

WEEKLY MARKET UPDATE

October 28, 2019

Last Week Review

Global equities pushed higher despite mixed economic data. Equities were helped by earnings surprises and sentiment on trade last week, while steady U.S. economic data offset weaker European manufacturing data¹. China plans to increase agricultural purchases to \$20 billion with the potential for more in the future, while the U.S. said it was close to finalizing the first phase of a trade deal with China². Global equities moved 1.3% higher last week³.

Flash Purchasing Managers' Index data weakens in Europe. Heading into last week, investors questioned whether the weakening manufacturing sector would begin to bleed into the services sector. Flash manufacturing PMI data in Europe and Germany fell short of expectations and remain below 50 meaning the sector is experiencing falling output. Services PMI readings in Europe and Germany also failed to meet expectations but were close to prior levels and remain in expansionary territory. In the U.S., the manufacturing PMI modestly increased to 51.5 providing some cushion between the 50 dividing line, while the services PMI ticked up to 51.0.

European Central Bank confirms recent policy adjustment. In Mario Draghi's last meeting as ECB President, he reaffirmed policy decisions from September's meeting including a rate cut and the restart of a program purchasing mostly government bonds beginning in November at a clip of €20 billion per month. Draghi pushed back against criticism on negative rates and the recent policy change, with a view that the easing was needed given the softening growth environment in Europe and trade risks. He also reiterated his call to European countries to help the economy through fiscal policy⁴.

Brexit deal wins approval but timing remains uncertain. Last week, U.K. lawmakers approved the current Brexit deal, but did not agree to U.K. Prime Minister Boris Johnson's accelerated timeframe to implement the deal. This led to Johnson seeking a general election to be held on December 12. Meanwhile, the EU has yet to agree on an extension date for Brexit. Despite the uncertainty, financial markets have been comforted by the very low likelihood of a no-deal exit on October 31⁵.

Caterpillar cuts profit forecast for second straight quarter. Caterpillar (CAT), often viewed as an economic bellwether, missed earnings expectations citing global economic uncertainty dampening investment in heavy equipment. In third quarter earnings season, 40% of S&P 500 companies have posted results with aggregate earnings growth of -0.5% year-over-year (y/y) and sales growth of 3.7% y/y. Those figures are ahead of consensus expectations by 4.4% and 1.3%, respectively⁶.

This Week Preview

Third quarter earnings season continues with communication services. Many of the companies reporting in the third week of earnings season will come out of the communication services sector. Those companies include Facebook (FB), Alphabet (GOOG) and AT&T (T). Companies from other sectors include Berkshire Hathaway (BRK/B), General Electric (GE), Apple (AAPL), Starbucks (SBUX) and Pfizer (PFE)⁷.

Federal Reserve expected to lower rates on Wednesday. After 25 basis point rate cuts in the July and September meetings, markets are anticipating another cut with 90% probability as measured by Fed funds futures. Federal Reserve Chairman Jerome Powell has stated that the central bank would act as necessary to sustain the economic expansion throughout 2019. Muted inflation combined with trade uncertainty and slowing growth especially in the manufacturing sector help support the case for lowering the Fed target rate to the 1.5% - 1.75% range. Investors will also be closely following the Fed's messaging to determine the likelihood of a fourth cut in December⁸.

Job growth expected to slow due to GM strike. The labor market has been adding about 160k jobs per month in 2019 and remains a bright spot in the U.S. economy. A jobs added figure of 90k is expected in this Friday's report, with much of the anticipated drop from the prior level driven by the strike at General Motors (GM). In other data this week, core Personal Consumption Expenditures will be released on Thursday.

