Weekly Capital Market Comments

November 1, 2019

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

Handle With Care

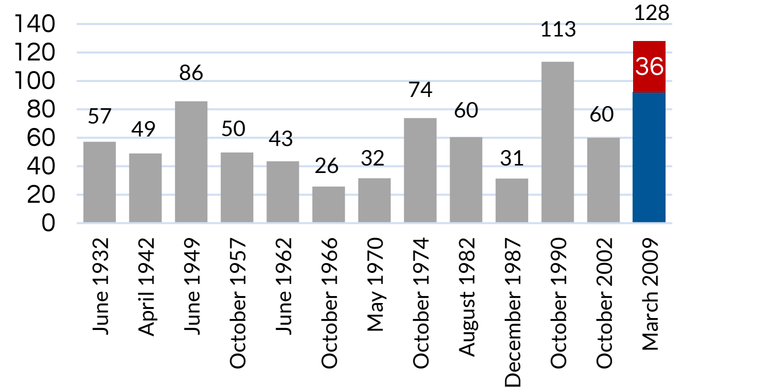
One of the most unloved bull markets continued to grind higher this week, up ~92bps or 0.92% since last Thursday, aided in no small part to a dovish [Federal Reserve Open Market Committee](), which lowered the Fed-Funds rate for the third time in as many meetings. The S&P is up over 23% YTD, and higher by almost 16% over the last year. And yet many investors and several clients believe that the bull is not done running.

While we may not share their sentiment, clients further price appreciation need to handle the recent run-up with care as the volatile S&P 500 has gained and lost over 75% of its market value since last September '18. This price-action reminds us of the lyrics from the hit song by [The Traveling Wilburys]().

"Been beat up and battered 'round
Been sent up, and I've been shot down
You're the best thing that I've ever found
Handle me with care."

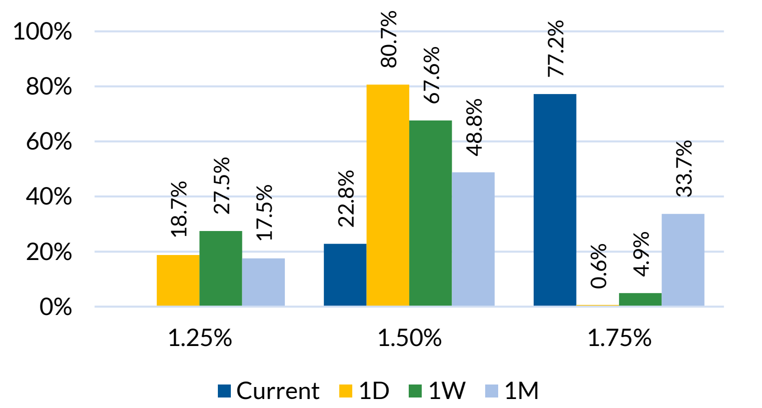
U.S. equities are 10+ years (128 months) through the longest bull market since the Great Depression and most protracted economic expansions since the end of WWII. Therefore, it was no surprise that after reaching an new all-time high of 3,047 (17.3x next 12-month earnings) on Wednesday, that investors took pause, despite earnings beats by [AAPL]() (driven by better than expected iPhone sales), [FB]() (on better engagement/ad revenue) and strong same-store (US/China) revenue growth by [Starbucks.]() [LYFT]() also beat and suggested cost pressures were easing, while [Twitter]() announced a ban on political ads, and thus removing some potential oversight/regulatory risk. Still, all of this was not good enough to offset a story on Bloomberg [casting doubt on China's unwillingness]() to accept a long-term trade deal. At the same time, U.S. economic data remains mixed as [initial claims]() ticked higher, [ADP employment]() for September was revised lower by 30%, and the [Chicago PMI]() once again surprised to the downside, registering the lowest reading in four years. If this is not enough, according to the CME Group, the [probability for an additional rate cut]() (down to 1.5%) in December has fallen to about 23%, versus 81% on Wednesday, 68% a week ago, and almost a 50% chance a month ago, perhaps removing the unabashed bid for equities provided by the cover from the Fed. So with the S&P at all-time highs and the Fed potentially tapping the breaks, please handle this equity market backdrop…with care.

Longest Bull Market | Since The Great Depression



Source: NEPG and FactSet

Probability of Interest Rate Cuts | Dec. 11th



Source: NEPG and CME Group | CME FedWatch Tool

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