

Market Recap for the Week Ending 10/4/2019

By Bruce Konners, CPA, CFA, PFS

bruce@bluekeyadvisors.com

MARKET RECAP

Stocks fell early in the week as disappointing PMI reports raised recession fears but rallied on Thursday and Friday on decent jobs numbers. Investors are expecting another Fed rate cut later in the month. Interest rates dropped sharply on the greater likelihood of a recession.

For the week, US stocks dropped by 0.38% and international markets were down by 0.66%. Bonds had a big rally due to the lower interest rates, up by 0.80%.

PMI

The Institute for Supply Management Purchasing Managers Index for manufacturing came in at a bleak level of 47.8 for September, down from 49.1 in August. It was the lowest level since June of 2009. The trade war has been a drag on the PMI. “Global trade remains the most significant issue, as demonstrated by the contraction in new export orders that began in July 2019,” said Timothy Fiore, chair of the Institute for Supply Management.

A reading of less than 50 is considered contractionary. For the most part, past recessions have been preceded by a falling PMI that is less than 50, but there have also been false signals, including December of 2015 when the PMI hit 48 and August of 2016 when it hit 49.4.



Manufacturing only represents 8.5% of total employment and 11% of GDP. But a slow-down in the manufacturing sector can find a way to seep into the overall US economy. There was a sign that is happening as the non-manufacturing PMI fell sharply to 52.6 from 56.1.

JOBS

The decent jobs report shows that the economy is still hanging in there. The unemployment level fell to 3.5%, the lowest since December of 1969. Nonfarm payrolls increased by 135,000. That was less than the consensus

estimate of 150,000, but the previous two months were revised up by 45,000. Wage growth month over month was flat, below expectations, year over years wages are up by 2.9%.

IMPEACHMENT

The impeachment process rolled on as the embarrassing political situation remains a complete mess and the chances, while still very early, seem to be increasing that the winner in 2020 will represent the extremes of their respective parties (Trump or Warren). Neither choice is encouraging.

SCOREBOARD

PERFORMANCE	VTI	SPY	VXUS	AGG	\$	OIL
10/4/2019	US Market	SP500	Intl (x-US)	Bonds	US\$	Crude
Week	-0.38%	-0.36%	-0.66%	0.82%	-0.26%	-5.54%
October 2018	-0.84%	-0.82%	-1.05%	0.80%	-0.22%	-2.19%
September 2018	1.77%	1.96%	2.74%	-0.04%	0.08%	-2.01%
August 2018	-2.08%	-1.67%	-2.17%	2.54%	0.29%	-6.10%
July 2018	1.41%	1.51%	-1.99%	0.18%	1.29%	100.36%
June 2019	7.08%	6.96%	5.77%	1.10%	-0.61%	9.29%
May 2019	-6.45%	-6.38%	-5.42%	1.91%	0.39%	-16.29%
April 2019	3.93%	4.09%	1.03%	-0.20%	0.18%	6.27%
March 2019	1.42%	1.81%	0.77%	2.12%	0.46%	5.11%
February 2018	3.56%	3.24%	1.63%	-0.11%	0.17%	0.07%
January 2019	8.54%	8.01%	7.67%	0.91%	-0.98%	18.78%
YTD	19.20%	19.72%	10.79%	9.29%	1.50%	16.29%
2018	-5.21%	-4.56%	-14.43%	0.10%	4.08%	-20.62%
2017	21.21%	21.70%	27.45%	3.61%	-7.81%	12.47%
2016	12.83%	12.00%	4.81%	2.41%	2.41%	33.48%
2015	0.36%	1.25%	-4.19%	0.48%	7.19%	-29.70%
2014	12.54%	13.46%	-4.74%	6.00%		-43.92%
2013	33.45%	32.31%	14.61%	-1.98%		0.47%

All returns include dividends. \$ is the Dow Jones FXCM Index. Oil is the S&P GSCI Crude Oil index.

RATES	3m	2-YR	10-YR	30-YR	2-10	HY OAS
10/4/2019	1.71%	1.40%	1.52%	2.01%	0.12%	4.28%
9/27/2019	1.80%	1.63%	1.69%	2.13%	0.06%	3.95%
9/30/2019	1.88%	1.63%	1.68%	2.12%	0.05%	4.02%
6/28/2019	2.12%	1.75%	2.00%	2.52%	0.25%	4.09%
12/31/2018	2.45%	2.48%	2.69%	3.02%	0.21%	5.33%
Δ for Week*	(9.00)	(23.00)	(17.00)	(12.00)	6.00	33.00
Δ for Month*	(17.00)	(23.00)	(16.00)	(11.00)	7.00	26.00
Δ for Quarter*	(41.00)	(35.00)	(48.00)	(51.00)	(13.00)	19.00
Δ YTD*	(74.00)	(108.00)	(117.00)	(101.00)	(9.00)	(105.00)

*Δ is measured in basis points; 2-10 refers to the spread between the 10 & 2-yr bonds.

HY OAS - Merrill Lynch US High Yield Option-Adjusted Spread.

Year	Earnings	SPX	P/E
2021 Estimate	198.79	2,952.01	14.85
2020 Estimate	181.91	2,952.01	16.23
2019 Estimate	163.56	2,952.01	18.05
2018	161.93	2,892.74	17.86
2017	132.00	2,604.47	19.73
2016	118.10	2,238.83	18.96
2015	117.46	2,043.94	17.40
2014	118.78	2,058.90	17.33
2013	109.68	1,848.36	16.85
2012	103.80	1,426.19	13.74
2011	97.82	1,257.60	12.86
2010	85.28	1,257.64	14.75
2009	60.80	1,115.10	18.34
2008	65.47	903.25	13.80
2007	85.12	1,468.36	17.25
2006	88.18	1,418.30	16.08
2005	76.28	1,248.29	16.36
2004	67.10	1,211.92	18.06

The SPX (S&P 500) price is as of year-end for the period indicated except for the current year and next year which

Past performance does not guarantee future results.

The purpose of this commentary is to provide readers with a summary of recent market and economic news. It is not intended to provide trading advice. Investors should have a long-term plan and should consider working with a professional investment advisor. Any discussion of investments and investment strategies represents the presenter's views as of the date created and are subject to change without notice. The opinions expressed are for general information only and are not intended to provide specific advice or recommendations for any individual. The information and opinions contained in this material are derived from sources believed to be reliable, but they are not necessarily all inclusive and are not guaranteed as to accuracy. Any forecasts may not prove to be correct. Economic predictions are based on estimates and are subject to change.

Reliance upon information in this material is at the sole discretion of the reader.