FINANCIAL MARKET SNAPSHOT (Unless indicated – all data as of 10/25/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	26,958	0.7%	17.8%
S&P 500	3,023	1.2%	22.5%
MSCI ACWI	532	1.3%	19.3%
U.S. Dollar (DXY)	97.83	0.6%	1.7%
Gold (\$/oz)	1,500	0.8%	17.0%
WTI Crude Oil (\$/bbl)	56.66	5.4%	24.8%
10-year Treasury (%)	1.79	0.04	-0.89
2-year Treasury (%)	1.62	0.04	-0.87
Investment Grade OAS (%)	1.04	-0.03	-0.39
High Yield OAS (%)	3.60	-0.23	-1.66

ΔW = Weekly change, ΔYTD = Year-to-date change

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
W Japan Mfg PMI	48.9	n.a.	48.5
W Europe Consumer Conf.	-6.5	-6.8	-7.6
Th Germany Services PMI	51.4	52.0	51.2
Th Germany Mfg PMI	41.7	42.0	41.9
Th Europe Services PMI	51.6	51.9	51.8
Th Europe Markit Mfg PMI	45.7	46.0	45.7
Th Markit U.S. Services PMI	50.9	51.0	51.0
Th Markit U.S. Mfg PMI	51.1	50.9	51.5
F Germany Consumer Conf.	9.8	9.8	9.6
F Germany IFO Bus. Exp.	94.6	94.5	94.6

Survey = Bloomberg consensus. U.S. data unless otherwise stated.

THIS WEEK'S DATA

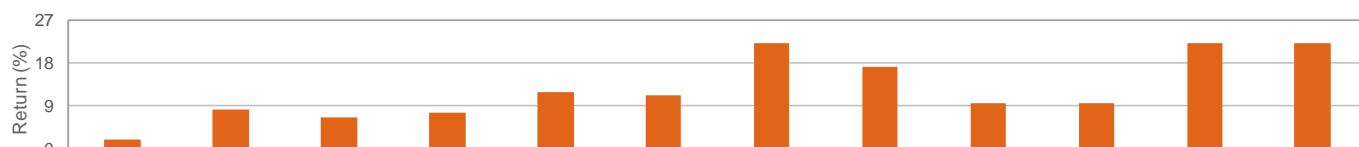
	Prior	Survey	Actual
Tu Consumer Confidence	125.1	127.7	-
W China Non-mfg PMI	53.7	53.7	-
W China Mfg PMI	49.8	49.8	-
Th Europe Unemployment Rate	7.4%	7.4%	-
Th Europe CPI Core y/y	1.0%	1.0%	-
Th PCE Core y/y	1.8%	1.7%	-
F Unemployment Rate	3.5%	3.6%	-
F ISM Manufacturing PMI	47.8	49.0	-
F Δ Nonfarm Payrolls	136k	90k	-
F Avg. Hourly Earnings y/y	2.9%	3.0%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
Source: Bloomberg. Data as of 10/25/2019.

(Unless indicated – all data as of 10/25/2019)

ASSET CLASS RETURNS

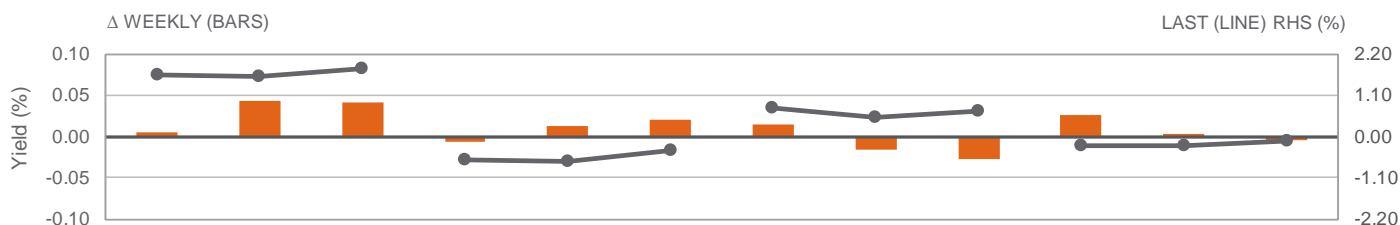
■ Δ Year-to-date



	FIXED INCOME						EQUITIES			REAL ASSETS		
	Cash	Inv. Grade	Muni.	TIPS	High Yield	Emerg. Markets	U.S.	Dev. Ex-U.S.	Emerg. Markets	NR	GRE	GLI
Δ WEEKLY	0.0	-0.2	-0.1	0.0	0.3	0.9	1.3	1.2	1.1	3.2	-0.1	0.4
Δ YEAR-TO-DATE	1.9	8.2	6.7	7.7	12.0	11.3	22.3	17.2	9.5	9.8	22.3	22.1

