

Markets in a Minute

Insights on the latest global investment news



Equities:

Fading trade worries fuel all-time highs



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Fixed Income:

The last rate hike of 2019?



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Trade war resolution hopes fueled a rally

Constructive talks between the U.S. and China reignited hopes for a resolution and better economic times ahead, providing a tailwind for stocks and a floor for growth expectations. The U.S. remains a stable bright spot amid the synchronized global deceleration, with solid consumer activity fueling forecasts for 3.0% annualized global growth in Q3.

Fed and markets okay with mid-cycle pause

The Fed seems confident that global risks have abated enough for the U.S. economy to continue growing, allowing the central bank to focus on U.S. data to determine its next monetary policy steps. Equities have rallied globally and Treasury yields have risen in a sign that the markets support the Fed's decision to pause on rate cuts for now. Stabilization in overseas manufacturing activity and the chance for fiscal stimulus to support global growth are giving central banks hope regarding the outlooks for their local economies.

Rotation from defensive stocks to select cyclicals

With 90% of S&P 500 members having reported Q3 results, an encouraging number of firms have beaten earnings expectations, with nearly 70% ahead of consensus forecasts. Investor optimism seems to favor a rotation from defensive stocks into attractively valued cyclical stocks. In this environment, we favor high-quality companies in technology, consumer discretionary, and industrials, and think that international and emerging markets may stand to benefit.

The Powell interest rate "pause"

The Fed recently cut interest rates for the third time since July. Fed Chair Jerome Powell said that a pause in the current rate-cutting cycle is now likely, provided that incoming economic data remains strong. This signaled what could be the end of the preemptive "insurance" cuts that the Fed has administered in response to the trade war between the U.S. and China, so this might be the last cut for a while.

Equities stretch to all-time highs

As Powell delivered his post-meeting speech, the S&P 500® Index stretched to all-time highs. While stocks rallying when the Fed is cutting rates may seem inconsistent, it's actually not all that uncommon. Just look back at the early stages of the rate-cutting cycles in 1989 and 2007. With three preemptive cuts behind them in the current cycle, the Fed seems unconcerned that U.S. financial market instability will erupt over the near future, giving them even greater flexibility to pause and assess the effects of their recent policy efforts.

A solid employment report for October

A few short days after the recent rate cut, investors were pleasantly surprised by the solid October employment report. This news must have been quite reassuring for Powell since the U.S. economy's primary pillars of strength have been the jobs market and robust consumer activity. We think investors should therefore take the Fed at its word and expect a rate-cutting pause, at least until the data mandates a change.

About the authors

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