

# Markets in a Minute

Insights on the latest global investment news



## Equities:

Running at a record pace in 2019



### Omar Aguilar, PhD

Chief Investment Officer,  
Equities and Multi-Asset Strategies

## Fixed Income:

Are you kidding, negative interest rates



### Brett Wander, CFA

Chief Investment Officer,  
Fixed Income

### Higher but volatile equity markets in Q3

U.S. stocks finished modestly higher in the third quarter, while capping their biggest year-to-date gains in more than 20 years. Technology and real estate paced the market's advance, returning more than 25% each through September 30. This performance was achieved in spite of intermittent volatility amid decelerating global economic growth, political uncertainty, and easier monetary policies around the world.

### U.S. remains a bright spot, but the pressure is rising

Although the U.S. economy remains healthy and supported, concern has been growing about how much longer this will last. The 50-year low in unemployment points to a robust labor market. However, a recent reading showing little progress in employees' earnings growth confirmed that wage inflation remains muted, limiting consumer spending. Meanwhile, the global manufacturing slowdown may be spreading to the service sector as the trade war continues.

### Higher volatility ahead suggests a balanced approach

In the current environment, we suggest employing a balanced approach. With 10-year Treasury yields in a range around 1.6% and credit spreads tight, we think investors should avoid overstretching for yield. From a sector perspective, higher-quality growth companies in cyclical areas like technology, consumer discretionary, and industrials may benefit if the Fed keeps interest rates accommodative, while energy, financials, and health care could face headwinds.

### Negative interest rates in Europe and Japan

Since the dawn of fixed-income investing, negative interest rates have been inconceivable. Yet today, nearly \$15 trillion of global debt has negative yields, which is more than 25% of the world's investment-grade bond market! In much of the developed world, negative yields have become the norm. Might this negative yield contagion spread to the U.S.?

### Can rates go negative in the U.S.

Until recently, conventional wisdom held that negative U.S. interest rates were inconceivable. After all, the Fed kept rates at zero percent for seven years following the financial crisis, unwilling to join Japan's and Europe's negative interest rate experiment. However, the market—not the Fed—dictates long-term bond yields, and the Fed can't do much to prevent negative rates, especially if inflation is negative. So negative U.S. rates are certainly conceivable, though perhaps unlikely.

### What do negative rates even mean

A bond with a negative rate means that the sum of all interest and principal payments will be less than what you initially paid for the bond, if held to maturity. Why buy such a bond? Well, even negative yielding bonds may provide flight-to-quality benefits, portfolio diversification, and risk management. As in Europe, when stocks fall, investors often flock to government bonds—even negative yielding ones. This sends already negative yields even lower as bond prices rise. So despite a negative yield, investors can still make money!

## About the authors

### Omar Aguilar, PhD

Omar Aguilar is Chief Investment Officer (Equities and Multi-Asset Strategies) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Aguilar joined CSIM in 2011 and is responsible for equity and asset allocation mutual funds, ETFs, and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation, and multi-manager strategies. Aguilar received a BS in actuarial sciences and a graduate degree in applied statistics from the Mexico Autonomous Institute of Technology. He was a Fulbright scholar at Duke University's Institute of Statistics and Decision Sciences, where he earned his MS and PhD.

Read more insights from Omar at:  
[schwabfunds.com/cioequityinsights](https://schwabfunds.com/cioequityinsights).

### Brett Wander, CFA

Brett Wander is Chief Investment Officer (Fixed Income) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Wander joined CSIM in 2011 and is responsible for all aspects of the firm's fixed income and money market portfolios, leading a team of more than a dozen investment professionals. Over his more than 20 years of investment management experience, Wander has been intimately involved in the design, development, and oversight of a wide range of active, indexed, and alternative fixed income strategies. His expertise spans a wide range of global and domestic markets and sectors. He is a frequent industry speaker, presenting at conferences and in various media forums, and has taught MBA-level investment courses at the University of Southern California. Wander earned an MBA from the University of Chicago and a BS in system science engineering from the University of California, Los Angeles. He is a CFA® charterholder.

Read more insights from Brett at:  
[schwabfunds.com/ciofixedincomeinsights](https://schwabfunds.com/ciofixedincomeinsights).

## Charles Schwab Investment Management

With a straightforward lineup of core products and solutions for building the foundation of a portfolio, Charles Schwab Investment Management advocates for investors of all sizes with a steadfast focus on lowering costs and reducing unnecessary complexity.

### Important disclosures

#### Past performance is no guarantee of future results.

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

Some of the statements in this document may be forward looking and contain certain risks and uncertainties.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve.

©2019 Charles Schwab Investment Management, Inc. All rights reserved.  
CSIM-MKT (1019-95E2) MKT90793OCT19-00 (1019)  
00236579

For more insights, visit us at [schwabfunds.com](https://schwabfunds.com).

