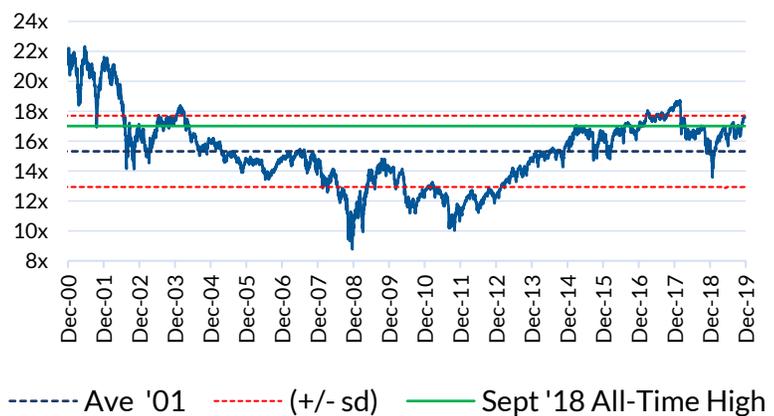




Time Is On My Side

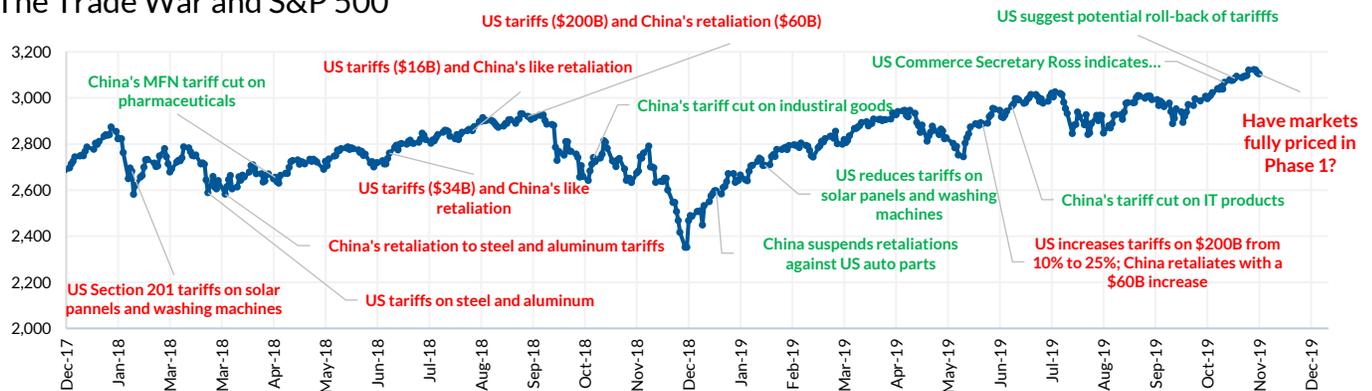
Since year-end 2018, the headlines surrounding the current trade war have been mostly positive. As a result, the S&P 500 (price-only) has rallied from a low of 2,485 to the most recent close of 3,104, or an increase of roughly 25%. Still, at current levels, the S&P is only 6% higher than the September 2018 high. The S&P currently is trading at 17.6x next-12 months earnings, or over 1-standard deviation wide of the long-term average of 15.3x. **Since 2001, this has only occurred two times.** The first was following a recession and global downturn (2003-2004) whereby the global equity markets recovered over \$13 trillion of lost market capitalization. The next time was following the 2016 Presidential Election. In both cases, markets were surging due to renewed anticipation of growth. But now, we believe much of the market upside has been driven by 1) dovish monetary policy, and 2) optimism surrounding a favorable trade outcome. This backdrop is in stark comparison to September 2018, when severe bi-lateral tariffs were imposed, and the Fed was raising short-term rates. As we have suggested in previous weekly notes, the manic evolution of the US/China trade negotiations would undoubtedly result in market volatility. **We have also suggested that China need not rush into any deal; time is clearly on their side.** China can talk, host negotiations and even suggest progress, but will ultimately do nothing. A "Phase I" deal provides mostly for agricultural subsidies and doesn't address the real underlying issues of intellectual property theft and access to capital markets. Finally, according to the [CME Fed Watch Tool](#), the probability of further rate cuts in the near-term is low, with almost 95% probability of no change at the December 2019 meeting. We expect more market volatility going forward into year-end. We'd love to hear your thoughts.

Historical Forward P/E | S&P 500



Source NPCG and FactSet; data as of 11/14/2019

The Trade War and S&P 500



Source NPCG and FactSet



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