INTEREST RATES

■ Δ Weekly (LHS) ● Last (RHS)



	UNITED STATES			EUROZONE (GERMANY)			UNITED KINGDOM			JAPAN		
	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year	3-Month	2-Year	10-Year
Δ WEEKLY (LHS)	0.01	0.04	0.04	-0.01	0.01	0.02	0.02	-0.02	-0.03	0.03	0.00	-0.01
LAST (RHS)	1.66	1.62	1.79	-0.64	-0.66	-0.36	0.76	0.52	0.68	-0.22	-0.23	-0.14

CURRENCY RETURNS (%)

	KRW (Korea)	DXY (\$ Index)	CAD (Canada)	INR (India)	TW\$ (Trade Wt)	MXN (Mexico)	CNY (China)	JPY (Japan)	AUD (Aussie)	EUR (Euro)	CHF (Switz.)	GBP (UK)
Δ WEEKLY	0.6	0.6	0.5	0.3	0.3	0.3	0.2	-0.2	-0.5	-0.8	-1.0	-1.2
Δ YEAR-TO-DATE	-4.9	1.7	4.5	-1.7	-0.2	3.1	-2.6	0.9	-3.2	-3.4	-1.3	0.6

Note: Currency returns are in relation to USD; DXY and TW\$ are against a basket of currencies.

S&P 500 SECTOR RETURNS (%)

	Energy	Tech	Industrials	Financials	Materials	S&P 500	Cons. Staples	Utilities	Health Care	Comm. Services	Cons. Discr.	Real Estate
Δ WEEKLY	4.3	2.5	2.2	2.0	1.3	1.2	0.6	0.5	0.3	0.1	-0.8	-1.1
Δ YEAR-TO-DATE	6.5	35.3	24.1	22.4	17.4	22.5	23.0	24.3	7.9	24.6	23.0	30.1

Source: Northern Trust Global Asset Allocation, Bloomberg. ΔWeekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 10/25/2019.

ENDNOTES

1. Global Markets Weekly Update. T. Rowe Price. Retrieved on 28Oct2019 from <https://www.troweprice.com/personal-investing/planning-and-research/t-rowe-price-insights/markets/global-markets-weekly-update.html>
2. Lawder, David. Shalal, Andrea. Reuters. U.S., China say they are 'close to finalizing' part of a Phase One trade deal. Retrieved on 28Oct2019 from <https://www.reuters.com/article/us-usa-trade-china/china-to-ask-u-s-to-remove-tariffs-in-exchange-for-agricultural-buys-in-talks-friday-idUSKBN1X40EF>
3. Bloomberg, MSCI World Index returns 21Oct2019 – 25Oct2019.
4. Fairless, Tom. The Wall Street Journal. Mario Draghi, Hailed as the Euro's Savior, Leaves the ECB With the Bank Divided. Retrieved on 28Oct2019 from <https://www.wsj.com/articles/ecb-holds-steady-in-draghis-final-policy-decision-11571918124>
5. Reid, David. CNBC. Here's how Wall Street analysts see the big Brexit tangle unfolding. Retrieved on 28Oct2019 from <https://www.cnbc.com/2019/10/23/heres-how-wall-street-analysts-see-the-brex-it-tangle-unfolding.html>
6. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved on 28Oct2019 from <http://lipperalpha.financial.thomsonreuters.com>
7. Thomson Reuters. S&P 500 Earnings Dashboard. Retrieved on 28Oct2019 from <http://lipperalpha.financial.thomsonreuters.com>
8. Bloomberg, Fed Funds Futures Index 28Oct2019. Fed funds futures are used by banks and fixed-income portfolio managers to hedge against fluctuations in the short-term interest rate market. They are also a common tool traders use to take speculative positions on future Federal Reserve monetary policy.

