

WEEKLY MARKET UPDATE

September 30, 2019

Last Week Review

Global equities fall on weak data and trade uncertainty. Global equities declined 1.0% last week responding to trade uncertainty and weak growth data in Europe¹. Emerging markets (-1.8%) declined the most and were followed closely by U.S. and non-U.S. developed equities at -1.1% and -0.7%, respectively². Though still somewhat below 2019 highs, global equities remain up 16.5% year-to-date³.

Europe reports soft flash PMI readings. Flash Purchasing Managers' Index (PMI) data reflected further weakness in the European manufacturing sector. Europe and Germany's manufacturing PMI readings fell well short of survey expectations and further into contractionary territory (below 50) at 45.6 and 41.4, respectively. The services sector reading for Europe was also short of expectations but remains in expansionary territory at 52.0. U.S. PMI data surprised to the upside on the manufacturing side but disappointed to the downside in the services sector, inching closer to contractionary territory at 50.9. Further deterioration in the growth environment remains a key risk for central bankers as they approach future policy decisions. U.S. core inflation ticked up to 1.8% year-over-year (y/y) as measured by core Personal Consumption Expenditures. Despite the uptick, core inflation remains below the Federal Reserve's 2% target and investor expectations for inflation remain muted.

Political uncertainty increases in the U.S. and the U.K. Democratic House Speaker Nancy Pelosi, launched an impeachment inquiry of President Donald Trump alleging that he created a national security risk by seeking a foreign power's help in investigating a political rival. While a formal impeachment procedure could pass the House through a simple majority, a two-thirds majority in the Republican-controlled Senate is highly unlikely⁴. Meanwhile in the U.K., the Supreme Court ruled that Prime Minister Johnson's decision to suspend Parliament was illegal. The increased Brexit uncertainty as a result of this decision may lead to another Brexit deadline extension and/or a general election in addition to near-term rate cuts from the Bank of England⁵.

Mixed signals on U.S.-China trade relations. Regarding developments on U.S.-China trade relations last week, modest positive signs around U.S.-China meetings set to take place in the second week of October, were offset by reports that the U.S. is considering trying to limit U.S. investor flows into Chinese equities⁶. In addition, the U.S. and Japan reached a partial trade deal last Wednesday that would reduce tariffs on U.S. agricultural products and Japanese machinery. An agreement on autos did not formally enter the pact, but President Trump assured Japan Prime Minister Abe that the U.S. would not implement tariffs on Japanese cars on grounds of national security⁷.

FINANCIAL MARKET SNAPSHOT

(Unless indicated – all data as of 9/27/2019)

LAST WEEK'S MARKET DATA

	Last	ΔW	ΔYTD
Dow Jones Ind. Avg.	26,820	-0.4%	17.1%
S&P 500	2,962	-1.0%	19.9%
MSCI ACWI	520	-1.0%	16.5%
U.S. Dollar (DXY)	99.11	0.6%	3.1%
Gold (\$/oz)	1,499	-0.6%	17.0%
WTI Crude Oil (\$/bbl)	55.91	-3.8%	23.1%
10-year Treasury (%)	1.68	-0.04	-1.00
2-year Treasury (%)	1.63	-0.05	-0.86
Investment Grade OAS (%)	1.10	0.02	-0.33
High Yield OAS (%)	3.77	0.18	-1.49

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

LAST WEEK'S ECONOMIC DATA

	Prior	Survey	Actual
M Germany Services PMI	54.8	54.3	52.5
M Germany Mfg PMI	43.5	44.0	41.4
M Europe Services PMI	53.5	53.3	52.0
M Europe Markit Mfg PMI	47.0	47.3	45.6
M Markit U.S. Services PMI	50.7	51.5	50.9
M Markit U.S. Mfg. PMI	50.3	50.4	51.0
Tu Consumer Confidence	134.2	133.0	125.1
W Germany Consumer Conf.	9.7	9.6	9.9
Th Initial Jobless Claims	210k	211k	213k
F PCE Core y/y	1.7%	1.8%	1.8%

