percentages to the current list, effective in Q4.

On August 1st equities lost ground a week after a new record high. However, sharper moves followed, both early and late, taking the major indices down as much as 6% before recovering half-the-loss. The first air-pocket came as the president left open the possibility of no trade deal this year or next. Perhaps, left pending through the 2020 election cycle. Markets responded by selling-off in minor waves, with the 2nd jolt coming after Jackson Hole, suggesting American companies should pull stake from China and divert business elsewhere. Though evidence to this is accumulating, a total exodus would have far-reaching consequences – for both sides and beyond. A silver-lining in these volatile times was avoidance of consecutive down days of significance. We did not see successive hard falls throughout August providing at least a degree of comfort, helping to stop a build-up of negative momentum in stocks. August 1st turned out to be among the most meaningful days in 2019.

However, it was Treasuries that took center-stage with a bond rally for the ages. A major decline in yields that began in the 2nd quarter continued into the third quadrant. The short-long story saw the 10-year benchmark initially drop to 2% but doubled-down after August 1st to touch-down below 1.50%. Not seen in 3 years! But, seen for a 3rd time since the Great Financial Crisis. A confluence of events transpired to favor bonds in a big way in mid-quarter. Trump's tweets on China were a catalyst and driving force hitting two concerns simultaneously. Further friction between the largest economies thereby increasing (a) fear of a global slowdown and (b) lifting business uncertainty further thus providing clear evidence of a pronounced drop in business spending (non-residential spending has steadily declined this year). The 2 vs. 10-year curve (the most tracked) initially inverted in mid-August leading to a one-day sell-off. Talk of a recession reached a fever-pitch by early September, culminating in the 2/10 inversion widening before a sharp boomerang reversed price action for a short spell but enough to modestly steepen the curve back to positive. With that, recession talk cooled but has not gone away. Too many uncertainties to expect the all-clear signal.

Also, weakness on the European continent ratcheted higher, with Germany unofficially falling into recession thus pushing the overall Eurozone economy likely below stall-speed. Europe's growth and inflation concerns were addressed at the last ECB meeting. The net result was to lower deposit rates deeper into negative territory (though tiered), along with providing additional long-term loans to banks, plus restarting quantitative easing. All steps taken serve one purpose, keeping the continent's GDP from a third recession. Meanwhile, in the UK nothing was better. Uncertainty reigned in various ways. How would the new prime minister handle Parliament, Brexit, the drop in Pound sterling, the possibility/probability of a general election before/after the Brexit deadline? All issues remain on-the-table, except a quick political move to suspend the House of Commons and Lords was revoked by the UK Supreme Court. So, the battle renews in earnest with a month-to-go in the 'current' deadline. Will a resolution be reached before Halloween? The $64,000 question with no answer on-the-horizon.

INVESTOR SPOTLIGHT

Q4:US-CHINA TRADE TALKS (PARTIAL AGREEMENT?) BREXIT EXTENSION? EUROZONE GROWTH (TWILIGHT ZONE?) THE FED: MORE RATE CUTS COMING? DOLLAR-YUAN (OFFSHORE) SEES NEW LOW? WTI OIL REMAINS BELOW $60?

Q3: S&P 500 1.3%. NASDAQ -0.1%, EUROSTOXX 50 2.8%, FTSE -0.2%, DAX 0.2%, NIKKEI 0.1%, CHINA -3%, HK -8.5%

YTD: S&P 18.8%, NASDAQ 20.5%, EUROSTOXX 50 18.9%, FTSE 10.1%, DAX 17.7%, NIKKEI 8.7%, CHINA 27%, HK 1%