Past performance is no guarantee of future results. It is not possible to invest directly in any index and index performance returns do not reflect any management fees, transaction costs or expenses. All investments include risks including possible loss of principal.

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TABLE DESCRIPTIONS & INDICES USED

Where applicable, information is from Bloomberg and return calculations are from Northern Trust Investment Strategy and based on the last trading day of the prior week as determined by the date on page 1. Returns reflect the reinvestment of dividends and other earnings and are shown before the deduction of investment management fees, unless indicated otherwise.

LAST WEEK'S MARKET DATA TABLE (page 1):

Most recently reported closing number, weekly change and year-to-date change both based on that number within the various indices below.

Dow Jones Ind. Avg. = Dow Jones Industrial Average

S&P 500 = Standard & Poor's 500 Index

MSCI ACWI = The MSCI ACWI (All Country World Index)

U.S. Dollar = U.S. dollar index (USDIX)

Gold = Market price in US dollars for a troy ounce (31.1g) of 99.99% pure gold.

WTI Crude Oil = West Texas Intermediate crude oil is the measure of the value of a barrel of oil.

10-year Treasury = Debt obligation issued by the United States government with a maturity of 10 years upon initial issuance.

2-year Treasury = Debt obligation issued by the United States government with a maturity of 2 months upon initial issuance.

Investment Grade & High Yield OAS = Option-Adjusted Spreads are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve.

LAST WEEK'S ECONOMIC DATA TABLE & THIS WEEK'S ECONOMIC DATA TABLES (page 1):

Most recently reported economic statistics.

"Prior" refers to the prior survey's economic results.

"Survey" refers to the consensus results expectations of economists as surveyed by Bloomberg.

"Actual" refers to the actual results as delivered by the government bureau in charge of those statistics.

ASSET CLASS RETURNS CHART (page 2):

Returns for various asset classes listed below on both a weekly and year-to-date basis.

FIXED INCOME

Cash: Bloomberg Barclays (BBC) 1-3 Month US Treasury Index

Inv. Grade: Bloomberg Barclays Aggregate Index

Muni.: Bloomberg Barclays Municipal Index

TIPS: Bloomberg Barclays TIPS Index

High Yield: Bloomberg Barclays High Yield 2% Capped Index

Emerg. Markets: JP Morgan GBI_EM Global Diversified Index

EQUITIES

U.S.: MSCI U.S. Equities IMI

Dev. Ex-U.S.: MSCI World ex-U.S. IMI

Emerg. Markets: MSCI Emerging Market Equities Index

REAL ASSETS

NR: S&P Global Natural Resources Index

GRE: FTSE EPRA/NAREIT Global Index

GLI: S&P Global Infrastructure Index

INTEREST RATES CHART (page 2):

Weekly change and most recently reported forward interest rates on three maturities of government debt obligations from the U.S., Eurozone, United Kingdom & Japan as reported by Bloomberg for last week. Unlike spot prices, the two sides of a forward price are not usually called "bid and offer", but "left-hand-side" (LHS) and "right-hand-side" (RHS).

CURRENCY RETURNS CHART (page 2):

Percentage weekly and year-to-date returns in U.S. dollar terms based on the most recently reported forward currency rates from Bloomberg for 11 countries including both the U.S. Dollar Index and the Trade-Weighted Dollar Index.

S&P 500 SECTOR RETURNS CHART (page 2):

Percentage change in returns of various asset classes listed below on both a weekly and year-to-date basis.

Telecom: S&P 500 Telecommunication Services Index

Tech: S&P 500 Information Technology Index

Health Care: S&P 500 Health Care Index

Cons. Staples: S&P 500 Consumer Staples Index

Cons. Discr.: S&P 500 Consumer Discretionary Index

Real Estate: S&P 500 Real Estate Index

Industrials: S&P 500 Industrials Index

Energy: S&P 500 Energy Index

Financials: S&P 500 Financial Index

Materials: S&P 500 Materials Index

Utilities: S&P 500 Utilities Index