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

This Week Preview

U.S. labor market expected to hold strong. Employment data has held up strong in 2019 with a monthly average of about 158k jobs added. Estimates show September's report adding 145k jobs which falls just under the 2019 average. Economist surveys anticipate the unemployment rate remaining unchanged at 3.7% along with wage inflation matching August's reading of 3.2% y/y growth. The labor market has been one of the most resilient components of the U.S. economy since trade war uncertainty between the U.S. and China began. However, a material weakening in the labor market could lead to Federal Reserve officials adjusting expectations to lower rates. In other economic data this week, the ISM PMI readings will offer investors an additional look at the condition of the U.S. services and manufacturing sectors. Surveys show the manufacturing PMI climbing out of contractionary territory to 50.1 and some deterioration in the services PMI to 55.0 – though still well into expansionary territory. Economic data outside the U.S. this week includes inflation data in Europe and Germany, both of which are expected to remain fairly close to prior levels.

Central banks of Australia and India both expected to ease policy. The Reserve Bank of Australia meets on Tuesday with markets pricing in about a 77% probability of a rate cut to 0.75%⁸. The Reserve Bank of India follows up on Friday with markets fully anticipating a rate cut. Each central bank has already cut rates in 2019⁹.

THIS WEEK'S DATA

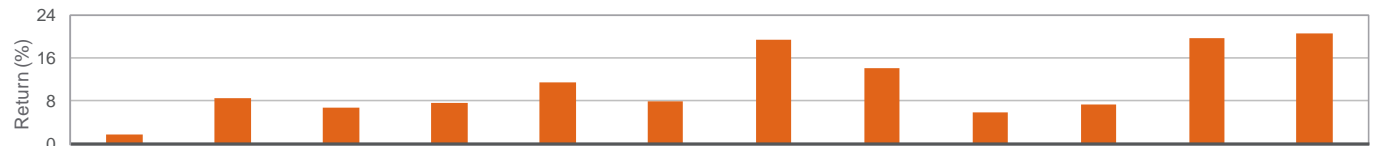
	Prior	Survey	Actual
M Germany CPI y/y	1.4%	1.3%	-
M Europe Unemployment Rate	7.5%	7.5%	-
Tu UK Manufacturing PMI	47.4	47.0	-
Tu Europe CPI Core y/y	0.9%	1.0%	-
Tu ISM Manufacturing PMI	49.1	50.1	-
Th ISM Non-Mfg. Composite	56.4	55.0	-
Th Initial Jobless Claims	213k	215k	-
F Unemployment Rate	3.7%	3.7%	-
F Δ Nonfarm Payrolls	130k	145k	-
F Avg. Hourly Earnings y/y	3.2%	3.2%	-

Survey = Bloomberg consensus. U.S. data unless otherwise stated.
 Source: Bloomberg. Data as of 9/27/2019.

(Unless indicated – all data as of 9/27/2019)

ASSET CLASS RETURNS

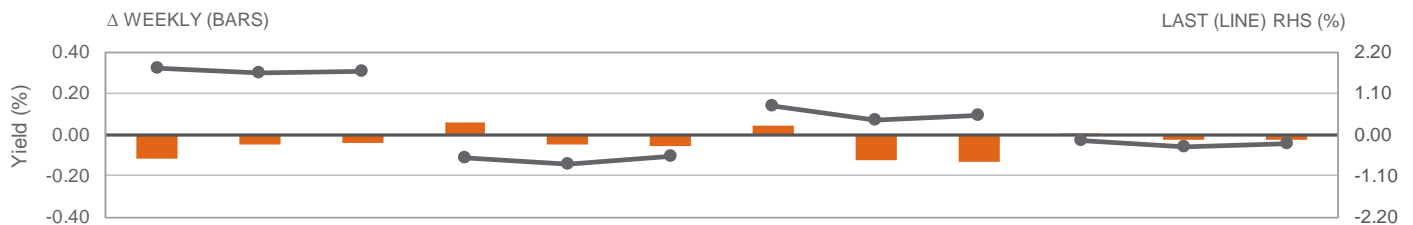
■ Δ Year-to-date



	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	0.4	0.3	0.1	-0.3	-0.3	-1.1	-0.7	-1.8	-1.8	0.6	0.2
Δ YEAR-TO-DATE	1.7	8.5	6.7	7.8	11.4	8.1	19.6	14.3	5.8	7.3	19.7	20.8

