# Weekly Capital Market Comments

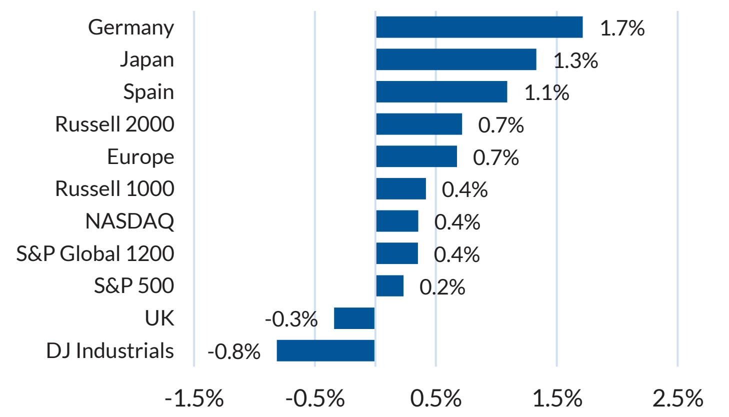
October 25, 2019

NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

## You've Gotta Know When to Hold'em, Know When to Fold'em ...

Equity markets continued to grind higher this past week (Thursday - Thursday), helped in part by improved geopolitical sentiment, as well as the perception that economic trends may have bottomed in the US. Global markets are discounting concerns regarding the Turkey/Syrian-Kurd conflict, while it seems more likely than not that any BREXIT deal will include some type of backstop, but we are not holding our breath. China trade headlines were light this week, offset by growing impeachment drama back at home. Also, we would categorize U.S. economic data and earnings results as "less bad," or "better than feared." as opposed to bottoming or good. All told, the S&P 500 gained about 0.2% for the week and is hovering back around 3,000. The 10Y-3M yield curve is positive once again, and credit spreads across both investment-grade and high-yield debt are holding up. So far, so good.

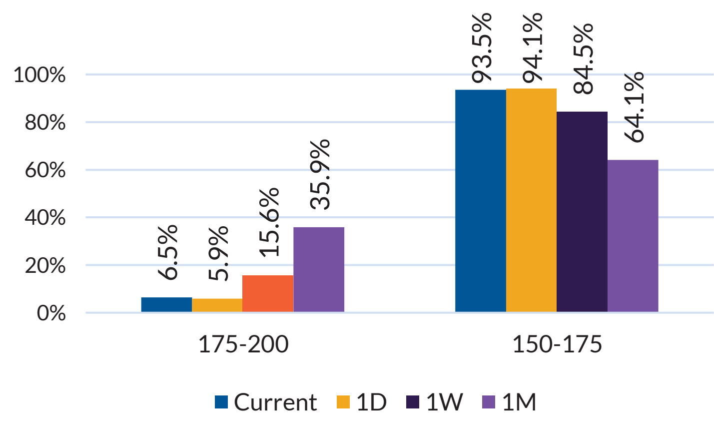
Global Equity Returns | 1 Week Returns




Source: NEPG and FactSet

**Last week, we floated a notion suggesting there is a chance that the Fed holds rates steady at their next meeting (October 29-30th),** thus proving Jerome Powell's independence, and supporting his assertion that the purpose of current cuts are similar to the mid-1990s mid-cycle adjustment. Our expectation for a pause at this point is undoubtedly a minority view, supported by few if any analysts. Further, according to the CME Group, **market probabilities are suggesting there is a 93.5% chance that the Fed folds**, and cuts the Fed Funds rate by 25bps (or 0.25%) at next week's FOMC meeting.

Probability of Interest Rate Cuts | Oct. 30




Source: NEPG and CME Group | CME FedWatch Tool

While we never argue with statistics, **we still believe the correct course of action is to stand down and hold off on rate cuts for when the economy truly needs economic resuscitation**. And although there are similarities between now and the 1995 period, there are equally as stark differences. For one, the 75bps mid-cycle adjustment, which started in July 1995 began at 6.0%, not 2.5%. Therefore, a 75bp reduction was only 12.5% of slack, versus 30% today; we pointed this out in our July 17, 2019 note entitled, "The First Cut Is The Deepest." The good news is that at this point, there is smaller (only a 27%) chance of an additional 25bps cut in rates at the December '19 meeting (a view shared by Goldman Sachs.) However, there are undoubtedly several hundred tweets, another debate, and a tariff deadline to consider before then. So clients should brace for additional volatility over the next few weeks. We continue to advise to de-risk into short-duration fixed-income with little to no risk and value-oriented/low volatility equities.