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)	-0.12	-0.05	-0.04	0.06	-0.05	-0.05	0.05	-0.13	-0.13	0.00	-0.02	-0.03
LAST (RHS)	1.78	1.63	1.68	-0.61	-0.78	-0.58	0.76	0.40	0.50	-0.15	-0.32	-0.24

CURRENCY RETURNS (%)

	INR (India)	DXY (\$ Index)	TW\$ (Trade Wt)	CAD (Canada)	CHF (Switz.)	AUD (Aussie)	JPY (Japan)	CNY (China)	EUR (Euro)	KRW (Korea)	MXN (Mexico)	GBP (UK)
Δ WEEKLY	0.7	0.6	0.4	0.1	0.0	0.0	-0.4	-0.4	-0.7	-0.7	-1.2	-1.5
Δ YEAR-TO-DATE	-1.5	3.1	1.0	3.0	-0.9	-4.0	1.5	-3.4	-4.6	-7.4	-0.2	-3.6

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

S&P 500 SECTOR RETURNS (%)

	Cons. Staples	Utilities	Real Estate	Financials	Industrials	Tech	Cons. Discr.	S&P 500	Materials	Comm. Services	Energy	Health Care
Δ WEEKLY	1.3	1.3	0.3	-0.2	-0.4	-0.8	-0.9	-1.0	-1.1	-2.3	-2.6	-3.0
Δ YEAR-TO-DATE	22.7	25.3	29.4	19.7	22.3	30.0	21.4	19.9	16.2	21.3	6.8	4.7

Source: Northern Trust Global Asset Allocation, Bloomberg. Δ Weekly = Weekly change, Δ Year-to-date = Year-to-date change. Data as of 9/27/2019.

ENDNOTES

1. Bloomberg, MSCI World Index returns 23Sep2019 – 27Sep2019.
2. Bloomberg, MSCI Emerging Market Equities Index returns 23Sep2019 – 27Sep2019. Bloomberg, MSCI U.S. Equities IMI Index 23Sep2019 – 27Sep2019. Bloomberg, MSCI World ex-U.S. IMI Index returns 23Sep2019 – 27Sep2019.
3. Bloomberg, MSCI World Index returns 02Jan2019 – 27Sep2019.
4. Andrews, Natalie. Duehren, Andrew. Wall Street Journal. Pelosi Announces Impeachment Inquiry of President Donald Trump. Retrieved on 30Sep2019 from <https://www.wsj.com/articles/democrats-face-critical-day-on-pursuing-impeachment-11569336620>.
5. The Guardian. Boris Johnson 'could be jailed' for refusing to seek Brexit delay. Retrieved on 30Sep2019 from <https://www.scmp.com/news/world/europe/article/3026192/boris-johnson-could-be-jailed-refusing-seek-brexit-delay>.
6. McKeef, Clive. Market Watch. Trumps plan to restrict U.S.-China investment ploy or harbinger of a longer-term battle. Retrieved on 30Sep2019 from <https://www.marketwatch.com/story/is-trumps-plan-to-restrict-us---china-investment-a-negotiating-ploy-or-part-of-a-long-term-struggle-between-two-superpowers-2019-09-28>
7. Lawder, David. Mason, Jeff. Reuters. U.S., Japan sign limited trade deal, leaving autos for future talks. Retrieved on 30Sep2019 from <https://www.reuters.com/article/us-usa-trade-japan/japan-trade-deal-opens-markets-for-7-billion-in-us-products-trump-idUSKBN1WA2D8>.
8. Cranston, Matthew. No rate cut this Tuesday, RBA Shadow board says. Financial Review. Retrieved from on 30Sep2019 from <https://www.afr.com/policy/economy/no-rate-cut-this-tuesday-rba-shadow-board-says-20190929-p52vwr>.
9. Stroehecker, Karin. Carvalho, Ritvik. Reuters. Down, down they go: Emerging central banks deliver most rate cuts in a decade. Retrieved on 30Sep2019 from <https://www.reuters.com/article/us-emerging-rates/down-down-they-go-emerging-central-banks-deliver-most-rate-cuts-in-a-decade-idUSKCN1VN1J2>.

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 (USDX)

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